



Tennessee Hospital Association Hospital Coverage Fee

The THA-proposed hospital coverage fee will restore \$659 million (state and federal dollars) in cuts to the TennCare program by allowing hospitals to temporarily “step into the state’s shoes” to fund a significant portion of the program, a federally-permissible way of generating the state share of Medicaid funding that 26 other states have in place. The Tennessee Hospital Association (THA) board of directors voted unanimously on February 8 to recommend the fee on an interim basis until the economy improves sufficiently for the state to fund the program. The fee would be renewed on an annual basis.

The fee will not be passed on to patients, but will be utilized simply as a mechanism to draw down federal dollars necessary to restore a significant portion of the proposed eliminations and reductions in TennCare benefits and reimbursement.

Why the Fee is Necessary

- The state has proposed cuts to the state share of funding for the TennCare program totaling \$429.9 million, effective July 1, 2010.
- For every dollar the state spends on TennCare, the federal government provides, within an overall federal “budget neutrality” cap for Tennessee, two additional matching dollars for the state to spend on the program. When the state portion of the funding is cut, the overall loss to the program is triple that amount due to the loss of those matching dollars. **Thus, cutting nearly \$430 million in state funding from TennCare will reduce the total dollars in the program by \$1.22 billion.**
- The proposed limits on benefits, such as eight lab and x-ray occasions per year, eight physician office visits per year, and the complete elimination of occupational, speech and physical therapy services are especially harmful to TennCare enrollees.
- THA is proposing to fund these benefit limits, as well as the direct hospital cuts, through the fee.
- The fee will not negatively impact the federal deficit because the federal government already is providing matching funds for the state dollars being cut. Should the cuts be enacted, these federal dollars will be lost.
- The THA board firmly believes that, while it is the state’s responsibility to fund TennCare, hospitals must step up in this crisis so their patients and the communities they serve will not suffer the consequences of these drastic cuts.

Structure of the Fee

The following hospitals are exempt from paying the proposed hospital coverage fee and meet all Centers for Medicare and Medicaid Services (CMS) requirements for exclusion from the fee. The fee was designed after modeling several different federally-approved approaches, with the purpose of minimizing the number of hospitals that would pay more in fees than they receive back in payments from TennCare.

- The fee will be paid by *all licensed acute care and psychiatric hospitals* in Tennessee except for the following classes of hospitals:
 - Non-state Owned Government Hospitals
Hospitals are not reimbursed their full costs under the TennCare program. Federal rules allow the state to receive federal matching dollars based on a governmental hospital's charity care and unreimbursed TennCare costs. These dollars are classified as "certified public expenditures" (CPE) under federal rules and are matched at the same rate as other state funds under TennCare. These dollars do not go back to the hospital but are utilized to help fund the TennCare program. If the fee were to be placed on CPE hospitals, it would reduce the amount of unreimbursed TennCare eligible for the CPE match and negatively impact the overall funding of TennCare.
 - Critical Access Hospitals
Critical access hospitals (CAH) are facilities that are federally certified to receive cost-based reimbursement from Medicare. The reimbursement that CAHs receive is intended to improve their financial performance and, thereby, reduce hospital closures and help ensure access to care in rural communities. Critical access hospitals have fewer than 25 acute care beds and, in Tennessee and most other states, they also receive cost-based reimbursement from Medicaid (TennCare). Therefore, excluding these hospitals will result in fewer "losing" hospitals under the fee model.
 - Freestanding Rehabilitation and Long Term Acute Care Hospitals
These hospitals are very low volume TennCare facilities, with an average TennCare utilization rate of only 3.7 percent and over half of them do not participate in any TennCare managed care organization (MCO) network. Therefore, as a group, they will be impacted much less by the cuts and excluding these hospitals will result in fewer "losing" hospitals under the fee model.
 - Pediatric Research Hospital
St. Jude Children's Research Hospital is a pediatric research hospital that operates differently from all of the other hospitals in the state. Patients are accepted based on the eligibility to enroll in an open St. Jude Children's Research Hospital clinical research protocol. This hospital does not bill a patient and accepts third party reimbursement as full payment. Because of the unique role that this hospital plays in Tennessee, as well as in the nation, CMS rules allow this single facility to be exempted from the fee.
 - State Mental Health Institutes
The state-owned mental health institutes are supported through the state budget. Requiring these hospitals to pay the fee would create another hole in the state budget and negatively impact the funding available for mental health services in Tennessee
- Hospitals that do not pay the fee **would** have their cuts restored.
- The annual fee will be assessed at 3.5 percent of a hospital's net patient revenue, according to its 2008 Medicare cost report.
- The fee would be renewed annually.

Federal Requirements for a Fee

Pursuant to federal law, the coverage fee must be:

- Broad-based (apply to all hospitals within a class);
- Uniform (same rate across all hospitals); and
- Cannot hold hospitals harmless (no guarantee to return the cost of the fee to hospitals).

Proposed Cuts to be Replaced by the Coverage Fee

Item <i>All amounts are based on FY 2011 dollars</i>	Total State and Federal	State Share Replaced by Fee
1% Rate Reduction for Hospitals and Physicians	-\$26,589,150	-\$9,098,807
Eliminate Essential Access Hospital Payments	-\$100,000,000	-\$34,220,000
Eliminate Critical Access Hospital Payments	-\$10,000,000	-\$3,422,000
Eliminate Graduate Medical Education Program	-\$50,000,000	-\$17,110,000
Reduce Medicare Part A Reimbursement Rates to 80% of Medicare	-\$35,550,400	-\$12,165,347
Establish a Reimbursement Ceiling from the MCOs of 100% of Medicare	-\$52,104,900	-\$17,830,297
\$10,000 Annual Cap Per Enrollee on Hospital Inpatient Reimbursement	-\$160,131,080	-\$54,796,856
Limit to 8 Non-Emergency Outpatient Visits Per Year	-\$30,452,020	-\$10,420,681
Open Medically Needy Category (~7,171 Enrollees at Today's Price)	-\$32,727,300	-\$11,199,282
Limit of 8 Physician Office Procedures Per Year	-\$40,836,210	-\$13,974,151
8 Lab X-Ray Occasions of Service Per Year	-\$64,481,554	-\$22,065,588
Eliminate Reimbursement for OT/PT/ST	-\$10,589,435	-\$3,623,705
State Match for DSH from Non-Recurring Charity Pool	-\$39,752,300	-\$13,603,200
Additional Cost-Based Reimbursement for CAHs	-\$6,000,000	-\$6,000,000
Total Amount to Replace Cuts	-\$659,214,350	-\$229,529,913

Impact of Proposed Cuts on Hospitals if Fee Not Enacted

- Tennessee's hospitals already provide over \$2 billion in uncompensated TennCare, Medicare, charity care and bad debt, an amount that has been increasing each year.
- Cuts of this magnitude will have a long-term devastating impact on TennCare enrollees, Tennessee hospitals and other providers and communities throughout the state.
- Level 1 trauma centers likely will be forced to restrict when and how they accept transfers from other hospitals.
- The provision of high cost services, such as burn, perinatal and hemophilia services, would be reevaluated.
- Rural sole community provider hospitals would have to reassess every service they provide. Some will likely close.

We urge you to support the THA-proposed coverage fee in order to protect not only hospitals from the devastating impact of the drastic TennCare cuts, but patients, other TennCare providers and every community in this state.

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