DEPARTMENT OF HEALTH AND HUMAN SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S2-26-12
Baltimore, MD 21244-1850

Financial Management Group

JUN 06 2016

Mari Cantwell
Chief Deputy Director, Health Care Programs
California Department of Health Care Services
P.O. Box 997413, MS 0000
Sacramento, CA 95899-7413

RE: California State Plan Amendment 15-008

Dear Ms. Cantwell:

We have reviewed the proposed amendment to Attachment 4.19-A of your Medicaid state plan submitted under transmittal number (TN) 15-008. This amendment, effective May 1, 2015, provides inpatient hospital supplemental payments to Martin Luther King, Jr. – Los Angeles Healthcare Corporation (MLK-LA).

We conducted our review of your submittal according to the statutory requirements at sections 1902(a)(13), 1902(a)(30), 1903(a), and 1923 of the Social Security Act and the implementing Federal regulations at 42 CFR 447 Subpart C. This is to inform you that Medicaid State plan amendment TN 15-008 is approved effective May 1, 2015. We are enclosing the HCFA-179 and the amended plan pages.

If you have any questions, please call Mark Wong at (415) 744-3561.

Sincerely

ORIGINAL SIGNED

Kristin Fan
Director

Enclosures

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: **15-008**

2. STATE: California

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
May 1, 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 447 Subpart C

7. FEDERAL BUDGET IMPACT: Pen & ink change
a. FFY 2015 $12,500,000 ~~$50,000,000~~
b. FFY 2016 $50,000,000

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:

Supplement 5 to Attachment 4.19A, pages 1-9

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT *(If Applicable)*:

None

10. SUBJECT OF AMENDMENT:
Supplemental Reimbursement for Martin Luther King Jr. – Los Angeles Healthcare Corporation

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

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SUPPLEMENTAL PAYMENTS FOR MARTIN LUTHER KING JR. – Los Angeles Healthcare Corporation

This Supplement 5 of the State Plan describes supplemental payment for Martin Luther King Jr. - Los Angeles (MLK-LA) Healthcare Corporation, effective on or after the effective date of MLK-LA's Medi-Cal certification.

Until August 2007, the County of Los Angeles operated the Los Angeles County Martin Luther King, Jr. – Harbor Hospital, which provided inpatient and outpatient hospital services to the population of South Los Angeles. MLK-LA will serve the population of South Los Angeles that was formerly served by the Los Angeles County Martin Luther King, Jr. –Harbor Hospital. Section 14165.50 of the California Welfare and Institutions Code was amended by Senate Bill (SB) 857 (Chapter 31, Statutes of 2014) granting the Department of Health Care Services (DHCS or Department) authority to make supplemental payments to MLK-LA based on payment mechanisms outlined in SB 857. MLK-LA shall be reimbursed at the greater of the prospective payment methodology based upon All Patient Refined Diagnosis Related Groups (APR-DRG) (Pages 17.38 to 17.62 of Attachment 4.19-A) excluding any add-on payment required to meet the minimum payment level as discussed in Section A.3 of this Supplement, or the Minimum Payment Level described in Section C of this Supplement. MLK-LA will also receive supplemental payments as described in Section E of this Supplement.

No payment under this Supplement is dependent on any agreement or arrangement for providers or related entities to donate money or services to a governmental entity.

A. DEFINITIONS

1. "Interim Medi-Cal Payments" interim payments shall be determined on a per claim basis in accordance with the APR-DRG State Plan pages 17.38 -17.62 of Attachment 4.19-A, plus any adjustment that may be necessary to ensure that the payment is equal to the Minimum Payment Level. Add-on payments are made pursuant to authorization under Section C of this Supplement and are determined and subject to reconciliation as set forth in Section D.

2. "MLK-LA" means a health facility certified under Title XVIII and Title XIX of the federal Social Security Act, and is licensed pursuant to Chapter 2 (commencing with Section 1250) of Division 2 of the Health and Safety

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Code to provide acute inpatient hospital services on the campus of the former Los Angeles County Martin Luther King, Jr.-Harbor Hospital.

3. "Minimum Payment Level" means a percentage of MLK–LA's projected Medi-Cal fee-for-service inpatient hospital costs for each state fiscal year. The Minimum Payment Level shall be equal to 77 percent of the projected costs of MLK-LA for each state fiscal year through the 2016-17 state fiscal year and 72 percent of the projected costs of MLK-LA for each state fiscal year thereafter. Minimum payment level is recomputed during the reconciliations described in Section D.

