SOUTH CAROLINA DEPARTMENT OF HEALTH AND HUMAN SERVICES
Healthy Connections MEDICAID

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COMMENTS REGARDING PROPOSED PUBLIC NOTICE FOR FFY 2017 DSH PROGRAM PUBLISHED AUGUST 31, 2016

"We strongly encourage the state to draw down the full DSH allotment. The continuing decline in the amount of uninsured/uncompensated care costs reimbursed by DSH is a major concern.

Eliminating the $8.7 million payment reduction for certain facilities to redistribute to other facilities is reasonable.

We recognize the need to support the sustainability of rural hospitals across the state.

We encourage the state to explore the possibility of using other funding sources to create a new Transformation Pool in lieu of further reducing the amount of DSH funding available for non-rural hospitals across the state

We encourage transparency regarding the audit procedures and subsequent recoupment and redistribution of DSH funds."

SCDHHS Response:

1st Comment – The SCDHHS expects to pay out 100% of the FFY 2017 DSH allotment by September 30, 2018.

2nd Comment – The SCDHHS concurs and has eliminated the recoupment and the redistribution process relating to the $8.7 million for FFY 2017 DSH payment purposes.

3rd Comment – The SCDHHS concurs with the comment.

4th Comment – The SCDHHS will continue to use the DSH funding stream as the source of the Transformation Pool for FFY 2017 and expects that any unspent funds from the FFY 2017 Transformation Pool will be paid to all qualifying DSH hospitals by September 30, 2018. To address this concern, the SCDHHS raised inpatient hospital rates when the larger FFY 2015 Transformation Pool was established and has left that increase in place even as the Transformation Pool has reduced in size.

5th Comment - In regards to the DSH audit process, the agency will continue to provide and make available to all hospitals the calculation of the redistribution of the DSH funds based upon the audited DSH data. However, audit procedures used by the DSH audit contractor will not be made available.

"We are opposed to the proposed tiered methodology that would adversely impact our facility. Under the proposed methodology, our hospital would be faced with cuts in both its DSH payments as well as its retrospective cost settlements.

DSH allotment is vital to all hospitals across the state. We encourage the state to expend 100% of the 2017 allotment.

In anticipation of the 2018 DSH reductions associated with the Affordable Care Act, we encourage the state to consider options to minimize the impact of any reductions not only for rural hospitals but all hospitals across the state."

SCDHHS Response:

1st Comment – We have considered the comments made and while the DSH funding will remain at 90% for the designated DSH rural hospitals in the class, the agency will provide SC Medicaid inpatient and outpatient hospital reimbursement at the greater of actual Medicaid reimbursement or 90% of allowable Medicaid reimbursable costs. However, in no event can the provider receive Medicaid fee for service inpatient or outpatient hospital reimbursement in excess of 100% of allowable Medicaid costs.

2nd Comment – The SCDHHS expects to pay out 100% of the FFY 2017 DSH allotment by September 30, 2018.

3rd Comment – The SCDHHS acknowledges the request and will explore other ways in which the aggregate impact of the proposed ACA DHS cuts occurring during FFY 2018 can be offset by other changes to the inpatient and outpatient Medicaid hospital payment methodologies.

"Disproportionate Share Funding

We strongly encourage the State and the agency to draw down 100% of the available Federal funds for DSH as this is an important funding source for all hospitals in the State to at least partially cover the cost of providing care to the large number of uninsured citizens that might otherwise have received coverage from Medicaid Expansion.

SC Defined Rural Hospitals

We recommend that you begin to follow Medicare definition of rural for this purpose, and include those hospitals that not only are located in areas designated as rural by Medicare but also qualify as Sole Community Hospitals.

SC Health Insurance Premium Payment (HIPP) Program

We strongly request that you remove HIPP population data from the DSH calculation.

Healthy Outcomes Plan

We greatly appreciate the efforts of The University of South Carolina and SCDHHS to make the development of financial feasibility measurements accurate and reflective of the program's true financial outcomes and impacts. We also appreciate the fact that USC and SCDHHS have included hospital representatives and SCHA staff in the development of these reports to resolve to provide any available assistance in the effort. In order to verify the financial stability of the program for hospitals, we will continue to encourage our members to internally measure the cost of the developing and maintaining their own HOP's and to make comparisons to the funding provided by the State to ensure the financial viability of each individual HOP."

SCDHHS Response:

1st Comment - The SCDHHS expects to pay out 100% of the FFY 2017 DSH allotment by September 30, 2018.

2nd Comment – The SCDHHS will continue to apply its current criteria used to define a SC defined rural hospital as it addresses Medicaid policy goals of the state.

