



JENNIFER KENT  
DIRECTOR

State of California—Health and Human Services Agency  
Department of Health Care Services



EDMUND G. BROWN JR.  
GOVERNOR

SEP 28 2015

Ms. Henrietta Sam-Louie  
Acting Associate Regional Administrator  
Division of Medicaid and Children's Health Operations  
Centers for Medicare and Medicaid Services  
90 Seventh Street, Suite 5-300 (5W)  
San Francisco, CA 94103-6707

STATE PLAN AMENDMENT (SPA) 15-033

Dear Ms. Sam-Louie:

The Department of Health Care Services (DHCS) is submitting State Plan Amendment (SPA) 15-033 for your review and approval. This SPA proposes an additional reporting method for determining the hospital's Cost-to-Charge Ratio (CCR) in the All Patient Refined Diagnosis Related Group (APR-DRG) reimbursement methodology. It would allow hospitals to submit projected costs on a pro-forma document that has been approved by the Centers for Medicare & Medicaid Services (CMS) rather than what is reported on the hospital's most currently accepted CMS 2552-10 cost report. This would enable DHCS to use the accepted pro-forma document to determine the CCR used in the calculation of APR-DRG outlier payments. All approved projected costs and updates to the accepted CCRs will be subject to review in accordance with Welfare and Institutions Code section 14170.

SPA 15-033 will be effective September 7, 2015.

If you have any questions about the enclosed SPA, please contact John Mendoza, Chief, Safety Net Financing Division, at (916) 552-9130.

ORIGINAL SIGNED

Mari Cantwell  
Chief Deputy Director, Health Care Programs  
State Medicaid Director

Enclosures

**TRANSMITTAL AND NOTICE OF APPROVAL OF  
STATE PLAN MATERIAL**

1. TRANSMITTAL NUMBER:  
**15-033**

2. STATE  
CA

**FOR: HEALTH CARE FINANCING ADMINISTRATION**

3. PROGRAM IDENTIFICATION: TITLE XIX OF THE  
SOCIAL SECURITY ACT (MEDICAID)

TO: REGIONAL ADMINISTRATOR  
HEALTH CARE FINANCING ADMINISTRATION  
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE  
**September 7, 2015**

5. TYPE OF PLAN MATERIAL (*Check One*):

NEW STATE PLAN       AMENDMENT TO BE CONSIDERED AS NEW PLAN       AMENDMENT

COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (*Separate Transmittal for each amendment*)

6. FEDERAL STATUTE/REGULATION CITATION:  
**42 CFR Part 447, Subpart C. 1902(a)(13) of the Act**

7. FEDERAL BUDGET IMPACT:  
a. FFY 2016      \$0  
b. FFY 2017      \$0

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:  
**Attachment 4.19-A pages 17.49 and 17.49a**

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION  
OR ATTACHMENT (*If Applicable*):  
**Attachment 4.19-A pages 17.49 and 17.49a**

10. SUBJECT OF AMENDMENT:

11. GOVERNOR'S REVIEW (*Check One*):

GOVERNOR'S OFFICE REPORTED NO COMMENT  
 COMMENTS OF GOVERNOR'S OFFICE ENCLOSED  
 NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL

OTHER, AS SPECIFIED:  
The Governor's Office does not  
wish to review the State Plan Amendment.

ORIGINAL SIGNED

16. RETURN TO:

**Department of Health Care Services  
Attn: State Plan Coordinator  
1501 Capitol Avenue, Suite 71.326  
P.O. Box 997417  
Sacramento, CA 95899-7417**

**State Medicaid Director**

15. DATE SUBMITTED:

**FOR REGIONAL OFFICE USE ONLY**

17. DATE RECEIVED:

18. DATE APPROVED:

PLAN APPROVED – ONE COPY ATTACHED

19. EFFECTIVE DATE OF APPROVED MATERIAL:

20. SIGNATURE OF REGIONAL OFFICIAL:

21. TYPED NAME:

22. TITLE:

23. REMARKS:

2015-16. Similarly, final changes to all DRG hospitals wage area, index value, or labor share calculation published for future federal fiscal years will be used for the state fiscal year beginning after the start of each respective federal fiscal year. All wage area index values can be viewed on the Medi-Cal DRG Pricing Calculator posted on the DHCS website at <http://www.dhcs.ca.gov/provgovpart/Pages/DRG.aspx>.

