

DEPARTMENT OF HEALTH AND HUMAN SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S2-26-12
Baltimore, MD 21244-1850



Financial Management Group

Ms. Deirdra T. Singleton
Acting Director
Department of Health and Human Services
P.O. Box 8206
Columbia, South Carolina 29202-8206

MAY 18 2017

RECEIVED

MAY 23 2017

Department of Health & Human Services
OFFICE OF THE DIRECTOR

RE: State Plan Amendment SC 14-0014

Dear Ms. Singleton:

We have reviewed the proposed amendment to Attachment 4.19-A of your Medicaid state plan submitted under transmittal number (TN) 14-0014. Effective December 31, 2014, this amendment modifies the State's reimbursement methodology for setting payment rates for disproportionate share hospital services (DSH). Specifically, this amendment updates the base year used to estimate the interim DSH payments and inflates the rates to the rate year ending in 2015, increases the DSH limit for the out-of-state border hospitals eligible for DSH payment from 50% to 60%, continues any prior rate reductions implemented by the Department, and creates a \$25.0 million DSH pool for rural hospitals and a \$40.0 million DSH pool for hospitals identified as transformation hospitals.

We conducted our review of your submittal according to the statutory requirements at sections 1902(a), 1902(a)(13), 1902(a)(30), 1903(a), and 1923 of the Social Security Act and the implementing Federal regulations at 42 CFR Part 447. We have found that the proposed changes in payment methodology comply with applicable requirements and therefore have approved them with an effective date of December 31, 2014. Approval of this amendment is based on the state's assurance that the providers are allowed to retain the payments received for inpatient and outpatient services provided. We are enclosing the CMS-179 and the amended approved plan pages.

If you have any questions, please call Stanley Fields at (502) 223-5332.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kristin Fan", is written over the typed name.

Kristin Fan
Director

**TRANSMITTAL AND NOTICE OF APPROVAL OF
STATE PLAN MATERIAL**

1. TRANSMITTAL NUMBER:
14-014

2. STATE
South Carolina

FOR: HEALTH CARE FINANCING ADMINISTRATION

3. PROGRAM IDENTIFICATION: TITLE XIX OF THE
SOCIAL SECURITY ACT (MEDICAID)

TO: REGIONAL ADMINISTRATOR
HEALTH CARE FINANCING ADMINISTRATION
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE
December 31, 2014

5. TYPE OF PLAN MATERIAL (Check One):

- NEW STATE PLAN AMENDMENT TO BE CONSIDERED AS NEW PLAN AMENDMENT

COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate Transmittal for each amendment)

6. FEDERAL STATUTE/REGULATION CITATION:
42 CFR Sub Chapter C

7. FEDERAL BUDGET IMPACT: (@70.64%)
a. FFY 2015 \$5,241,857
b. FFY 2016 \$0

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:

Attachment 4.19-A, pages , 27, 28, 28a, 28a.1, 28a.2, 28a.3, ~~28a.4,~~
~~28a.5,~~ 28b, 33, & 33a (pages 28a.3 through 28a.5 are new pages)

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION
OR ATTACHMENT (If Applicable):

Attachment 4.19-A, pages 27, 28, 28a, 28a.1, 28a.2, 28b, 33, &
33a

10. SUBJECT OF AMENDMENT:

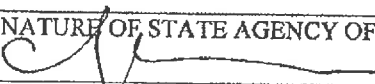
DSH Hospital Transformation Effective December 31, 2014.