3rd Comment – The SCDHHS has prepared several models removing the Commercial/Medicaid pool from the DSH payment calculations and has concluded that the resulting shifts in DSH payments would have significant consequences that are likely beyond those envisioned by the commenting parties, so the SCDHHS is not pursuing this change at this time. The first model results in the most dramatic reallocations, resulting in individual hospitals losing as much as 41% of their current allocation or gaining 90% or more against current levels. Each model also shifts between one and several million dollars to out-of-state hospitals. The SCDHHS has shared the results of this analysis with the hospital community.

4th Comment - The SCDHHS concurs that Healthy Outcomes Plans have been an important provider-led tool to provide access to services for vulnerable populations.

"Historically, the state's DSH program equitably reimbursed hospitals across the state based on a hospital specific ratio of uninsured/uncompensated care cost to the total allotment amount. However, Medicaid rate reductions combined with various changes in the distribution methodology over the years have resulted in a lack of equity among providers. We support efforts to promote the sustainability of rural hospitals across the state; however, we would oppose any additional changes that would cause further inequities among various classes of providers.

We strongly support drawing down the full DSH allotment to maximize reimbursement for allowable costs for providing quality services to uninsured or underinsured patients in our respective service areas. We also support the proposed action to eliminate the $8.7 million reduction to certain hospitals for redistribution to the remaining hospitals.

We appreciate any efforts to maintain or improve DSH reimbursement for the Doctors Hospital. The Joseph M. Still Burn Center at Doctors Hospital is a nationally recognized leader in burn research and treatment and has been designated by the American College of Surgeons and American Burn Association as a Burn Center of Excellence. In 2015, the Burn Center provided care for 1,014 South Carolinians, which was 91% of all South Carolina burn inpatient admissions.

Looking toward future reductions to the DSH allotment pursuant to the Affordable Care Act, we encourage the Department of Health and Human Services to explore options that would maximize the return on the hospital provider tax to prevent further erosion of the amount of uncompensated care costs reimbursed through the DSH program."

SCDHHS Response:

1st Comment –The SCDHHS recognizes that many hospitals face varying degrees of the clinical and financial challenges associated with providing treatment in rural communities and believes that the prior dichotomous model oversimplified this reality. The proposed gradation of DSH allocations for rural facilities attempts to balance the varying degrees to which such facilities are affected by these issues with the desire to establish the simplest and most uniform reimbursement system that can achieve various public policy priorities and equity objectives. SCDHHS appreciates the desire to streamline the reimbursement program, as the proposal to eliminate the $8.7 million reduction should demonstrate. SCDHHS will search for other related opportunities and welcomes additional suggestions.

2nd Comment - The SCDHHS expects to pay out 100% of the FFY 2017 DSH allotment by September 30, 2018. Upon the recommendation of several hospitals in the past, SCDHHS has eliminated the recoupment and the redistribution process relating to the $8.7 million for FFY 2017 DSH payment purposes.

3rd Comment – The SCDHHS realizes the importance of having access to Doctors Hospital and its burn intensive care unit and will continue to monitor the situation for potential adjustments in SC Medicaid DSH funding in the future.

4th Comment - The SCDHHS acknowledges the request and will explore other ways in which the aggregate impact of the proposed ACA DHS cuts occurring during FFY 2018 can be offset by other changes to the inpatient and outpatient Medicaid hospital payment methodologies.

"We encourage the Department of Health and Human Services (DHHS) to expend the entire FFY 2017 DSH allotment.

We support the elimination of the $8.7 million payment reduction for some hospitals to redistribute to other facilities.

We support transparency in the Myers & Stauffer audit process and subsequent recoupment and redistribution of DSH funding.

With significant DSH reductions looming in 2018 as a result of the Affordable Care Act, we encourage DHHS to work in conjunction with hospitals to determine hospital specific impact and to pursue alternatives that would mitigate further erosion of the percentage of uninsured/uncompensated care costs reimbursed through the DSH program."

SCDHHS Response:

1st Comment – The SCDHHS expects to pay out 100% of the FFY 2017 DSH allotment by September 30, 2018.

2nd Comment – The SCDHHS concurs and has eliminated the recoupment and the redistribution process relating to the $8.7 million for FFY 2017 DSH payment purposes.

3rd Comment - In regards to the DSH audit process, the agency will continue to provide and make available to all hospitals the calculation of the redistribution of the DSH funds based upon the audited DSH data. However, audit procedures used by the DSH audit contractor will not be made available.

