

## **Table of Contents**

**State/Territory Name: Texas**

**State Plan Amendment (SPA) #: TX 21-0012**

This file contains the following documents in the order listed:

- 1) Approval Letter
- 2) CMS 179 Form
- 3) Approved SPA Pages

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
Centers for Medicare & Medicaid Services  
7500 Security Boulevard, Mail Stop S2-26-12  
Baltimore, MD 21244-1850



---

**Financial Management Group**

Ms. Stephanie Stephens  
State Medicaid/CHIP Director  
Health and Human Services Commission  
Mail Code: H100  
Post Office Box 13247  
Austin, Texas 78711

RE: Texas State Plan Amendment (SPA) 21-0012

Dear Ms. Stephens:

We have reviewed the proposed amendment to Attachment 4.19-A of your Medicaid state plan submitted under transmittal number (TN) 21-0012 effective for services on or after September 1, 2021. This SPA proposes to revise the methodology for assessing payment adjustments for Potentially Preventable Readmissions.

We conducted our review of your submittal according to the statutory requirements at sections 1902(a)(2), 1902(a)(13), 1902(a)(30), 1903(a), and 1923 of the Social Security Act and the regulations at 42 CFR 447 Subpart C. We hereby inform you that Medicaid State plan amendment 21-0012 is approved effective September 1, 2021. We are enclosing the CMS-179 and the amended plan pages.

If you have any questions, please call Tom Caughey at (517) 487-8598.

Sincerely,

A handwritten signature in black ink that reads 'Rory Howe' in a cursive script.

Rory Howe  
Director

Enclosure

<b>TRANSMITTAL AND NOTICE OF APPROVAL OF STATE PLAN MATERIAL</b> <b>FOR: CENTERS FOR MEDICARE AND MEDICAID SERVICES</b>		1. TRANSMITTAL NUMBER: <b>21-0012</b>	2. STATE: <b>TEXAS</b>
		3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL SECURITY ACT (MEDICAID)	
TO: REGIONAL ADMINISTRATOR CENTERS FOR MEDICARE AND MEDICAID SERVICES DEPARTMENT OF HEALTH AND HUMAN SERVICES		4. PROPOSED EFFECTIVE DATE: <b>September 1, 2021</b>	
5. TYPE OF PLAN MATERIAL ( <i>Circle One</i> ): <input type="checkbox"/> NEW STATE PLAN <input type="checkbox"/> AMENDMENT TO BE CONSIDERED AS NEW PLAN <input checked="" type="checkbox"/> AMENDMENT			
COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT ( <i>Separate Transmittal for each amendment</i> )			
6. FEDERAL STATUTE/REGULATION CITATION: <b>Social Security Act §1902(a)(19); Social Security Act §1902(a)(30); 42 CFR §447.201(b)</b>		7. FEDERAL BUDGET IMPACT: <b>SEE ATTACHMENT</b> a. FFY 2022: \$130,126 b. FFY 2023: \$131,938 c. FFY 2024: \$137,343	
8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT: <b>See Attachment to Blocks 8 &amp; 9</b>		9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT ( <i>If Applicable</i> ): <b>See Attachment to Blocks 8 &amp; 9</b>	
10. SUBJECT OF AMENDMENT: ss  <b>The Health and Human Services Commission proposes to revise the methodology for assessing Payment Adjustments for Potentially Preventable Readmissions. With this revision, HHSC is updating the state plan to give HHSC the ability to no longer weight potentially preventable readmissions when calculating a hospital's performance in relation to statewide norms.</b>			
11. GOVERNOR'S REVIEW ( <i>Check One</i> ): <input type="checkbox"/> GOVERNOR'S OFFICE REPORTED NO COMMENT <input checked="" type="checkbox"/> OTHER, AS SPECIFIED: Sent to Governor's Office this date. Comments, if any, will be forwarded upon receipt. <input type="checkbox"/> COMMENTS OF GOVERNOR'S OFFICE ENCLOSED <input type="checkbox"/> NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL			
12. SIGNATURE OF STATE AGENCY OFFICIAL: Stephanie Stephens <small>Digitally signed by Stephanie Stephens Date: 2021.09.22 16:50:20 -05'00'</small>		16. RETURN TO: <b>Stephanie Stephens State Medicaid Director Post Office Box 13247, MC: H-100 Austin, Texas 78711</b>	
13. TYPED NAME: <b>Stephanie Stephens</b>			
14. TITLE: <b>State Medicaid Director</b>			
15. DATE SUBMITTED: <b>September 21, 2021</b>			
<b>FOR REGIONAL OFFICE USE ONLY</b>			
17. DATE RECEIVED: September 23, 2021		18. DATE APPROVED: <b>December 21, 2021</b>	
PLAN APPROVED – ONE COPY ATTACHED			
19. EFFECTIVE DATE OF APPROVED MATERIAL: September 1, 2021		20. SIGNATURE OF REGIONAL OFFICIAL: <i>Rory Howe</i>	
21. TYPED NAME: Rory Howe		22. TITLE: Director, Financial Mangement Group	
23. REMARKS:			

