CONTRACT #4
RFS # 318.65-00375
Edison # 41959

Department of Finance and Administration
Health Care Finance and Administration
Bureau of TennCare

VENDOR:
McKinsey & Company, Inc.

STATE OF TENNESSEE
DEPARTMENT OF FINANCE AND ADMINISTRATION
DIVISION OF HEALTH CARE FINANCE AND ADMINISTRATION
BUREAU OF TENNCARE
310 Great Circle Road
NASHVILLE, TENNESSEE 37243

June 30, 2015

Mark White, Chairman
Fiscal Review Committee
8th Floor, Rachel Jackson Bldg.
Nashville, TN 37243

Attention: Ms. Leni Chick

RE: Contract Amendments for Committee Review (4)

Dear Chairman White:

The Department of Finance and Administration, Division of Health Care Finance and Administration (HCFA), is submitting for consideration by the Fiscal Review Committee the following contract amendments:

(1) Public Partnerships, LLC (PPL) - Amendment #4 - PPL is the competitively procured contract providing financial administration and supports brokerage functions for the TennCare CHOICES Consumer Direction program. This amendment will better align the state's consumer direction program with national best practice and the true philosophy of consumer direction by transitioning from the current EVV system to PPL's time management system. In order for the State and enrollees to benefit from this transition, the contract is being extended and appropriate funding added to support this extension, based on projected continued growth of the program.

(2) Policy Studies, Inc. – Amendment #13 - This Contractor provides eligibility determination, application processing, and beneficiary services for the CoverKids Program. The eligibility determination services provided by this Contractor are being extended for a three-month period, continuing from September 30, 2015 through December 31, 2015. During this period all processes, member notifications and data transfer are transitioning to the new competitively procured Eligibility Determination contractor, Automated Health Systems. This extension of eligibility services does not require an extension of the current contract end date of December 31, 2015, nor does it require additional funding.

(3) Oregon Health & Science University, Center for Evidence-Based Policy (CEBP) – Amendment #1 CEBP is the sole provider of Medicaid focused collaboratives related to the specific areas of diagnostics, devices, programs, procedures and medications, founded to produce evidence reports for its members, and explicitly governed by the members themselves. Because of the CEBP's status as the sole provider of these unique services and the specific expertise and resources provided through this collaboration, contracting with CEBP is considered to be in the best interest of the State. This amendment constitutes a rate change only, but does not require additional funding to be added to cover this rate increase.

(4) McKinsey & Company, Inc. – Amendment #1 - This competitively procured contract is for the provision of consulting services to assist the State of Tennessee with the Implementation of retrospective episode-based payments under the Tennessee Health Care innovation initiative. The language in the RFP and in the resulting contract provides for two separate waves of minimum number of episodes by Calendar year; one is minimum number of episodes if the State is awarded the federal State Innovation Model (SIM) testing grant, and other is minimum episodes if Tennessee is not awarded a SIM Grant. Respondents to the RFP submitted their Cost Proposal based on maximum number of episodes and their score. Tennessee has since received the SIM award and is amending this contract to add the additional SIM dollars per Contract language to insure sufficient funds are available for payment of increased episodes performed throughout the term of this contract.

The Department of Finance and Administration, Division of Health Care Finance and Administration, respectfully submits the above referenced contract amendments for consideration and approval by the Fiscal Review Committee.

Sincerely,

Casey Dungan
Chief Financial Officer

cc: Darin J. Gordon, Deputy Commissioner
Alma Chilton, Director of Contracts

Supplemental Documentation Required for Fiscal Review Committee

*Contact Name:	Alma Chilton	*Contact Phone:	615-507-6384
*Presenter's name(s):	Casey Dungan		
Edison Contract Number: *(if applicable)*	41959	RFS Number: *(if applicable)*	31865-00375
*Original or Proposed Contract Begin Date:	July 1, 2014	*Current or Proposed End Date:	June 30, 2019
Current Request Amendment Number: *(if applicable)*		1	
Proposed Amendment Effective Date: *(if applicable)*		August 31, 2015	
*Department Submitting:		Dept. of Finance and Administration	
*Division:		Health Care Finance & Administration	
*Date Submitted:		June 30, 2015	
*Submitted Within Sixty (60) days:		Yes	
If not, explain:			
*Contract Vendor Name:		McKinsey & Company, Inc.	
*Current or Proposed Maximum Liability:		$12,912,261.00	
*Estimated Total Spend for Commodities:		N/A	

*Current or Proposed Contract Allocation by Fiscal Year:
(as Shown on Most Current Fully Executed Contract Summary Sheet)

FY: 2015	FY:2016	FY:2017	FY:2018	FY:2019	FY
$4,112,724.00	$1,495,750.00	$2,246,179.00	$2,528,804.00	$2,528,804	$

*Current Total Expenditures by Fiscal Year of Contract:
(attach backup documentation from Edison)

FY: 2015	FY: 2016	FY: 2017	FY:	FY	FY
$4,112,724.00		$	$	$	$

IF Contract Allocation has been greater than Contract Expenditures, please give the reasons and explain where surplus funds were spent:	N/A
IF surplus funds have been carried forward, please give the reasons and provide the authority for the carry forward provision:	N/A
IF Contract Expenditures exceeded Contract Allocation, please give the reasons and explain how funding was acquired to pay the overage:	N/A

Supplemental Documentation Required for Fiscal Review Committee

*Contract Funding Source/Amount:			
State:	$6,456,130.50	Federal:	6,456,130.50
Interdepartmental:		*Other*:	
If "*other*" please define:			
If "*interdepartmental*" please define:			

Dates of All Previous Amendments or Revisions: (*if applicable*)	Brief Description of Actions in Previous Amendments or Revisions: (*if applicable*)
N/A	

Method of Original Award: (*if applicable*)	Sole Source
*What were the projected costs of the service for the entire term of the contract prior to contract award? How was this cost determined?	$12,912,261.00- if no SIMS Grant $23,500,000 - if SIMS Grant Cost Proposal
*List number of other potential vendors who could provide this good or service; efforts to identify other competitive procurement alternatives; and the reason(s) a sole-source contract is in the best interest of the State.	This contract was competitively procured and McKinsey & Company has the best combined technical and cost proposals.

McKinsey & Company, Inc., Washington D.C.
Edison Contract ID: 41959
Vendor #: 0000164023

CONTRACT EXPENDITURES BY FISCAL YEAR
(Payment Detail Attached)

FY 2015	$4,112,724.00
TOTAL	$4,112,724.00

McKinsey & Company, Inc.
Edison Contract ID: 41959
Vendor ID: 0000164023

FY 2015 Payments

Fiscal Year	Unit	Voucher ID	Invoice	Pymt Date	Sum Amount
2015	31865	01020587	DCG-NNJ002-3102	11/14/2014	$84,087.00
2015	31865	01020590	DCG-NNJ002-3137	11/26/2014	$582,010.00
2015	31865	01066684	DCG-NNJ002-3205	2/13/2015	$1,660,986.00
2015	31865	01126634	DCG-NNJ002-3246	5/28/2015	$145,502.00
2015	31865	01137695	DCG-NNJ003-3313	6/18/2015	$420,435.00
2015	31865	01137694	DCG-NNJ003-3352	6/18/2015	$1,219,704.00

Total FY 2015: **$4,112,724.00**

Amendment Request

This request form is not required for amendments to grant contracts. Route a completed request, as one file in PDF format, via e-mail attachment sent to: Agsprs.Agsprs@tn.gov

APPROVED	
CHIEF PROCUREMENT OFFICER	DATE

Agency request tracking #	31865-00375
1. Procuring Agency	Department of Finance and Administration Division of Health Care Finance and Administration
2. Contractor	McKinsey & Company, Inc.
3. Edison contract ID #	41959
4. Proposed amendment #	1
5. Contract's Effective Date	July 1, 2014
6. Current end date	June 30, 2019
7. Proposed end date	June 30, 2019
8. Current Maximum Liability or Estimated Liability	$12,912,261.00
9. Proposed Maximum Liability or Estimated Liability	$ 23,500,000.00
10. Office for Information Resources Pre-Approval Endorsement Request *– information technology service (N/A to THDA)*	x Not Applicable ☐ Attached
11. eHealth Pre-Approval Endorsement Request *– health-related professional, pharmaceutical, laboratory, or imaging*	x Not Applicable ☐ Attached
12. Human Resources Pre-Approval Endorsement Request *– state employee training service*	x Not Applicable ☐ Attached

13. Explain why the proposed amendment is needed

This competitively procured contract is for the provision of consulting services to assist the State of Tennessee with the Implementation of retrospective episode-based payments under the Tennessee Health Care innovation initiative. The language in the RFP and in the resulting contract provides for two separate waves of minimum number of episodes by Calendar year; one is minimum number of episodes if the State is awarded the federal State Innovation Model (SIM) testing grant, and other is minimum episodes if Tennessee is not awarded a SIM Grant. Respondents to the RFP submitted their Cost Proposal based on maximum number of episodes and their score. Tennessee has since received the SIM award

Agency request tracking #	31865-00375
and is amending this contract to add in the additional SIM dollars per Contract Section A.2 (refer to attached Table 1 and Table 2) to insure sufficient funds are available for payment of increased episodes performed throughout the term of this contract.	
14. If the amendment involves a change in Scope, describe efforts to identify reasonable, competitive, procurement alternatives to amending the contract. N/A	
Signature of agency head or designee and date Larry B. Martin/CD 6/30/2015	

b. Following HCFA's review of Contractor's analysis of the ninety (90) episodes, HCFA shall, in collaboration with the Contractor and the stakeholders, shall select and prioritize either seventy five (75) or forty (40) episodes pursuant to subsection c below for the Contractor to sequence.

c. Should the state be awarded a State Innovation Model (SIM) testing grant, the Contractor shall submit for the state's approval a sequence of seventy five (75) episodes grouped into waves that meet or exceed the minimums in Table 1 below. If the state is not awarded a SIM testing grant, the Contractor shall submit for the State's approval a sequence of forty (40) episodes grouped into waves that meet or exceed the minimums in Table 2 below. The episode sequence should take into account efficiencies to be gained from designing similar episodes simultaneously. Regardless of the number of episodes to be sequenced, the Contractor shall submit the completed sequence to HCFA on or before September 15, 2014.

TABLE 1: Minimum Number of Episodes by Calendar Year if Tennessee is Awarded a Second Round SIM Grant

	2013	2014		2015		2016		2017		2018		2019
Design deadline	Previously designed episodes	Q1-Q2	Q3-Q4	Q1-Q2	Q3-Q4	Q1-Q2	Q3-Q4	Q1-Q2	Q3-Q4	Q1-Q2	Q3-Q4	Q1-Q2
Number of Episodes (with SIM Testing Grant)	4	0	4	6	6	7	8	8	8	8	8	8

TABLE 2: Minimum Number of Episodes by Calendar Year if Tennessee is not Awarded a Second Round SIM Grant

	2013	2014		2015		2016		2017		2018		2019
Design deadline	Previously designed episodes	Q1-Q2	Q3-Q4	Q1-Q2	Q3-Q4	Q1-Q2	Q3-Q4	Q1-Q2	Q3-Q4	Q1-Q2	Q3-Q4	Q1-Q2
Number of Episodes (Without SIM Testing Grant)	4	0	3	3	3	3	4	5	5	5	5	5

d. After each wave of episodes is designed and implemented, the Contractor shall review the sequence against the State's progress and suggest modifications to the sequence as necessary.