4th Comment – The SCDHHS acknowledges the request and will explore other ways in which the aggregate impact of the proposed ACA DHS cuts occurring during FFY 2018 can be offset by other changes to the inpatient and outpatient Medicaid hospital payment methodologies.

"I am especially supportive of the proposal to create a separate DSH pool from the existing FFY 2017 DSH allotment that will be spread among South Carolina rural hospitals, which may reimburse rural hospitals up to 100 percent of DSH eligible unreimbursed costs. These funds will assist rural hospitals tremendously in continuing to serve the healthcare needs of the underserved.

We are concerned that reimbursing some rural providers at 80 percent or 90 percent, while reimbursing others at 100 percent of cost, creates inconsistencies from the overall goal of the DSH program. The rural providers continue to treat a higher disproportionate number of low-income patients and should not be expected to bear the burden of unreimbursed costs.

We are also concerned that the providers who are receiving 80% of DSH costs are being penalized by now also only receiving 80% of cost for reimbursement of for traditional Medicaid fee-for-service patients.

We remain concerned with the lack of transparency regarding the DSH program and corresponding audits. The public notice indicates that the agency plans to use the inflation rate to trend the DSH base year costs to the end of the 2015 calendar year. In a normal environment, that may be an appropriate method. But given the continued reimbursement pressures, most hospitals have been forced to decrease costs. This methodology could potentially create a repayment situation for those hospitals."

SCDHHS Response:

1st Comment - The SCDHHS concurs with the comment.

2nd and 3rd Comment - We have considered the comments made and while the DSH funding will remain at 80% for the designated DSH rural hospitals in the class, the agency will provide SC Medicaid inpatient and outpatient hospital reimbursement at the greater of actual Medicaid reimbursement or 80% of allowable Medicaid reimbursable costs. However, in no event can the provider receive Medicaid fee for service inpatient or outpatient hospital reimbursement in excess of 100% of allowable Medicaid costs.

4th Comment – The intent of the application of a trend factor through December 31, 2015 is to ensure that all DSH eligible hospital costs are estimated and reflected at the same point in time. While costs are increased due to the application of this trend factor, the amount of trend allowed in the DSH payment calculation is minimal at best. Therefore, the agency will continue to apply a trend factor in the calculation of the FFY 2017 DSH payments. The commenter is correct that reconciling against audited costs means that some hospitals may face recoupments and others may receive additional DSH allocations once the final reconciliation has been completed. Each hospital must decide how it will plan and account for these contingencies.

"$8.7 Million Payment Reduction and Redistribution Process

Roper St. Francis supports the elimination of the $8.7 million payment reduction and redistribution process. Although the initial payment reduction was said to lessen a SCDHHS budget shortfall, its continued practice is arbitrary. A detailed review of the calculation and history of the allocation suggests this process disproportionately rewards high cost facilities, which was not the stated intent behind the reallocation.

New $20m Transformation Pool

Roper St. Francis Healthcare supports the SCDHHS intent to provide financial support to the struggling and medically underserved communities of South Carolina. However, we would encourage and support SCDHHS adopt the practice of redistributing the unspent funding pool each year as part of the DSH Program settlements.

Normalization Adjustments

Roper St. Francis Healthcare does not support the continued application of the SCDHHS "Normalization Adjustments" to the hospital Medicaid DSH payments.

Disproportionate Share Funding

We encourage the State and the agency to draw down 100% of the available Federal Funds for DSH as this is an important funding source for all hospitals in the State to at least partially cover the cost of providing care to the large number of uninsured citizens that might otherwise have received coverage from Medicaid Expansion.

Transparency in Adoption of ACA DSH Reductions

Roper St. Francis Healthcare requests the agency provide hospitals with estimates of any possible reductions in the FFY 2018 DSH allotment and the impact on individual hospitals as a result of the ACA as soon as they are available in draft.

Transparency in Audit Procedures

Roper St. Francis Healthcare would like to request SCDHHS to be transparent in its process for distribution and audit of DSH funds, including requiring Myers & Stauffer to provide follow up summary information to all hospitals upon completion of their audits."

SCDHHS Response

1st Comment - The SCDHHS concurs and has eliminated the recoupment and the redistribution process relating to the $8.7 million for FFY 2017 DSH payment purposes.

2nd Comment – The SCDHHS expects that any unspent funds from the FFY 2017 Transformation Pool will be paid to all qualifying DSH hospitals by September 30, 2018.

3rd Comment – The SCDHHS will continue to apply normalization (i.e. rate caps and multiplier caps) as part of the SC Medicaid FFY 2017 DSH calculation process so as not to reward high-cost facilities

4th Comment - The SCDHHS expects to pay out 100% of the FFY 2017 DSH allotment by September 30, 2018.

