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

JENNIFER KENT
Director

EDMUND G. BROWN JR.
Governor

9/30/2016

Ms. Henrietta Sam-Louie
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

CALIFORNIA STATE PLAN AMENDMENT (SPA) 16-032

Dear Ms. Sam-Louie:

The Department of Health Care Services (DHCS) is submitting the enclosed State Plan Amendment (SPA) which proposes to amend Attachment 4.19-A, pgs. 46-51, to update language and amend Appendix 1 to Attachment 4.19-A to add Alameda Hospital and San Leandro Hospital to the list of government-operated hospitals.

Effective July 1, 2016, this SPA would update the list of government-operated hospitals and change the methodology of Alameda Hospital and San Leandro Hospital from a Diagnosis Related Group (DRG) rate to a Certified Public Expenditure (CPE) rate.

Because this change in methodology to the reimbursement to specified government-operated hospitals for inpatient hospital services has no effect on the tribes, it has been agreed that no tribal consultation was required for SPA 16-032.

DHCS analyzed the change in methodology from DRG to CPE by reviewing payments paid through DRG for dates of services during FY 2014-15 (most recent complete payment data available) and compared it using the same dates of services paid as a CPE. The change in rate methodology resulted in an overall payment increase and did not result in an access issue.

The request for public input on the impact to access was published on September 9, 2016 and has not yielded any responses to date.

Public Notice published on June 24, 2016.

Please contact Mr. John Mendoza, Chief of the Safety Net Financing Division, at (916) 552-9130 or by e-mail at John.Mendoza@dhcs.ca.gov if you have any questions.

Sincerely,

Original Signed

Chief Deputy Director
Health Care Programs
State Medicaid Director

DEPARTMENT OF HEALTH AND HUMAN SERVICES
HEALTH CARE FINANCING ADMINISTRATION

FORM APPROVED
OMB NO. 0938-0193

TRANSMITTAL AND NOTICE OF APPROVAL OF STATE PLAN MATERIAL

FOR: HEALTH CARE FINANCING ADMINISTRATION

1. TRANSMITTAL NUMBER: **16-032**

2. STATE: CA

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: July 1, 2016

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:
Section 1115 of the Social Security Act

7. FEDERAL BUDGET IMPACT:
a. FFY 2016 $2,619,940
b. FFY 2017 $3,544,326

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:
Attachment 4.19-A, pgs. 46-51
Appendix 1 to attachment 4.19-A

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT *(If Applicable)*:
Attachment 4.19-A, pgs. 46-51
Appendix 1 to attachment 4.19-A

10. SUBJECT OF AMENDMENT:
Updates the State Plan to add Alameda and San Leandro Hospitals to the list of government-operated hospitals and add new language.

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

14. TITLE:
State Medicaid Director

15. DATE SUBMITTED: 9/30/2016

16. RETURN TO:
Department of Health Care Services
Attn: State Plan Coordinator
1501 Capitol Avenue, Suite 71.3.26
P.O. Box 997417
Sacramento, CA 95899-7417

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:

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT

STATE: CALIFORNIA

REIMBURSEMENT TO SPECIFIED GOVERNMENT-OPERATED HOSPITALS FOR INPATIENT HOSPITAL SERVICES

Notwithstanding any other provision of this State Plan, reimbursement for the costs of inpatient hospital services described in this segment of Attachment 4.19-A that are provided to Medi-Cal beneficiaries by government-operated hospitals meeting the requirements below will be governed by this segment of Attachment 4.19-A.

A. Eligible Hospitals

1. Hospitals eligible for reimbursement under this segment of Attachment 4.19-A are government-operated hospitals specified in Appendix 1 to this Attachment 4.19-A, and any other government-operated hospitals receiving approval of the Centers for Medicare & Medicaid Services.

B. General Reimbursement Requirements

1. Except as provided in subparagraphs B.2 and B.3, below, payments to eligible hospitals for inpatient hospital services rendered to Medi-Cal beneficiaries, exclusive of psychiatric services and professional services, will be determined on a cost basis in accordance with this segment of Attachment 4.19-A.