4. "Adjusted allowable charges" for a fiscal year means the difference between MLK-LA's Medi-Cal inpatient hospital fee-for-service charges for the fiscal year and all amounts paid to MLK-LA for the state fiscal year by the Medi-Cal program on a fee-for-service basis for inpatient hospital services, including, but not limited to interim Medi-Cal payments as defined above in Section A.1., Hospital Quality Assurance Fee Program payments attributable to inpatient fee-for-service (Appendix 7 to Attachment 4.19-A),Supplemental Reimbursement for Qualified Private Hospitals (Supplement 4 to Attachment 4.19 A) and Private Disproportionate Share Hospital Replacement Supplemental Payments program payments (Attachment 4.19-A).

5. "Add-on payments" are payments in addition to the base payments under the APR-DRG system necessary to ensure the MLK-LA's Medi-Cal inpatient payments are equal to the Minimum Payment Level.

B. COST REPORTING PROCESS

1. Cost Report. MLK-LA will complete and file an annual Medi-Cal 2552-10 cost report no later than November 30 after the close of each MLK-LA fiscal year.

2. Accepted Cost Report. Annually, the Department will perform reviews of each filed Medi-Cal 2552-10 cost report to ensure its completeness. The Department will contact MLK-LA to resolve any non-compliance with Medi-Cal cost reporting requirements, and address incomplete or

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missing schedules with the submission of the cost report. Upon resolution, the Department will accept the Medi-Cal 2552-10 as filed.

3. Medi-Cal 2552-10 cost reports will be audited by Audits and Investigations (A&I) within three (3) years from the date of submission of the original or amended Medi-Cal 2552-10, whichever is later. In accordance with Welfare and Institute Code sections 14170 & 14171, as they were in effect on May 1, 2015.

4. The projected Medi-Cal costs of MLK-LA shall be based on the most recently available cost report and the cost finding principles applied under Section C beginning on page 47 of this Attachment, 4.19-A except that all references to filed Medi-Cal 2552-96 cost report shall be understood to mean the filed Medi-Cal 2552-10, or any successor form, and the provision for trending costs to the current year shall also include reasonable adjustments to account for increases and decreases in costs, total volume, and program utilization.

5. To the extent there is no recently filed 12-month cost report available, the projected costs shall be determined using the best available and reasonable current estimates or projections made with respect to MLK-LA for a fiscal period.

6. The projected costs shall not be multiplied by the federal medical assistance percentage and are not subject to the Section II. Reimbursement Limits set forth on Page 2 of this Attachment 4.19 A, which describes the all-inclusive rate per discharge limitation (ARPDL) and peer grouping rate per discharge limitation (PGPDL) and their predecessor limits.

7. The projected Medi-Cal costs shall be determined prior to the start of each state fiscal year by the Department in consultation with MLK-LA and the County of Los Angeles, using the best available and reasonable current estimates or projections made with respect to MLK-LA for a fiscal period, and shall be considered final as of the start of the state fiscal year, or soon thereafter as practicable, for purposes of determining interim Medi-Cal payments.

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C. INTERIM PAYMENTS

1. Interim Medi-Cal payments will be made to MLK-LA, and shall provide compensation that is, in the aggregate, at least equal to the Minimum Payment Level.

2. The Department shall make interim Medi-Cal payments on an ongoing basis as MLK-LA submits inpatient Medi-Cal claims to the Fiscal Intermediary.

3. The Department shall monitor interim Medi-Cal payments to MLK-LA on a periodic basis (at least quarterly).

4. The Department shall determine the add-on payment by calculating the average DRG payment per claim needed to meet the Minimum Payment Level using the following methodology:

   a) The number of claims needed to meet the minimum payment level is determined by taking the number of projected days and dividing by the monitored average length of stay.

   b) The average Minimum Payment Level, per claim, is determined by dividing the Minimum Payment Level by the number of claims needed to meet the Minimum Payment Level.

   c) The average DRG payment per claim is determined through the periodic monitoring.

   d) The add-on payment needed per claim is determined by subtracting the average Minimum Payment Level per claim, by the monitored average DRG payment.

