

### **Explanation of Modeling Package**

Supplemental payments have gone through changes in past years and the Uncompensated Care methodology will change completely in October 2019. HHSC is providing extensive, detailed modeling concerning many of these payment programs. HHSC is providing this data to inform stakeholders as to both possible future payments and discussions among the stakeholders regarding multiple outstanding issues. **Given the complexity of both the models and the issues, stakeholders must review this explanatory document closely. This document will provide key information and can inform stakeholders' understanding of the assumptions and methods for each model.**

HHSC is providing three sets of models:

1. Demonstration Years 9-11 Uncompensated Care Distribution at Multiple Pool Sizes and HSLs, by Deloitte
2. Hospital Specific Limit Methodology for Hypothetical 2017 Compared to SB7 Methodology, by Deloitte
3. Combined Withheld Uncompensated Care Payments for Demonstration Years 3-6 and Upper Payment Limit Obligation

Please read each individual section below to ensure that you understand the nuance with each model.

1. Demonstration Years 9-11 Uncompensated Care Distribution at Multiple Pool Sizes and HSLs, by Deloitte

Associated file names:

UC.DSH.UHRIP Impact Assessment\_04232019

TX UC DSH UHRIP Payment Model Data Refresh

UC.DSH.UHRIP Impact Assessment\_10302018\_Final

The Demonstration Years (DYs) 9-11 Uncompensated Care (UC) Distribution at Multiple Pool Sizes and HSLs contains important information regarding the methods and assumptions within the file. HHSC is including both the most up to date model as well as the October 2018 model. Compared to previous versions, there are three main differences.

First, HHSC is including models at three UC pool sizes: \$2.7 billion, \$3.1 billion, and \$3.8 billion. *The addition of a model at the pool size of \$3.8 billion does not mean that that is the final number for the DYs 9-11 UC pool.* The \$3.8 billion pool size represents HHSC's best assessment of the DYs 9-11 UC pool and its understanding

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of CMS' policy preferences with updated data. However, HHSC continues to discuss the UC pool size methodology with CMS and the final size will not be known until July at the earliest. HHSC believes it is necessary to start examining the possible distributions given a potentially higher than initially expected UC pool size.

Second, HHSC is including two different versions of hospital specific limits (HSLs) in the model. HHSC requested that Deloitte use both the "post-CHAT" and the "SB7" HSL methodologies. The "post-CHAT" HSL is the HSL currently in use. The "SB7" HSL is the method in which payments for other insurance and Medicare are capped at Medicaid allowable cost. More information about these methodologies can be found in the "SB7 Hospital Specific Limit Methodology" in the next section.

Third, this model uses hospital-provided data that HHSC requested earlier in the spring. As such, it includes the most up to date charity care information currently available. However, this will not be the final data. In short, the distribution described in the model can change, for this and other reasons.

2. Hospital Specific Limit Methodology for Hypothetical 2017 Compared to SB7 Methodology, by Deloitte

Associated file names:

UC.DSH Impact of HSL Changes Assessment

For several months, HHSC worked with Deloitte to determine the ramifications of utilizing the "SB7 methodology" when determining the interim HSL. By "SB7 methodology", HHSC means that, when calculating the HSL, all Medicaid costs are included but other insurance and Medicare payments are only included up to the Medicaid allowable cost.

The attached model shows 1) a 2017 baseline, 2) the effects of capping other insurance and Medicare payments on 2017 payments (the SB7 scenario), and 3) the effect of excluding other insurance and Medicare payments on 2017 payments. The third set of numbers describes the current application of HHSC policy.

The 2017 baseline does not represent actual 2017 payments. The 2017 baseline uses 2017 data and includes the pre-CHAT HSL calculation with current policies. Changes in policy between 2017 and today include the current definition of rural hospital and a decrease in the ambulance pool size, estimated to be \$95 million. HHSC chose this baseline to show the direct effects of the different HSL calculations.