2. Eligible hospitals may receive payments for specified inpatient hospital services that are paid independent of the cost-based payments specified in subparagraph B.1. Services to be paid pursuant to this subparagraph B.2 will be determined by the State. Such payments will be appropriately offset against the hospital's costs pursuant to subparagraph C.1.d, subparagraph D.3, and subparagraph E.4.

3. Eligible hospitals will receive supplemental payments for hospital facility construction, renovation or replacement pursuant to California Welfare and Institutions Code section 14085.5 and disproportionate share hospital payments pursuant to the Disproportionate Share Hospital State Plan provisions at page 18 et seq. of this Attachment.

4. The hospital's Medi-Cal 2552-96 cost report with fiscal years prior to May 1, 2010 or Medi-Cal 2552-10 for fiscal years beginning on or after May 1, 2010, will be the basis for determining the reimbursable costs under this segment of Attachment 4.19-A.

a. The term "finalized Medi-Cal 2552-96 or 2552-10 cost report" refers to the cost report that is settled by the California Department of Health Services, Audits and Investigations (A&I) with the issuance of a Report On The Cost Report Review (Audit Report).

b. The term "filed Medi-Cal 2552-96 or 2552-10 cost report" refers to the cost report that is submitted by the hospital to A&I and is due five months after the end of the cost reporting period.

c. Los Angeles County hospitals (to the extent that they, as all-inclusive-charge-structure hospitals, have been approved by Medicare to use alternative statistics, such as relative value units, in the cost report apportionment process) may also use alternative statistics as a substitute for charges in the apportionment processes described in this segment of Attachment 4.19-A. These alternative statistics must be consistent with alternative statistics approved for Medicare cost reporting purposes and must be supported by auditable hospital documentation.

5. Nothing in this segment of Attachment 4.19-A shall be construed to eliminate or otherwise limit a hospital's right to pursue all administrative and judicial review available under the Medicaid program. Any revision to the finalized Audit Report as a result of appeals, reopening, or reconsideration shall be incorporated into the final determination.

C. Interim Per Diem Rates

For each eligible hospital, an interim per diem rate will be computed on an annual basis using the following methodology:

1. Using the most recently filed Medi-Cal 2552-96 or 2552-10 cost report, the cost apportionment process as prescribed in the Worksheet D series will be applied to arrive at the total Medicaid non-psychiatric inpatient hospital cost.

a. On the Medi-Cal 2552-96 or 2552-10 cost report, interns and residents costs should not be removed from total allowable costs on Worksheet B, Part I, column 26 on the Medi-Cal 2552-96 or column 25 on the Medi-Cal 2552-10 cost report. If the costs have been removed, the allowable interns and residents costs will be added back to each affected cost center prior to the computation of cost-to-charge ratios on Worksheet C. This can be accomplished by using Worksheet B, Part I, column 25 (instead of column 27) on the Medi-Cal 2552-96 for the Worksheet C computation of cost-to-charge ratios or column 24 (instead of column 26) on the Medi-Cal 2552-10 cost

report. Only those allowable interns and residents costs that are consistent with Medicare cost principles will be added back. If the hospital is a cost election hospital under the Medicare program, the costs of teaching physicians that are allowable as Graduate Medical Education (GME) under Medicare cost principles shall be treated as hospital interns and residents costs consistent with non-cost election hospitals.

b. For hospitals that remove Medicaid inpatient dental services (through a non-reimbursable cost center or as an A-8 adjustment), necessary adjustments will be made to the Worksheet A trial balance cost (and, as part of the cost report flow, any other applicable Medi-Cal 2552-96 or 2552-10 worksheets) to account for the Medicaid inpatient dental services. This is limited to allowable hospital inpatient costs and should not include any professional cost component.

