

1 AN ACT relating to hospital rate improvement programs and declaring an  
2 emergency.

3 ***Be it enacted by the General Assembly of the Commonwealth of Kentucky:***

4 ➔Section 1. KRS 205.6405 is amended to read as follows:

5 As used in KRS 205.6405 to 205.6408:

- 6 (1) "Assessment" means the hospital assessment authorized by KRS 205.6406;
- 7 (2) "Commissioner" means the commissioner of the Department for Medicaid Services;
- 8 (3) "Department" means the Department for Medicaid Services;
- 9 (4) "Excess disproportionate share taxes" means any excess provider tax revenues  
10 collected under KRS 142.303 that are not needed to fund the state share of hospital  
11 disproportionate share payments under KRS 205.640 due to federal  
12 disproportionate share allotments being reduced and limited to the portion of  
13 provider tax revenues collected under KRS 142.303 necessary to fund the state  
14 share of the difference between the unreduced disproportionate share allotment and  
15 the reduced disproportionate share allotment;
- 16 (5) "Intergovernmental transfer" means any transfer of money by or on behalf of a  
17 public agency for purposes of qualifying funds for federal financial participation in  
18 accordance with 42 C.F.R. sec. 433.51;
- 19 (6) "Long-term acute hospital" means an in-state hospital that is certified as a long-term  
20 care hospital under 42 U.S.C. sec. 1395ww(d)(1)(B)(iv);
- 21 (7) "Managed care" means the provision of Medicaid benefits through managed care  
22 organizations under contract with the department pursuant to 42 C.F.R. sec. 438;
- 23 (8) "Managed care gap" means:
- 24 **(a) For hospital inpatient services,** the difference between the maximum  
25 actuarially sound amount that can be included in managed care rates for  
26 hospital inpatient services provided by qualifying hospitals ~~and out-of-state~~  
27 ~~hospitals~~ and the amount of total payments for hospital inpatient services

1 provided by qualifying hospitals ~~and out-of-state hospitals~~ paid by managed  
2 care organizations. For purposes of the managed care gap, total payments  
3 shall ~~include only those supplemental payments made to a qualifying hospital~~  
4 ~~and shall~~ exclude payments established under KRS 205.6405 to 205.6408;  
5 and

6 **(b) For hospital outpatient services, the difference between the maximum**  
7 **actuarially sound amount that can be included in managed care rates for**  
8 **hospital outpatient services provided by qualifying hospitals and the amount**  
9 **of total payments for hospital outpatient services provided by qualifying**  
10 **hospitals paid by managed care organizations. For purposes of the managed**  
11 **care gap, total payments shall exclude payments established under KRS**  
12 **205.6405 to 205.6408;**

13 (9) "Managed care organization" means an entity contracted with the department to  
14 provide Medicaid benefits pursuant to 42 C.F.R. sec. 438;

15 (10) "Non-state government-owned hospital" means the same as non-state government-  
16 owned or operated facilities in 42 C.F.R. sec. 447.272 and represents one (1) group  
17 of hospitals for purposes of estimating the upper payment limit;

18 (11) "University hospital" means a state university teaching hospital, owned or operated  
19 by either the University of Kentucky College of Medicine or the University of  
20 Louisville School of Medicine, including a hospital owned or operated by a related  
21 organization pursuant to 42 C.F.R. sec. 413.17;

22 (12) "Pediatric teaching hospital" means the same as in KRS 205.565;

23 (13) "Private hospitals" means the same as privately owned and operated facilities in 42  
24 C.F.R. sec. 447.272 and represents one (1) group of hospitals for purposes of  
25 estimating the upper payment limit;

26 (14) "Program year" means the state fiscal year during which an assessment is assessed  
27 and rate improvement payments are made;

