TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL MEMORANDUM

HB 2084 – SB 2026

March 13, 2018

SUMMARY OF ORIGINAL BILL: Enacts the Annual Coverage Assessment Act of 2018, which establishes an annual coverage assessment on hospitals of 4.52 percent of a covered hospital's annual coverage assessment base:

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Revenue - $446,579,800/FY18-19/
Maintenance of Coverage Trust Fund

Increase State Expenditures - $446,579,800/FY18-19/
Maintenance of Coverage Trust Fund

Increase Federal Expenditures - $861,427,300/FY18-19/
Maintenance of Coverage Trust Fund

Revenue recognition in the amount of $446,579,800 is included in the Governor's proposed FY18-19 budget (page A-36). Corresponding non-recurring appropriations in the amount of $1,307,891,100 ($446,579,800 in state funds and $861,311,300 in federal matching funds) are also included.

SUMMARY OF AMENDMENT (014233): Deletes all language after the enacting clause. Enacts the Annual Coverage Assessment Act of 2018 (the Act) which establishes an annual coverage assessment on hospitals of 4.52 percent of a covered hospital's annual coverage assessment base and is required to be paid in equal quarterly installments.

The Bureau of TennCare will send a notice of payment and a return form to each covered hospital 30 days prior to the payment date. A penalty of $500 a day is imposed on a hospital that does not pay the assessment by the due date. The covered hospital is also subject to disciplinary action under the licensing laws applicable to the hospital. Prorated payments are authorized for a covered hospital that ceases operation after the effective date of the Act. A TennCare managed care organization is prohibited from implementing across the board reductions in rates that are in existence on July 1, 2018, for hospitals and physicians by category or type of provider, unless mandated by the Centers for Medicare and Medicaid Services (CMS). A Maintenance of Coverage Trust Fund (the Fund) consisting of all annual coverage assessment collections and investment earnings credited to the assets of the Fund is established. Assessment payments, investment earnings, and federal matching funds are required to be available to the Bureau and only expended for benefits and services that would have been subject to reductions or eliminations from the FY18-19 TennCare budget; for refunds to hospitals for payments of assessments or penalties to the Bureau through error, mistake, or a determination that the payment was invalidly imposed; for reimbursements to hospitals to offset losses for services provided to TennCare enrollees (assessment payments only); and payments and expenditures in the TennCare program from funds remaining in the Fund as of June 30, 2018 to replace reductions included in the FY18-19 proposed budget and to increase the reimbursement for services provided to enrollees covered by CoverKids.

The implementation of the annual coverage assessment is dependent upon approval of additional hospital payments by CMS; a determination by CMS that the payments will not reduce federal participation in the TennCare program; and full implementation of hospital payment rate variation corridors established by the state's actuary and approved by the Bureau of TennCare for payments by managed care organizations to hospitals for services provided to TennCare enrollees. Critical access hospitals, state mental health hospitals, rehabilitation and long-term care acute hospitals, St. Jude Children's Research Hospital, and the state and local government hospitals are exempt from the annual coverage assessment. Beginning September 1, 2017, and on a quarterly basis thereafter, TennCare is required to report the status of the determination and approval by CMS, the balance of the Fund, and the extent to which the funds have been used, to both of the Finance, Ways and Means Committees, the Senate Health and Welfare Committee, and the House Health Committee. This legislation takes effect July 1, 2017, and terminates on June 30, 2018.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

**Increase State Revenue - $446,771,000/FY18-19/
Maintenance of Coverage Trust Fund**

**Increase State Expenditures - $446,771,000/FY18-19/
Maintenance of Coverage Trust Fund**

**Increase Federal Expenditures - $861,680,000/FY18-19/
Maintenance of Coverage Trust Fund**

Revenue recognition in the amount of $446,579,800 is included in the Governor's proposed FY18-19 budget (page A-36). Corresponding non-recurring appropriations in the amount of $1,307,891,100 ($446,579,800 in state funds and $861,311,300 in federal matching funds) are also included.

Assumptions for the bill as amended:

- Based on information from the Division of TennCare (Division), the 4.52 percent annual coverage assessment on hospital net revenues (as reported to Centers for Medicaid Services) will result in an increase in revenue to the Maintenance of Coverage Trust Fund (MCTF) of $446,771,000.
- Medicaid expenditures that are considered administrative in nature will receive federal matching funds at a rate estimated to be 50 percent state funds to 50 percent federal funds. Medicaid expenditures for the other expenses will receive matching funds at a rate of 65.858 percent federal funds to 34.142 percent state funds.
- Based on information provided by the Division, $125,000 will be expended at a state rate of 50 percent and will receive federal matching funds at rate of 50 percent. The resulting increase in federal funds will be $125,000 [($125,000 / 50.0%) x 50.0%].
- Based on information provided by the Division, $446,646,000 ($446,771,000 - $125,000) will be expended at a state rate of approximately 34.142 percent and will receive federal matching funds at a rate estimated to be 65.858 percent. The resulting increase in federal funds will be approximately $861,555,043 [($446,646,000 / 34.142%) x 65.858%].
- The total increase to the MCTF is approximately $1,308,451,043 ($125,000 + $125,000 + $446,646,000 + $861,555,043).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista M. Lee

Krista M. Lee, Executive Director

/jem