c. The CDHS will perform those tests necessary to determine the reasonableness of the Medicaid program data (i.e., Medicaid days and Medicaid charges) from the reported Medi-Cal 2552-96 or 2552-10 cost report's Worksheet D series. This will include reviewing the Medicaid program data generated from its MMIS/claims system for that period which corresponds to the most recently filed Medi-Cal 2552-96 or 2552-10 cost report. However, because the MMIS/claims system data would generally not include all paid claims until at least 18 months after the Fiscal Year Ending (FYE) of the cost report, the CDHS will take steps to verify the filed Medicaid program data, including the use of submitted Medicaid claims. Only Medicaid program data related to medical services that are eligible under the Medicaid inpatient hospital cost computation should be used in the apportionment process.

d. Non-contract Medicaid payments for the Medicaid inpatient hospital services of which the costs are included in the Medicaid inpatient hospital non-psychiatric cost computation described above, must be offset against the computed Medicaid non-psychiatric inpatient hospital cost before a per diem is computed in subsection 2. below. Supplemental payments under the contract for hospital facility construction, renovation or replacement pursuant to California Welfare and Institutions Code section 14085.5, and disproportionate share hospital payments pursuant to the Disproportionate Share Hospital State Plan provisions at page 18 et seq. of this Attachment, are not offset.

2. The Medicaid non-psychiatric inpatient hospital cost computed in subsection 1. above should be divided by the number of Medicaid non-psychiatric inpatient hospital days as determined in subsection 1 above for that period which corresponds to the most recently filed Medi-Cal 2552-96 or 2552-10 cost report.

3. The Medicaid per day amount computed in subsection 2 above will be trended to current year based on Market Basket update factor(s) or other approved hospital-related indices. The Medicaid per day amount may be further adjusted to reflect increases and decreases in costs incurred resulting from changes in operations or circumstances as follows:

   a. Inpatient hospital costs not reflected on the filed Medi-Cal 2552-96 or 2552-10 cost report from which the interim payments are developed, but which would be incurred and reflected on the Medi-Cal 2552-96 or 2552-10 cost report for the current year to which the interim rate will apply.

   b. Inpatient hospital costs incurred and reflected on the filed Medi-Cal 2552-96 or 2552-10 cost report from which the interim payments are developed, but which would not be incurred and not reflected on the Medi-Cal 2552-96 or 2552-10 cost report for the current year to which the interim rate will apply.

   Such costs must be properly documented by the hospital, and are subject to review. The result is the Medicaid non-psychiatric inpatient hospital cost per day amount to be used for interim Medicaid inpatient hospital payment rate purposes.

4. The CDHS may apply an audit factor to the filed Medi-Cal 2552-96 or 2552-10 cost report to adjust computed cost by the average percentage change from total reported costs to final costs for the three most recent Medi-Cal 2552-96 or 2552-10 cost reporting periods for which final determinations have been made. The CDHS will identify such percentage to CMS.

D. Interim Reconciliation

1. Each eligible hospital's interim Medicaid payments with respect to services rendered in a fiscal year will be reconciled to its filed Medi-Cal 2552-96 or 2552-10 cost report for that same fiscal year.

2. The hospital’s total Medicaid non-psychiatric inpatient hospital costs shall be determined using its filed Medi-Cal 2552-96 or 2552-10 cost report for the applicable fiscal year and applying the steps set forth in paragraphs a – c of subsection 1 of Section C.

3. Non-contract Medicaid payments for the Medicaid inpatient hospital services of which the costs are included in the Medicaid inpatient hospital non-psychiatric cost computation described above, along with the interim Medicaid payments received for services rendered in the fiscal year, must be offset against the computed Medicaid non-psychiatric inpatient hospital cost. Supplemental

payments under the contract for hospital facility construction, renovation or replacement pursuant to California Welfare and Institutions Code section 14085.5, and disproportionate share hospital payments pursuant to the Disproportionate Share Hospital State Plan provisions at page 18 et seq. of this Attachment, are not offset.

4. The CDHS may apply an audit factor to the filed Medi-Cal 2552-96 or 2552-10 cost report to adjust computed cost by the average percentage change from total reported costs to final costs for the three most recent Medi-Cal 2552-96 or 2552-10 cost reporting periods for which final determinations have been made.

