



**HOUSE BILL 1864**

**By Hicks G**

**AN ACT to amend Tennessee Code Annotated, Title 71, Chapter 5, Part 10, relative to medicaid reimbursement for medicaid nursing facilities.**

**BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:**

SECTION 1. Tennessee Code Annotated, Section 71-5-1001, is amended by deleting subdivision (10) and adding the following as new, appropriately designated subdivisions:

( ) "Budget adjustment factor" means the formula described in § 71-5-1011(d);

( ) "New base year period" or "rebase year" means the end product of the rebase process that establishes new nursing facility cost components reflecting median costs and prices that reflect the most recent purchases of goods and services used by nursing homes to furnish care;

( ) "Nursing facility" means any entity defined as a nursing home under § 68-11-201 and licensed under title 68 by the health facilities commission;

( ) "Rebase" or "rebasing" means the mathematical, objective process of recalculating cost component medians and reimbursement rates by incorporating the most recently audited or reviewed qualifying cost reports to establish a new base year that reflects the most recent purchases of goods and services used by nursing homes to furnish care;

SECTION 2. Tennessee Code Annotated, Section 71-5-1002, is amended by deleting in subdivision (h)(1) the language "FY 2025-2026" and substituting instead the language "FY 2026-2027".

SECTION 3. Tennessee Code Annotated, Section 71-5-1002, is amended by deleting the second sentence in subsection (i).

SECTION 4. Tennessee Code Annotated, Section 71-5-1003, is amended by deleting in subsection (c) the language "from July 1, 2025, through June 30, 2026" and substituting instead the language "from July 1, 2026, through June 30, 2027".

SECTION 5. Tennessee Code Annotated, Section 71-5-1003, is amended by deleting in subdivision (c)(1) the language "July 1, 2025" and substituting instead the language "July 1, 2026".

SECTION 6. Tennessee Code Annotated, Section 71-5-1003, is amended by deleting in subdivision (c)(2) the language "July 1, 2025" and substituting instead the language "July 1, 2026".

SECTION 7. Tennessee Code Annotated, Section 71-5-1003, is amended by deleting in subdivision (c)(3) the language "July 1, 2025" and substituting instead the language "July 1, 2026".

SECTION 8. Tennessee Code Annotated, Section 71-5-1003, is amended by deleting in subdivision (c)(4) the language "after July 1, 2025, shall pay in FY 2025-2026" and substituting instead the language "after July 1, 2026, shall pay in FY 2026-2027".

SECTION 9. Tennessee Code Annotated, Section 71-5-1003, is amended by deleting in subdivision (c)(5) the language "from July 1, 2025, through June 30, 2026" and substituting instead the language "from July 1, 2026, through June 30, 2027".

SECTION 10. Tennessee Code Annotated, Section 71-5-1004, is amended by deleting subsection (b) and redesignating the remaining subsections accordingly.

SECTION 11. Tennessee Code Annotated, Section 71-5-1010, is amended by deleting the language "June 30, 2026" and substituting instead the language "June 30, 2027".

SECTION 12. Tennessee Code Annotated, Title 71, Chapter 5, Part 10, is amended by adding the following as a new section:

**71-5-1011. Rebasing and annual reimbursement.**

(a) The base-year annualized medicaid resident day-weighted median costs and prices must be rebased at an interval no longer than three (3) years after a new base year period has been established. The new base year median costs and prices must be established using the most recently audited or desk reviewed cost reports that have a cost reporting period greater than six (6) months, with a cost report end date eighteen (18) months or more before the start of the rebase period. This data must establish a new base year for purposes of applying a market base adjustment during non-rebase years.

(b) Cost reports issued a disclaimer of opinion during the audit process or cost reports containing substantial issues, including incomplete filing, during the desk review process, as solely determined by the comptroller of the treasury, must be excluded from the median and price calculations.

(c) Only audited or reviewed cost reports available prior to the July 1 rate setting may be considered in the median and price calculations.

(d) **Budget adjustment factor (BAF).** For the beginning of each state rate year that is not a rebase year and except as prohibited in subsection (e), effective July 1 of that year, the bureau of TennCare shall establish a nursing facility (NF) program budget target and compare that to the annual expected medicaid expenditures on nursing facility days for the upcoming rate year using established rate setting mechanics. The bureau shall establish the BAF to adjust the annual expected medicaid expenditures to meet the program's NF budget target. The BAF may be positive or negative and must be applied as an across-the-board percentage adjustment to all provider reimbursement rate components calculated according to this rule. The following is the detailed calculation of the BAF:

(1) **Rate system expected cost.**

(A) Projected July 1 provider reimbursement rates calculated using all applicable reimbursement provisions specified within this chapter prior to application of the BAF;

(B) X new cost report medicaid days from the most recent cost report data reviewed by the comptroller of the treasury, or paid claims data, if the bureau determines this data source to be more appropriate; and

(C) Expected cost of NF reimbursement system.