CONTRACT AMENDMENT COVER SHEET

Agency Tracking #	Edison ID	Contract #	Amendment #
31865-00375	41959		01

Contractor Legal Entity Name	Edison Vendor ID
McKinsey & Company, Inc., Washington, D.C.	0000164023

Amendment Purpose & Effect(s)
Updates Scope and Increases Maximum Liability

Amendment Changes Contract End Date: ☐ YES ☒ NO **End Date:** June 30, 2019

TOTAL Contract Amount INCREASE or DECREASE per this Amendment (zero if N/A): **$ 10,587,739.00**

Funding —

FY	State	Federal	Interdepartmental	Other	TOTAL Contract Amount
2015	$1,163,541.50	$2,949,182.50			$4,112,724.00
2016		$4,658,292.00			$4,658,292.00
2017		$4,658,292.00			$4,658,292.00
2018		$4,658,292.00			$4,658,292.00
2019	$1,541,626.00	$3,870,774.00			$5,412,400.00
TOTAL:	**$2,705,167.50**	**$20,794,832.50**			**$23,500,000.00**

American Recovery and Reinvestment Act (ARRA) Funding: ☐ YES ☒ NO

Budget Officer Confirmation: There is a balance in the appropriation from which obligations hereunder are required to be paid that is not already encumbered to pay other obligations.

CPO USE

Speed Chart (optional)	Account Code (optional)
	70803000

AMENDMENT #1 TO #41959
BETWEEN THE STATE OF TENNESSEE,
DEPARTMENT OF FINANCE AND ADMINISTRATION
DIVISION OF HEALTH CARE FINANCE AND ADMINISTRATION
AND
MCKINSEY & COMPANY, INC., WASHINGTON, D.C.

This Amendment is made and entered by and between the State of Tennessee, Department of Finance and Administration, Division of Health Care Finance and Administration, hereinafter referred to as the "State" and McKinsey & Company, Inc., hereinafter referred to as the "Contractor." For good and valuable consideration, the sufficiency of which is hereby acknowledged, it is mutually understood and agreed by and between said, undersigned contracting parties that the subject contract is hereby amended as follows:

1. Contract Section C.1 is deleted in its entirety and replaced with the following:

   C.1. Maximum Liability. In no event shall the maximum liability of the State under this Contract exceed Twenty-Three Million Five Hundred Dollars ($23,500,000.00). The payment rates in section C.3 shall constitute the entire compensation due the Contractor for all service and Contractor obligations hereunder regardless of the difficulty, materials or equipment required. The payment rates include, but are not limited to, all applicable taxes, fees, overheads, and all other direct and indirect costs incurred or to be incurred by the Contractor.

   The Contractor is not entitled to be paid the maximum liability for any period under the Contract or any extensions of the Contract for work not requested by the State. The maximum liability represents available funds for payment to the Contractor and does not guarantee payment of any such funds to the Contractor under this Contract unless the State requests work and the Contractor performs said work. In which case, the Contractor shall be paid in accordance with the payment rates detailed in section C.3. The State is under no obligation to request work from the Contractor in any specific dollar amounts or to request any work at all from the Contractor during any period of this Contract.

Required Approvals. The State is not bound by this Amendment until it is signed by the contract parties and approved by appropriate officials in accordance with applicable Tennessee laws and regulations (depending upon the specifics of this contract, said officials may include, but are not limited to, the Commissioner of Finance and Administration, the Commissioner of Human Resources, and the Comptroller of the Treasury).

Amendment Effective Date. The revisions set forth herein shall be effective August 31, 2015. All other terms and conditions of this Contract not expressly amended herein shall remain in full force and effect.

IN WITNESS WHEREOF,

MCKINSEY & COMPANY, INC. WASHINGTON DC:

CONTRACTOR SIGNATURE **DATE**

PRINTED NAME AND TITLE OF CONTRACTOR SIGNATORY (above)

DEPARTMENT OF FINANCE AND ADMINISTRATION
DIVISION OF HEALTH CARE FINANCE AND ADMINISTRATION:

LARRY B. MARTIN, COMMISSIONER **DATE**

FUNDING REVISION

CONTRACT
(fee-for-service contract with an individual, business, non-profit, or governmental entity of another state)

Begin Date	End Date	Agency Tracking #	Edison Record ID
July 1, 2014	June 30, 2019	31865-00375	41959

Contractor Legal Entity Name	Edison Vendor ID
McKinsey & Company, Inc., Washington, D.C.	0000164023

Service Caption (one line only)

Funding Revision – Moving $1,092,338.00 from FY 2016-2019 to FY 2015

Subrecipient or Vendor	CFDA #
☐ Subrecipient ☒ Vendor	93.778 Dept of Health & Human Services/Title XIX

Funding —

FY	State	Federal	Interdepartmental	Other	TOTAL Contract Amount
2015	$2,056,362.00	$2,056,362.00			$4,112,724.00
2016	$747,875.00	$747,875.00			$1,495,750.00
2017	$1,123,089.50	$1,123,089.50			$2,246,179.00
2018	$1,264,402.00	$1,264,402.00			$2,528,804.00
2019	$1,264,402.00	$1,264,402.00			$2,528,804.00
TOTAL:	**$6,456,130.50**	**$6,456,130.50**			**$12,912,261.00**

American Recovery and Reinvestment Act (ARRA) Funding: ☐ YES ☐ NO

Ownership/Control

☐ African American ☐ Asian ☐ Hispanic ☐ Native American ☐ Female
☐ Person w/Disability ☐ Small Business ☐ Government ☒ NOT Minority/Disadvantaged
☐ Other:

Selection Method & Process Summary (mark the correct response to confirm the associated summary)

☒ RFP	The procurement process was completed in accordance with the approved RFP document and associated regulations.
☐ Competitive Negotiation	The predefined, competitive, impartial, negotiation process was completed in accordance with the associated, approved procedures and evaluation criteria.
☐ Alternative Competitive Method	The predefined, competitive, impartial, procurement process was completed in accordance with the associated, approved procedures and evaluation criteria.
☐ Non-Competitive Negotiation	The non-competitive contractor selection was completed as approved, and the procurement process included a negotiation of best possible terms & price.
☐ Other	The contractor selection was directed by law, court order, settlement agreement, or resulted from the state making the same agreement with all interested parties or all parties in a predetermined "class."

Budget Officer Confirmation: There is a balance in the appropriation from which obligations hereunder are required to be paid that is not already encumbered to pay other obligations.

Speed Chart (optional)	Account Code (optional)
TN00000134	70803000

OCR USE - FA

CONTRACT

(fee-for-service contract with an individual, business, non-profit, or governmental entity of another state)

Begin Date	End Date	Agency Tracking #	Edison Record ID
July 1, 2014	June 30, 2019	31865-00375	41959

Contractor Legal Entity Name	Edison Vendor ID
McKinsey & Company, Inc., Washington, D.C.	0000164023

Service Caption (one line only)

Consulting Services to Assist in the Implementation of Retrospective Episode-Based Payments under the Tennessee Health Care Innovation Initiative

Subrecipient or Vendor	CFDA #
☐ Subrecipient ☒ Vendor	93.778 Dept of Health & Human Services/Title XIX

Funding —

FY	State	Federal	Interdepartmental	Other	TOTAL Contract Amount
2015	$1,510,193.00	$1,510,193.00			$3,020,386.00
2016	$847,875.00	$847,875.00			$1,695,750.00
2017	$1,271,812.50	$1,271,812.50			$2,543,625.00
2018	$1,413,125.00	$1,413,125.00			$2,826,250.00
2019	$1,413,125.00	$1,413,125.00			$2,826,250.00
TOTAL:	**$6,456,130.50**	**$6,456,130.50**			**$12,912,261.00**

American Recovery and Reinvestment Act (ARRA) Funding: ☐ YES ☐ NO

Ownership/Control

☐ African American ☐ Asian ☐ Hispanic ☐ Native American ☐ Female
☐ Person w/Disability ☐ Small Business ☐ Government ☒ NOT Minority/Disadvantaged
☐ Other:

Selection Method & Process Summary (mark the correct response to confirm the associated summary)

☒ RFP	The procurement process was completed in accordance with the approved RFP document and associated regulations.
☐ Competitive Negotiation	The predefined, competitive, impartial, negotiation process was completed in accordance with the associated, approved procedures and evaluation criteria.
☐ Alternative Competitive Method	The predefined, competitive, impartial, procurement process was completed in accordance with the associated, approved procedures and evaluation criteria.
☐ Non-Competitive Negotiation	The non-competitive contractor selection was completed as approved, and the procurement process included a negotiation of best possible terms & price.
☐ Other	The contractor selection was directed by law, court order, settlement agreement, or resulted from the state making the same agreement with all interested parties or all parties in a predetermined "class."

Budget Officer Confirmation: There is a balance in the appropriation from which obligations hereunder are required to be paid that is not already encumbered to pay other obligations.

Speed Chart (optional)	Account Code (optional)
TN00000134	70803000

OCR USE - FA

CONTRACT
BETWEEN THE STATE OF TENNESSEE,
DEPARTMENT OF FINANCE AND ADMINISTRATION
DIVISION OF HEALTH CARE FINANCE AND ADMINISTRATION
AND
MCKINSEY & COMPANY, INC., WASHINGTON, D.C.

This Contract, by and between the State of Tennessee, Department of Finance and Administration, Division of Health Care Finance and Administration, hereinafter referred to as the 'State" or "HCFA", and McKinsey & Company, Inc., Washington D.C., hereinafter referred to as the "Contractor," is for the provision of consulting services to assist in implementing retrospective episode-based payments under the Tennessee Health Care Innovation Initiative, as further defined in the "SCOPE OF SERVICES."

The Contractor is a For-Profit Corporation.
Contractor Place of Incorporation or Organization: Delaware
Contractor Edison Registration ID # 164023

A. SCOPE OF SERVICES:

A.1. The Contractor shall provide all service and deliverables as required, described, and detailed herein and shall meet all service and delivery timelines as specified by this Contract.

A.2. Episode of Care Consulting Services: In consultation with the State, the Contractor shall support the development, implementation and evaluation of retrospective episode-based health care payment reforms in line with the State's existing approach. For purposes of this Contract, "episodes of care" and "episodes" shall mean the collection of care defined by rules applied to medical claims data that includes care from multiple providers for a condition or acute health care event for a defined period of time. Episode-based payments are an incentive to providers who are able to coordinate all aspects of an acute medical and behavioral treatment and achieve high-quality and efficient care, in a clinical situation with predictable start and end points. For critical information please refer to http://www.tn.gov/HCFA/forms/WhitePaper.pdf.

a. The Contractor shall use at least two years of the data from HCFA's and Benefits Administration's encounter database, as well as peer reviewed literature, other national data sources, and the contractor's own data sources to analyze ninety (90) episodes from the episode list located attached as Attachment C, according to the criteria listed below. The Contractor shall also use this criteria to rank the episodes in order of priority. The Contractor's final analysis of the ninety (90) episodes shall be provided to HCFA on or before August 15, 2014.