5. If the APR-DRG payments (without add-on payments) do not exceed or are not projected to exceed the Minimum Payment Level for a state fiscal year, MLK-LA shall receive add-on payments through the APR-DRG system so that its total payments for a state fiscal year are equal or projected to be equal to the Minimum Payment Level. The add-on payments constitute interim Medi-Cal payments and are subject to the

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reconciliation process in Section D to ensure that Medi-Cal payments do not exceed the Minimum Payment Level.

6. If the APR-DRG payments (without add-on payments) exceed or are projected to exceed the Minimum Payment Level or the projected cost for the state fiscal year, then MLK-LA shall retain those APR-DRG payments and shall not receive add-on payments for that state fiscal year. The subsequent state fiscal year will be subject to a new determination whether the APR-DRG payments require add-on payments.

7. The Medi-Cal payment calculations in Sections C and D shall not include payments made under the State's Hospital Quality Assurance Fee Program (Appendix 7 to this Attachment 4.19-A) or another successor State program funded in whole or in part by a statewide hospital fee or tax. Medi-Cal payments under this section shall not include Supplemental Reimbursement for Qualified Private Hospitals (Supplement 4 to Attachment 4.19 A), Private Disproportionate Share Hospital Replacement Supplemental Payments (Attachment 4.19-A), or supplemental payments made pursuant to Section E or any other future supplemental payments.

D. RECONCILIATIONS

1. Interim reconciliation of Medi-Cal payments shall be subject to an interim reconciliation based on the accepted as-filed cost report as specified in Section B. As per 42 CFR 413.24 all cost reports are due on or before the last day of the fifth month following the close of the period covered by the report. For cost reports ending on a day other than the last day of the month, cost reports are due 150 days after the last day of the cost reporting period. The Medi-Cal payments will be reconciled 2 months after DHCS accepts MLK-LA's as-filed cost report. If it is determined that MLK-LA has been paid less than the Minimum Payment Level, MLK-LA will receive an additional payment in the amount of the underpayment. If it is determined that MLK-LA received interim Medi-Cal payments exceeding the Minimum Payment Level, MLK-LA shall be subject to recovery of the interim Medi-Cal payments that exceeded the Minimum Payment Level pursuant to 42 CFR

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433.316; provided that any such recovery shall not exceed the amount of the add-on payments.

2. Final Reconciliation of MLK-LA's total interim Medi-Cal payments and interim reconciliation adjustments for a MLK-LA fiscal year will be subsequently reconciled during the audit of the cost report (which occurs within three years from the date of submission of the original or amended Medi-Cal 2552-10, whichever is later) to the Minimum Payment Level as determined based the specified percentage of the allowable cost per the audited cost report for the same state fiscal year. As per 42 CFR 413.24 all cost reports are due on or before the last day of the fifth month following the close of the period covered by the report. For cost reports ending on a day other than the last day of the month, cost reports are due 150 days after the last day of the cost reporting period. If at the end of the final reconciliation process, it is determined that MLK-LA received an overpayment, the overpayment shall be recovered from MLK-LA provided that any such recovery shall not exceed the amount of the add-on payments. Conversely, if at the end of the final reconciliation process, it is determined that MLK-LA received an underpayment (payment less than the Minimum Payment Level), an additional payment shall be made to MLK-LA to bring it up to the Minimum Payment Level for the state fiscal year.

E. SUPPLEMENTAL PAYMENTS TO MLK-LA

Supplemental payments are equal to the difference between MLK-LA's Medi-Cal inpatient hospital fee-for-service charges and all amounts paid to MLK-LA for the fiscal year by the Medi-Cal program on a fee-for-service basis for inpatient hospital services, including, but not limited to interim Medi-Cal payments as defined above in Section A.1., Hospital Quality Assurance Fee Program payments attributable to inpatient fee-for-service (Appendix 7 to Attachment 4.19-A), Supplemental Reimbursement for Qualified Private Hospitals (Supplement 4 to Attachment 4.19 A), and Private Disproportionate Share Hospital Replacement Supplemental Payments (Attachment 4.19-A). The supplemental payments in Section E and the add-on payments described in Sections C and D are further limited to a cap of $100 million.

The supplemental payments in this section shall be made on a quarterly basis and be considered an interim supplemental payment. An interim reconciliation

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and a final reconciliation will be conducted to ensure that MLK-LA's total Medi-Cal inpatient hospital fee-for-service payments do not exceed its Medi-Cal inpatient hospital fee-for-service charges. The methodology for computing the interim supplemental payments, interim reconciliation, and final reconciliation are detailed in the paragraphs below. The supplemental payments specified in this section shall be in addition to and shall not supplant any other payments to MLK-LA.