**(2) NF budget target.**

(A) Prior to application of the BAF, projected July 1 provider reimbursement rates calculated using all applicable reimbursement provisions specified within this chapter;

(B) X new cost report medicaid days from the most recent cost report data reviewed by the comptroller of the treasury, or paid claims data, if the bureau determines this data source to be more appropriate;

(C) Target cost of NF reimbursement system prior to adjustments;

(D) Add or subtract state budgetary adjustments; and

(E) Determine the final budget target of the NF reimbursement system.

**(3) BAF calculation.**

(A)  $\text{NF budget target} / \text{rate system expected cost} = \text{BAF \%}$  to apply to all provider rates;

(B) For each non-July 1 rate setting period, the bureau shall recalculate the BAF to accommodate changes to the reimbursement system from new case mix index (CMI), new facilities, statutory

requirements, and other factors. The BAF is applied to all provider reimbursement rate components, and must be adjusted to ensure the state will continue to meet the NF budget target; and

(C) The BAF adjustment may be positive or negative depending on circumstance.

(e) **BAF prohibition.** The bureau shall not apply any BAF or any other computation that alters the median cost and price calculations in this section, except as identified in subsections (a) and (b), when calculating a new base year period.

(f) **Notice of adjustment or reduction.**

(1) If the bureau reduces payments on a pro rata basis using a BAF in a fiscal year, then the bureau shall provide notice on or before March 1 of the fiscal year to the chair of the health and welfare committee of the senate and the chair of the committee of the house of representatives having jurisdiction over health matters prior to making any reduced payments. The notice must include and delineate the amount of state general revenue dollars and nursing home provider assessment fees used to support the year-over-year increase in medicaid rates.

(2) If the bureau is not able to fully fund rebased rates due to an overall medicaid budget shortfall and reduces payments on a pro rata basis in a fiscal year, then the bureau shall provide notice on or before March 1 of the fiscal year to the chair of the health and welfare committee of the senate and the chair of the committee of the house of representatives having jurisdiction over health matters prior to making any reduced payments. The notice must include and delineate the amount of state general revenue dollars and nursing home provider assessment fees used to support the year-over-year increase in medicaid rates.

(g) The bureau is authorized to promulgate rules necessary to effectuate this section, subject to the following limitations:

(1) Any rules promulgated by the bureau pursuant to this section must be developed in consultation with the comptroller of the treasury and the Tennessee Health Care Association (THCA);

(2) The rules must be promulgated in accordance with the Uniform Administrative Procedures Act, compiled in title 4, chapter 5, and may be promulgated as emergency rules pursuant to § 4-5-208; and

(3) Any rules must be in effect no later than December 31, 2026.

SECTION 13. The headings in this act are for reference purposes only and do not constitute a part of the law enacted by this act. However, the Tennessee Code Commission is requested to include the headings in any compilation or publication containing this act.

SECTION 14. For the purpose of promulgating rules, this act takes effect upon becoming a law, the public welfare requiring it. For all other purposes, this act takes effect July 1, 2026, the public welfare requiring it.

Amendment No. 1 to HB1864

Kumar  
Signature of Sponsor

**AMEND Senate Bill No. 2023**

**House Bill No. 1864\***

by deleting all language after the enacting clause and substituting:

SECTION 1. Tennessee Code Annotated, Section 71-5-1002, is amended by deleting in subdivision (h)(1) the language "FY 2025-2026" and substituting "FY 2026-2027".

SECTION 2. Tennessee Code Annotated, Section 71-5-1003, is amended by deleting in subsection (c) the language "from July 1, 2025, through June 30, 2026" and substituting "from July 1, 2026, through June 30, 2027".

SECTION 3. Tennessee Code Annotated, Section 71-5-1003, is amended by deleting in subdivision (c)(1) the language "July 1, 2025" and substituting "July 1, 2026".

SECTION 4. Tennessee Code Annotated, Section 71-5-1003, is amended by deleting in subdivision (c)(2) the language "July 1, 2025" and substituting "July 1, 2026".

SECTION 5. Tennessee Code Annotated, Section 71-5-1003, is amended by deleting in subdivision (c)(3) the language "July 1, 2025" and substituting "July 1, 2026".

SECTION 6. Tennessee Code Annotated, Section 71-5-1003, is amended by deleting in subdivision (c)(4) the language "July 1, 2025, shall pay in FY 2025-2026" and substituting "July 1, 2026, shall pay in FY 2026-2027".

SECTION 7. Tennessee Code Annotated, Section 71-5-1003, is amended by deleting in subdivision (c)(5) the language "July 1, 2025, through June 30, 2026" and substituting "July 1, 2026, through June 30, 2027".

SECTION 8. Tennessee Code Annotated, Section 71-5-1010, is amended by deleting the language "June 30, 2026" and substituting "June 30, 2027".

SECTION 9. This act takes effect July 1, 2026, the public welfare requiring it.