- 1 (15) "Psychiatric access hospital" means an in-state psychiatric hospital licensed under  
2 KRS Chapter 216B that:
- 3 (a) Is not located in a Metropolitan Statistical Area;
- 4 (b) Provides at least sixty-five thousand (65,000) days of inpatient care as  
5 reflected in the department's hospital rate data for state fiscal year 1998-1999;
- 6 (c) Provides at least twenty percent (20%) of inpatient care to Medicaid-eligible  
7 recipients as reflected in the department's hospital rate data for state fiscal  
8 year 1998-1999; and
- 9 (d) Provides at least five thousand (5,000) days of inpatient psychiatric care to  
10 Medicaid recipients in a state fiscal year;
- 11 (16) "Qualifying hospital" means a Medicaid-participating, in-state hospital licensed  
12 under KRS Chapter 216B, including a long-term acute hospital, but excluding a  
13 university hospital and a state mental hospital defined in KRS 205.639. The  
14 department may, but is not required to, exclude critical access hospitals **and rural**  
15 **emergency hospitals** from the definition of "qualifying hospital" for purposes of  
16 calculating the quarterly assessments. Notwithstanding the permission referenced in  
17 this subsection, or any other provision of the law to the contrary, the department  
18 may include critical access hospitals **and rural emergency hospitals** for purposes of  
19 calculating and paying the quarterly supplemental payments authorized in KRS  
20 205.6406;
- 21 (17) "Qualifying hospital disproportionate share percentage" means a percentage equal  
22 to the amount of hospital provider taxes paid pursuant to KRS 142.303 by  
23 qualifying hospitals in state fiscal year 2016-2017 divided by the amount of hospital  
24 provider taxes paid pursuant to KRS 142.303 by all hospitals in state fiscal year  
25 2016-2017;
- 26 (18) "University hospital disproportionate share percentage" means a percentage equal to  
27 the amount of hospital provider taxes paid pursuant to KRS 142.303 by university

1 hospitals and state mental hospitals, as defined in KRS 205.639, in state fiscal year  
 2 2016-2017 divided by the amount of hospital provider taxes paid pursuant to KRS  
 3 142.303 by all hospitals in fiscal year 2016-2017;

4 (19) "Upper payment limit" or "UPL" means the methodology permitted by federal  
 5 regulation to achieve the maximum allowable amount on aggregate hospital  
 6 Medicaid payments to non-state government-owned hospitals and private hospitals  
 7 under 42 C.F.R. sec. 447.272. A separate UPL shall be estimated for non-state  
 8 government-owned hospitals and private hospitals; and

9 (20) "UPL gap" means the difference between the UPL and amount of total fee-for-  
 10 service payments paid by the department for hospital inpatient services provided by  
 11 non-state government-owned hospitals and private hospitals to Medicaid  
 12 beneficiaries and excluding payments established under KRS 205.6405 to  
 13 205.6408. A separate UPL gap shall be estimated for the non-state government-  
 14 owned hospitals and private hospitals.

15 ➔Section 2. KRS 205.6406 is amended to read as follows:

16 (1) To the extent allowable under federal law, the department shall develop the  
 17 following programs to increase Medicaid reimbursement for inpatient ***and***  
 18 ***outpatient*** hospital services provided by a qualifying hospital to Medicaid  
 19 recipients:

20 (a) A program to increase inpatient reimbursement to qualifying hospitals within  
 21 the Medicaid fee-for-service program in an aggregate amount equivalent to  
 22 the UPL gap;~~and~~

23 (b) A program to increase inpatient reimbursement to qualifying hospitals within  
 24 the Medicaid managed care program in an aggregate amount equivalent to the  
 25 managed care gap ***for inpatient services; and***

26 ***(c) A program to increase outpatient reimbursement to qualifying hospitals***  
 27 ***within the Medicaid managed care program in an aggregate amount***

1                   *equivalent to the managed care gap for outpatient services.*

2       (2) On an annual basis prior to the start of each program year, the department shall  
3       determine:

4           (a) The maximum allowable UPL for inpatient services provided in the Kentucky  
5           Medicaid fee-for-service program;

6           (b) The fee-for-service UPL gap for applicable ownership groups;