11. GOVERNOR'S REVIEW (Check One):

- GOVERNOR'S OFFICE REPORTED NO COMMENT
 COMMENTS OF GOVERNOR'S OFFICE ENCLOSED
 NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL

OTHER, AS SPECIFIED:
Mr. Soura was designated by the Governor
to review and approve all State Plans

12. SIGNATURE OF STATE AGENCY OFFICIAL:



16. RETURN TO:

South Carolina Department of Health and Human Services
Post Office Box 8206
Columbia, SC 29202-8206

13. TYPED NAME:

Christian L. Soura

14. TITLE:

Interim Director

15. DATE SUBMITTED:

December 18, 2014

FOR REGIONAL OFFICE USE ONLY

17. DATE RECEIVED:

18. DATE APPROVED: **MAY 18 2017**

PLAN APPROVED - ONE COPY ATTACHED

19. EFFECTIVE DATE OF APPROVED MATERIAL:

DEC 31 2014

20. SIGNATURE OF REGIONAL OFFICIAL:



21. TYPED NAME:

Kristin FAN

22. TITLE:

Director, FMC

23. REMARKS:

Pen & ink change to block 8. Removed pages 28a.4 and
28a.5, as well as "(pages 28a.3 through 28a.5 are
new pages)".

VII. Disproportionate Share

A. Payments

Disproportionate share hospital (DSH) payments shall be made in accordance with the requirements of Section 1923 of the Social Security Act. DSH payments will be paid to those facilities meeting the requirements specified in Section II 12. For clarification purposes, the South Carolina Medicaid State Plan rate year for DSH payment purposes is October 1 through September 30. For FFY 2015, qualification data will be based upon each hospital's fiscal year 2013 cost reporting period.

1. Effective for the October 1, 2014 - September 30, 2015 DSH payment period, the interim hospital specific DSH limit will be set as follows:

a. The interim hospital specific DSH limit for all SC general acute care hospitals that contract with the SC Medicaid Program will be equal to one hundred percent (100%) of the unreimbursed hospital cost for all (i.e. SC and out-of-state) uninsured patients, all Medicaid fee for service patients, all Medicaid managed care patients (including PACE Program participants), SC dual (Medicare/Medicaid) eligible patients, and all Medicaid patients who have inpatient and outpatient hospital services reimbursed by a commercial carrier. The hospital specific DSH limit for all general acute care border hospitals (in North Carolina and Georgia) and SC non-general acute care hospitals contracting with the SC Medicaid Program will be equal to sixty percent (60%) of the unreimbursed hospital cost for SC uninsured patients, SC Medicaid fee for service patients, SC Medicaid managed care patients (including PACE Program participants), SC dual (Medicare/Medicaid) eligible patients, and SC Medicaid patients who have inpatient and outpatient hospital services reimbursed by a commercial carrier. The December 19, 2008 Final Rule (as well as instructions/guidance provided by the DSH audit contractor) relating to the audits of the Medicaid DSH plans as well as the December 3, 2014 Final Rule relating to the Uninsured Definition will be the guiding documents that hospitals must use in providing the DSH data. When calculating the hospital specific DSH limit for the SC general acute care hospitals, and the SC non-general acute care hospitals which qualify for the SC Medicaid DSH Program effective for the FFY 2015 DSH payment period, the Medicaid Agency will adjust the limit of the impacted hospitals for the impacts relating to the July 1, 2014 Medicaid fee for service inpatient hospital per discharge rate and outpatient hospital multiplier normalization action.

Except for the SC Department of Mental Health (SCDMH) hospitals, for FFY 2015, each hospital's interim hospital specific DSH limit will be calculated as follows:

i) The unreimbursed cost of providing inpatient and outpatient hospital services to the uninsured, Medicaid fee for service, Medicaid MCO enrollees, dual eligibles, and Medicaid eligibles who have inpatient and outpatient hospital services reimbursed

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by a commercial carrier will be determined by taking each hospital's fiscal year 2013 cost reporting period charges for each group listed above and multiplying that by the hospital's applicable FY 2013 unadjusted inpatient and outpatient hospital cost to charge ratios (i.e. Medicaid and Medicare) to determine the base year cost for this group. In order to inflate each hospital's base year cost determined for each group identified above, each hospital's cost will be inflated from the base year to December 31, 2013 using the applicable CMS Market Basket Index described in (A)(4) of this section. The inflated cost of each hospital for each group determined above will be summed and reduced by payments received from or for all uninsured patients, all Medicaid fee for service, all dual eligibles, all Medicaid eligibles who have inpatient and outpatient hospital services reimbursed by a commercial carrier, and all Medicaid managed care patients to determine the total unreimbursed cost for each DSH hospital. Out of state border DSH qualifying hospitals and SC non-general acute care DSH qualifying hospitals will only report revenue received from SC residents. However, because of the Medicaid fee for service payment actions effective October 1, 2013, July 1, 2014 and October 1, 2014, HFY 2013 Medicaid Managed Care Payments and Medicaid fee for service payments will be increased/<decreased> appropriately for each hospital based upon its specific payment action. Additionally, to adjust for the July 1, 2014 hospital specific rate and outpatient multiplier normalization action effective July 1, 2014 that impacted certain hospitals, the Medicaid Agency will adjust the following DSH eligible unreimbursed cost pools as follows:

- Medicaid FFS unreimbursed cost pool - for hospitals that received a reduction in their Medicaid FFS hospital specific per discharge rate or outpatient multiplier effective July 1, 2014, total Medicaid FFS inpatient or outpatient cost will be reduced by the July 1, 2014 percentage rate/multiplier change.
 - Medicaid MCO unreimbursed cost pool - for hospitals that received a reduction in their Medicaid FFS hospital specific per discharge rate or outpatient multiplier effective July 1, 2014, total Medicaid MCO inpatient or outpatient cost will be reduced by the July 1, 2014 percentage rate/multiplier change.
 - Uninsured unreimbursed cost pool - for hospitals that received a reduction in their Medicaid FFS hospital specific per discharge rate or outpatient multiplier effective July 1, 2014, total Uninsured inpatient or outpatient cost will be reduced by the July 1, 2014 percentage rate/multiplier change.
- ii) For FFY 2015, each SCDMH hospital's interim hospital specific DSH limit will be calculated using FYE June 30, 2013 cost report data for all of its Medicaid fee for service, uninsured, all dual (Medicare/Medicaid) eligible, and all Medicaid eligibles who have inpatient hospital services reimbursed by a commercial carrier. Each hospital's total allowable cost will be inflated from the base year to December 31, 2013 using the CMS Market Basket Index described in (A)(4) of this section. The inflated cost will be divided by total FYE June 30, 2013 acute care hospital days to determine a cost per day amount. This cost per day amount will be multiplied by the FYE June 30, 2013 acute care hospital days associated with all Medicaid fee for service, uninsured, all dual eligible, and all Medicaid eligibles who have inpatient hospital services reimbursed by a commercial carrier to determine the total amount of cost eligible under the hospital specific DSH limit. The inflated cost of each

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hospital determined above will be reduced by payments received from or for all Medicaid fee for service, uninsured patients, all dual eligibles, and all Medicaid eligibles who have inpatient and outpatient hospital services reimbursed by a commercial carrier to determine the total unreimbursed cost of each DSH hospital. In the event that any of the SCDMH hospitals provided inpatient hospital services for Medicaid managed care patients during FYE June 30, 2013, the previous methodology outlined above will be used to determine the unreimbursed Medicaid managed care cost to be added to the unreimbursed Medicaid eligible and uninsured cost previously described.

- iii) For new S. C. general acute care hospitals which enter the SC Medicaid Program during the October 1, 2014 - September 30, 2015 DSH Payment Period, their interim hospital specific DSH limits will be based upon projected DSH qualification, cost, charge and payment data that will be subsequently adjusted to reflect the audited DSH qualification, cost, charge and payment data resulting from the audit of the October 1, 2014 through September 30, 2015 Medicaid State Plan rate year.
- iv) For the FFY 2013/2014 DSH payment period, the Medicaid Agency created the "Medicaid Accountability & Quality Improvement initiative". The purpose of this initiative is to increase value and transparency in the current system, invest in hotspots of poor health, reduce per capita costs, and improve health outcomes. Through managing care for the chronically uninsured and ensuring access, the South Carolina Department of Health and Human Services (SCDHHS) will collaborate with other providers and health care organizations to improve health care value in South Carolina (SC) by improving outcomes and reducing per capita costs.