5th Comment - The SCDHHS acknowledges the request and will provide any analysis that has been prepared by the SCDHHS of any estimates relating to the FFY 2018 ACA DSH cuts as they become available. The SCDHHS will also explore other ways in which the aggregate impact of the proposed ACA DHS cuts occurring during FFY 2018 can be offset by other changes to the inpatient and outpatient Medicaid hospital payment methodologies. Additionally, the agency commits to making this process transparent to all parties involved.

6th Comment - In regards to the DSH audit process, the agency will continue to provide and make available to all hospitals the calculation of the redistribution of the DSH funds based upon the audited DSH data. The SCDHHS will ensure that each hospital will receive the results of its DSH audit from our audit contractor. Aggregate summary data will be provided upon the release of the Final FFY DSH audit report each year which normally occurs at the end of the calendar year.

"Disproportionate Share Funding

We encourage the State and the agency to draw down 100% of the available Federal funds for DSH as this is an important funding source for all hospitals in the State to at least partially cover the cost of providing care to the large number of uninsured citizens that might otherwise have received coverage from Medicaid Expansion.

Disproportionate Share Transformation Pool

The agency is proposing establishing a new Transformation Pool not to exceed $20 million from the FFY 2017 DSH Allotment. We would request the agency provide definitions and criteria for use of these funds as soon as possible. We also request any of these funds not expended prior to September 30, 2017 be distributed back to all qualifying hospitals proportionately.

Transparency in Adoption of ACA DSH Reductions

We encourage SCDHHS to be fully transparent in the process of adapting DSH to ACA changes in future periods and to allow comment on behalf of our members during the developmental phases, rather than after planning has been completed and the notice is published for comment.

Transparency in Audit Procedures

We would like to request the agency be transparent in its process for distribution and audit of DSH funds, including requiring Myers & Stauffer to provide follow up summary information to all hospitals upon completion of their audits.

Healthy Outcomes Plan

We greatly appreciate the efforts of The University of South Carolina and SCDHHS to make the development of financial feasibility measurements accurate and reflective of the program's true financial outcomes and impacts. The lack of actual cost data requires the conversion of charge data to cost data (or payment data) which is specific to each HOP. This can be an arduous process and we appreciate USC's extra efforts in this process. We also appreciate the fact that USC and SCDHHS have included hospital representatives and SCHA staff in the development of these reports and we resolve to provide any available assistance in the effort."

SCDHHS Response:

1st Comment - The SCDHHS expects to pay out 100% of the FFY 2017 DSH allotment by September 30, 2018.

2nd Comment – The SCDHHS proposes to establish a FFY 2017 Transformation Pool to support its compliance with Proviso 33.27 (B) of the FY 2016-17 General Appropriations Act, which states:

> **"The department shall investigate the potential use of DSH and/or any other allowable and appropriate source of funds in order to improve access to emergency medical services in one or more communities identified by the department in which such access has been degraded due to a hospital's closure during the past five years. In the current fiscal year, the department is authorized to establish a DSH pool for this purpose and/or if deemed necessary to implement transformation plans for which conforming applications were filed with the department on or before April 1, 2016, but for which additional negotiations or development were required. An emergency department that is established within 35 miles of its sponsoring hospital during the current fiscal year and which receives dedicated funding pursuant to this proviso shall be exempt from any Department of Health and Environmental Control Certificate of Need requirements or regulations. Any such facility shall participate in the Statewide Telemedicine Network".**

The definitions, criteria, and process relating to the use and qualification of the funds will be consistent with those employed during the creation of the $40 million Transformation Pool in FFY 2015 unless they must be conformed to meet the requirements of the proviso. One of the primary intentions of this proviso was to allow SCDHHS to continue negotiations on applications that were received prior to April

1, 2016 under the criteria of the FFY 2015 Transformation Pool. SCDHHS expects to continue negotiations under the conditions that were in place at the time the application was filed.

3rd Comment - The SCDHHS acknowledges the request and will provide any analysis that has been prepared by the SCDHHS of any estimates relating to the FFY 2018 ACA DSH cuts as they become available. The SCDHHS will also explore other ways in which the aggregate impact of the proposed ACA DHS cuts occurring during FFY 2018 can be offset by other changes to the inpatient and outpatient Medicaid hospital payment methodologies. Additionally, the agency commits to making this process transparent to all parties involved.

