



*Administrator*

Washington, DC 20201

**DEC 21 2017**

Mr. Charles Smith  
Executive Commissioner  
Texas Health and Human Services Commissioner  
4900 North Lamar Boulevard, MC-H425  
Austin, Texas 78751

Dear Mr. Smith:

This letter is to inform you that the Centers for Medicare & Medicaid Services (CMS) has approved your request to extend Texas' section 1115(a) demonstration project, entitled "Texas Healthcare Transformation and Quality Improvement Program" (Project Number 11-W-00278/6). This approval is effective from January 1, 2018 through September 30, 2022, unless otherwise specified.

This extension reflects changes to the demonstration for both Texas's Delivery System Reform Incentive Payment (DSRIP) program and its Uncompensated Care (UC) funding over the five-year demonstration period.

*Texas DSRIP Program*

Under the terms of this demonstration agreement, CMS will provide Texas with four years of additional federal matching funding for its DSRIP program. This will include two years of level funding, followed by two years of funding which will decrease each year. The fifth year of the extension, from October 1, 2021 through September 30, 2022, will not include any funding for DSRIP, to reflect the time-limited nature of DSRIP payments to support demonstrable delivery system transformation. Texas will be required to submit a transition plan outlining how it will further develop its delivery system reforms without DSRIP funding and/or phase out DSRIP-funded activities and meet mutually agreeable milestones to demonstrate its ongoing progress.

During this extension period, Texas' DSRIP program will transition to a more strategic systemic effort focusing on health system performance measurement and improvement that achieves sustainable and effective delivery system reform. While CMS and Texas are still actively discussing operational details of the program, CMS is committed to working with Texas in a timely manner to approve the two outstanding operational protocols necessary for Texas to implement its amended DSRIP program and claim federal matching funds.

In order to ensure that the DSRIP program results in sustainable and measurable changes in care delivery and quality, Texas's DSRIP implementation protocols (Attachments J and R) must address specifically how the state will:

- i. Strengthen the measurement set to include more outcome measures, assure uniform reporting on measures within bundles, and eliminate measures and bundles that are not specified.
- ii. Define and incorporate an attribution model for beneficiaries to providers that reflects generally accepted standards for attribution, and assure that all of the beneficiaries attributed to a provider related to a particular measure be included in the denominators.
- iii. Assure that the distribution of incentive funds to providers, based on their performance on a bundle of measures, is in proportion to the predetermined value of the bundle, and distribute funding within a bundle proportionately across all required measures.
- iv. Include a suitable and accountable performance measurement and payment methodology for incentive payments for providers that have high and/or maximized performance baselines.
- v. Require participating providers to specify and link needed core activities to their selected bundles and measures, advance these activities, and report on their progress.

No federal financial participation for DSRIP funds related to Demonstration Years (DY) 7-10 (October 2017 through September 2021) will be available until the DSRIP protocols are approved. As provided in the special terms and conditions for the extension period(STCs), CMS has 30 days from the date of this letter to approve or disapprove the DSRIP protocols. If the state submits DSRIP protocols for CMS approval that do not meet the criteria specified in the STCs, CMS will disapprove the state's submissions and Texas may resubmit them.

#### *Uncompensated Care Pool*

CMS will provide Texas five additional years of UC funding, with the level of funding subject to the STCs attached. CMS recognizes the critical role that safety net hospitals play in providing charity care to the uninsured and the associated fiscal burden that hospitals bear for that care. CMS has been working with states with UC pools to provide financial support, while applying consistent federal policy priorities to these pools. UC pool funds may be used to defray the actual uncompensated cost of medical services that meet the definition of "medical assistance" contained in section 1905(a) of the Act, that are incurred by hospitals, clinics, or other provider types, as agreed upon by CMS and the state in providing services to individuals as described in the STCs. These charity care costs may not include bad debt, Medicaid shortfall, or other costs.