Effective for the October 1, 2014 through September 30, 2015 DSH payment period, the rural hospital DSH pool that was created under the "Medicaid Accountability & Quality Improvement Initiative" will increase from \$20 million (total dollars) to \$25 million (total dollars) and will be generated from the existing FFY 2014/2015 DSH allotment. This rural hospital DSH pool will be spread among the SC defined general acute care hospitals based upon the October 1, 2014 SC defined rural hospital definition as reflected on page 9. This pool payment will be in addition to the SC defined rural hospital base DSH payment amount determined in accordance with the FFY 2014/2015 DSH payment methodology. The allocation methodology used by the state Medicaid agency to distribute the \$25 million Rural Hospital DSH Pool first includes the calculation of the base DSH payment amount for all DSH qualifying hospitals and is determined in accordance with section VII.A.1.vi. of Attachment 4.19-A. Next the Medicaid agency will allocate the \$25 million Rural Hospital DSH Pool based upon each rural hospital's share of its remaining unreimbursed hospital specific DSH limit (i.e. hospital specific DSH limit less the base DSH payment calculated) over the total remaining unreimbursed hospital specific DSH limits of the qualifying rural hospitals. In order for each South Carolina Medicaid-defined general acute care rural hospital to receive the full coverage of its uncompensated care (not to exceed \$25 million in the aggregate under this section), each SC Medicaid-defined general acute care rural hospital must participate in the Healthy Outcomes Initiative. Failure to participate in the Healthy outcomes Initiative will result in the SC defined general acute care rural hospital becoming ineligible to receive any of the \$25

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million DSH pool funding available. Any remaining balance of the \$25 million DSH pool funding that may become available will be redistributed among the SC Medicaid defined general acute care rural hospitals that participated in the Healthy Outcomes Initiative.

In order for the SC defined general acute care non-rural hospitals to receive one-hundred percent (100%) of its calculated DSH payment for the DSH payment period beginning October 1, 2014, each hospital will also be required to participate in the Healthy Outcomes Initiative. SC defined general acute care non-rural DSH hospitals that choose not to participate in the Healthy Outcomes Initiative will only receive ninety percent (90%) of its calculated DSH payment for the FFY 2014/2015 DSH payment period and any remaining balance (i.e.10%) that may become available will be redistributed among the SC defined general acute care non-rural DSH hospitals that participated in the Healthy Outcomes Initiative. SCDMH hospitals are not required to participate in this initiative since they do not provide emergency room services.

v. In accordance with Budget Proviso 33.33 of the SFY 2014/2015 South Carolina State Appropriations Act, the agency will create a separate \$40 million (total computable dollar) Transformation Pool from the existing FFY 2015 DSH allotment. Therefore, the total DSH allotment amount that will be spent in accordance with the DSH payment methodology previously described will equal \$462,346,234.

- The Transformation hospital must be a DSH-eligible hospital in accordance with Attachment 4.19-A of the SC Medicaid State Plan;
- The following payment amounts were paid to the following Transformation Hospitals: McLeod Regional - \$8,000,000; Spartanburg Regional - \$4,000,000; Palmetto Richland - \$4,000,000; and; MUSC - \$2,500,000.
- Any transformation payments made from the FFY 2015 Transformation Pool must be applied against the Medicaid State Plan Rate Year 2015 DSH audit regardless of when they are paid (i.e. during FFY 2015 or FFY 2016)
- A Transformation pool Hospital may not be reimbursed more than its hospital specific DSH limit when Transformation Pool payments made under this section are added to the base DSH payments as determined in Attachment 4.19-A.
- Any remaining funds left over from the \$40 million Transformation Pool will be dispersed as follows:
 - a) First, SC defined rural hospitals will receive the difference between their hospital specific DSH limit and the DSH payments made during the FFY 2015 DSH payment period and;
 - b) Once SC defined rural hospitals have received the payments made under section a), any remaining funds will be dispersed to all remaining DSH eligible hospitals except those owned by the South Carolina Department of Mental Health using the hospital specific DSH limits as the basis for distribution.

