



TOBY DOUGLAS
Director

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



EDMUND G. BROWN JR.
Governor

Gloria Nagle, PhD, MPA
Associate Regional Administrator
Centers for Medicare and Medicaid Services
Division of Medicaid and Children's Health
90 7th Street, Suite 5-300 (5W)
San Francisco, CA 94103-6707

STATE PLAN AMENDMENT (SPA) 14-014

Dear Ms. Nagle:

The Department of Health Care Services (DHCS) is submitting State Plan Amendment (SPA) 14-014 for your review and approval. This SPA updates Year 2 Diagnosis Related Group (DRG) payment parameters for general acute inpatient services provided by hospitals, including out-of-state hospitals and hospitals designated by Medicare as critical access hospitals. SPA 14-014 will be effective for inpatient services with dates of admission on or after July 1, 2014.

In 2010, Senate Bill 853 was enacted into law, directing DHCS to develop a new method of paying for hospital inpatient services in the fee-for-service Medi-Cal program utilizing a DRG methodology. DRG reimbursement for private hospitals went into effect for inpatient services with dates of admission on and after July 1, 2013 and for nondesignated public hospitals with dates of admission on and after January 1, 2014. Designated public hospitals have a separate payment method and therefore are not included in the DRG project.

Enclosed for your review are the following:

- SPA 14-014 – Attachment 4.19 - A, pages 17.48 and 17.62, Appendix 6, pages 1 - 3
- HCFA 179
- Public Notice

A public notice was published by the California Regulatory Notice Register on April 4, 2014, to notify Medi-Cal providers of the intent to update Year 2 DRG payment parameters.

DHCS is seeking approval of SPA 14-014 to implement the changes approved in State law. We are requesting the SPA be approved prior to July 1, 2014.

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

Sincerely

Director

Enclosures

cc: Mari Cantwell
Chief Deputy Director
Health Care Programs

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

1. TRANSMITTAL NUMBER:
14-014

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
July 1, 2014

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), 1923, 1861(v)(1)(G) of the
Act**

7. FEDERAL BUDGET IMPACT:
a. FFY 2015 \$ (106,171,766)
b. FFY 2016 \$ (106,171,766)

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:

**Attachment 4.19-A, pages 17.48 and 17.62
Appendix 6 to Attachment 4.19-A, pages 1-3**

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION
OR ATTACHMENT (*If Applicable*):
Attachment 4.19-A, pages 17.48 and 17.61

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 by Tony Douglas

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**

14. TITLE:
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:

STATE OF CALIFORNIA—OFFICE OF ADMINISTRATIVE LAW
NOTICE PUBLICATION/REGULATIONS SUBMISSION

(See instructions on reverse)

For use by Secretary of State only

570.100 (REV. 01-2013)

OAL FILE NUMBERS	NOTICE FILE NUMBER Z-2014-0325-01	REGULATORY ACTION NUMBER	EMERGENCY NUMBER
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For use by Office of Administrative Law (OAL) only

RECEIVED FOR FILING PUBLICATION DATE
 MAR 25 '14 APR 04 '14

Office of Administrative Law

NOTICE REGULATIONS

AGENCY WITH RULEMAKING AUTHORITY

AGENCY FILE NUMBER (if any)

A. PUBLICATION OF NOTICE (Complete for publication in Notice Register)

1. SUBJECT OF NOTICE Department of Health Care Services	TITLE(S)	FIRST SECTION AFFECTED	2. REQUESTED PUBLICATION DATE April 4, 2014
3. NOTICE TYPE <input type="checkbox"/> Notice re Proposed Regulatory Action <input checked="" type="checkbox"/> Other	4. AGENCY CONTACT PERSON John Mendoza	TELEPHONE NUMBER (916) 552-9130	FAX NUMBER (Optional)
OAL USE ONLY <input type="checkbox"/> Approved as Submitted <input type="checkbox"/> Approved as Modified <input type="checkbox"/> Disapproved/Withdrawn	ACTION ON PROPOSED NOTICE	NOTICE REGISTER NUMBER	PUBLICATION DATE

B. SUBMISSION OF REGULATIONS (Complete when submitting regulations)

1a. SUBJECT OF REGULATION(S)	1b. ALL PREVIOUS RELATED OAL REGULATORY ACTION NUMBER(S)
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2. SPECIFY CALIFORNIA CODE OF REGULATIONS TITLE(S) AND SECTION(S) (Including title 26, if toxics related)

SECTION(S) AFFECTED (List all section number(s) individually. Attach additional sheet if needed.)	ADOPT
	AMEND
	REPEAL
TITLE(S)	