### **Payment Adjustment for Potentially Preventable Readmissions**

- a) Introduction. The Health and Human Services Commission (HHSC) may reward or penalize a hospital under this section based on the hospital's performance with respect to exceeding or failing to meet outcome and process measures relative to all Texas Medicaid and CHIP hospitals regarding the rates of potentially preventable events.
- b) Definitions:
  - 1. Actual-to-Expected Ratio-A ratio that measures the impact of potentially preventable readmissions (PPRs) by deriving an actual hospital rate compared to an expected hospital rate based on a methodology defined by HHSC.
  - 2. Adjustment time period-The state fiscal year (September through August) that a hospital's claims are adjusted in accordance with subsection (f) of this section. Adjustments will be done on an annual basis.
  - 3. All Patient Refined Diagnosis-Related Group (APRDRG)-A diagnosis and procedure code classification system for inpatient services.
  - 4. Candidate admission-An admission that is at risk of a PPR.
  - 5. Case-mix-A measure of the clinical characteristics of patients treated during the reporting time period and measured using APR-DRG or its replacement classification system, severity of illness, patient age, and the presence of a major mental health or substance abuse comorbidity.
  - 6. Claims during the reporting time period-Includes Medicaid traditional fee-for-service (FFS), Children's Health Insurance Program (CHIP), and managed care inpatient hospital claims filed for reimbursement by a hospital that:
    - A. had a date of admission occurring within the reporting period;
    - B. were adjudicated and approved for payment during the reporting period and the six-month grace period that immediately followed, except for claims that had zero inpatient days;
    - C. were not claims for patients who are covered by Medicare;
    - D. were not claims for individuals classified as undocumented immigrants; and
    - E. were not subject to other exclusions as determined by HHSC.

TN: \_21-0012\_\_\_\_\_ Approval Date: 12/22/2021

Supersedes TN: \_13-016\_\_\_\_\_ Effective Date: \_09/01/21\_\_\_\_

**Payment Adjustment for Potentially Preventable Readmissions (continued)**

7. Children's Health Insurance Program or CHIP-The Texas State Children's Health Insurance Program established under Title XXI of the federal Social Security Act (42 U.S.C. Chapter 7, Title XXI).
8. Clinically related-A requirement that the underlying reason for readmission be plausibly related to the care rendered during or immediately following the initial admission. A clinically related admission occurs within a specified readmission time interval resulting from the process of care and treatment during the initial admission or from a lack of post admission follow-up, but not from unrelated events occurring after the initial admission.
9. HHSC-The Health and Human Services Commission or its designee.
10. Hospital-A public or private institution licensed or run by the state to provide medical, surgical, or psychiatric treatment.
11. Initial admission-A candidate admission followed by one or more readmissions that are clinically related.
12. Managed care organization (MCO)--A provider or organization under contract with HHSC to provide services to Medicaid or CHIP recipients using a health care delivery system or dental services delivery system in which provider or organization coordinates the patient's overall care.
13. Medicaid program-A jointly funded state-federal health care program established under Title XIX of the federal Social Security Act (42 U.S.C. Chapter 7, Title XIX).
14. Potentially preventable event (PPE)-A potentially preventable admission, a potentially preventable ancillary service, a potentially preventable complication, a potentially preventable emergency room visit, a potentially preventable readmission, or a combination of these events.