- vi. Effective for the FFY 2015 DSH payment period, the SCDHHS will create four separate DSH pools for the calculation of the interim DSH payments effective October 1, 2014. The first DSH pool will represent the unreimbursed costs of the uninsured and Medicaid eligible recipients receiving inpatient psychiatric hospital services provided by South Carolina Department of Mental Health (SCDMH) hospitals. Under this pool, the SCDMH hospitals will receive (in the aggregate) up to one hundred percent of their specific DSH limit but not to exceed the aggregate FFY 2010 base DSH allotment payment amounts of all of the SCDMH hospitals. Next, a \$25 million DSH pool will be established from the existing FFY 2015 DSH allotment for the SC defined rural hospitals as described in iv above. Next, a \$40 million Transformation Pool as described in v. above will be established from the existing FFY 2015 DSH allotment to be paid to qualifying DSH hospitals. Finally, the remaining DSH allotment amount beginning October 1, 2014 will be available to all DSH eligible hospitals except for those operated by the SC Department of Mental Health (SCDMH). In the event that the sum of the hospital specific DSH limits of the SC defined rural and non-rural DSH qualifying hospitals exceeds the sum of DSH payment pool #4 beginning October 1, 2014, the hospital specific DSH limits will be decreased proportionately to ensure the hospital specific DSH limits are within the DSH payment pool #4 amount. In the event that the sum of the adjusted hospital specific DSH limits (i.e. the calculated hospital specific DSH limit less the payment amount from DSH pool #4) of the SC defined rural hospitals exceeds payment pool #2, the adjusted hospital specific DSH limit will be decreased proportionately to ensure that the hospital specific DSH limits are within the DSH payment pool #2 amount.
2. The October 1, 2014 - September 30, 2015 annual aggregate DSH payment amounts will not exceed the October 1, 2014 - September 30, 2015 annual DSH allotment amount and may not equal the annual DSH allotment amount.
3. Effective on or after October 1, 2014, the South Carolina Department of Health and Human Services established qualification criteria that will be used to determine those general acute care and long term acute care Disproportionate Share (DSH) hospitals that will be subject to a reduction in their federal fiscal year (FFY) 2014/2015 DSH payments. The qualification criteria will be developed using as filed hospital fiscal year (HFY) 2012 South Carolina Medicaid fee for service and uninsured individuals' total inpatient and outpatient hospital costs, South Carolina Medicaid Managed Care Organization (MCO) enrollees total inpatient and outpatient hospital costs, and the Medicare/Medicaid eligible and Medicaid/Commercial inpatient and outpatient hospital costs. These costs, which will be deemed as "DSH Eligible Costs", will be accumulated by hospital and then divided by each hospital's as filed FY 2012 total inpatient and outpatient hospital costs to determine its portion of total inpatient and outpatient hospital costs associated with providing services to low income individuals. A "DSH Eligible Costs" statewide weighted average rate will be determined by taking the sum of the "DSH Eligible Costs" and dividing it by the sum of the HFY 2012 (or 2013 data if a new DSH hospital) total inpatient and outpatient hospital costs of all general acute and long term acute care DSH qualifying hospitals which filed a HFY 2012 (or 2013 data if a new DSH hospital) cost report. All general acute care and long term acute care DSH qualifying hospitals falling under the statewide average rate will be subject to the

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FFY 2014/2015 DSH payment reduction except for SC defined rural hospitals and qualifying burn intensive care unit hospitals as defined October 1, 2014 (i.e. these hospitals will be exempted from the DSH payment reduction previously described). Each impacted general acute care and long term acute care DSH hospital will receive its proportionate share of the annual DSH payment reduction amount based upon its FFY 2013/2014 interim DSH payment amounts. The total FFY 2014/2015 DSH payment reduction, on an annual basis, will amount to \$8,736,559. This funding will then be redistributed to the remaining DSH eligible hospitals (excluding those operated by the SC Department of Mental Health). Upon completion of the FFY 2015 Medicaid DSH audit, the "DSH Eligible Costs" statewide average rate will be recalculated based upon audited FFY 2015 data to finalize the hospitals subject to the \$8,736,559 DSH payment reduction for FFY 2015 using the methodology previously described.