7           (c) A per discharge uniform add-on amount to be applied to Medicaid fee-for-  
8           service discharges at qualifying hospitals for that program year, determined  
9           by dividing the UPL gap for the applicable ownership group by total fee-for-  
10          service hospital inpatient discharges at qualifying hospitals in the data used to  
11          calculate the UPL gap. Claims for discharges that already receive an enhanced  
12          rate at qualifying hospitals that also are classified as a pediatric teaching  
13          hospital or as a psychiatric access hospital shall be excluded from the  
14          calculation of the per discharge uniform add-on, unless the department is  
15          required to include these claims to obtain federal approval;

16          (d) The maximum managed care gap for inpatient services;~~and~~

17          (e) A per discharge uniform add-on amount to be applied to Medicaid managed  
18          care discharges at qualifying hospitals for that program year in an amount that  
19          is calculated by dividing the managed care gap *for inpatient services* by total  
20          managed care in-state qualifying hospital inpatient discharges in the data used  
21          to calculate the managed care gap. Claims for discharges that already receive  
22          an enhanced rate at qualifying hospitals that also are classified as a pediatric  
23          teaching hospital or as a psychiatric access hospital shall be excluded from the  
24          calculation of the per discharge uniform add-on, unless the department is  
25          required to include these claims to obtain federal approval;

26          *(f) The maximum managed care gap for outpatient services; and*

27          *(g) A uniform add-on amount to be paid to each qualifying hospital to*

1 supplement Medicaid managed care payments for outpatient services  
 2 performed by the qualifying hospital in a program year. The uniform add-  
 3 on amount payable to each qualifying hospital shall be:

- 4 1. A uniform percentage increase calculated by dividing the managed  
 5 care gap for outpatient services by the total payments from managed  
 6 care to in-state qualifying hospitals for outpatient services taken from  
 7 the data used to calculate the managed care gap for outpatient services  
 8 unless a different method for calculating the uniform add-on amount  
 9 is required by the Centers for Medicare and Medicaid Services; and
- 10 2. Made as a lump-sum payment to each qualifying hospital on a  
 11 quarterly basis unless a different method for paying qualifying  
 12 hospitals the uniform add-on amount is required by the Centers for  
 13 Medicare and Medicaid Services.

14 At least thirty (30) days prior to the beginning of each program year, the department  
 15 shall provide each qualifying hospital the opportunity to verify the base data to be  
 16 utilized in both the fee-for-service and managed care gap calculations for both  
 17 inpatient and outpatient services, with data sources and methodologies identified.

- 18 (3) On a quarterly basis in the program year, the department shall:
- 19 (a) Calculate a fee-for-service quarterly supplemental payment for each  
 20 qualifying hospital using fee-for-service claims for inpatient discharges paid  
 21 in the quarter to the qualifying hospital multiplied by the uniform add-on  
 22 amount determined in subsection (2)(c) of this section;
- 23 (b) Calculate a managed care quarterly supplemental payment for each qualifying  
 24 hospital to be paid by each managed care organization using managed care  
 25 encounter claims for inpatient discharges received in the quarter multiplied by  
 26 the uniform add-on amount determined in subsection (2)(e) of this section;
- 27 (c) Calculate a managed care quarterly supplemental payment for each

1 qualifying hospital to be paid by each managed care organization as  
2 determined in subsection (2)(g) of this section;

3 (d) Make the quarterly supplemental payment calculated under paragraph (a) of  
4 this subsection;

5 (e)~~(d)~~ Provide each managed care organization with a listing of the  
6 supplemental payments as calculated under paragraphs (b) and (c) of this  
7 subsection to be paid by each managed care organization to each qualifying  
8 hospital for both inpatient and outpatient services;

9 (f)~~(e)~~ Provide each managed care organization with a supplemental capitation  
10 payment to cover the managed care organization's quarterly supplemental  
11 payments to be paid to qualifying hospitals for both inpatient and outpatient  
12 services in the quarter;

13 (g)~~(f)~~ Determine the amount of state funds necessary to obtain federal  
14 matching funds that~~, in the aggregate,~~ equal the total quarterly supplemental  
15 payments to be paid to all qualifying hospitals in both the fee-for-service and  
16 the Medicaid managed care programs authorized by this section;

