



STATE OF CALIFORNIA



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April 7, 2010

The Honorable Denise Ducheny, Chair
Joint Legislative Budget Committee
1020 N Street, Room 553
Sacramento, CA 95814

Dear Senator Ducheny:

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.

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. 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. However, non-contract hospitals continue to be subject to the interim per diem rate reduction of ten percent, that went into effect prior to AB 1183.

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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. During the limited time the rate reduction to non-contract hospitals was in effect:

- Five non-contract hospitals elected to participate and become an SPCP contract hospital. At the same time, there were no hospital facility closures nor Medi-Cal program disenrollments.
- The State saved an estimated \$32 million (General Fund).
- Medi-Cal beneficiaries continue to have access to fee-for-service acute care hospital inpatient services and there are no indications access to these services was negatively impacted while the AB 1183 provisions were in full effect between the service period October 1, 2008 through April 5, 2009.

DHCS will provide you with another update on the above referenced lawsuit in January 2011. 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:

David Maxwell-Jolly
Director
Department of Health Care Services

Original signed by:

Keith Berger
Executive Director
California Medical Assistance Commission

cc: The Honorable Elaine Alquist, Chair
Senate Committee on Health
State Capitol, Room 5080
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
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The Honorable William Monning, Chair
Assembly Committee on Health
State Capitol, Room 6005
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