4. The following CMS Market Basket index will be applied to hospitals' base year cost.

FY 2013	2.6%
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5. All disproportionate share payments will be made by adjustments during the applicable time period.
6. Effective October 1, 2010, all interim DSH payments will become final upon audit of the applicable Medicaid State Plan Rate Year. See section IX(C) (1) (b) for additional information.

B. Additional Requirements

Effective October 1, 2005, all qualifying DSH hospitals must adhere to the following rules for participation in the South Carolina Medicaid DSH Program.

1. Each hospital will be responsible for understanding the SC Medicaid DSH Program in order to provide the proper requested information required for DSH qualification and payment.
2. Each hospital must participate in DSH data reviews conducted by SCDHHS and/or CMS, as well as audits of the DSH program data performed by an independent auditor hired by SCDHHS.

worksheets such as the DSH survey, are subject to audit by the DHHS or its designee. The audited information will be used for future rate calculations, retrospective cost settlements, disproportionate share program requirements, utilization review contractor requirements and other analyses.

I. Hospital Cost Reports

All hospital cost reports will be desk audited in order to determine the SC Medicaid portion of each hospital's cost. This desk-audited data will be used in cost settlement and DSH payment calculations and will be subject to audit.

- a. Supplemental worksheets submitted by hospitals for the disproportionate share program will be reviewed for accuracy and reasonableness by DHHS. Beginning with the 2005 DSH period, the DSH program will undergo an audit by an independent auditor. The findings from these audits could result in educational intervention to ensure accurate reporting.
- b. As required by Section 1923(j) of the Social Security Act related to auditing and reporting of Disproportionate Share Hospital (DSH) payments, the Medicaid Agency will implement procedures to comply with the DSH hospital payments final rule issued in the December 19, 2008, Federal Register, with effective date of January 19, 2009, to ensure that the hospital specific DSH limits have not been exceeded. The redistribution methodology described below effective for the DSH payment periods beginning on and after October 1, 2011 will ensure that the final DSH payments received by each DSH hospital will not exceed its hospital specific DSH limit determined for the Medicaid State Plan Rate Year being audited.
 - First, SCDHHS will create three separate DSH pools. (1) - SC state owned governmental long term psych hospitals; (2) out of state border DSH qualifying hospitals; and (3) - SC qualifying DSH Hospitals.
 - Next, the SCDHHS will redistribute the interim DSH payments made to the hospitals contained within DSH pools (1) and (3) based upon the audited hospital specific DSH limits contained within the DSH audit report and adjusted to reflect the impact of the July 1, 2014 SC Medicaid fee for service inpatient and outpatient hospital rate/multiplier normalization action for the Medicaid State Plan Rate Year being audited. The final DSH payment amounts for hospitals contained within DSH pools (1) and (3) will be calculated in accordance with the methodology and pools contained within Section VII(a) (1) (a) (iv) , (v), and (vi) of Attachment 4.19-A, less any DSH payments made to hospitals contained within DSH pool (2). The DSH payments for hospitals contained within DSH pool (2) will be considered settled as paid.

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- In the event of DSH overpayments occurring within DSH pool (1), the overpayment amounts will be redistributed amount hospitals contained within DSH pool (3).
 - Once the final DSH payments have been determined for each of the qualifying DSH hospitals, the SCDHHS will compare the final DSH payment amount to the interim DSH payment amount previously reimbursed during the Medicaid State Plan Rate Year being audited. For clarification purposes, if any hospital in pool (1) has been overpaid, then SCDHHS will only recoup the federal portion of the overpayment. If a hospital has been overpaid, the SCDHHS will recoup one hundred percent of the overpayment from the hospital. If a hospital has been underpaid, the SCDHHS will reimburse the provider one hundred percent of the underpayment. However, no underpayments will be redistributed until all DSH overpayments have been recovered by the SCDHHS.
- c. Medical audits will focus on the validity of diagnosis and procedure coding for reconciliation of appropriate expenditures made by the SCDHHS as described in A of this section.