4th Comment - In regards to the DSH audit process, the agency will continue to provide and make available to all hospitals the calculation of the redistribution of the DSH funds based upon the audited DSH data. The SCDHHS will ensure that each hospital will receive the results of its DSH audit from our audit contractor. Aggregate summary data will be provided upon the release of the Final FFY DSH audit report each year which normally occurs at the end of the calendar year.

5th Comment – The SCDHHS concurs that Healthy Outcomes Plans have been an important provider-led tool to provide access to services for vulnerable populations.

"We are opposed to the proposed tiered methodology that would adversely impact our facility. Under the proposed methodology, our hospital would be faced with cuts in both its DSH payments as well as its retrospective cost settlements.

DSH Allotment is vital to all hospitals across the state. We do not feel it is justified to single out the few rural hospitals that were designated as rural hospitals for the first time effective on and after October 1, 2014. We deal with the same rural hospital issues and expenses that the other hospitals deal with every day. We encourage the state to expend 100% of the 2017 allotment for all designated rural hospitals.

In anticipation of the 2018 DSH reductions associated with the Affordable Care Act, we encourage the state to consider options to minimize the impact of any reductions not only for rural hospitals but all hospitals across the state."

SCDHHS Response:

1st and 2nd Comment - We have considered the comments made and while the DSH funding will remain at 90% for the designated DSH rural hospitals in the class, the agency will provide SC Medicaid inpatient and outpatient hospital reimbursement at the greater of actual Medicaid reimbursement or 90% of allowable Medicaid reimbursable costs. However, in no event can the provider receive Medicaid fee for service inpatient or outpatient hospital reimbursement in excess of 100% of allowable Medicaid costs. The SCDHHS recognizes that many hospitals face varying degrees of the clinical and financial challenges associated with providing treatment in rural communities and believes that the prior dichotomous model oversimplified this reality. The SCDHHS also recalls that some, but not all, such communities have had the opportunity to use resources from the Transformation Pool to help address these challenges.

3rd Comment - The SCDHHS will explore other ways in which the aggregate impact of the proposed ACA DSH cuts occurring during FFY 2018 can be offset by other changes to the inpatient and outpatient Medicaid hospital payment methodologies for all participating DSH hospitals.

"We are concerned that reimbursing some rural providers at 80 percent or 90 percent, while reimbursing others at 100 percent of cost, creates inconsistencies from the overall goal of the DSH program. The rural providers continue to treat a higher disproportionate number of low-income patients and should not be expected to bear the burden of unreimbursed costs".

SCDHHS Response:

We have considered the comments made and while the DSH funding will remain at either 80% or 90% for the designated DSH rural hospitals in the class, the agency will provide SC Medicaid inpatient and outpatient hospital reimbursement at the greater of actual Medicaid reimbursement or 80% or 90% of allowable Medicaid reimbursable costs for the designated DSH rural hospitals in the class. However, in no event can the provider receive Medicaid fee for service inpatient or outpatient hospital reimbursement in excess of 100% of allowable Medicaid costs.

"Also as you know, SCDHHS has long been strategically moving Medicaid beneficiaries from fee for service to managed care plans, with the overall goal of having managed care the predominant Medicaid delivery system. Notwithstanding this strategic goal, as early as 2007, SCDHHS has limited out-of-state border hospitals' participation in Medicaid DSH to a specified number of Medicaid fee for service claims per year as set forth in the applicable provision in the State Plan Amendment.

Until this year, CMC has been able to meet and exceed the number of Medicaid fee for service claims. CMC has, however, continuously been providing services to more and more South Carolina Medicaid managed care beneficiaries and uninsured. CMC's South Carolina Medicaid discharges have increased from 974 to 1,043 from FYE 2011 to FYE 2015. Of those discharges, 549 were Medicaid fee-for-service in 2011, but only 252 were Medicaid fee-for-service in 2015. Inversely, CMC had 425 Medicaid managed care discharges in 2011 and had 791 Medicaid managed care discharges in 2015. CMC will not have 200 or more Medicaid fee-for service discharges for FY 2016, which is the base year for 2018 participation. It is critical to CMC's ongoing ability to care for these South Carolina residents that CMC maintain its eligibility to participate in South Carolina Medicaid DSH.

In light of the integral part CMC plays in caring for many South Carolina residents, particularly in the upstate, we respectfully request that you consider revising the State Plan Attachment to enable CMC to continue its eligibility to participate in the South Carolina DSH program."

SCDHHS Response:

The SCDHHS recognizes that beneficiaries have been shifting from fee-for-service and into managed care and will modify the qualification criteria for out of state border hospitals that seek participation in the SC Medicaid DSH Program so that managed care discharges will also be applied towards these thresholds.