

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

JUN 08 2017

RECEIVED

JUN 12 2017

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

Department of Health & Human Services
OFFICE OF THE DIRECTOR

RE: State Plan Amendment SC 15-0010

Dear Ms. Singleton:

We have reviewed the proposed amendment to Attachment 4.19-A of your Medicaid state plan submitted under transmittal number (TN) 15-0010. Effective December 31, 2015, 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 to 2014 used to estimate the interim DSH payments, inflates the rates to the rate year ending in 2016, and continues any prior rate reductions implemented by the Department.

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, 2015. 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:
SC 15-010

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, 2015

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 Part 447 Subpart E

7. FEDERAL BUDGET IMPACT:
a. FFY 2016 \$1,064,572
b. FFY 2017 \$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, & 28b~~

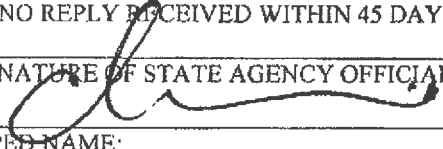
9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION
OR ATTACHMENT (If Applicable):

Attachment 4.19-A, pages 27, 28, 28a, 28a.1, 28a.2, ~~28a.3, 28a.4
& 28b~~

10. SUBJECT OF AMENDMENT:
Update to the SC Medicaid DSH Payment Program for FFY 2015/2016

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:
Director

15. DATE SUBMITTED:
December 30, 2015


FOR REGIONAL OFFICE USE ONLY

17. DATE RECEIVED:

18. DATE APPROVED: JUN 08 2017

PLAN APPROVED - ONE COPY ATTACHED

19. EFFECTIVE DATE OF APPROVED MATERIAL:
DEC 31 2015

20. SIGNATURE OF REGIONAL OFFICIAL:


21. TYPED NAME: Kristin Fan

22. TITLE: Director, FMC

23. REMARKS:

Pen & Ink Changes to blocks 8 & 9: Removed pages 28a.3, 28a.4, & 28b.

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 2016, qualification data will be based upon each hospital's fiscal year 2014 cost reporting period.

1. Effective for the October 1, 2015 - September 30, 2016 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 FFY 2016 DSH payment period, the Medicaid Agency will adjust the limit of the impacted hospitals for the impacts relating to the July 1, 2014 and October 1, 2015 Medicaid fee for service inpatient hospital per discharge rate and outpatient hospital multiplier normalization actions.

Except for the SC Department of Mental Health (SCDMH) hospitals, for FFY 2016, 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 2014 cost reporting period charges for each group listed above and multiplying that by the hospital's applicable FY 2014 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, 2014 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 July 1, 2014, October 1, 2014, and October 1, 2015, HFY 2014 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 hospital specific rate and outpatient multiplier normalization actions effective July 1, 2014 and October 1, 2015, 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 October 1, 2015, total Medicaid FFS inpatient or outpatient cost will be reduced by the July 1, 2014 and October 1, 2015 percentage rate/multiplier changes. However please note that in order to account for the utilization of services that occur in the outpatient hospital setting (i.e. the use of outpatient hospital clinic services and emergency room services (available only if provided in a SC Level I Trauma Center hospital) versus all other ancillary services provided in an outpatient hospital setting), the Medicaid Agency will adjust the outpatient hospital normalization percentage adjustment downward based upon the ratio of SC Medicaid fee for service outpatient hospital clinic costs (and ER costs if applicable) to total SC Medicaid fee for service outpatient hospital ancillary service costs of those impacted hospitals. Please note that Medicaid FFS outpatient revenue will also be adjusted to account for the utilization of services.
- Medicaid MCO unreimbursed cost pool - for hospitals that received a reduction in their Medicaid FFS hospital specific per discharge rate or outpatient multiplier effective October 1, 2015, total Medicaid MCO inpatient or outpatient cost will be reduced by the July 1, 2014 and October 1, 2015 percentage rate/multiplier changes. However please note that in order to account for the utilization of services that occur in the outpatient hospital setting (i.e. the use of outpatient hospital clinic services and emergency room services (available only if provided in a SC Level I Trauma Center hospital) versus all other ancillary services provided in an outpatient hospital setting), the Medicaid Agency will adjust the outpatient hospital

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normalization percentage adjustment downward based upon the ratio of SC Medicaid fee for service outpatient hospital clinic costs (and ER costs if applicable) to total SC Medicaid fee for service outpatient hospital ancillary service costs of those impacted hospitals. Please note that Medicaid MCO revenue will also be adjusted to account for the utilization of services.