TN: \_21-0012\_\_\_\_\_ Approval Date: 12/22/2021

Supersedes TN: \_13-016\_\_\_\_\_ Effective Date: \_09/01/21\_\_\_\_

**Payment Adjustment for Potentially Preventable Readmissions  
(continued)**

15. Potentially preventable readmission (PPR)-A return hospitalization of a person within a time period specified by HHSC that may have resulted from deficiencies in the care or treatment provided to the person during a previous hospital stay or from deficiencies in post-hospital discharge follow-up. The term does not include a hospital readmission necessitated by the occurrence of unrelated events after the discharge. The term includes the readmission of a person to a hospital for:
    - A. the same condition or procedure for which the person was previously admitted;
    - B. an infection or other complication resulting from care previously provided;
    - C. a condition or procedure that indicates that a surgical intervention performed during a previous admission was unsuccessful in achieving the anticipated outcome; or
    - D. another condition or procedure of a similar nature, as determined by HHSC.
  16. Readmission chain-A sequence of PPRs that are all clinically related to the Initial Admission. A readmission chain may contain an Initial Admission and only one PPR or may contain multiple PPRs following the Initial Admission.
  17. Reporting time period-The period of time that includes hospital claims that are assessed for PPRs. This is a state fiscal year (September through August). PPR Reports will consist of statewide and hospital-specific reports and will be done at least on an annual basis, using the most complete data period available to HHSC.
  18. Safety-net hospital-An urban or children's hospital that meets the eligibility and qualification requirements (relating to Disproportionate Share Hospital Reimbursement Methodology) for the most recent federal fiscal year for which such eligibility and qualification determinations have been made.
- c) Calculating a PPR rate. Using claims during the reporting time period and HHSC designated software and methodology, HHSC calculates an actual PPR rate and an expected PPR rate for each hospital in the analysis. The methodology for inclusion of hospitals in the analysis will be described in the statewide and hospital-specific reports.

TN: \_21-0012\_\_\_\_\_ Approval Date: 12/22/2021

Supersedes TN: \_13-016\_\_\_\_\_ Effective Date: \_09/01/21\_\_\_\_

### **Payment Adjustment for Potentially Preventable Readmissions (continued)**

- c) Calculating a PPR rate. Using claims during the reporting time period and HHSC designated software and methodology, HHSC calculates an actual PPR rate and an expected PPR rate for each hospital in the analysis. The methodology for inclusion of hospitals in the analysis will be described in the statewide and hospital-specific reports. The Actual-to-Expected Ratio is rounded to two decimal places and used to determine reimbursement adjustments described in subsection (f).
1. The actual PPR rate is the number of readmission chains divided by the number of candidate admissions.
  2. The expected PPR rate is the expected number of readmission chains divided by the number of candidate admissions. The expected number of readmission chains is based on the hospital's case-mix relative to the case-mix of all hospitals included in the analysis during the reporting period.
  3. HHSC uses unweighted PPR results for hospital performances.
- d) Comparing the PPR performance of all hospitals included in the analysis. Using the rates determined in subsection (c) of this section, HHSC calculates a ratio of Actual-to-Expected PPR rates.
- e) Reporting results of PPR rate calculations. HHSC provides a confidential report to each hospital included in the analysis regarding the hospital's performance with respect to potentially preventable readmissions, including the PPR rates calculated as described in subsection (c) of this section and the hospital's actual-to-expected ratio calculated as described in subsection (d) of this section.
1. A hospital may request the underlying data used in the analysis to generate the report via an email request to the HHSC email address found on the report.
  2. The underlying data contains patient-level identifiers, information on all hospitals where the readmissions occurred, and other information deemed relevant by HHSC
- f) Hospitals subject to reimbursement adjustment and amount of adjustment.
1. A hospital with an actual-to-expected PPR ratio equal to or greater than 1.10 and equal to or less than 1.25 is subject to a reimbursement adjustment of negative 1 percent;