Texas's UC pool funding disbursement methodology will be revised as part of this extension, in alignment with nationally applied federal policies. Over the course of calendar year 2018, Texas will lay the groundwork to direct UC pool funding towards charity care. The state will not receive federal financial participation for any UC pool payments for DY 9 (October 1, 2019 through September 30, 2020) or later until a UC Protocol Addendum has been submitted to and approved by CMS. The UC Protocol Addendum must include precise definitions of eligible uncompensated provider charity care costs (consistent with the Medicare cost reporting principles) and revenues that must be included in the calculation of uncompensated charity care

cost for purpose of reconciling UC payments to unreimbursed charity care cost. Once approved, Texas will begin distributing UC pool funds following this framework effective October 1, 2019.

CMS recognizes the need for Texas to conduct state-level rulemaking and other associated administrative work to reflect this change in methodology, and has included a provision that allows time for Texas to complete it. CMS anticipates Texas working in good faith to lay the necessary groundwork in order to comply with the UC pool distribution policy reflected in the approved STCs by October 1, 2019. However, CMS has included several separate benchmarks to ensure Texas implements its agreement by October 1, 2019.

For each of the first two years of the extension, Texas will receive approximately \$3.1 billion for the UC pool; for subsequent years, the UC pool amount will be determined as specified in STC 35. CMS has granted Texas an additional year of a transitional UC pool funding level, in light of the significant impact of Hurricane Harvey on Texas health care providers' operations and financial stability. During the first year of the extension, CMS expects Texas will work with its providers seeking to participate in the UC pool so that they accurately report the extent of their charity care in alignment with Medicare cost reporting principles, and have reported S-10 data documenting charity care provided in federal fiscal year 2017 by no later than September 2019. CMS will resize Texas' UC pool for the remaining years of this demonstration extension, beginning October 1, 2019, to reflect final UC amount based on the most recent available S-10 data reflecting provider charity care for 2017. In the event that Texas does not supply the necessary data, CMS will temporarily resize the state's UC pool to approximately \$2.3 billion based on CMS's current estimate, without further adjustment, of uncompensated care in the state.

Once 2017 S-10 data is used to determine the DY 9-11 UC pool amounts, CMS will assess whether total UC pool payments made during DY 9 through DY 11 exceed the final DY 9 through DY 11 pool sizes, and CMS will reclaim overpayments for these years. If the UC pool payments have not been sufficient to cover the final DY 9 through DY 11 UC pool sizes based on 2017 S-10 data, CMS will make additional payments consistent with the final pool sizes.

The demonstration renewal will also include an extension of the state's Medicaid managed care and MLTSS programs – STAR, STAR+PLUS, STAR Kids, and Children's Medicaid Dental Services – for an additional five years. CMS and Texas are not making any substantive changes to the requirements for these programs.

CMS's approval of this demonstration extension is subject to the limitations specified in the approved waiver and expenditure authorities and compliance with the enclosed STCs defining the nature, character, and extent of federal involvement in this project. The state may deviate from the Medicaid State Plan requirements only to the extent those requirements have been waived or specifically listed as not applicable to the expenditure authorities. The approval is subject to CMS receiving your written acknowledgement of the award and acceptance of these STCs within 30 days of the date of this letter. A copy of the revised STCs, waivers, and expenditure authorities are enclosed.

Your point of contact for this demonstration is Angela Garner. She is available to answer any questions concerning your demonstration. Ms. Garner's contact information is:

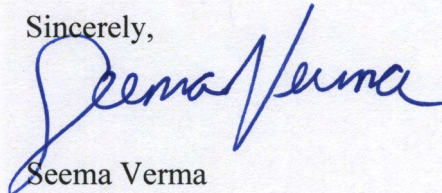
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Official communications regarding this demonstration should be sent simultaneously to Ms. Garner and Mr. Bill Brooks, Associate Regional Administrator (ARA) for the Division of Medicaid and Children's Health, in our Dallas Regional Office. Mr. Brooks' contact information is as follows:

Centers for Medicare & Medicaid Services  
1301 Young St. Suite 714  
Dallas, TX 75202  
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If you have any questions regarding this approval, please contact Ms. Judith Cash, Acting Director, State Demonstrations Group, Center for Medicaid & CHIP Services at (410) 786-9686.

Sincerely,



Seema Verma

Enclosures