5. If, at the end of the interim reconciliation process, it is determined that a hospital received an overpayment, appropriate adjustments will be made to offset or otherwise recover the overpayment.

E. Final Reconciliation

1. Each eligible hospital's interim payments and interim adjustments with respect to services rendered in a fiscal year subsequently will be reconciled to its Medi-Cal 2552-96 or 2552-10 cost report for that same fiscal year as finalized by A&I for purposes of Medicaid reimbursement.

2. The hospital’s total Medicaid non-psychiatric inpatient hospital costs shall be determined using its finalized Medi-Cal 2552-96 or 2552-10 cost report and applying the steps set forth in paragraphs a – b of subsection 1 of Section C.

3. In computing the Medicaid non-psychiatric inpatient hospital cost from the finalized Medi-Cal 2552-96 or 2552-10 cost report, the Medicaid program data (such as Medicaid days and charges) on the finalized cost report Worksheet D series will be updated as necessary using Medicaid program data generated from its MMIS/claims system for the respective cost reporting period. Only Medicaid program data related to medical services that are eligible under the Medicaid inpatient hospital cost computation should be used in the apportionment process.

4. Non-contract Medicaid payments for the Medicaid inpatient hospital services of which the costs are included in the Medicaid inpatient hospital non-psychiatric cost computation described above, along with the interim Medicaid payments and interim adjustments received for services rendered in the fiscal year, must be offset against the computed Medicaid non-psychiatric inpatient hospital cost. Supplemental payments under the contract for hospital facility construction, renovation or replacement pursuant to California Welfare and Institutions Code section 14085.5, and disproportionate share hospital payments pursuant to the

Disproportionate Share Hospital State Plan provisions at page 18 et seq. of this Attachment, are not offset.

5. If, at the end of the final reconciliation process, it is determined that a hospital received an overpayment, appropriate adjustments will be made to offset or otherwise recover the overpayment.

The government-operated hospitals listed below, and any other government-operated hospital that subsequently is approved by the Centers for Medicare & Medicaid Services, and including any successor or differently named hospital as applicable, will receive federal reimbursement for inpatient hospital services provided to Medi-Cal beneficiaries using the cost-based reimbursement methodology specified on pages 46 through 50 of this Attachment:

(1) UC Davis Medical Center
(2) UC Irvine Medical Center
(3) UC San Diego Medical Center
(4) UC San Francisco Medical Center
(5) UC Los Angeles Medical Center, including Santa Monica/UCLA Medical Center
(6) L.A. County Harbor/UCLA Medical Center
(7) LA County Martin Luther King Jr. Charles R. Drew Medical Center (Closed August, 2007)
(8) LA County Olive View UCLA Medical Center
(9) LA County Rancho Los Amigos National Rehabilitation Center
(10) LA County University of Southern California Medical Center
(11) Alameda County Medical Center
(12) Alameda Hospital (DPH date July 1, 2016)
(13) San Leandro Hospital (DPH date July 1, 2016)
(14) Arrowhead Regional Medical Center
(15) Contra Costa Regional Medical Center
(16) Kern Medical Center
(17) Natividad Medical Center
(18) Riverside University Health System – Medical Center
(19) San Francisco General Hospital
(20) San Joaquin General Hospital
(21) San Mateo Medical Center
(22) Santa Clara Valley Medical Center
(23) Tuolumne General Hospital (Closed June, 2007)
(24) Ventura County Medical Center

