TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

CORRECTED FISCAL MEMORANDUM

SB 214 – HB 647

April 10, 2017

SUMMARY OF ORIGINAL BILL: Enacts the Annual Coverage Assessment Act of 2017, 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 - $446,590,600/FY17-18/
Maintenance of Coverage Trust Fund

Increase State Expenditures - $446,590,600/FY17-18/
Maintenance of Coverage Trust Fund

Increase Federal Expenditures - $851,826,400/FY17-18/
Maintenance of Coverage Trust Fund

Revenue recognition in the amount of $446,590,600 is included in the Governor's proposed FY17-18 budget (page A-37). Corresponding non-recurring appropriations in the amount of $1,298,417,000 ($446,590,600 in state funds and $851,826,400 in federal matching funds) are also included.

SUMMARY OF AMENDMENT (004761): Deletes all language after the enacting clause. Enacts the Annual Coverage Assessment Act of 2017 (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, 2017, 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 FY17-18 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, 2017 to replace reductions included in the FY17-18 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:

On March 29, 2017, a fiscal memorandum was issued for the bill as amended with a fiscal impact as follows:

Unchanged from the original fiscal note.

Based on additional information provided by the Bureau of TennCare, the fiscal memorandum is being updated to reflect changes that were negotiated with the Tennessee Hospital Association. The estimated fiscal impact is:

(CORRECTED)
Increase State Revenue – $424,950,100/FY17-18/
Maintenance of Coverage Trust Fund

Increase State Expenditures – $424,950,100/FY17-18/
Maintenance of Coverage Trust Fund

Increase Federal Expenditures - $810,549,500/FY17-18/
Maintenance of Coverage Trust Fund

Revenue recognition in the amount of $446,590,600 is included in the Governor's proposed FY17-18 budget (page A-37). Corresponding non-recurring appropriations in the amount of $1,298,417,000 ($446,590,600 in state funds and $851,826,400 in federal matching funds) are also included.

Corrected assumptions for the bill as amended:

- Based on information provided by the Bureau of TennCare (Bureau), 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 $424,950,100.
- According to the Bureau, $424,950,100 will be expended at a state rate of approximately 34.395 percent and will receive federal matching funds at a rate estimated to be 65.605 percent. The resulting increase in federal funds will be approximately $810,549,537.
- The total increase to the MCTF is approximately $1,235,499,637 ($424,950,100 + $810,549,537).

CERTIFICATION:

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

Krista M. Lee

Krista M. Lee, Executive Director

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