17 (h)~~(g)~~ For purposes of the inpatient program authorized by subsection (1)(b)  
18 of this section, determine a per discharge hospital inpatient assessment for the  
19 quarter for each qualifying hospital, which shall be calculated by first  
20 applying towards the state share determined~~calculated~~ under paragraph  
21 (g)~~(f)~~ of this subsection the qualifying hospital disproportionate share  
22 percentage of the excess disproportionate share taxes and then dividing the  
23 remaining state share by the total discharges reported by all in-state qualifying  
24 hospitals on the Medicare cost report filed by those qualifying hospitals in the  
25 calendar year two (2) years prior to the program year;

26 (i)~~(h)~~ Determine each qualifying hospital's quarterly inpatient assessment by  
27 multiplying the assessment established in paragraph (h)~~(g)~~ of this subsection

1 by the hospital's total discharges from the qualifying hospital's Medicare cost  
 2 report filed in the calendar year two (2) years prior to the program year;~~and~~

3 ~~(j)(i)~~ **For purposes of the outpatient program authorized by subsection**  
 4 **(1)(c) of this section, determine each qualifying hospital's assessment to be**  
 5 **contributed to the state's share of this outpatient program as calculated**  
 6 **under paragraph (g) of this subsection. Each qualifying hospital's**  
 7 **outpatient assessment shall be a percentage of the state share calculated as**  
 8 **the qualifying hospital's total outpatient net revenue divided by the total**  
 9 **outpatient net revenue of all qualifying hospitals on the Medicare cost**  
 10 **reports filed in the calendar year two (2) years prior to the program year;**

11 **(k) Determine each qualifying hospital's quarterly outpatient assessment by**  
 12 **multiplying the outpatient portion of the assessment established in**  
 13 **paragraph (g) of this subsection by the hospital's percentage established in**  
 14 **paragraph (j) of this subsection; and**

15 **(l)** Provide each qualifying hospital with a notice sent on the same day as the  
 16 distribution to managed care organizations of the supplemental capitation  
 17 payments pursuant to paragraph ~~(f)(e)~~ of this subsection, of the qualifying  
 18 hospital's quarterly assessment, that shall state the total amount due from the  
 19 assessment, the date **assessment**~~payment~~ is due, the total number of  
 20 **inpatient** paid claims **and total outpatient payments**~~for inpatient discharges~~  
 21 used to calculate the qualifying hospital's quarterly supplemental  
 22 **distribution**~~payments~~, and the amount of quarterly supplemental  
 23 **distribution** payments **for inpatient and outpatient services** due to be  
 24 received by the qualifying hospital from the department and each Medicaid  
 25 managed care organization.

26 (4) In calculating the quarterly supplemental payments under subsection (3)(a), **(b)**, and  
 27 **(c)**~~(b)~~ of this section for qualifying hospitals that are also classified as a pediatric



1 teaching hospital or as a psychiatric access hospital, no add-on shall be applied to  
2 the paid claims for the services for which that hospital also receives supplemental  
3 payments pursuant to state plan methodologies and managed care contracts in effect  
4 on January 1, 2019.

5 (5) Each qualifying hospital shall receive four (4) quarterly supplemental payments in  
6 the program year, as determined under subsection (3) of this section.

7 (6) Medicaid managed care organizations shall pay the supplemental payments to  
8 qualifying hospitals within five (5) business days of receiving the supplemental  
9 capitation payment from the department.

10 (7) A qualifying hospital shall pay its quarterly assessment no later than fifteen (15)  
11 days from the date the qualifying hospital is notified of the assessment from the  
12 department. A non-state government-owned hospital may make payment of its  
13 assessment through an intergovernmental transfer. The department may delay or  
14 withhold a portion of the supplemental payment if a hospital is delinquent in its  
15 payment of a quarterly assessment.

16 (8) The department shall complete the actions required under subsection (3) of this  
17 section expeditiously and within the same quarter as all required information is  
18 received.

19 (9) Qualifying hospitals may notify the department of errors in the data used to make a  
20 quarterly supplemental payment by providing documentation within thirty (30) days  
21 of receipt of a quarterly supplemental payment from a Medicaid managed care  
22 organization. If the department agrees that an error occurred in a qualifying  
23 hospital's quarterly supplemental payment, the department shall reconcile the  
24 payment error through an adjustment in the qualifying hospital's next quarterly  
25 supplemental payment.

26 (10) The programs in this section shall not be implemented if federal financial  
27 participation is not available or if the provider tax waiver is not approved. A

1       qualifying hospital shall have no obligation to pay an assessment if any federal  
2       agency determines that federal financial participation is not available for any  
3       assessment. Any assessments received by the department that cannot be matched  
4       with federal funds shall be returned pro rata to the qualified hospitals that paid the  
5       assessments.

6       (11) The department may implement the hospital rate improvement programs only if  
7       Medicaid state plan amendments required for federal financial participation are  
8       approved by the United States Centers for Medicare and Medicaid Services.

9       (12) The assessment authorized under KRS 205.6405 to 205.6408 shall be restricted for  
10      use to accomplish the inpatient ***and outpatient*** reimbursement increases established  
11      under this section. The Commonwealth shall not maintain or revert funds received  
12      under KRS 205.6405 to 205.6408 to the state general fund, except that the  
13      department may receive two hundred fifty thousand dollars (\$250,000) in state  
14      funds each program year to administer the programs. The department shall not  
15      establish Medicaid fee-for-service rate-setting methodology changes that result in  
16      rate reductions from policies in effect as of October 1, 2018, for acute care hospitals  
17      and July 1, 2019, for hospitals paid on a per diem basis.

18      (13) The department shall promulgate administrative regulations to implement the  
19      provisions of KRS 205.6405 to 205.6408.

20      (14) If the department submits, and the United States Centers for Medicare and  
21      Medicaid Services (CMS) approves, a supplemental payment formula that permits  
22      the managed care gap to be calculated based upon a percentage of average  
23      commercial rates (ACR) that results in a total annual supplemental payment greater  
24      than eighty percent (80%) of ACR ***for both inpatient and outpatient services,***  
25      instead of the Medicare upper payment limit, then the hospital rate improvement  
26      programs ***for qualifying hospitals*** shall be modified as follows:

27      (a) The amount of funds the department may receive to administer the programs

1 as stated in subsection (12) of this section shall be replaced by an  
2 administrative fee that shall be calculated to be an amount equal to four  
3 percent (4%) of the assessment collected under this section. The  
4 administrative fee payable under this paragraph shall accrue only for  
5 supplemental payments attributable to state fiscal year 2021-2022 and for  
6 state fiscal years thereafter so long as CMS approves the supplemental  
7 payment formula in accordance with this subsection. The administrative fee  
8 shall be paid within thirty (30) days after supplemental payments *for inpatient*  
9 *and outpatient services* are issued to qualifying hospitals; and

10 (b) The department shall not be required under KRS 205.6408 to transfer any  
11 excess disproportionate share taxes to the hospital Medicaid assessment fund  
12 for use as state matching dollars for the payments made under this section.

13 **(15) To the extent federal matching funds are available, the department may create a**  
14 **program to increase outpatient reimbursement to qualifying hospitals within the**  
15 **Medicaid fee-for-service program in an aggregate amount equivalent to the UPL**  
16 **gap.**

17 ➔Section 3. If the Cabinet for Health and Family Services or the Department for  
18 Medicaid Services determines that a state plan amendment, waiver, or any other  
19 authorization from a federal agency is necessary prior to the implementation of any  
20 provision of Section 2 of this Act, the cabinet or department shall, within 90 days after  
21 the effective date of this Act, request the state plan amendment, waiver, or authorization  
22 and shall only delay full implementation of those provisions for which a waiver or  
23 authorization was deemed necessary until the waiver or authorization is granted.

24 ➔Section 4. Notwithstanding any other statute to the contrary, the amendments to  
25 Sections 1 and 2 of this Act shall be retroactive to January 1, 2023.

26 ➔Section 5. Whereas hospitals are severely stressed by the shortage of health care  
27 providers, an emergency is declared to exist, and this Act takes effect upon its passage

1 and approval by the Governor or upon its otherwise becoming a law.