



STATE OF CALIFORNIA



EDMUND G. BROWN JR.
GOVERNOR

CALIFORNIA MEDICAL ASSISTANCE COMMISSION
770 L STREET, SUITE 1000
SACRAMENTO, CA 95841
PHONE: (916) 324-2726

DEPARTMENT OF HEALTH CARE SERVICES
1501 CAPITOL AVENUE, MS 0000
P.O. BOX 997413
SACRAMENTO, CA 95899-7413
PHONE (916) 440-7400

February 4, 2011

The Honorable Mark Leno
Joint Legislative Budget Committee
1020 N Street, Room 553
Sacramento, CA 95814

Dear Senator Leno:

STATUS REPORT ON IMPLEMENTATION OF NON-CONTRACT HOSPITAL PAYMENT REDUCTIONS

The Budget Health Trailer Bill, Assembly Bill (AB) 1183 (Chapter 758, Statutes of 2008), amended Welfare and Institutions Code, Section 14166.245 and directed the Department of Health Care Services (DHCS) to reduce the Medi-Cal interim payment for fee-for-service acute care hospital inpatient services provided by non-exempt hospitals that do not participate in the Selective Provider Contracting Program (SPCP), effective October 1, 2008. Specifically, AB 1183 limited the amounts paid to non-exempt, non-contract hospitals for acute care hospital inpatient services to the lesser of: (1) the interim per diem rate reduced by ten percent, or (2) the applicable regional average SPCP contract rate for tertiary and non-tertiary hospitals, reduced by five percent.

AB 1183 required DHCS and the California Medical Assistance Commission to submit a written report to the policy and fiscal committees of the Legislature in January 2010 and January 2011, identifying the impact of AB 1183, including changes in the number of SPCP contract and non-SPCP contract hospitals, patient access, and cost savings to the State.

Medi-Cal provider representatives filed a lawsuit against DHCS challenging the above non-exempt, non-contract hospital inpatient rate reductions (California Pharmacists Association, et al., v. David Maxwell-Jolly [Case Number 09-55365]). On April 6, 2009, the United States Court of Appeals for the Ninth Circuit issued an injunction to stay the regional average SPCP contract rate reduction pending appeal. DHCS then filed a petition for certiorari concerning the Court of Appeal's decision with the United States

The Honorable Mark Leno

Page 2

February 4, 2011

Supreme Court. The United States Supreme Court granted certiorari on January 18, 2011, to review this appeal and two other appeals related to the reduction of payments to Medi-Cal providers. Arguments will likely be heard by the United States Supreme Court in the Fall of 2011. As a result, the AB 1183 non-exempt, non-contract hospital inpatient rate reductions to the applicable regional average SPCP contract rate minus five percent were only in effect for six months, for services rendered from October 1, 2008 through April 5, 2009. We note that non-contract hospitals continue to be subject to the interim per diem rate reduction of ten percent, which went into effect prior to AB 1183.

Since the court injunction has been in effect, AB 1183 has not been implemented and its impact cannot be measured. Thus, a written report as required cannot be submitted.

If you have any questions about this letter, please contact Mr. Bob Sands, Chief, Safety Net Financing Division, at (916) 552-9154.

Sincerely,

Original signed by:

Toby Douglas
Director
Department of Health Care Services

Original signed by:

Keith Berger
Executive Director
California Medical Assistance Commission

cc: The Honorable Ed Hernandez, Chair
Senate Committee on Health
State Capitol, Room 4085
Sacramento, CA 95814

The Honorable Felipe Fuentes, Chair
Assembly Appropriations Committee
State Capitol, Room 2114
Sacramento, CA 95814

The Honorable Christine Kehoe, Chair
Senate Appropriations Committee
State Capitol, Room 5050
Sacramento, CA 95814

The Honorable William Monning, Chair
Assembly Committee on Health
State Capitol, Room 6005
Sacramento, CA 95814