- Uninsured unreimbursed cost pool - for hospitals that received a reduction in their Medicaid FFS hospital specific per discharge rate or outpatient multiplier effective October 1, 2015, total Uninsured inpatient or outpatient cost will be reduced by the July 1, 2014 and October 1, 2015 percentage rate/multiplier changes. However please note that in order to account for the utilization of services that occur in the outpatient hospital setting (i.e. the use of outpatient hospital clinic services and emergency room services (available only if provided in a SC Level I Trauma Center hospital) versus all other ancillary services provided in an outpatient hospital setting), the Medicaid agency will adjust the outpatient hospital normalization percentage adjustment downward based upon the ratio of SC Medicaid fee for service outpatient hospital clinic costs (and ER costs if applicable) to total SC Medicaid fee for service outpatient hospital ancillary service costs of those impacted hospitals.
- ii) For FFY 2016, each SCDMH hospital's interim hospital specific DSH limit will be calculated using FYE June 30, 2014 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, 2014 using the CMS Market Basket Index described in (A)(4) of this section. The inflated cost will be divided by total FYE June 30, 2014 acute care hospital days to determine a cost per day amount. This cost per day amount will be multiplied by the FYE June 30, 2014 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 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, 2014, 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, 2015 - September 30, 2016 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, 2015 through September 30, 2016 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, 2015 through September 30, 2016 DSH payment period, the rural hospital DSH pool that was created under the "Medicaid Accountability & Quality Improvement Initiative" will allow for one hundred percent (100%) recovery of each qualifying hospitals' hospital specific DSH limit for the SC defined general acute care hospitals based upon the October 1, 2014 SC defined rural hospital definition as reflected on page 9. In order for each South Carolina Medicaid-defined general acute care rural hospital to receive the full coverage of its uncompensated care, 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 100% of its hospital specific DSH limit.

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, 2015, 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 2015/2016 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 based upon the percentage of their remaining unreimbursed DSH cost to the total remaining unreimbursed DSH costs of the SC general acute care non-rural DSH hospitals eligible to receive the payment up to its hospital specific DSH limit. SCDMH hospitals are not required to participate in this initiative since they do not provide emergency room services.

- v) Effective for the FFY 2016 DSH payment period, the SCDHHS will create three separate DSH pools for the calculation of the interim DSH payments effective October 1, 2015. 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 in the aggregate \$60,903,051. The second DSH pool will consist of the SC defined rural hospitals and will reflect payments representing 100% of each hospitals' hospital specific DSH limit. Finally, the remaining DSH allotment amount beginning October 1, 2015 will be available to all SC defined non-rural 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 non-rural DSH qualifying hospitals exceeds the sum of DSH payment pool #3 beginning October 1, 2015, the hospital specific DSH limits will be decreased proportionately to ensure

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the hospital specific DSH limits are within the DSH payment pool #3 amount.

2. The October 1, 2015 - September 30, 2016 annual aggregate DSH payment amounts will not exceed the October 1, 2015 - September 30, 2016 annual DSH allotment amount and may not equal the annual DSH allotment amount.
3. Effective on or after October 1, 2015, 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) 2015/2016 DSH payments. The qualification criteria will be developed using as filed hospital fiscal year (HFY) 2013 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 2013 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 2013 (or 2014 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 2013 (or 2014 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 FFY 2015/2016 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 2014/2015 interim DSH payment amounts. The total FFY 2015/2016 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 2016 Medicaid DSH audit, the "DSH Eligible Costs" statewide average rate will be recalculated based upon audited FFY 2016 data to finalize the hospitals subject to the \$8,736,559 DSH payment reduction for FFY 2016 using the methodology previously described.
4. The following CMS Market Basket index will be applied to hospitals' base year cost.

FY 2014	2.5%
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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.

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