1. Higher volume of spending and number of episodes in Tennessee for the state;
2. Higher volume of spending and number of episodes for commercial insurers;
3. More variation between providers on cost and quality;
4. Diversity in the type of provider most likely to be considered the principle accountable provider according to the state's model;
5. The clinical complexity of the episode (either high level or low level), e.g. the variation in the patient journey and the amount of agreement on a standard of care for the episode,
6. The preferences of other stakeholders in the initiative, to be collected in meetings specified in contract section A.6.; and,
7. The existence of similar episode models designed by other initiatives, such as other states, the federal government, insurance companies, and health care providers.

b. Following HCFA's review of Contractor's analysis of the ninety (90) episodes, HCFA shall, in collaboration with the Contractor and the stakeholders, shall select and prioritize either seventy five (75) or forty (40) episodes pursuant to subsection c below for the Contractor to sequence.

c. Should the state be awarded a State Innovation Model (SIM) testing grant, the Contractor shall submit for the state's approval a sequence of seventy five (75) episodes grouped into waves that meet or exceed the minimums in Table 1 below. If the state is not awarded a SIM testing grant, the Contractor shall submit for the State's approval a sequence of forty (40) episodes grouped into waves that meet or exceed the minimums in Table 2 below. The episode sequence should take into account efficiencies to be gained from designing similar episodes simultaneously. Regardless of the number of episodes to be sequenced, the Contractor shall submit the completed sequence to HCFA on or before September 15, 2014.

TABLE 1: Minimum Number of Episodes by Calendar Year if Tennessee is Awarded a Second Round SIM Grant

	2013	2014		2015		2016		2017		2018		2019
Design deadline	Previously designed episodes	Q1-Q2	Q3-Q4	Q1-Q2	Q3-Q4	Q1-Q2	Q3-Q4	Q1-Q2	Q3-Q4	Q1-Q2	Q3-Q4	Q1-Q2
Number of Episodes (with SIM Testing Grant)	4	0	4	6	6	7	8	8	8	8	8	8

TABLE 2: Minimum Number of Episodes by Calendar Year if Tennessee is not Awarded a Second Round SIM Grant

	2013	2014		2015		2016		2017		2018		2019
Design deadline	Previously designed episodes	Q1-Q2	Q3-Q4	Q1-Q2	Q3-Q4	Q1-Q2	Q3-Q4	Q1-Q2	Q3-Q4	Q1-Q2	Q3-Q4	Q1-Q2
Number of Episodes (Without SIM Testing Grant)	4	0	3	3	3	3	4	5	5	5	5	5

d. After each wave of episodes is designed and implemented, the Contractor shall review the sequence against the State's progress and suggest modifications to the sequence as necessary.

A.3. Technical Advisory Groups (TAG): The Contractor shall assist the state in conducting a minimum of three (3), maximum of four (4) TAG meetings of approximately a dozen Tennessee clinicians on the design of each episode. The State will gather nominations for TAGs, select the members of the TAG, schedule all TAG meetings, provide introductory information on episodes generally to TAG members, and chair all TAG meetings. For each TAG, the Contractor shall complete the following tasks:

a. At least one month prior to the first TAG meeting, the Contractor shall provide presentations on different care pathways that patients experience during the episode and the sources of value that could be realized by episode-based payment reform for use during the TAG meetings.

b. At least one month prior to the first TAG meeting, the Contractor shall create for the State's approval a draft episode a draft episode design of each episode. The Contractor shall advise the State where there are multiple options on design decisions and incorporate the State's selected options into the draft in an iterative process in the month prior to the start for the TAG meeting. The Contractor's draft episode design shall include:

1. The trigger(s) which are the claims that define whether an episode took place,
2. The definition of the principle accountable provider (PAP) defined as the provider in the best position to influence the cost and quality of the episode,
3. The episode time window rules that define the start and stop points that encompass the episode (including a pre-trigger window, a trigger window, and a post-trigger window as applicable) and the cost and quality that the PAP can influence,
4. Claims codes included in and excluded from the episode,
5. Types of episodes to be excluded,
6. Quality measures, and
7. Patient-level and provider-level risk adjustment factors.

c. At least one month prior to the first TAG meeting, the Contractor shall perform clinical and economic analysis of the episodes generated from HCFA and Benefits Administration's encounter data, and supplement with additional analysis before, during, and immediately after the course of the TAG meetings for each episode to answer questions and evaluate options for design decisions posed by the State, TAG members, and payer coalition members. The analysis may include the following:

1. Non-risk adjusted and risk adjusted episode cost by PAP, grouped into the components outpatient professional, pharmacy, emergency department, outpatient lab, outpatient radiology, inpatient facility, outpatient facility, and other;
2. Variation in quality metrics by PAP;
3. Variation in the risk adjusted cost and quality of episodes by the three grand regions of Tennessee, by urban/rural, and by high vs. low volume providers; and
4. During the period of time when the TAG meetings are being held, the Contractor shall perform other data analysis requested by the state or TAG members, however the state will limit the data requests by members of the TAGs to information that is highly relevant to design decisions that the TAG is making.

d. The Contractor shall attend each TAG meeting and provide expert advice. The Contractor shall document the episode design and the TAG recommendations for State approval.

The Contractor shall then present the TAG recommendations and rationale to the coalition of payers and gather feedback from the group.

e. At least one month prior to the first TAG meeting, the Contractor shall create a set of power point presentations that include the Contractor's work product on care pathways, patient experience, draft episode design and clinical and economic analyses according to a template provided by the state for use in the TAG meetings.

A.4. Episode Design - The Contractor shall produce detailed designs of each episode for the State and Payer Coalition partners. These designs shall be updated by the Contractor as needed and shall include:

a. Detailed business requirements for delivery to the State and Payer Coalition members with complete instructions on building and implementing the episode analytics and reporting, including:

1. The trigger(s) which are the claims that define whether an episode took place;
2. The definition of the principle accountable provider (PAP) defined as the provider in the best position to influence the cost and quality of the episode;
3. The episode time window rules that define the start and stop points that encompass the episode (including a pre-trigger window, a trigger window, and a post-trigger window as applicable) and the cost and quality that the PAP can influence;
4. Claims codes included in and excluded from the episode;
5. Types of episodes to be excluded;
6. Quality measures, and
7. Patient-level and provider-level risk adjustment factors.

b. Narrative descriptions of less than ten pages for broad distribution to Tennessee clinicians and stakeholders that include the patient experience, sources of value to be realized by the episode program, and a description of the design of the episode.

A.5. Policy and Technical Assistance to the State:

a. The Contractor shall provide technical assistance to the State's payer partners as they implement each episode. The Contractor shall attend frequent calls with each Payer Coalition member to track progress and respond to questions related to the design and detailed business requirements of each episode.

b. The Contractor shall advise the State on acceptable, commendable, cost sharing limit, and quality metric thresholds.

c. The Contractor shall provide the state with acceptance criteria to check managed care organization's results in implementing the episode design against HCFA encounter data and shall advise the state on how to respond to any discrepancies that the managed care organizations report.

d. The State will not require the Contractor to design final rules for contractual/regulatory/legislative approval or specify risk adjustment factor weightings for these episodes beyond what is required for deciding program design.

e. The Contractor shall support the State with general design assistance on episode-based risk adjustment.

f. The Contractor shall deliver to the state on or before September 1, 2014 a method that can be applied to all episodes for defining which comorbidities should be included in risk adjustment and which should lead an episode to be excluded.

A.6. Stakeholder Interface:

a. The Contractor shall present on its activities in key stakeholder meetings with payers, providers and other interested parties at the State's request, and shall generate content for these meetings at the State's request. The State will chair all stakeholder meetings. These stakeholder meetings are independent of the TAG meetings.

b. The Contractor shall advise the state on public documents that the state produces, e.g. a public white paper on episodes.

A.7. Additional Grant-contingent Activities: The following activities are contingent upon the state receiving a SIM design grant:

a. The Contractor shall advise the state on potential changes to existing episodes with data-driven analysis of the impact of the potential changes on an ongoing basis and in advance of an annual review of existing episode via public stakeholder meetings. The Contractor shall develop materials for and attend one (1) to three (3) public meetings for Tennessee clinicians to provide feedback on the episode design at the end of each performance period. The state will convene the public meetings, invite attendees, and chair the meetings. The Contractor shall synthesize the feedback from the public meetings, present data-driven analysis on the impact of potential design changes for each episode to the State and Payer Coalition. As needed, the Contractor will update the episode designs (including the detailed business requirements and narrative episode description) to reflect these adopted episode design changes.

b. The Contractor shall develop instructions and provide advice for an entity such as Tennessee's Department of Commerce and Insurance to review insurance carriers' adherence to the payment reform program and the insurance carriers' stated policies, including their risk adjustment programs.

c. The Contractor shall provide ad hoc analysis to the State on four key issues identified by the State and related to episode-based payment implementation in the form of four memos. The memos shall include a detailed discussion of potential state options and a logical assessment of the relative advantages and disadvantages of each option so as to ensure the State is aware of the salient facts and all potential risks.

d. Administrative Services Only Implementation: The Contractor shall advise Benefits Administration on administering payment reform through administrative services only contracts.

1. In collaboration with the State, the Contractor shall work with Benefits Administration to develop the financial and operational model for episode-based payments for the State's self-funding contracts, including:
   (a) Funding of risk and gain-sharing pools;

(b) Financial reporting to employers;
(c) Inclusion of prescription drugs;
(d) Benefits of model customization versus standardization;
(e) Aligning plan design and employee decision support tools with episode-based payments.

2. The Contractor shall advise Benefits Administration on including episode-based payment requirements in its next procurement.

3. The Contractor shall advise Benefits Administration on how to review administrative services only insurers for adherence to their episode payment programs.

4. The Contractor, using the Benefits Administration as a model, shall develop an ASO episode-based payment prototype arrangement for the State and Payer Coalition to share with self-funding employer groups in Tennessee. The ASO prototype shall outline how the episode-based payments work and the key decisions for employers under the model.

e. Building of State's payment reform technical expertise:

1. The Contractor shall develop a plan for the State's approval to build the State's expertise and technical ability to continue the episode program and develop new episodes without the Contractor's assistance after the contract period ends.

2. The Contractor shall advise the state on its needs for personnel to maintain the episode program, including suggesting elements of job descriptions.

3. The Contractor shall develop and train key State IT, provider relations and medical staff on episode-based payment mechanics, episode design rationale, and the State's strategy for shifting health care to value-based payment.

A.8. The Contractor shall provide sufficient staffing to perform all activities associated with the consulting services required by this Contract. A minimum of one (1) project lead employee, more if necessary as scope of work demands, shall be located in the HCFA offices, 310 Great Circle Road, Nashville, Tennessee

B. CONTRACT PERIOD:

B.1. This Contract shall be effective for the period beginning July 1, 2014, and ending on June 30, 2019. The Contractor hereby acknowledges and affirms that the State shall have no obligation for services rendered by the Contractor which were not performed within this specified contract period.

C. PAYMENT TERMS AND CONDITIONS:

C.1. Maximum Liability. In no event shall the maximum liability of the State under this Contract exceed Twelve Million Nine Hundred Twelve Thousand Two Hundred Sixty-One Dollars ($12,912,261.00). The payment rates in section C.3 shall constitute the entire compensation due the Contractor for all service and Contractor obligations hereunder regardless of the difficulty, materials or equipment required. The payment rates include, but are not limited to, all applicable taxes, fees, overheads, and all other direct and indirect costs incurred or to be incurred by the Contractor.

The Contractor is not entitled to be paid the maximum liability for any period under the Contract or any extensions of the Contract for work not requested by the State. The maximum liability represents available funds for payment to the Contractor and does not guarantee payment of any such funds to the Contractor under this Contract unless the State requests work and the

Contractor performs said work. In which case, the Contractor shall be paid in accordance with the payment rates detailed in section C.3. The State is under no obligation to request work from the Contractor in any specific dollar amounts or to request any work at all from the Contractor during any period of this Contract.

C.2. Compensation Firm. The payment rates and the maximum liability of the State under this Contract are firm for the duration of the Contract and are not subject to escalation for any reason unless amended.

C.3. Payment Methodology. The Contractor shall be compensated based on the payment rates herein for units of service authorized by the State in a total amount not to exceed the Contract Maximum Liability established in section C.1.

a. The Contractor's compensation shall be contingent upon the satisfactory completion of units, milestones, or increments of service defined in section A.

b. The Contractor shall be compensated for said units, milestones, or increments of service based upon the following payment rates:

Service Description	**Amount** (per compensable increment)
Delivery of a State approved analysis of Ninety (90) episodes according to the State's criteria as described in Contract Section A.2.a.	$ 291,005.00
Delivery of a State approved sequence of episodes as described in Contract Section A.2.b.-c	$ 291,005.00
Delivery of a State approved draft episode design, clinical and economic analysis of an episode design decisions, expert advice at TAG meetings, and power point presentations to support a series of TAG meetings as described in Contract Section A.3.	$ 203,284.00 Per Episode (Up to a maximum of 71 Episodes)
Delivery of a State approved detail documentation of each episode design as described in Contract Section A.4.	$ 51,312.00 Per Episode (Up to a maximum of 71 Episodes)
Delivery of compendium of Analysis on Acceptable, Commendable, Cost Sharing Limit, and Quality Metric Thresholds as well as Acceptance Criteria as described in Contract Section A.5.b.-c.	$ 28,029.00 Per Episode (Up to a maximum of 75 Episodes)
Delivery of method that can be applied to all episodes for defining which comorbidities should be included in risk adjustment and which should lead an episode to be excluded as described in Pro Forma Contract Section A.5.f.	$ 388,006.00
Delivery of a State Approved Compendium of Analysis on Changes to Existing Episodes in Support of Public Stakeholder Meetings as described in Contract Section A.7.a.	$ 19,066.00 Per Episode * (Up to a maximum of 75 Episodes)

Delivery of a State Approved Document containing Analysis of Instructions and Advice on a Process to Review Insurance Carriers' Adherence to the Payment Reform Program and Insurance Carriers' State Policies, including their Risk Adjustment programs as described in Contract Section A.7.b.	$ 97,002.00
Delivery of a Memo on a Key Issue Identified by the State as Described in Contract Section A.7.c.	$ 97,002.00 Per Memo * (Up to a maximum of 4 Memos)
Delivery of a Compendium of Analysis on Administering Payment Reform through Administrative Services Only Contracts as described in Contract Section A.7.d.	$ 145,502.00
Delivery of a Compendium of Analysis on Building the State's Payment Reform Technical expertise as Described in Contract Section A.7.e.	$ 291,031.00 *

* Contingent upon State Receiving State Innovation Model Testing Grant

C.4. Travel Compensation. The Contractor shall not be compensated or reimbursed for travel, meals, or lodging.

C.5. Invoice Requirements. The Contractor shall invoice the State only for completed increments of service and for the amount stipulated in section C.3, above, and present said invoices no more often than monthly, with all necessary supporting documentation, to:

Division of Health Care Finance and Administration
310 Great Circle Road
Nashville, TN 37243

a. Each invoice shall clearly and accurately detail all of the following required information (calculations must be extended and totaled correctly).

(1) Invoice Number (assigned by the Contractor)
(2) Invoice Date
(3) Contract Number (assigned by the State)
(4) Customer Account Name: Division of Health Care Finance and Administration, Division of Health Care Finance and Administration
(5) Customer Account Number (assigned by the Contractor to the above-referenced Customer)
(6) Contractor Name
(7) Contractor Tennessee Edison Registration ID Number Referenced in Preamble of this Contract
(8) Contractor Contact for Invoice Questions (name, phone, and/or fax)
(9) Contractor Remittance Address
(10) Description of Delivered Service
(11) Complete Itemization of Charges, which shall detail the following:

i. Service or Milestone Description (including name & title as applicable) of each service invoiced
ii. Number of Completed Units, Increments, Hours, or Days as applicable, of each service invoiced

iii. Applicable Payment Rate (as stipulated in Section C.3.) of each service invoiced
iv. Amount Due by Service
v. Total Amount Due for the invoice period

b. The Contractor understands and agrees that an invoice under this Contract shall:

(1) include only charges for service described in Contract Section A and in accordance with payment terms and conditions set forth in Contract Section C;
(2) only be submitted for completed service and shall not include any charge for future work;
(3) not include sales tax or shipping charges; and
(4) initiate the timeframe for payment (and any discounts) only when the State is in receipt of the invoice, and the invoice meets the minimum requirements of this section C.5.

C.6. Payment of Invoice. A payment by the State shall not prejudice the State's right to object to or question any payment, invoice, or matter in relation thereto. A payment by the State shall not be construed as acceptance of any part of the work or service provided or as approval of any amount invoiced.

C.7. Invoice Reductions. The Contractor's invoice shall be subject to reduction for amounts included in any invoice or payment theretofore made which are determined by the State, on the basis of audits conducted in accordance with the terms of this Contract, not to constitute proper remuneration for compensable services.

C.8. Deductions. The State reserves the right to deduct from amounts, which are or shall become due and payable to the Contractor under this or any contract between the Contractor and the State of Tennessee any amounts, which are or shall become due and payable to the State of Tennessee by the Contractor.

C.9. Prerequisite Documentation. The Contractor shall not invoice the State under this Contract until the State has received the following documentation properly completed.

a. The Contractor shall complete, sign, and present to the State an "Authorization Agreement for Automatic Deposit (ACH Credits) Form" provided by the State. By doing so, the Contractor acknowledges and agrees that, once said form is received by the State, all payments to the Contractor, under this or any other contract the Contractor has with the State of Tennessee shall be made by Automated Clearing House (ACH).

b. The Contractor shall complete, sign, and present to the State a "Substitute W-9 Form" provided by the State. The taxpayer identification number detailed by said form must agree with the Contractor's Federal Employer Identification Number or Tennessee Edison Registration ID referenced in this Contract.

D. STANDARD TERMS AND CONDITIONS:

D.1. Required Approvals. The State is not bound by this Contract until it is signed by the contract parties and approved by appropriate officials in accordance with applicable Tennessee laws and regulations (depending upon the specifics of this contract, said officials may include, but are not limited to, the Commissioner of Finance and Administration, the Commissioner of Human Resources, and the Comptroller of the Treasury).

D.2. Modification and Amendment. This Contract may be modified only by a written amendment signed by all parties hereto and approved by both the officials who approved the base contract and, depending upon the specifics of the contract as amended, any additional officials required by Tennessee laws and regulations (said officials may include, but are not limited to, the Commissioner of Finance and Administration, the Commissioner of Human Resources, and the Comptroller of the Treasury).

D.3. Termination for Convenience. The State may terminate this Contract without cause for any reason. Said termination shall not be deemed a breach of contract by the State. The State shall give the Contractor at least thirty (30) days written notice before the effective termination date. The Contractor shall be entitled to compensation for satisfactory, authorized service completed as of the termination date, but in no event shall the State be liable to the Contractor for compensation for any service which has not been rendered. Upon such termination, the Contractor shall have no right to any actual general, special, incidental, consequential, or any other damages whatsoever of any description or amount.

D.4. Termination for Cause. If the Contractor fails to properly perform its obligations under this Contract in a timely or proper manner, or if the Contractor violates any terms of this Contract, the State shall have the right to immediately terminate the Contract and withhold payments in excess of fair compensation for completed services. Notwithstanding the above, the Contractor shall not be relieved of liability to the State for damages sustained by virtue of any breach of this Contract by the Contractor.

D.5. Subcontracting. The Contractor shall not assign this Contract or enter into a subcontract for any of the services performed under this Contract without obtaining the prior written approval of the State. If such subcontracts are approved by the State, each shall contain, at a minimum, sections of this Contract below pertaining to "Conflicts of Interest," "Nondiscrimination," and "Records" (as identified by the section headings). Notwithstanding any use of approved subcontractors, the Contractor shall be the prime contractor and shall be responsible for all work performed.

D.6. Conflicts of Interest. The Contractor warrants that no part of the total Contract Amount shall be paid directly or indirectly to an employee or official of the State of Tennessee as wages, compensation, or gifts in exchange for acting as an officer, agent, employee, subcontractor, or consultant to the Contractor in connection with any work contemplated or performed relative to this Contract.

The Contractor acknowledges, understands, and agrees that this Contract shall be null and void if the Contractor is, or within the past six months has been, an employee of the State of Tennessee or if the Contractor is an entity in which a controlling interest is held by an individual who is, or within the past six months has been, an employee of the State of Tennessee.

D.7. Nondiscrimination. The Contractor hereby agrees, warrants, and assures that no person shall be excluded from participation in, be denied benefits of, or be otherwise subjected to discrimination in the performance of this Contract or in the employment practices of the Contractor on the grounds of handicap or disability, age, race, color, religion, sex, national origin, or any other classification protected by Federal, Tennessee State constitutional, or statutory law. The Contractor shall, upon request, show proof of such nondiscrimination and shall post in conspicuous places, available to all employees and applicants, notices of nondiscrimination.

D.8. Prohibition of Illegal Immigrants. The requirements of *Tennessee Code Annotated*, Section 12-4-124, *et seq.*, addressing the use of illegal immigrants in the performance of any Contract to supply goods or services to the state of Tennessee, shall be a material provision of this Contract, a breach of which shall be grounds for monetary and other penalties, up to and including termination of this Contract.

a. The Contractor hereby attests, certifies, warrants, and assures that the Contractor shall not knowingly utilize the services of an illegal immigrant in the performance of this Contract and shall not knowingly utilize the services of any subcontractor who will utilize the services of an illegal immigrant in the performance of this Contract. The Contractor shall reaffirm this attestation, in writing, by submitting to the State a completed and signed copy of the document at Attachment A, hereto, semi-annually during the period of this Contract. Such attestations shall be maintained by the Contractor and made available to state officials upon request.

b. Prior to the use of any subcontractor in the performance of this Contract, and semi-annually thereafter, during the period of this Contract, the Contractor shall obtain and retain a current, written attestation that the subcontractor shall not knowingly utilize the services of an illegal immigrant to perform work relative to this Contract and shall not knowingly utilize the services of any subcontractor who will utilize the services of an illegal immigrant to perform work relative to this Contract. Attestations obtained from such subcontractors shall be maintained by the Contractor and made available to state officials upon request.

c. The Contractor shall maintain records for all personnel used in the performance of this Contract. Said records shall be subject to review and random inspection at any reasonable time upon reasonable notice by the State.

d. The Contractor understands and agrees that failure to comply with this section will be subject to the sanctions of *Tennessee Code Annotated*, Section 12-4-124, *et seq.* for acts or omissions occurring after its effective date. This law requires the Commissioner of Finance and Administration to prohibit a contractor from contracting with, or submitting an offer, proposal, or bid to contract with the State of Tennessee to supply goods or services for a period of one year after a contractor is discovered to have knowingly used the services of illegal immigrants during the performance of this Contract.

e. For purposes of this Contract, "illegal immigrant" shall be defined as any person who is not either a United States citizen, a Lawful Permanent Resident, or a person whose physical presence in the United States is authorized or allowed by the federal Department of Homeland Security and who, under federal immigration laws and/or regulations, is authorized to be employed in the U.S. or is otherwise authorized to provide services under the Contract.

D.9. Records. The Contractor shall maintain documentation for all charges under this Contract. The books, records, and documents of the Contractor, insofar as they relate to work performed or money received under this Contract, shall be maintained for a period of three (3) full years from the date of the final payment and shall be subject to audit at any reasonable time and upon reasonable notice by the State, the Comptroller of the Treasury, or their duly appointed representatives. The financial statements shall be prepared in accordance with generally accepted accounting principles.

D.10. Prevailing Wage Rates. All contracts for construction, erection, or demolition or to install goods or materials that involve the expenditure of any funds derived from the State require compliance with the prevailing wage laws as provided in *Tennessee Code Annotated*, Section 12-4-401, *et seq.*.

D.11. Monitoring. The Contractor's activities conducted and records maintained pursuant to this Contract shall be subject to monitoring and evaluation by the State, the Comptroller of the Treasury, or their duly appointed representatives.

D.12. Progress Reports. The Contractor shall submit brief, periodic, progress reports to the State as requested.

D.13. Strict Performance. Failure by any party to this Contract to insist in any one or more cases upon the strict performance of any of the terms, covenants, conditions, or provisions of this Contract shall not be construed as a waiver or relinquishment of any such term, covenant, condition, or provision. No term or condition of this Contract shall be held to be waived, modified, or deleted except by a written amendment signed by the parties hereto.

D.14. Independent Contractor. The parties hereto, in the performance of this Contract, shall not act as employees, partners, joint venturers, or associates of one another. It is expressly acknowledged by the parties hereto that such parties are independent contracting entities and that nothing in this Contract shall be construed to create an employer/employee relationship or to allow either to exercise control or direction over the manner or method by which the other transacts its business affairs or provides its usual services. The employees or agents of one party shall not be deemed

or construed to be the employees or agents of the other party for any purpose whatsoever.

The Contractor, being an independent contractor and not an employee of the State, agrees to carry adequate public liability and other appropriate forms of insurance, including adequate public liability and other appropriate forms of insurance on the Contractor's employees, and to pay all applicable taxes incident to this Contract.

D.15. State Liability. The State shall have no liability except as specifically provided in this Contract.

D.16. Force Majeure. The obligations of the parties to this Contract are subject to prevention by causes beyond the parties' control that could not be avoided by the exercise of due care including, but not limited to, natural disasters, riots, wars, epidemics, or any other similar cause.

D.17. State and Federal Compliance. The Contractor shall comply with all applicable State and Federal laws and regulations in the performance of this Contract.

D.18. Governing Law. This Contract shall be governed by and construed in accordance with the laws of the State of Tennessee. The Contractor agrees that it will be subject to the exclusive jurisdiction of the courts of the State of Tennessee in actions that may arise under this Contract. The Contractor acknowledges and agrees that any rights or claims against the State of Tennessee or its employees hereunder, and any remedies arising therefrom, shall be subject to and limited to those rights and remedies, if any, available under *Tennessee Code Annotated*, Sections 9-8-101 through 9-8-407.

D.19. Completeness. This Contract is complete and contains the entire understanding between the parties relating to the subject matter contained herein, including all the terms and conditions of the parties' agreement. This Contract supersedes any and all prior understandings, representations, negotiations, and agreements between the parties relating hereto, whether written or oral.

D.20. Severability. If any terms and conditions of this Contract are held to be invalid or unenforceable as a matter of law, the other terms and conditions hereof shall not be affected thereby and shall remain in full force and effect. To this end, the terms and conditions of this Contract are declared severable.

D.21. Headings. Section headings of this Contract are for reference purposes only and shall not be construed as part of this Contract.

E. SPECIAL TERMS AND CONDITIONS:

E.1. Conflicting Terms and Conditions. Should any of these special terms and conditions conflict with any other terms and conditions of this Contract, these special terms and conditions shall control.

E.2. Communications and Contacts. All instructions, notices, consents, demands, or other communications required or contemplated by this Contract shall be in writing and shall be made by certified, first class mail, return receipt requested and postage prepaid, by overnight courier service with an asset tracking system, or by EMAIL or facsimile transmission with recipient confirmation. Any such communications, regardless of method of transmission, shall be addressed to the respective party at the appropriate mailing address, facsimile number, or EMAIL address as set forth below or to that of such other party or address, as may be hereafter specified by written notice.

The State:

Deputy Commissioner
Department of Finance and Administration
Division of Health Care Finance and Administration
Bureau of TennCare
310 Great Circle Road
Nashville TN 37243

(615) 507-6443 (Phone)
(615) 253-5607 (FAX)

The Contractor:

Mr. Tim Ward
McKinsey & Company, Inc.
1200 19th Street, NW, Suite 1100
Washington, DC 20036
Tim_ward@mckinsey.com
(202) 662-3188 (Phone)

All instructions, notices, consents, demands, or other communications shall be considered effectively given upon receipt or recipient confirmation as may be required.

E.3. Subject to Funds Availability. The Contract is subject to the appropriation and availability of State and/or Federal funds. In the event that the funds are not appropriated or are otherwise unavailable, the State reserves the right to terminate the Contract upon written notice to the Contractor. Said termination shall not be deemed a breach of Contract by the State. Upon receipt of the written notice, the Contractor shall cease all work associated with the Contract. Should such an event occur, the Contractor shall be entitled to compensation for all satisfactory and authorized services completed as of the termination date. Upon such termination, the Contractor shall have no right to recover from the State any actual, general, special, incidental, consequential, or any other damages whatsoever of any description or amount.

E.4. Tennessee Consolidated Retirement System. The Contractor acknowledges and understands that, subject to statutory exceptions contained in *Tennessee Code Annotated*, Section 8-36-801, *et. seq.*, the law governing the Tennessee Consolidated Retirement System (TCRS), provides that if a retired member of TCRS, or of any superseded system administered by TCRS, or of any local retirement fund established pursuant to *Tennessee Code Annotated*, Title 8, Chapter 35, Part 3 accepts state employment, the member's retirement allowance is suspended during the period of the employment. Accordingly and notwithstanding any provision of this Contract to the contrary, the Contractor agrees that if it is later determined that the true nature of the working relationship between the Contractor and the State under this Contract is that of "employee/employer" and not that of an independent contractor, the Contractor, if a retired member of TCRS, may be required to repay to TCRS the amount of retirement benefits the Contractor received from TCRS during the period of this Contract.

E.5 Tennessee Department of Revenue Registration. The Contractor shall be registered with the Department of Revenue for the collection of Tennessee sales and use tax. This registration requirement is a material requirement of this Contract.

E.6. Incorporation of Additional Documents. Each of the following documents is included as a part of this Contract by reference. In the event of a discrepancy or ambiguity regarding the Contractor's duties, responsibilities, and performance under this Contract, these items shall govern in order of precedence below.

a. this Contract document with any attachments or exhibits (excluding the items listed at subsections b. through e., below);

b. any clarifications of or addenda to the Contractor's proposal seeking this Contract;

c. the State solicitation, as may be amended, requesting proposals in competition for this Contract;

d. any technical specifications provided to proposers during the procurement process to award this Contract;

e. the Contractor's proposal seeking this Contract.

E.7. Applicable Laws, Rules and Policies. The Contractor agrees to comply with all applicable federal and State laws, rules, regulations and executive orders.

E.8. Lobbying. The Contractor certifies, to the best of its knowledge and belief, that:

a. No federally appropriated funds have been paid or will be paid, by or on behalf of the undersigned, to any person for influencing or attempting to influence an officer or employee of an agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with the awarding of any Federal contract, the making of any Federal grant, the making of any federal loan, the entering into of any cooperative agreement, and the extension, continuation, renewal, amendment, or modification of any federal contract, grant, loan, or cooperative agreement.

b. If any funds other than federally appropriated funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with this contract, grant, loan, or cooperative agreement, the Contractor shall complete and submit Standard Form-LLL, ``Disclosure Form to Report Lobbying," in accordance with its instructions.

c. The Contractor shall require that the language of this certification be included in the award documents for all sub-awards at all tiers (including subcontracts, sub-grants, and contracts under grants, loans, and cooperative agreements) and that all subrecipients shall certify and disclose accordingly.

This certification is a material representation of fact upon which reliance was placed when this transaction was made or entered into and is a prerequisite for making or entering into this transaction imposed by section 1352, title 31, *U.S. Code*.

E.9. Debarment and Suspension. The Contractor certifies, to the best of its knowledge and belief, that it, its current and future principals, its current and future subcontractors and their principals:

a. are not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any federal or state department or agency;

b. have not within a three (3) year period preceding this Contract been convicted of, or had a civil judgment rendered against them from commission of fraud, or a criminal offence in connection with obtaining, attempting to obtain, or performing a public (federal, state, or local) transaction or grant under a public transaction; violation of federal or state antitrust statutes or commission of embezzlement, theft, forgery, bribery, falsification, or destruction of records, making false statements, or receiving stolen property;

c. are not presently indicted or otherwise criminally or civilly charged by a government entity (federal, state, or local) with commission of any of the offenses detailed in section b. of this certification; and

d. have not within a three (3) year period preceding this Contract had one or more public transactions (federal, state, or local) terminated for cause or default.

The Contractor shall provide immediate written notice to the State if at any time it learns that there was an earlier failure to disclose information or that due to changed circumstances, its principals or the principals of its subcontractors are excluded or disqualified

E.10. Contractor Commitment to Diversity. The Contractor shall comply with and make reasonable business efforts to exceed the commitment to diversity represented by the Contractor's proposal

responding to RFP-31865-00375 (Attachment 6.6) and resulting in this Contract.

The Contractor shall assist the State in monitoring the Contractor's performance of this commitment by providing, as requested, a quarterly report of participation in the performance of this Contract by small business enterprises and businesses owned by minorities, women, and persons with a disability. Such reports shall be provided to the state of Tennessee Governor's Office of Diversity Business Enterprise in form and substance as required by said office.

E.11. Federal Funding Accountability and Transparency Act (FFATA). This Contract requires the Contractor to provide supplies and/or services that are funded in whole or in part by federal funds that are subject to FFATA. The Contractor is responsible for ensuring that all applicable requirements, including but not limited to those set forth herein, of FFATA are met and that the Contractor provides information to the State as required.

The Contractor shall comply with the following:

a. Reporting of Total Compensation of the Contractor's Executives.

(1) The Contractor shall report the names and total compensation of each of its five most highly compensated executives for the Contractor's preceding completed fiscal year, if in the Contractor's preceding fiscal year it received:

i. 80 percent or more of the Contractor's annual gross revenues from Federal procurement contracts and Federal financial assistance subject to the Transparency Act, as defined at 2 CFR 170.320 (and subawards); and

ii. $25,000,000 or more in annual gross revenues from Federal procurement contracts (and subcontracts), and Federal financial assistance subject to the Transparency Act (and subawards); and

iii. The public does not have access to information about the compensation of the executives through periodic reports filed under section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a), 78o(d)) or section 6104 of the Internal Revenue Code of 1986. (To determine if the public has access to the compensation information, see the U.S. Security and Exchange Commission total compensation filings at http://www.sec.gov/answers/execomp.htm.).

Executive means officers, managing partners, or any other employees in management positions.

(2) Total compensation means the cash and noncash dollar value earned by the executive during the Contractor's preceding fiscal year and includes the following (for more information see 17 CFR 229.402(c)(2)):

i. Salary and bonus.

ii. Awards of stock, stock options, and stock appreciation rights. Use the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with the Statement of Financial Accounting Standards No. 123 (Revised 2004) (FAS 123R), Shared Based Payments.

iii. Earnings for services under non-equity incentive plans. This does not include group life, health, hospitalization or medical reimbursement plans that do not discriminate in favor of executives, and are available generally to all salaried employees.

iv. Change in pension value. This is the change in present value of defined benefit and actuarial pension plans.

v. Above-market earnings on deferred compensation which is not tax qualified.

vi. Other compensation, if the aggregate value of all such other compensation (e.g. severance, termination payments, value of life insurance paid on behalf of the employee, perquisites or property) for the executive exceeds $10,000.

b. The Contractor must report executive total compensation described above to the State by the end of the month during which this Contract is awarded.

c. If this Contract is amended to extend its term, the Contractor must submit an executive total compensation report to the State by the end of the month in which the amendment to this Contract becomes effective.

d. The Contractor will obtain a Data Universal Numbering System (DUNS) number and maintain its DUNS number for the term of this Contract. More information about obtaining a DUNS Number can be found at: http://fedgov.dnb.com/webform/

The Contractor's failure to comply with the above requirements is a material breach of this Contract for which the State may terminate this Contract for cause. The State will not be obligated to pay any outstanding invoice received from the Contractor unless and until the Contractor is in full compliance with the above requirements.

E.12. Confidentiality of Records. Strict standards of confidentiality of records and information shall be maintained in accordance with applicable state and federal law. All material and information, regardless of form, medium or method of communication, provided to the Contractor by the State or acquired by the Contractor on behalf of the State shall be regarded as confidential information in accordance with the provisions of applicable state and federal law, state and federal rules and regulations, departmental policy, and ethical standards. Such confidential information shall not be disclosed, and all necessary steps shall be taken by the Contractor to safeguard the confidentiality of such material or information in conformance with applicable state and federal law, state and federal rules and regulations, departmental policy, and ethical standards.

The Contractor's obligations under this section do not apply to information in the public domain; entering the public domain but not from a breach by the Contractor of this Contract; previously possessed by the Contractor without written obligations to the State to protect it; acquired by the Contractor without written restrictions against disclosure from a third party which, to the Contractor's knowledge, is free to disclose the information; independently developed by the Contractor without the use of the State's information; or, disclosed by the State to others without restrictions against disclosure. Nothing in this paragraph shall permit Contractor to disclose any information that is confidential under federal or state law or regulations, regardless of whether it has been disclosed or made available to the Contractor due to intentional or negligent actions or inactions of agents of the State or third parties.

It is expressly understood and agreed the obligations set forth in this section shall survive the termination of this Contract.

E.13. HIPAA Compliance. The State and Contractor shall comply with obligations under the Health Insurance Portability and Accountability Act and its accompanying regulations, and as amended. HIPAA and its accompanying regulations are hereinafter referred to simply as "HIPAA."

Contractor warrants to the State that it is familiar with the requirements of HIPAA and its accompanying regulations, and shall comply with all applicable HIPAA requirements in the course of this Contract. These applicable requirements may include:

1. Compliance with the Privacy Rule, Security Rule, Notification Rule;
2. Creation of and adherence to sufficient Privacy and Security Safeguards and Policies;
3. Timely Reporting of Violations in the Access, Use and Disclosure of PHI; and
4. Timely Reporting of Privacy and/or Security Incidents.

Contractor warrants that it will cooperate with the State, including cooperation and coordination with State privacy officials and other compliance officers required by HIPAA, in the course of performance of the Contract so that both parties will be in compliance with HIPAA.

The State and the Contractor shall execute documents reasonably necessary to keep the State and Contractor in compliance with HIPAA and other federal regulations. Such documents may include a Business Associate Agreement, a Trading Partner Agreement or a Data Use Agreement. In the event that the State and Contractor execute such a document, the terms of that document, to the extent that they are inconsistent with the terms of this document, shall control. Failure to comply with this language shall result in Liquidated Damages as specified in Attachment B.

E.14. Business Associate. Contractor hereby acknowledges its designation as a business associate under HIPAA and agrees to comply with all applicable HIPAA regulations. In accordance with the HIPAA regulations, the Contractor shall, at a minimum:

a. Comply with requirements of the HIPAA, including, but not limited to, the transactions and code sets, privacy, security, and identifier regulations. Compliance includes meeting all required transaction formats and code sets with the specified data sharing agreements required under the regulations;

b. Transmit/receive from/to its providers, subcontractors, clearinghouses and HCFA all transactions and code sets required by HIPAA in the appropriate standard formats, utilizing appropriate and adequate safeguards, as specified under the law and as directed by HCFA so long as HCFA direction does not conflict with the law;

c. Agree that if it is not in compliance with all applicable standards defined within the transactions and code sets, privacy, security and all subsequent HIPAA standards, that it will be in breach of this Contract and will then take all reasonable steps to cure the breach or end the violation as applicable. Since inability to meet the transactions and code sets requirements, as well as the privacy and security requirements can bring basic business practices between HCFA and the Contractor and between the Contractor and its providers and/or subcontractors to a halt, if for any reason the Contractor cannot meet the requirements of this Section, HCFA may terminate this Contract.

d. Ensure that Protected Health Information (PHI) exchanged between the Contractor and HCFA is used only for the purposes of treatment, payment, or health care operations and health oversight and its related functions. All PHI not transmitted for these purposes or for purposes allowed under the federal HIPAA regulations shall be de-identified to secure and protect the individual enrollee's PHI;

e. Report to HCFA's Privacy Office immediately upon becoming aware of any use or disclosure of PHI in violation of this Contract by the Contractor, its officers, directors, employees, subcontractors or agents or by a third party to which the Contractor disclosed PHI;

f. Specify in its agreements with any agent or subcontractor that will have access to PHI that such agent or subcontractor agrees to be bound by the same restrictions, terms and conditions that apply to the Contractor pursuant to this Section;

g. Specify in its agreements with any agent or subcontractor that will have access to PHI that such agent or subcontractor agrees to be bound by the same restrictions, terms and conditions that apply to the Contractor pursuant to this Section;

h. Make its internal policies and procedures, records and other documentation related to the use and disclosure of PHI available to the U.S. Secretary of Health and Human Services for the purposes of determining compliance with the HIPAA regulations upon request;

i. Create and adopt policies and procedures to periodically audit adherence to all HIPAA regulations;

j. Agree to ensure that any agent, including a subcontractor, to whom it provides PHI that was created, received, maintained, or transmitted by or on behalf of HCFA agrees to use reasonable and appropriate safeguards to protect the PHI.

k. Agree to ensure that any agent, including a subcontractor, to whom it provides PHI that was created, received, maintained, or transmitted by or on behalf of HCFA agrees to use reasonable and appropriate safeguards to protect the PHI.

l. If feasible, return or destroy all PHI, in whatever form or medium (including any electronic medium) and all copies of an any data or compilations derived from and allowing identification of any individual who is a subject of that PHI upon termination, cancellation, expiration or other conclusion of the Agreement, and in accordance with this Section of this Contract. The Contractor shall complete such return or destruction as promptly as possible, but not later than thirty (30) days after the effective date of the termination, cancellation, expiration or other conclusion of the Agreement. The Contractor shall identify any PHI that cannot feasibly be returned or destroyed. Within such thirty (30) days after the effective date of the termination, cancellation, expiration or other conclusion of the Agreement, the Contractor shall: (1) certify on oath in writing that such return or destruction has been completed; (2) identify any PHI which cannot feasibly be returned or destroyed; and (3) certify that it will only use or disclose such PHI for those purposes that make its return or destruction infeasible;

m. Implement all appropriate administrative, physical and technical safeguards to prevent the use or disclosure of PHI other than pursuant to the terms and conditions of this Contract and, including, but not limited to, privacy, security and confidentiality requirements in 45 CFR Parts 160 and 164;

n. Set up appropriate mechanisms to limit use or disclosure of PHI to the minimum necessary to accomplish the intended purpose of the use or disclosure;

o. Create and implement policies and procedures to address present and future HIPAA regulatory requirements as needed, including, but not limited to: use and disclosure of data; de-identification of data; minimum necessary access; accounting of disclosures; enrollee's right to amend, access, request restrictions; notice of privacy practices and right to file a complaint;

p. Provide an appropriate level of training to its staff and employees regarding HIPAA related policies, procedures, enrollee rights and penalties prior to the HIPAA implementation deadlines and at appropriate intervals thereafter;

q. Track training of Contractor staff and employees and maintain signed acknowledgements by staff and employees of the Contractor's HIPAA policies;

r. Be allowed to use and receive information from HCFA where necessary for the management and administration of this Contract and to carry out business operations where permitted under the regulations;

s. Be permitted to use and disclose PHI for the Contractor's own legal responsibilities;

t. Adopt the appropriate procedures and access safeguards to restrict and regulate access to and use by Contractor employees and other persons performing work for the Contractor to have only minimum necessary access to PHI and personally identifiable data within their organization;

u. Continue to protect and secure PHI and personally identifiable information relating to enrollees who are deceased; and

v. Track all security incidents as defined by HIPAA and, as required by the HIPAA Reports. The Contractor shall periodically report in summary fashion such security incidents.

E.15. Information Holders. HCFA and the Contractor are "information holders" as defined in TCA 47-18-2107. In the event of a breach of the security of Contractor's information system, as defined by TCA 47-18-2107, the Contractor shall indemnify and hold HCFA harmless for expenses and/or damages related to the breach. Such obligations shall include, but not be limited to, mailing notifications to affected enrollees. Substitute notice to written notice, as defined by TCA 47-18-2107(e)(2)and(3), shall only be permitted with HCFA's express written approval. The Contractor shall notify HCFA's Privacy Office immediately upon becoming aware of any security incident that would constitute a "breach of the security of the system" as defined in TCA 47-18-2107.

E.16. Notification of Breach and Notification of Suspected Breach. - The Contractor shall notify HCFA's Privacy Office immediately upon becoming aware of any incident, either confirmed or suspected, that represents or may represent unauthorized access, use or disclosure of encrypted or unencrypted computerized data that materially compromises the security, confidentiality, or integrity of enrollee PHI maintained or held by the Contractor, including any unauthorized acquisition of enrollee PHI by an employee or otherwise authorized user of the Contractor 's system. This includes, but is not limited to, loss or suspected loss of remote computing or telework devices such as laptops, PDAs, Blackberrys or other Smartphones, USB drives, thumb drives, flash drives, CDs, and/or disks.

E.17. All information or data that is necessary for one or more deliverable set forth in this Contract shall be transmitted between HCFA and Contractor via the data transfer method specified in advance by HCFA. This may include, but shall not be limited to, transfer through HCFA's SFTP system. Failure by the Contractor to transmit information or data that is necessary for a deliverables in the manner specified by HCFA, may, at the option of HCFA, result in liquidated damages as set forth on Contract Attachment B hereto.

E.18. Offer of Gratuities. By signing this contract, the Contractor signifies that no member of or a delegate of Congress, nor any elected or appointed official or employee of the State of Tennessee, the federal General Accounting Office, federal Department of Health and Human Services, the Center for Medicare and Medicaid Services, or any other state or federal agency has or will benefit financially or materially from this Contract. This Contract may be terminated by HCFA as provided in Section D.4, if it is determined that gratuities of any kind were offered to or received by any of the aforementioned officials or employees from the Contractor, its agent, or employees.

E.19. Ownership. The Contractor may furnish the State with reports, analyses or other such materials (the "Materials"). The State shall own all right, title, and interest, including, without limitation, all intellectual property rights, in and to the Materials, except that the Contractor shall retains all right, title and interest, including, without limitation, intellectual property rights, in and to the Contractor Tools (as defined below). To the extent that the Materials include any Contractor Tools, the Contractor hereby grants to the State a non-exclusive, non-transferable, non-sublicenseable, worldwide, royalty-free, perpetual license to use and copy the Contractor Tools solely for internal purposes and solely as part of the Materials. The Contractor Tools consist of any and all concepts, analyses, know-how, tools, frameworks, models, and industry information and perspectives used by Contractor in connection with services hereunder.

IN WITNESS WHEREOF,

MCKINSEY & COMPANY, INC. WASHINGTON DC:

	May 28, 2014
CONTRACTOR SIGNATURE	**DATE**

Andrew Sellgren, Principal

PRINTED NAME AND TITLE OF CONTRACTOR SIGNATORY (above)

DEPARTMENT OF FINANCE AND ADMINISTRATION
DIVISION OF HEALTH CARE FINANCE AND ADMINISTRATION:

Larry B. Martin/CD

LARRY B. MARTIN, COMMISSIONER **DATE**

ATTACHMENT A

ATTESTATION RE PERSONNEL USED IN CONTRACT PERFORMANCE

SUBJECT CONTRACT NUMBER:	41959
CONTRACTOR LEGAL ENTITY NAME:	McKinsey & Company, Inc. Washington D.C.
FEDERAL EMPLOYER IDENTIFICATION NUMBER: (or Social Security Number)	56-2405213

The Contractor, identified above, does hereby attest, certify, warrant, and assure that the Contractor shall not knowingly utilize the services of an illegal immigrant in the performance of this Contract and shall not knowingly utilize the services of any subcontractor who will utilize the services of an illegal immigrant in the performance of this Contract.

A. W. Sellgren — May 28, 2014

CONTRACTOR SIGNATURE

NOTICE: This attestation MUST be signed by an individual empowered to contractually bind the Contractor. If said individual is not the chief executive or president, this document shall attach evidence showing the individual's authority to contractually bind the Contractor.

Andrew Sellgren, Principal

PRINTED NAME AND TITLE OF SIGNATORY

May 28, 2014

DATE OF ATTESTATION

ATTACHMENT B
LIQUIDATED DAMAGES

HCFA may elect to apply the following liquidated damages remedies in the event the Contractor fails to perform its obligations under this Contract in a proper and/or timely manner, provided however, if it is finally determined that the Contractor would have been able to meet the Contract requirements but for HCFA's failure to perform as provided in this Contract, the Contractor shall not be liable for damages resulting directly therefrom. Upon determination by HCFA that the Contractor has failed to meet any of the requirements of this Contract in a proper and/or timely manner, HCFA will notify the Contractor in writing of the deficiency and of the potential liquidated damages to be assessed. Liquidated damages shall be assessed for any part of each week during which the deficiency occurs or remains uncorrected, unless the amount of liquidated damages is otherwise designated as "per occurrence" or "per incident" in the following table. Should the deficiency remain uncorrected for more than thirty (30) days from the date of the original notification of the deficiency by HCFA, HCFA may impose an additional liquidated damage of Five Hundred Dollars ($500) per calendar day from the date of the original notification to Contractor until said deficiency is resolved.

If liquidated damages are assessed, HCFA shall reduce payment of the Contractor's next invoice by the amount of damages. In the event that damages due exceed the amount HCFA is to pay to Contractor in a given payment cycle, HCFA shall invoice Contractor for the amount exceeding the amount payable to Contractor, and such excess amount shall be paid by Contractor within thirty (30) calendar days of the invoice date. In situations where the Contractor wishes to dispute any liquidated damages assessed by HCFA, the Contractor must submit a written notice of dispute, including the reasons for disputing the liquidated damages, within thirty (30) days of receipt of the notice from HCFA containing the total amount of damages assessed against the Contractor. If the Contractor fails to timely dispute a liquidated damages assessment as set forth herein, such failure shall constitute a bar to the Contractor seeking to have the assessment amount overturned in a forum or court of competent jurisdiction.

A general liquidated damage of $500.00 per day/occurrence, as applicable, may be assessed at the sole discretion of the State for any violation of a contract provision that is not specifically listed in the following table.

Contract Issue	Damage
Failure to comply with HIPAA and Rules resulting in an unauthorized disclosure of PHI as described in Sections E.13 and E.14.	Up to $50,000 per incident.
Failure to have adequate Privacy and Security Safeguards and Policies as described in Sections E.13 and E.14.	Up to $25,000
Failure to timely report violations in use and Disclosure of PHI as described in Sections E.16	$500.00 per calendar day until cured.
Failure to timely report Privacy/Security incidents as described in Sections E.13 and E.14.	$500.00 per calendar day until cured.
Failure to ensure that all State data containing protected health information (PHI), as defined in HIPAA, is secured through commercially reasonable methodology in compliance with HITECH, such that it is rendered unusable, unreadable and indecipherable to unauthorized individuals through the use of a technology or methodology specified	The damage that may be assessed shall be Five Hundred Dollars ($500) per recipient per occurrence, AND If the State deems credit monitoring and/or identity theft safeguards are needed to protect those State recipients whose PHI was placed at risk by CONTRACTOR's failure to comply with the terms of this Agreement, the CONTRACTOR shall be liable for all costs associated with the provision of such safeguard services.

by the Secretary in the guidance issued under section 13402(h)(2) of Public Law 111-5 on the HHS Web site which compromises the security or privacy of TennCare enrollee protected health information (See ancillary Business Associate Agreement executed between the parties)	
Failure to seek express written approval from the State, including the execution of the appropriate agreements to effectuate transfer and exchange of State recipient PHI or State confidential information including, but not limited to, a data use agreement, trading partner agreement, business associate agreement or qualified protective order prior to the use or disclosure of PHI to a third party for any purpose other than the purpose of this Agreement. (See ancillary Business Associate Agreement executed between the parties)	The damage that may be assessed shall be Five Hundred Dollars ($500) per recipient per occurrence.
Failure by the Contractor to prevent the use or disclosure of State recipient data or State confidential in any form via any medium with any third party beyond the boundaries and jurisdiction of the United States (See ancillary Business Associate Agreement executed between the parties)	The damage that may be assessed shall be One Thousand Dollars ($1,000) per recipient per occurrence.

ATTACHMENT C
EPISODE INVENTORY

Category	Ref	Episode	BPCI	HCI3 / Prometheus	3M PFE	McKinsey Prototypes
Acute Inpatient Medical	1	Abdominal Pain			x	
	2	Acute and Subacute Endocarditis			x	
	3	Acute Myocardial Infarction	x	x	x	
	4	Acute Resp Failure with Vent Support 96+ Hrs			x	
	5	Aspiration Pneumonitis			x	
	6	Aspiration Pneumonitis with Ventilator Support 96+ Hours			x	
	7	Atherosclerosis and Angina with Cardiac Cath	x		x	
	8	Atrial Fibrillation and Flutter			x	
	9	Blood Loss Anemia			x	
	10	Cardiac arrhythmia	x			
	11	Chest Pain	x		x	
	12	*Chest Pain with Cardiac Cath*			x	
	13	Cholecystitis			x	
	14	Congestive heart failure	x	x	x	x
	15	Coronary Atherosclerosis and Angina			x	
	16	Diverticula with Hemorrhage			x	
	17	DVT and Lower Leg Extremities Embolisms			x	
	18	Encephalopathy			x	
	19	Esophagus Varices and Hemorrhages			x	
	20	Gastrointestinal Obstructions			x	
	21	Hemorrhage following Procedure			x	
	22	Lower Gastrointestinal Hemorrhage			x	
	23	Malfunction, Reaction , Complication of Cardiac/Vasc Device or Procedure			x	
	24	Malfunction, Reaction, Complication of Genitourinary Device or Procedures			x	
	25	Neonatal			x	x

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	26	Pancreatitis			x	
	27	Perinatal / Vaginal Delivery		x	x	x
	28	*Cesarean Delivery*			x	
	29	*Vaginal Delivery with Complicating Procedures exc Sterilization &/or D&C*			x	
	30	*Vaginal Delivery with Sterilization &/or D&C*			x	
	31	*Peritonitis and Gastrointestinal Infections*			x	
	32	Pneumonia		x		
	33	Pneumothorax			x	
	34	Post Operative Infections			x	
	35	Pulmonary Embolism			x	
	36	Pyelonephritis			x	
	37	Red blood cell disorders	x			
Acute Inpatient Medical	38	Respiratory Failure without Ventilator Support greater than 96 Hours except Pneumonia			x	
Medical (cont.)	39	Respiratory Infections with Ventilator Support 96+ Hours			x	
	40	Sepsis	x		x	
	41	Simple Pneumonia (and respiratory infections)	x		x	
	42	*Simple Pneumonia with Ventilator Support 96+ Hours*			x	
	43	Stroke	x	x		
	44	*Cerebral Infarction*			x	
	45	*Intracranial Hemorrhage except Subdural*			x	
	46	*Subdural Hemorrhage*			x	
	47	Transient Ischemic Attack	x		x	
	48	Upper Gastrointestinal hemorrhage			x	
	49	Urinary Tract Infection	x		x	
	50	Volume Depletion			x	
Acute Outpatient Medical	51	Abortion w/o D&C, Aspiration Curettage or Hysterotomy			x	
	52	Bronchiolitis & RSV Pneumonia			x	
	53	Bronchitis			x	