DPH Per Diem
SPA 16-032 Federal Impact

FY 2016-17	Alameda Hospital			San Leandro Hospital		
	TF	GF	FFP	TF	GF	FFP
DRG ACA	$ (229,983.00)	$ -	$ (229,983.00)	$ (755,639.00)	$ -	$ (755,639.00)
DRG Non-ACA	$ (1,151,983.00)	$ (575,991.50)	$ (575,991.50)	$ (1,821,758.00)	$ (910,879.00)	$ (910,879.00)
CPE ACA	$ 704,067.00	$ -	$ 704,067.00	$ 1,703,989.95	$ -	$ 1,703,989.95
CPE Non-ACA	$ 1,415,871.00	$ -	$ 1,415,871.00	$ 2,141,818.00	$ -	$ 2,141,818.00
Net ACA	$ 474,084.00	$ -	$ 474,084.00	$ 948,350.95	$ -	$ 948,350.95
Net Non-ACA	$ 263,888.00	$ (575,991.50)	$ 839,879.50	$ 320,060.00	$ (910,879.00)	$ 1,230,939.00
Total	**$ 737,972.00**	**$ (575,991.50)**	**$ 1,313,963.50**	**$ 1,268,410.95**	**$ (910,879.00)**	**$ 2,179,289.95**

FY 2017-18	Alameda Hospital			San Leandro Hospital		
	TF	GF	FFP	TF	GF	FFP
DRG ACA	$ (238,239.39)	$ -	$ (238,239.39)	$ (782,766.44)	$ -	$ (782,766.44)
DRG Non-ACA	$ (1,193,339.18)	$ (596,669.59)	$ (596,669.59)	$ (1,887,159.12)	$ (943,579.56)	$ (943,579.56)
CPE ACA	$ 709,153.61	$ -	$ 709,153.61	$ 1,716,300.62	$ -	$ 1,716,300.62
CPE Non-ACA	$ 1,471,373.14	$ -	$ 1,471,373.14	$ 2,225,777.27	$ -	$ 2,225,777.27
Net ACA	$ 470,914.22	$ -	$ 470,914.22	$ 933,534.18	$ -	$ 933,534.18
Net Non-ACA	$ 278,033.96	$ (596,669.59)	$ 874,703.55	$ 338,618.15	$ (943,579.56)	$ 1,282,197.71
Total	**$ 748,948.18**	**$ (596,669.59)**	**$ 1,345,617.77**	**$ 1,272,152.33**	**$ (943,579.56)**	**$ 2,215,731.89**

Total FFP	FY 2016-17	FY 2017-18
	$ 3,493,253.45	$ 3,561,349.66

*Total FFP combines both Alameda and San Leandro

	July-Sept	Oct-Dec	Jan-March	April-June	
FFP per SFY QTR	Q1	Q2	Q3	Q4	Total Per SFY
FY 2016-17	$ 873,313.36	$ 873,313.36	$ 873,313.36	$ 873,313.36	$ 3,493,253.45
FY 2017-18	$ 890,337.42	$ 890,337.42	$ 890,337.42	$ 890,337.42	$ 3,561,349.66

FFP per FFY QTR	Q4	Q1	Q2	Q3	Total per FFY
FFY 2016	$ -	$ 873,313.36	$ 873,313.36	$ 873,313.36	$ 2,619,940.08
FFY 2017	$ 873,313.36	$ 890,337.42	$ 890,337.42	$ 890,337.42	$ 3,544,325.62
FFY 2018	$ 890,337.42	$ -	$ -	$ -	$ 890,337.42

SPA Impact Form

State/Title/Plan Number:
CA/Reimbursement to Specified Government-Operated Hospitals for Inpatient Hospital Services/SPA#16-032

Federal Fiscal Impact:
FY 2016 $2,619,940
FY 2017 $3,544,326

Number of People Affected by Enhanced Coverage, Benefits or Retained Eligibility: __0_____

Number of Potential Newly Eligible People: ___0_____
or
Eligibility Simplification: Yes/No

Number of People Losing Medicaid Eligibility: __0_____

Reduces Benefits: Yes/No

Provider Payment Increase: Yes/No

Delivery System Innovation: Yes/No
(Examples: adding new provider types to provide a covered service, managed care delivery systems or other similar type plans.)

Comments/Remarks:
Amending SPA 05-021, Attachment 4.19-A, pgs. 46-51, adding updated language. Also amending Appendix 1 to attachment 4.19-A, adding Alameda and San Leandro Hospitals to the list of government-operated hospitals.

DHCS Contact:
Beau Bouchard
Beau.Bouchard@dhcs.ca.gov **,** 916-552-9035

Date: