South Carolina Department of Health and Human Services
Medical Care Advisory Committee
Item for Committee Advisement

PREPARED BY: Jeff Saxon, Program Manager, Office of Finance and Administration

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DATE: October 27, 2014

SUBJECT: South Carolina (SC) Medicaid Disproportionate Share (DSH) payment methodology update effective for the October 1, 2014 through September 30, 2015 (FFY 2015) DSH payment period.

OBJECTIVE: To update the SC Medicaid DSH payment methodology for updated base year DSH financial and statistical data (HFY 2013), updated FFY 2015 DSH allotment amount, changes in the calculation of the hospital specific DSH limit for each hospital, and to comply with Budget Provisos #33.26 and #33.33 of the State Fiscal Year (SFY) 2014/2015 State Appropriations Act as it relates to the FFY 2015 SC Medicaid DSH Payment Program.

BACKGROUND: The SCDHHS has issued the following changes to the DSH payment methodology for the FFY 2015 DSH payment period for public comment which ends on November 20, 2014:

- The agency proposes to update the base year used to calculate the interim DSH payments for the DSH allotment period which ends on September 30, 2015 (FFY 2015) using hospital fiscal year end 2013 data, the continued use of the December 19, 2008 Final Rule (Federal Register / Vol. 73, No. 245), and any future clarification guidance/policy changes that may be provided by the Centers for Medicare and Medicaid Services (CMS) as it relates to the Final Rule.
- The agency proposes to update the inflation rate used to trend the DSH base year cost to the end of the 2013 calendar year.
- The agency proposes to continue the use of its qualification criteria to determine those DSH hospitals that will be subject to a reduction in their FFY 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, the 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. The DSH payment reductions generated from this analysis will be spread to the remaining SC Medicaid DSH eligible hospitals (excluding the South Carolina Department of Mental Health (SCDMH) owned hospitals).
- The agency proposes to increase the hospital specific DSH limit of the out of state border hospitals and any SC non general acute care hospital that qualifies for the SC Medicaid DSH Program from 50% to 60% when determining FFY 2015 DSH payments.

- The agency proposes to expend one hundred percent of its FFY 2015 Medicaid DSH allotment to qualifying DSH eligible hospitals during the Medicaid State Plan Rate Year.
- For the FFY 2015 DSH payments, the agency proposes to apply a normalization adjustment to the hospital specific DSH limits of those DSH hospitals impacted by the July 1, 2014 Medicaid fee for service state plan amendments which normalized Medicaid inpatient hospital per discharge rates and outpatient hospital multipliers. This proposed action will reduce the hospital specific DSH limits of the impacted DSH hospitals.
- For all DSH qualifying hospitals except for those operated by the SCDMH, the agency proposes to determine the FFY 2015 DSH payments based upon all DSH eligible unreimbursed cost pools (i.e. Medicaid eligible and uninsured individuals) but will exclude the South Carolina Medicaid fee for service inpatient and outpatient hospital services unreimbursed cost pools. The agency will ensure that in the event that a hospital reflects a profit on its SC Medicaid inpatient and outpatient hospital fee for service population, its hospital specific DSH limit will be reduced accordingly. For DSH qualifying hospitals operated by the SCDMH, all Medicaid eligible and uninsured DSH eligible unreimbursed cost pools will be used in the determination of the FFY 2015 DSH payments.
- In accordance with Budget Proviso #33.26 (C) of the State Fiscal Year (SFY) 2014/2015 South Carolina State Appropriations Act, the agency proposes to create a separate $25 million (total dollar) DSH pool from the existing FFY 2015 DSH allotment that will be spread among the South Carolina defined rural hospitals as defined in Attachment 4.19-A of the SC Medicaid State Plan. This pool payment will be in addition to the SC defined rural hospital base DSH payment amount determined in accordance with the FFY 2015 DSH payment methodology. To be eligible to receive payment under this pool, SC defined rural hospitals must participate in reporting and quality guidelines published by the agency and outlined in the Healthy Outcomes Initiative. The agency will ensure that the FFY 2015 DSH payment of each rural hospital will not exceed its hospital specific DSH limit as determined above.
- In accordance with Budget Proviso 33.26 (A) of the SFY 2014/2015 South Carolina State Appropriations Act, the agency proposes/may tie DSH payments to participation in the Healthy outcomes Initiative and may expand the program as DSH funding is available.
- In accordance with Budget Proviso 33.33 of the SFY 2014/2015 South Carolina State Appropriations Act, the agency proposes to create a separate $40 million (total dollar) Transformation Pool from the existing FFY 2015 DSH allotment that will be spread to qualifying DSH hospitals based upon the proposed criteria as follows:

<u>Hospital Transformation:</u>

1. "Advising Hospital" shall be defined as a hospital that is a DSH-eligible hospital pursuant to Section II.12 of Attachment 4.19-A.

2. "Target Hospital Community" shall be defined as a community that includes a hospital that meets the following criteria:
   a. The hospital must be a DSH-eligible hospital pursuant to Section II.12 of Attachment 4.19-A.
   b. The hospital must fit one of the following three criteria:

i. A Critical Access Hospital (CAH), an isolated rural hospital, or a small rural hospital (as designated by SCDHHS).
ii. A large rural hospital (as designated by SCDHHS) with a loss from patient services of greater than $5,000,000 reported in the HFY13 Medicare 2552-10 cost report on file with SCDHHS as of September 2, 2014.
iii. A non-rural hospital (as designated by SCDHHS) with the following characteristics:
    1. A loss from patient services of greater than $5,000,000 reported in the HFY13 Medicare 2552-10 cost report on file with SCDHHS as of September 2, 2014.
    2. A profit of no more than $5,000,000 reported in the HFY13 Medicare 2552-10 cost report on file with SCDHHS as of September 2, 2014.
    3. A physical location within 50 miles of a High Deprivation Area as defined by the USC Institute for Families in Society's Palmetto Small Area Deprivation Index as of October 1, 2013.

3. A "Qualifying Contract" shall be defined as a contract that meets the following criteria:
    a. The contract must be between SCDHHS and the Advising Hospital.
    b. The contract must provide the details of a proposed relationship between the Advising Hospital and a specific Target Hospital Community.
        i. The proposed relationship must be a long-term financial commitment.
        ii. The proposed relationship must not result in a net increase in the number of hospital facilities in the Target Hospital Community.
    c. The contract must provide a detailed description of the Advising Hospital's plan to achieve economic viability and sustainability within the Target Hospital Community and a timeline for the implementation of the plan.
    d. The contract must explain how the plan will meet the needs of the community and reduce reliance on inpatient admissions, surgery, or high-tech diagnostics.
    e. The contract must contain an averment from the Advising Hospital that the Target Hospital Community accepts the plan.

4. A separate DSH pool of $40,000,000 in state and federal funds shall be created for allocation to Advising Hospitals.

5. For each Qualifying Contract executed before June 1, 2015, SCDHHS may allocate the Advising Hospital up to $4,000,000 from the Transformation Pool.

6. An Advising Hospital may be party to multiple Qualifying Contracts, but each Qualifying Contract must relate to a unique Target Hospital Community.

7. Any funds not awarded shall be returned from the Transformation Pool for distribution to all DSH eligible hospitals (excluding SCDMH hospitals) via the DSH payment methodology in effect during FFY 2015.
8. Failure of the Advising Hospital to comply with the terms of the Qualifying Contract may, at the sole discretion of SCDHHS, result in recoupment of funds awarded under this Section.

9. An Advising Hospital may not be reimbursed more than its hospital specific DSH limit as described in Attachment 4.19-A when payments made under Section 5 are added to base DSH payments as determined in Attachment 4.19-A.

Hospitals in a Target Hospital Community are as follows:

Abbeville Area Medical Center	CAH
Allendale County Hospital	CAH
Barnwell County Hospital	Small Rural
Carolinas Hospital System - Marion	Small Rural
Chesterfield General Hospital	Small Rural
Clarendon Memorial Hospital	Isolated Rural
Coastal Carolina Hospital	Isolated Rural
Edgefield County Hospital	CAH
Fairfield Memorial Hospital	CAH
Hampton Regional Medical Center	Small Rural
Kershaw County Medical Center	Non-Rural
Lake City Community Hospital	Small Rural
Marlboro Park Hospital	Large Rural
Tuomey Regional Medical Center	Non-Rural
Wallace Thomson Hospital	Large Rural
Williamsburg Regional Hospital	CAH

BUDGETARY IMPACT: Annual aggregate SC Medicaid expenditures are expected to increase by approximately $7.4 million (total dollars) during FFY 2015.

EXPECTED OUTCOMES: Medicaid recipient and uninsured individuals' access to inpatient and outpatient hospital services will be maintained/may improve.

EXTERNAL GROUPS AFFECTED: Contracting Medicaid DSH hospitals as well as Medicaid and uninsured individuals.

RECOMMENDATION: Move to amend the current state plan to allow for the changes to the FFY 2015 SC Medicaid DSH payment program as noted above noting that revisions to the proposed changes may be made based upon comments received during the comment period.

EFFECTIVE DATE: For the October 1, 2014 through September 30, 2015 DSH payment period.