- b. The wage area adjustor is not applied to the hospital-specific transitional base price (determined in paragraph C.3 above).

#### 5. Policy Adjustors

The implementation of APR-DRG Payment includes the functionality of policy adjustors. These adjustors are created to allow the DHCS to address any current, or future, policy goals and to ensure access to care is preserved. Policy adjustors may be used to enhance payment for services where Medi-Cal plays a major role. This functionality of policy adjustors allows DHCS the ability to ensure access to quality care is available for all services. A list of the current policy adjustors is reflected in Appendix 6 of Attachment 4.19-A. These policy adjustors are used to adjust payment weights for care categories. The projected financial impact of the policy adjustors was considered in developing budget-neutral base prices.

#### 6. Cost Outlier Payments

Outlier payments are determined by calculating the DRG Hospital's estimated cost and comparing it to the APR-DRG Payment to see if there is a loss or gain for the hospital for a discharge claim. The DRG Hospital's estimated cost on a discharge claim is determined by the following: The DRG Hospital's estimated cost may be determined by multiplying the Medi-Cal covered charges by the DRG Hospital's most currently accepted cost-to-charge ratio (CCR) from a hospital's CMS 2552-10 cost report. The CCR is calculated from a hospital's Medicaid costs (reported on worksheet E-3, part VII, line 4) divided by the Medicaid charges (reported on worksheet E-3, part VII, line 12). All hospitals CCRs will be updated annually with an effective date of July 1, after the acceptance of the CMS 2552-10 by DHCS. In the alternative, a hospital may request that DHCS use a different (higher or lower) CCR based on substantial evidence presented by the hospital. CMS approval must be obtained before a change based on a hospital's request can become effective. This method would allow hospitals to submit once each year projected Medicaid costs and projected Medicaid charges on a pro-forma document that has been approved by CMS in lieu of what was

reported in the hospital's annual accepted CMS 2552-10 cost report, as described above. The DRG Hospital's estimated cost on a discharge claim would then be determined by multiplying the Medi-Cal covered charges by the DRG Hospital's alternative CCR from the approved hospital's pro-forma document. The submission deadline for the pro-forma document to be accepted by DHCS is no later than December 31, annually. For hospitals that have submitted the CMS approved pro-forma document by the deadline, DHCS shall use the alternative CCR for the annual update effective July 1. There will be no retroactive adjustment to hospital's CCR for approved pro-forma document. The approved pro-forma document will only be applied toward the following fiscal year's annual update and must be submitted annually by the December 31 deadline. Hospitals are still required to complete and annually file the CMS 2552-10 cost report. All approved projected costs and updates to the accepted CCRs will be subject to post-payment review and adjustment in accordance with Welfare and Institutions Code section 14170.

For new California hospitals for which there is insufficient cost data to calculate a hospital specific CCR and for non-border out-of-state hospitals, a CCR is assigned that is equal to the sum of (a) the Medicare reported average CCR of operating costs for California urban hospitals. CCRs for new California hospitals for which there is insufficient cost data to calculate a hospital specific CCR and for non-border out-of-state hospitals will be updated annually with an effective date of July 1.

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TN No. 15-033

Supersedes  
2015

TN No. 15-020

Approval Date \_\_\_\_\_

Effective Date: September 7,

## SPA Impact Form

**State/Title/Plan Number: California/Title XIX/#15-033**

**Federal Fiscal Impact: \$0**

**Number of People Affected by Enhanced Coverage, Benefits or Retained Eligibility: \_\_\_\_\_N/A\_\_\_\_\_**

**Number of Potential Newly Eligible People: \_\_\_\_\_**

**or**

**Eligibility Simplification: No**

**Number of People Losing Medicaid Eligibility: \_\_\_N/A\_\_\_\_\_**

**Reduces Benefits: No**

**Provider Payment Increase: No**

**Delivery System Innovation: No**

**Comments/Remarks:**

**DHS Contact:**

**Belinda Rowan  
Safety Net Financing Division  
(916) 552-9317**

**Date: September 23, 2015**