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Subject: RE: Next Steps

Hi Tamar,

Thank you for taking the time to compile these questions in writing. In an effort to ensure clear and effective communication, we've outlined responses below in purple. Hopefully this feedback will clarify any confusion or outstanding issues for the NSO and SF teams. If the legal team has additional clarifying questions, please follow-up with Barbara or Vicki Johnson (both cc'd). Unfortunately, Barbara and I will be out of the office next week, however, I'll be back in the office next Monday and can address any issues before our in-person meeting on 6/26 & 6/27. I've scheduled the meeting from 10:00-4:00 both days. We can use the time as needed, but I think planning for two full-day sessions will ensure we are able to address the critical issues.

-Erica

Structure

I know there was frustration on the Legal call, but I cannot overstate how helpful it was to talk through some of these issues. We learned a great deal. We see the value of having a single entity drive NFP services in SC. However, as you know, this concept is a significant deviation from our current business model that will require further legal and operational review, as well as approval from our Board. Having a precise understanding of the State's objectives and preferences will allow us to properly develop and vet a proposal. To this end, listed below are three questions, and #4 is to confirm our understanding.

Before providing specific responses to your inquiries, SCDHHS finds it necessary to explicitly state that nothing herein is intended as legal or business advice. NSO should not use any of the information provided by SCDHHS as a substitute for use of its own legal counsel, business advisors, or CPAs. SCDHHS has not previously participated in a SIB or PFS contract, but SCDHHS will only enter into such a contract that meets the programmatic, operational, and fiscal goals of the State. The point of Barbara's comment on the Thursday call, which it appears may have been misinterpreted, was intended to address this point.

1. Scope of Single Entity – We understand that SC is seeking the creation of a new single entity to oversee NFP implementation in SC in order to be operationally efficient, simplify contracting, and align with the goals of the Medicaid program. Let's call this NFP SC. As we consider the functions of NFP SC and the State's long-term vision, we are interested in creating an entity that would have oversight, accountability and responsibility for the statewide implementation of the NFP program in South Carolina. The State could hold that entity accountable for the performance of NFP. We heard counsel indicate that NFP SC would be limited to the PFS project, and we understood from John that this entity should be developed first, independent of PFS and broader than PFS, and then PFS would be incorporated into the entity we create to meet SC's goals for NFP more broadly. Clarification on this would be useful. At the same time, we appreciate that this may remain an area for further definition, and will offer a proposal that we believe best advances NFP accountability and quality in SC for discussion.

To be clear SCDHHS is not seeking "the creation of a new single entity….". It is SCDHHS' understanding that the new entity is being explored because NSO does not feel comfortable assuming the role of the single entity required for the PFS project, seeming because NSO does not want to become a Medicaid provider. SCDHHS fully understands that the role of the single entity under the PFS project differs substantially from the role NSO has played to date in any state, including SC. Thus, we are open to contracting with a newly formed entity (proposed by you in these questions as "NFP SC") where NSO has a controlling interest. In summary, we are not requiring/seeking the creation of a new entity. We are simply stating that we are willing to contract with a new entity instead of NSO for the PFS project as long as that new entity meets the project requirements (see "Deal Structure SC" and "Roles & Responsibilities New Entity" – both attached).

SCDHHS does desire (and has expressed in its sole source justification such intent) to contract with a single entity to execute its PFS project. Please remember that SCDHHS is a state agency and as such is subject to many laws, statutes and regulations, including public body state procurement laws requiring competitive procurement unless there is a valid

exemption.

The entity with whom SCDHHS shall contract must have oversight, accountability and responsibility for the services performed under the PFS contract. This will enable SCDHHS to hold a single entity accountable for this PFS contract. Whether the PFS contracted entity has any other purpose outside of the PFS project is not for SCDHHS to dictate. Returning to an essential point that has been repeatedly expressed by SCDHHS - the ultimate goal of the PFS project is to improve the health of its beneficiaries in a sustainable Medicaid model. To that end, it may be valuable for NSO to consider an entity that would be able to provide such sustainability in addition to the accountability in a partner that SCDHHS has sought from its initial RFI.

SCDHHS cannot guarantee any Medicaid relationship beyond this PFS project, as SCDHHS is unable to know whether the PFS project will show benefits, whether any benefits are replicable, and whether the NFP program itself is sustainable based on the structure and expense. The PFS proof of concept and its successful achievement of meaningful results will help enable SCDHHS to determine its future Medicaid policy. Again, to reiterate, SCDHHS is the single state agency responsible for the administration in South Carolina of a program of Medical Assistance under Title XIX of the Social Security Act, so SCDHHS must operate within the parameters set by that designation.

You understood John's point correctly – From a programmatic perspective, it would make sense for this entity ("NFP SC") to be developed first, independent of PFS and broader than PFS. John was merely trying to help NSO think through this process and was not establishing any requirements on behalf of SCDHHS.

2. The NFP SC functions listed on SC's chart for the new entity under Service Delivery and Oversight and Management are responsibilities that NSO normally provides and thus do not represent an incremental cost. Identification and Enrollment, however, are currently performed by the implementing agencies, and therefore would represent an incremental cost for the NFP SC. In addition, any of the services listed under Other Services, if performed by NFP SC, would also incur an incremental cost. Delivering Medicaid Provider services would be an incremental cost as would managing the disbursement of SIB funds. Would you envision all of these costs being paid as part of the PFS infrastructure costs?

Yes. We have stressed multiple times that SCDHHS is very interested in learning the TRUE COST of delivering NFP in SC via the PFS project. We understand that while most of the services you reference above are currently being performed by someone/some entity today (apart from those related to managing Medicaid provider services - as that component is entirely new to NFP in SC), they are likely not accounted for in the "advertised" cost of NFP. It is our understanding that this is because much support comes either in-kind from partner agencies or through grants. SCDHHS believes that identifying an all-inclusive cost of NFP that accounts for all of these components will be critical to success and sustainability. The idea here is that some cost streams will simply shift from IAs to NFP SC (for example, rather than paying each IA separately to cover the cost of recruitment & enrollment at each site, SCDHHS, via the MCOs, would pay NFP SC to cover the costs of recruitment & enrollment statewide with NFP SC then distributing those funds as it sees fit to effectively execute a recruitment & enrollment strategy).

As this is a new endeavor all around, SCDHHS expects to see a complete breakdown of the total cost of the NFP program and fully expects that this breakdown will include the costs associated with each of the activities listed on the "Roles and Responsibilities" document (see attached).

When preparing this cost breakdown, it will be important for NSO to identify (and isolate to the extent possible) those costs specific to the PFS project (costs that wouldn't otherwise exist if SCDHHS were funding the project directly, rather than via PFS). It will be important for these costs to be highlighted (examples may or may not include things like investor management, legal costs associated with the PFS contract itself, administrative costs associated with complying with an independent PFS evaluation, etc.). SCDHHS understands that the PFS project will have certain costs associated with it, but SCDHHS must understand the costs, meaning the cost proposal should clearly outline these costs.

If it would be helpful for NSO, there could be 2 cost models presented to SCDHHS; one that provides a cost breakdown under the hypothetical scenario where SCDHHS would fund the project directly (rather than through a PFS contract) and a second cost breakdown under the scenario where SCDHHS funds the project under PFS. This might make it easy to isolate the "purely PFS costs".

3. NFP nurse home visitors are employed by independent implementing agencies. NSO will not employ any nurses to deliver services to Medicaid recipients, so we will not actually be delivering Medicaid services. Given those facts and SC's stated request that NSO or a partner become a Medicaid provider, we are considering 2 options: 1) subcontract with an established SC Medicaid Provider, or 2) establish a joint venture with a Medicaid Provider for Medicaid-related administrative functions and payments to SC IAs.

SCDHHS does not understand if this is a question. If it is intended to be a question as to which model would be responsive

to the terms of the project design and our solicitation, SCDHHS cannot accept the subcontract option as this does not meet the stated objectives of our project solicitation. SCDHHS has repeatedly indicated that the contracting party for the PFS project must be a Medicaid provider. SCDHHS stated this in our March 31 meeting in Columbia and has repeated this clear and unambiguous requirement in its various communications regarding contract structure on a consistent basis (see "Deal Structure SC" and "Roles and Responsibilities New Entity").

Beginning with the initial meeting on 3/31, SCDHHS believes that is has been clear in articulating this point. Further we request that NSO articulate why it is reluctant to structure a newly formed entity (referenced earlier as "NFP SC") as a Medicaid Provider in concrete and equally unambiguous terms. **We do understand that NSO does not wish to become a Medicaid Provider, but we have limited understanding of the basis for the reluctance for the new entity ("NFP SC") to be a Medicaid Provider**. As stated previously, SCDHHS is the single state agency responsible for the administration in South Carolina of a program of Medical Assistance under Title XIX of the Social Security Act, so SCDHHS must operate within the parameters set by that designation. The entity with which SCDHHS contracts in the PFS project ***must*** be a Medicaid provider.

The entity with which SCDHHS contracts for the PFS project will be responsible for arranging services, billing the MCOs as a part of the income stream to enable SCDHHS to know that services are being provided, making any necessary payments to any parties who perform functions as a part of the provision of services, as well as monitoring the success criteria for the final PFS payment related to the improvement of the health of the beneficiaries who are a part of the PFS project.

SCDHHS understands that all of the direct contact with beneficiaries will be made by nurses who are not employed by NSO (or the entity with whom SCDHHS contracts for the PFS project), but SCDHHS expects that NSO (or the entity with whom SCDHHS contracts for the PFS project) will have control over these nurses through any necessary subcontracts which will enable the entity with whom SCDHHS contracts for the PFS project to maintain quality. The entity with whom SCDHHS contracts for the PFS project will be responsible for providing the services throughout the PFS project and will receive any success payments earned as a part of the PFS project. **If SCDHHS is to pay the entity with whom SCDHHS contracts for the PFS project for services, that entity must be a Medicaid provider.**

The preceding paragraph will represent a new Medicaid payment model (since a portion of the payment for services in addition to investor returns are made ONLY if outcomes are achieved). In this case, the entity with whom SCDHHS contracts for the PFS project will be a Medicaid provider and will also fill the role of a PROGRAMMATIC intermediary for the PFS project.

SCDHHS is agnostic as to whether the new entity NSO creates (in order to be responsive to the requirements of the PFS solicitation) is structured as a SPV or as a JV with an established Medicaid Provider. However, the project solicitation requires that SCDHHS contract with a single accountable entity---a prime contractor who is a Medicaid provider. In our sole source award notification, we specified this prime contractor to be Nurse-Family Partnership (meaning NSO). However, we understand that a newly formed entity on NSO's behalf may be a more appropriate contracting party for the PFS project.

4. When an MCO provides payment for NFP services rendered to beneficiaries, we understand that SC still considers these as incentive payments to improve birth outcomes for MCO members. Based on SC's work with CMS to date, we understand that these incentive payments would be available for any services provided to all first-time Medicaid-mom enrolled in NFP and in a health plan statewide, subject to the PFS parameters for the target population. The parameters will in effect serve to define the total number and risk profile of NFP mothers for whom services will be reimbursed by Medicaid.

As I explained, the language of "incentive" is a bit misleading, and the characterization of availability for "any" services to any mom enrolled in NFP overstates the intent of SCDHHS and the PFS project. The purpose of the letter to CMS is to request authority for SCDHHS to make a supplemental payment to the MCOs for services delivered under the PFS project (the payment mechanism would be new for Medicaid as a whole and specifically, SCDHHS). This supplemental payment would, in fact, be available for services provided to first-time Medicaid mothers given that they meet the criteria outlined in the PFS project. The supplemental payment will be paid by SCDHHS to the MCOs, who will then pass that payment through to the entity with whom SCDHHS contracts for the PFS project.

There will be a limited number of supplemental payments available. The supplemental payment will only be available under the PFS project. Thus, the parameter targets, when finalized, will determine the number of individuals to be served (i.e. number of supplemental payments available) and for whom those supplemental payments will be paid (the majority for individuals residing in low-income zip codes).

Program Design

Please note, these Program Design questions in SCDHHS's view are secondary to resolution whether NSO will be responding to SCDHHS with a single contracting party responsive to the requirement for a Medicaid Provider as contractor for the PFS program. SCDHHS offers the comments on these question in the spirit of continuing to move the program design ahead but our response should not be construed as diminishing our concern that to date there has been no contracting party

identified that would enable SCDHHS to move forward with the PFS program. Further clarity on these program design questions remains academic until the question of a solicitation responsive structure is established.

We really like the approach of moving away from a county-based focus and toward a zip code focus on hot spots, which presents a good opportunity to target our program to the families at greatest need for NFP services. We also really like the flexibility regarding NFP having discretion to enroll mothers in any low-income zip code as long as parameters are achieved. We also believe that statewide eligibility for all Medicaid-eligible first-time mothers is a critical design element that will serve SC families well. We would like to get further clarity on the following questions.

1. How does SC plan to use the parameters? Is it a PFS performance metric, is PFS payment conditioned on meeting the parameter, and/or will it serve as an upper limit on total MCO payments for NFP clients. While we have delved into the specifics of the numbers, we realize that we have not actually discussed how they would function.

All 3. The parameter targets will be a PFS performance metric, PFS payment will be conditioned on meeting parameter targets, and parameter targets will serve as the upper limit on total MCO supplemental payments for NFP.

2. Based on the program design calls prior to Monday, it was our understanding that NSO would not be required to achieve statewide reach within the PFS timeline. Rather, the NSO would establish a PFS footprint that a) is operationally feasible; b) does not jeopardize outcomes for at-risk mothers and their families; and c) establishes a pathway to achieve statewide reach post PFS (i.e., NSO would expand services beyond the current footprint as part of the PFS project, but not achieve statewide reach within the PFS timeline). With this understanding, we presented an expansion strategy to the program design working group that covered 72 of the 94 of the low-income zip codes identified by the State. While there was not a final expansion strategy decision, there was agreement that the proposed footprint aligned with the State's expectations (as indicated above) re: using the PFS to get much closer to statewide reach. We were caught off-guard on Monday's call when the concept of achieving statewide reach within the PFS timeline was raised, but we are now on board with the concept of statewide reach and working rapidly on how to operationalize this, given the following:

The only clarification here is that the parameter targets will be based on the eligible population of FTMMS in ALL 94 LIZCs, not just those in the 72 LIZCs. If NSO determines that the most effective strategy is to immediately focus on the 72 LIZCs, and they are able to meet parameter targets by doing so, that is fine with us. However, we will not “limit” the project by setting a catchment area. And we will explore increasing the parameter targets each year to ensure that expansion into the remaining 22 LIZCs occurs over the years of the PFS project.

We understand that SC wants NFP to work towards statewide coverage so that by the end of the project, NFP will have the capacity to serve any mom who identifies in any of the 94 LIZCs. Appreciating that NFP does not yet have capacity in the 94 LIZCs, NFP will have the discretion to select which areas we will focus on to reach our metrics. We will prioritize but not limit this to our proposed expansion footprint of 72 LIZCs, given our strong capacity already in place. As we build capacity through the PFS initiative, particularly in those communities with weaker relationships now, and develop innovative strategies to serve approximately 22 more LIZCs, we want to explore two items: when and if mothers in these new zip codes will be included in the PFS outcomes; and options for philanthropic and/or State support to develop this new capacity. Allowing capacity in these new zip codes to remain outside of PFS until capacity is strongly established will be helpful in removing any perverse incentives to not expand to certain areas.

This is a point that will need further discussion. SCDHHS does not yet have a definitive answer. We need to explore this collectively. SCDHHS also has some evaluation considerations that could come into play here.

We would appreciate any thoughts you can provide. We plan to provide a structure proposal, which will be subject to our Board and counsel approval, prior to and for discussion at the in-person meeting on June 26-27. We look forward to our continued work together and appreciate your partnership.

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