1. Interim supplemental payments. DHCS will make quarterly interim supplemental payments to MLK-LA. Prior to the start of the fiscal year, MLK-LA will report its Medi-Cal inpatient hospital fee-for-service projected charges, as agreed upon between DHCS and MLK-LA, and its total Medi-Cal inpatient hospital fee-for-service projected payments for the reporting period. The aggregated difference between the projected charges and the projected payments will be divided by four quarters to estimate the maximum quarterly interim supplemental payments.

2. Interim supplemental payments for each quarter are equal to the amount determined as the maximum quarterly interim supplemental payment and, when combined with the add-on payments in Sections C and D, shall not exceed $100 million.

3. In the event MLK-LA is certified to participate in Medi-Cal for less than an entire state fiscal year, MLK-LA may receive supplemental payments equal to its adjusted allowable charges multiplied by a fraction, the numerator of which is the number of days during the state fiscal year during which MLK-LA is certified to participate in Medi-Cal and the denominator of which is 365.

4. Interim Reconciliation. The quarterly interim supplemental payments, as determined in Section E.1, will be reconciled to MLK-LA's actual Medi-Cal inpatient hospital fee-for-service charges from MLK-LA's accepted as-filed cost report that is submitted to DHCS as specified in Section B.1 less all Medi-Cal fee-for-service payments received for inpatient hospital services and shall not exceed $100 million when combined with the add-on payments in Sections C and D. The quarterly interim supplemental payments will be reconciled 4 months after DHCS accepts MLK-LA's as-filed cost report.

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5. If at the end of the interim reconciliation it is determined that MLK-LA has been overpaid because aggregate Medi-Cal inpatient hospital fee-for-service payments exceed aggregate Medi-Cal inpatient hospital fee-for-service charges or because the supplemental payments in this Section E exceed $100 million when combined with the add-on payments in Sections C and D, MLK-LA will repay the Medi-Cal program, and DHCS will follow federal Medicaid procedures for managing overpayments of federal Medicaid funds.

6. If at the end of the interim reconciliation it is determined that MLK-LA's annual aggregate Medi-Cal inpatient hospital fee-for-service charges exceed MLK-LA's annual Medi-Cal inpatient hospital fee-for-service payments, MLK-LA will receive an additional supplemental payment amount equal to the amount determined in the interim reconciliation, subject to the $100 million cap when combined with the add-on payments in Sections C and D.

7. Final Reconciliation. Within four years after the as-filed cost report is submitted, supplemental payments will be reconciled to MLK-LA's audited cost report as audited and settled by DHCS. MLK-LA's Medi-Cal inpatient hospital fee-for-service charges will be based on the finalized audited cost report. The actual adjusted allowable charges will be those charges as audited and settled less all Medi-Cal inpatient hospital fee-for-service payments and shall not exceed $100 million when combined with the add-on payments in Sections C and D.

8. If at the end of the final reconciliation it is determined that MLK-LA has been overpaid because aggregate Medi-Cal inpatient hospital fee-for-service payments exceed aggregate Medi-Cal inpatient hospital fee-for-service charges or because the supplemental payments in this Section E exceed $100 million when combined with the add-on payments in Sections C and D, MLK-LA will repay the Medi-Cal program, and DHCS will follow federal Medicaid procedures for managing overpayments of federal Medicaid funds.

9. If at the end of the final reconciliation it is determined that MLK-LA has been underpaid because MLK-LA's annual aggregate Medi-Cal inpatient hospital fee-for-service charges exceed MLK-LA's annual Medi-Cal inpatient hospital fee-for-service payments, MLK-LA will receive an

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additional final supplemental payment amount equal to the amount determined in the final reconciliation, subject to the $100 million cap when combined with the add-on payments in Sections C and D.

F. DEPARTMENT'S RESPONSIBILITIES

1. Aggregate Medi-Cal reimbursement provided to private hospitals will not exceed applicable federal upper payment limits, including 42 CFR 447.271 and 447.272.

2. Monitoring and acceptance of annual cost reports required from providers in accordance with 42 CFR 413.24 and CMS Publication 15-1 Section 2413.

3. Final cost report audit pursuant to Welfare and Institutions Code section 14170, as the law was in effect on May 1, 2015.