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	54	Diverticulosis without Hemorrhage			x	
	55	Epistaxis			x	
	56	False Labor			x	
	57	Female Reproductive System Infections			x	
	58	Intestinal Infection Clostridium Difficile			x	
	59	Major Hematologic Disorders			x	
	60	Major Respiratory Infections			x	
	61	Menstrual & Other Female Reproductive System Disorders			x	
	62	Other Antepartum Diagnoses			x	
	63	Postpartum & Post Abortion Diagnoses without Procedures			x	
	64	Syncope and collapse	x			
	65	Threatened Abortion			x	
	66	Upper Respiratory Infection (not Major)				x
	67	Urinary Stones			x	
Acute Procedural	68	Abdominal Aorta Procedures			x	
	69	Amputation (*BPCI - for circulatory or endocrine system disorders)	x			
	70	*Above the Knee Amputation*			x	
	71	*Below the Knee Amputation*			x	
	72	*Toe Amputations*			x	
	73	Anal Procedures			x	
	74	Ankle Procedures			x	
	75	Aorta-Iliac-Femoral Bypass			x	
	76	Back and neck except spinal fusion	x			
	77	Bariatric Surgery		x		
	78	Bowel Resection Procedures for Non Malignancy			x	
	79	Coronary Artery Bypass Graft (CABG)	x	x	x	x
	80	Cardiac Defibrillation Implants for Heart Failure	x		x	
	81	Cardiac valve	x		x	
	82	Cholecystectomy		x	x	x
	83	Colon Resection		x		

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	84	Colonoscopy		x		x
	85	Connective Tissue Disorders			x	
	86	Craniotomy Non Ruptured Cerebral Aneurysm			x	
	87	Craniotomy with Subdural Hemorrhage			x	
	88	D&C, Aspiration Curettage or Hysterotomy for Obstetric Diagnosis			x	
	89	Dialysis shunt and Related Procedures			x	
	90	Disc Excision and Decompression for Pathological Fracture			x	
	91	Dorsal & Lumbar Fusion Procedure Exec for Curvature of Back			x	
	92	Dorsal & Lumbar Fusion Procedure for Curvature of Back			x	
	93	Double joint replacement of the lower extremity	x			
	94	Ectopic Pregnancy			x	
	95	Esophageal Procedure for Sphincter and Reflux			x	
	96	Fractures femur and hip/pelvis	x			
	97	Gastrointestinal hemorrhage	x			
	98	Gastrointestinal obstruction	x			
	99	Head and Neck Endarectomy			x	
	100	Heart Transplant Procedures			x	
	101	Hip and femur procedures except major joint	x			
Acute Procedural (cont.)	102	Hysterectomy		x		
	103	Infection due to Central Venous Catheter			x	
	104	Kidney Procedures for Stones			x	
	105	Kidney Transplant			x	
	106	Knee Arthroscopy		x		
	107	Laparoscopic Abdominal Wall Hernia Repair			x	
	108	Laparoscopic Hysterectomy Procedures for Non-Malignant			x	
	109	Laparoscopic Large Bowel Procedures for Diverticula and Vascular Insufficiency			x	
	110	Laparoscopic Large Bowel Procedures for Intestinal Obstructions and Adhesions			x	
	111	Laparoscopic Procedure for Inguinal and Femoral Hernia Procedures			x	

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	112	Laparoscopic Procedures for Appendix			x	
	113	Laparoscopic Procedures for Obesity			x	
	114	Laparoscopic Procedures for Peritoneal Adhesiolysis			x	
	115	Laparoscopic Procedures for Uterine & Adnexa Non-Malignancy			x	
	116	Liver Transplant Procedures			x	
	117	Lower extremity and humerus procedure except hip, foot, femur	x			
	118	Lower Limb Endarectomy			x	
	119	Lumbar Procedures for Disc Excisions and Related Procedures			x	
	120	Major bowel	x			
	121	Major cardiovascular procedure	x			
	122	Major Chest Procedure for Post Inflammatory Pulmonary Fibrosis			x	
	123	Major Open Large Bowel Procedures for Intestinal Obstructions and Adhesions			x	
	124	Medical non-infectious orthopedic	x			
	125	Medical peripheral vascular disorders	x			
	126	Non-Coronary Angioplasty			x	
	127	Open Abdominal Wall Repair Procedure			x	
	128	Open and Closed Reduction with Internal Fixation Femur			x	
Acute Procedural (cont.)	129	Open and Closed Reduction with Internal Fixation Humerus			x	
	130	Open and Closed Reductions of the Tibia and Fibula with internal fixation			x	
	131	Open Hysterectomy Procedures for Non-Malignant			x	
	132	Open Procedures for Appendix			x	
	133	Open Procedures for Inguinal and Femoral Hernia Repair			x	
	134	Open Procedures for Peritoneal Adhesiolysis			x	
	135	Open reduction with Internal Fixation of Radius and Ulna			x	
	136	Osteomyelitis and Bone Infections			x	
	137	Other O.R. Procedure for Obstetric Diagnoses except Delivery Diagnoses			x	
	138	Other vascular surgery	x			

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139	Pacemaker Related				
140	*Automatic implantable cardiac defibrillator generator or lead*	x			
141	*Pacemaker*	x			
142	*Pacemaker Device replacement or revision*	x			
143	*Permanent Cardiac Pacemaker Implant with AMI, Heart Failure or Shock*			x	
144	*Permanent Cardiac Pacemaker Implant without AMI, Heart Failure or Shock*			x	
145	Parathyroidectomy			x	
146	PCI	x	x	x	x
147	Percutaneous Carotid Artery Procedures			x	
148	Percutaneous Vertebral Augmentation			x	
149	Retrocele and Cystocele Repair			x	
150	Spinal fusion				
151	*Cervical Spinal Fusion (possible split if for Stenosis or Spondylosis and Disc Disease)*	x		x	
152	*Combined anterior posterior spinal fusion*	x			
153	*Complex non-Cervical spinal fusion*	x			
154	Non Cervical	x			
155	Total Joint Replacement/Revision				
156	*Hip Replacement Procedure*		x	x	x
157	*Hip /Knee prosthesis Removal*			x	
158	*Hip Prosthesis Revision*			x	
159	*Knee Replacement Procedure*		x	x	x
160	*Major joint replacement of the lower extremity*	x			
161	*Major joint upper extremity*	x			
162	*Other knee procedures*	x			
163	*Revision of Hip or Knee Replacement Procedure*	x		x	
164	*Removal of orthopedic devices*	x			
165	*Total and Partial Shoulder Replacement*			x	

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	166	Thyroidectomy			x	
	167	Tonsillectomy				x
	168	Total Splenectomy			x	
	169	Transurethral Prostatectomy For Benign Prostate Hypertrophy			x	
	170	Ulcer Procedures			x	
	171	Uterine and Adnexa Procedures for Leiomyoma			x	
	172	Vascular Shunt Bypass			x	
	173	Ventricular Shunt for Normal pressure or Communicating Hydrocephalus			x	
Behavioral Health	174	ADHD				x
	175	ADHD + ODD Co-morbidity				x
	176	Alcohol & Drug Dependence w Rehab/Detox Therapy			x	
	177	Alcohol Abuse or Dependence without Rehabilitation Therapy			x	
	178	Bipolar Disorders			x	
	179	Cocaine Abuse & Dependence			x	
	180	Depression except Major Depressive Disorder			x	
	181	Major Depressive Disorders & Other/Unspecified Psychoses			x	
	182	ODD				x
	183	Opioid Abuse & Dependence			x	
	184	Schizophrenia			x	
Oncology	185	Autologous Bone Marrow Transplant Procedures			x	
	186	Chemotherapy			x	
	187	Craniotomy with Malignancy			x	
	188	Cystectomy Procedures for Malignancy			x	
	189	Esophageal Malignancy			x	
	190	Female Reproductive System Malignancy			x	
	191	Hepatic Malignancy			x	
	192	Hepatic Procedures for Malignancy			x	
	193	Kidney and Ureter Procedures for Malignancy			x	
	194	Laparoscopic Procedures for Large Bowel Malignancy			x	

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	195	Laparoscopic Procedures for Uterine & Adnexa Malignancy			x	
	196	Large Intestine Malignancy			x	
	197	Lymphoma and Non Acute Leukemia			x	
	198	Major Chest Procedures for Malignancy Procedure			x	
	199	Major Chest Procedures for Secondary Malignancy			x	
	200	Major Gastric or Esophageal Procedures for Malignancy			x	
	201	Major Open Large and Small Bowels Procedures for Malignancy			x	
	202	Major Procedures for Female Malignancy			x	
	203	Mastectomy for Malignancy			x	
Oncology (cont.)	204	Medical Prostate Malignancy			x	
	205	Multiple Myeloma			x	
	206	Neoplasm of Uncertain Behavior			x	
	207	Open Hysterectomy Procedures for Malignancy			x	
	208	Open Uterine & Adnexa Procedures for Malignancy			x	
	209	Pancreatic Malignancy			x	
	210	Pancreatic Procedures for Malignancy			x	
	211	Prostatectomy Procedures for Prostate Malignancy			x	
	212	Resections for Rectal Malignancy			x	
	213	Respiratory Malignancy			x	
	214	Secondary Liver Malignancy			x	
	215	Secondary Malignancy for Small Bowel, Large Bowel, or Peritoneum			x	
	216	Stomach Malignancy			x	
	217	Transurethral Procedures for Bladder Malignancy			x	
Chronic Episodes	218	Alcohol Liver Disease			x	
	219	Asthma		x	x	x
	220	Coronary Artery Disease		x		
	221	Chronic Obstructive Pulmonary Disease	x	x	x	x
	222	Cystic Fibrosis Pulmonary Disease			x	
	223	Diabetes	x	x	x	
	224	Epilepsy			x	

OFFICE ★ CENTRAL ★ PROCUREMENT

	225	Esophagitis	x		x	
	226	GERD		x		
	227	Hypertension		x		
	228	Interstitial Lung Disease			x	
	229	Nutritional and metabolic disorders	x			
	230	Peptic Disease and Gastritis			x	
	231	Renal Failure	x		x	
	232	Sickle Cell			x	
	233	Vascular Insufficiency			x	
Supportive Care	234	Cellulitis	x		x	
	235	Dementia			x	
	236	Paralysis Agitans			x	
	237	Skin Graft and/or Debridement			x	
	238	Skin Ulcers			x	
	239	Spinal Stenosis and Low Back Pain			x	

Note on sources:

BPCI: CMS's Bundled Payments for Care Improvement Initiative

HCI3: Health Care Incentives Improvement Institute, Inc.

3M PFE: 3M's Patient-Focused Episode Grouper