**Payment Adjustment for Potentially Preventable Readmissions (continued)**

2. The reimbursement adjustments for a hospital will cease in the adjustment time period that is after the hospital receives a confidential report indicating an actual-to-expected ratio of less than 1.10.
3. On an annual basis and based on review of the data quality and accuracy, HHSC may determine if reimbursement adjustments are appropriate.
  - h) Targeted incentive payments for safety-net hospitals.
4. HHSC determines annually whether a safety-net hospital will receive an incentive payment for performance on PPR incidence.
5. The appropriated funds for the targeted incentive payments are split in half, 50 percent for PPRs and 50 percent for potentially preventable complications. HHSC can change the allocated percentages based on review of data and the changing needs of the program.
6. The dataset used in the incentive analysis is the same as the dataset used in the PPR reimbursement adjustments.
7. Hospitals that are eligible for a targeted incentive payment must meet the following requirements:
  - A. be a safety-net hospital;
  - B. have an actual-to-expected ratio of at least 10 percent lower than the statewide average (actual-to-expected ratio is less than or equal to 0.90);
  - C. have not received a penalty for either PPRs or potentially preventable complications;are not low volume, as defined by HHSC.

TN: \_21-0012\_\_\_\_\_ Approval Date: 12/22/2021

Supersedes TN: \_13-016\_\_\_\_\_ Effective Date: \_09/01/21\_\_\_\_



### Payment Adjustment for Potentially Preventable Readmissions (continued)

5. Calculation of targeted incentive payments.
  - A. Calculate base allocation: Each eligible hospital is awarded a base allocation not to exceed \$100,000.
  - B. Calculate variable allocation: Each eligible hospital is awarded a variable allocation, which are calculated from remaining funds after distribution of base allocations to all eligible hospitals. The variable allocation has the following components:
    - i. Hospital size score: Each eligible hospital's size divided by the average size of the whole group of hospitals within each incentive pool. Size is calculated based on total inpatient facility claims paid to each eligible hospital. Each eligible hospital's size calculation is capped at 2.00.
    - ii. Hospital Performance score: Each eligible hospital's performance divided by the average performance of the whole group of hospitals within each incentive pool. Performance is calculated by actual to expected ratio.
    - iii. Composite score: Each eligible hospital receives a composite score, which is the hospital's size score multiplied by the hospital's performance score.
    - iv. Each hospital's composite score divided by the sum of all eligible hospitals' composite scores is multiplied by the remaining incentive funds, after distribution of base allocations.
  - C. Calculate final allocation: The final allocation to each eligible hospital is equal to the eligible hospital's base allocation plus the eligible hospital's variable allocation.
6. Each eligible hospital's PPR incentive payment will be divided between FFS and MCO reimbursements based on the percentage of its total paid FFS and MCO Medicaid inpatient hospital reimbursements for the reporting time period accruing from FFS.
7. PPR incentive payments will be made as lump sum payments or tied to particular claims or recipients, at HHSC's discretion.
8. HHSC will post the methodology for calculating and distributing incentives on its public website at [http://www.hhsc.state.tx.us/hhsc\\_projects/ECI/Potentially-Preventable-Events.shtml](http://www.hhsc.state.tx.us/hhsc_projects/ECI/Potentially-Preventable-Events.shtml).
9. Targeted incentive payments for safety-net hospitals are not included in the calculation of a hospital's hospital-specific limit or low-income utilization rate.