3. UC Withheld Payments and the UPL Obligation

Associated file names:

UC Withheld Decision Tree

Final UC Withheld and UPL Obligation Allocation

HHSC is providing the attached modeling so that stakeholders might understand new UC withheld payments and UPL obligation proposals. While the two issues are distinct, the potential payment schedule for the withheld funds and the timeline required for the accounting of the UPL obligation overlap. The options shown are not final. HHSC is interested in feedback before implementing any options and is hopeful that stakeholders will be able to provide a joint proposal. However, HHSC must shift focus to the future of supplemental and directed payment programs as opposed to these temporary issues.

**Please provide feedback on these issues no later than June 14, 2019. At that point, HHSC will begin its decision-making process with a target completion date of June 28, 2019.**

*Proposed UC Withheld Payment Methodology*

The attached decision tree explains how HHSC arrived at the three models provided. When developing the options, HHSC's intent was to stay as close to current UC policy as possible. In general, several of the decisions are on the same points as those used when discussing the methodology for the withheld DSH payments. There are two decision points that produce different results:

- (1) Does HHSC include all providers in the UC program or only hospitals and physicians?
- (2) Does HHSC use the "Advance Method" or "Final Method" for the allocation?

While the first decision point is self-explanatory, the second one deserves more explanation. The "Advance Method" means that the interim HSL is reduced by payments already received and then the UC withheld payments are allocated based on the remaining interim HSLs. The "Final Method" means that the total recalculated payment is reduced by payments already received and if a hospital was "overpaid", that hospital would not receive any of the withheld UC (and could result in recoupment). In both the Advance and Final Methods, payments are capped at the HSL. The proposed DSH Option X uses the "Advance Method".

*UPL Obligation Status*

Although HHSC has attempted to find alternate means of handling the UPL obligation, CMS has disapproved those attempts. Given CMS' requirement that HHSC must have a plan for the UPL obligation no later January 2020, it is time for the state to give serious thought to repayment methods.

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Additionally, the amounts regarding the UPL obligation have changed. The total obligation was \$480 million as opposed to \$466 million as previously cited. HHSC has discovered that several years ago, there was a dialogue with CMS in which it was determined that the obligation was greater than initially listed in the 1115 Waiver STCs.

HHSC has used recoupments to “pay down” the obligation by not redistributing recoupments to other providers. While previous estimates have shown a lower balance, HHSC recently validated all expenditures associated with DY 1 and modified the balance of recoupments to reflect all provider payments. As a result, the remaining UPL obligation is \$373 million.

#### *Proposed UPL Obligation Methodology*

Unlike the UC Withheld Payment options, there is a single proposal presented for the UPL obligation. This is HHSC’s first proposed methodology on this issue.

There are multiple steps to arrive at the proposed numbers:

(1) HHSC determines a final UPL obligation allocation for each of the first five demonstration years (DYs). To do this, HHSC allocates the UPL obligation to each DY by multiplying the total original obligation (\$480m) by the proportion of a DY pool size in relation to the total UC pool for DYs 1-5.

(2) If there is a recoupment for a particular DY, that amount is subtracted from the initial allocation previously described to find the final UPL obligation allocation for the DY.

(3) HHSC multiplies the final UPL obligation allocation for a DY by the percent of that DY’s total UC pool accounted for by a particular hospital. The model provided includes estimates for each hospital for all three of the UC withheld payments options HHSC is putting forth.

#### *Comparison Analysis*

To help evaluate the impact of each withheld funds distribution approach relative to the UPL obligation, HHSC provides the amount of the total UPL obligation still owed by each entity after considering the various UC withheld distributions. Depending on the UC withheld model being used, as few as 54 entities or as many as 238 entities will have funds recouped to cover the remainder of the UPL obligation.

#### **Questions or feedback?**

Please send an email [RAD\\_1115\\_Waiver\\_Finance@hhsc.state.tx.us](mailto:RAD_1115_Waiver_Finance@hhsc.state.tx.us). For questions, HHSC will reply as soon as possible. Additionally, HHSC will gather all questions and

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responses and post them online at: <https://rad.hhs.texas.gov/hospitals-clinic/hospital-services/medicaid-1115-waiver-payments>.