3. TYPE OF FILING

<input type="checkbox"/> Regular Rulemaking (Gov. Code § 11346)	<input type="checkbox"/> Certificate of Compliance: The agency officer named below certifies that this agency complied with the provisions of Gov. Code §§ 11346.2-11347.3 either before the emergency regulation was adopted or within the time period required by statute.	<input type="checkbox"/> Emergency Readopt (Gov. Code, § 11346.1(h))	<input type="checkbox"/> Changes Without Regulatory Effect (Cal. Code Regs., title 1, § 100)
<input type="checkbox"/> Resubmittal of disapproved or withdrawn nonemergency filing (Gov. Code §§ 11349.3, 11349.4)	<input type="checkbox"/> Resubmittal of disapproved or withdrawn emergency filing (Gov. Code, § 11346.1)	<input type="checkbox"/> File & Print	<input type="checkbox"/> Print Only
<input type="checkbox"/> Emergency (Gov. Code, § 11346.1(b))	<input type="checkbox"/> Other (Specify) _____		

4. ALL BEGINNING AND ENDING DATES OF AVAILABILITY OF MODIFIED REGULATIONS AND/OR MATERIAL ADDED TO THE RULEMAKING FILE (Cal. Code Regs. title 1, § 44 and Gov. Code § 11347.1)

5. EFFECTIVE DATE OF CHANGES (Gov. Code, §§ 11344.4, 11346.1(c); Cal. Code Regs., title 1, § 100)

<input type="checkbox"/> Effective January 1, April 1, July 1, or October 1 (Gov. Code § 11343.4(a))	<input type="checkbox"/> Effective on filing with Secretary of State	<input type="checkbox"/> § 100 Changes Without Regulatory Effect	<input type="checkbox"/> Effective other (Specify)
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6. CHECK IF THESE REGULATIONS REQUIRE NOTICE TO, OR REVIEW, CONSULTATION, APPROVAL OR CONCURRENCE BY, ANOTHER AGENCY OR ENTITY

<input type="checkbox"/> Department of Finance (Form STD. 399) (SAM § 6660)	<input type="checkbox"/> Fair Political Practices Commission	<input type="checkbox"/> State Fire Marshal
<input type="checkbox"/> Other (Specify) _____		

7. CONTACT PERSON	TELEPHONE NUMBER	FAX NUMBER (Optional)	E-MAIL ADDRESS (Optional)
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8. I certify that the attached copy of the regulation(s) is a true and correct copy of the regulation(s) identified on this form, that the information specified on this form is true and correct, and that I am the head of the agency taking this action, or a designee of the head of the agency, and am authorized to make this certification.

SIGNATURE OF AGENCY HEAD OR DESIGNEE	DATE
	3/24/14
TYPED NAME AND TITLE OF SIGNATORY John Mendoza, Division Chief	

For use by Office of Administrative Law (OAL) only

DEPARTMENT OF HEALTH CARE SERVICE

NOTICE OF GENERAL PUBLIC INTEREST

THE DEPARTMENT OF HEALTH CARE SERVICES IS UPDATING THE MEDICAL ALL PATIENT REFINED DIAGNOSIS RELATED GROUPS (APR-DRG) PAYMENT PARAMETERS

This notice is to provide information of public interest about the California Department of Health Care Services' (Department) intent to update Year 2 Diagnosis Related Group (DRG) payment parameters for general acute inpatient services provided by hospitals, including out-of-state hospitals and hospitals designated by Medicare as critical access hospitals.

On October 19, 2010, Senate Bill 853 added Section 14105.28 to the Welfare and Institutions Code. Section 14105.28 required the replacement of two Medi-Cal fee-for-service (FFS) acute inpatient reimbursement methodologies: the Selective Provider Contracting Program (SPCP) (Article 2.6 of the Welfare and Institutions Code, commencing with section 14081) and non-SPCP, cost-based FFS reimbursement (Section 14087 of the Welfare and Institutions Code). Unless listed below as an exempt hospital type, these two FFS reimbursement methodologies were replaced with a diagnosis related grouping in order to comply with the purpose of Section 14105.28, subdivision (a) of the Welfare and Institutions. The diagnosis related grouping is the All Patient Refined – Diagnosis Related Grouping (APR-DRG).

Hospital types excluded from the APR-DRG methodology are:

- Psychiatric hospitals and distinct-part psychiatric unit at general hospitals
- Rehabilitation hospitals and distinct part units at general acute care hospitals, including alcohol and drug rehabilitation services
- Designated public hospitals

The Department implemented Year 1 payment methodology and DRG payment parameters for all admissions on and after July 1, 2013 for private hospitals and on and after January 1, 2014 for nondesignated public hospitals. The Year 2 base payment parameters will take effect for private hospitals and nondesignated public hospitals admissions on and after July 1, 2014 which are reimbursed using the APR-DRG methodology. Possible reasons for changes in the payment parameters may include the following:

- Changes in the Medicare wage index value assigned to hospitals.
- Changes in the APR-DRG grouping algorithm and relative weights due to version updates.
- Changes that stem from the Department's monitoring of the new payment method after implementation.

PUBLIC REVIEW AND COMMENTS

Copies of the State Plan Amendment that amends California's Medicaid State Plan may be requested, in writing, from Mr. John Mendoza, Department of Health Care Services, Safety Net Financing Division, MS 4518, P.O. Box 997436, Sacramento, CA 95899-7436.

Written comments concerning the proposal may be mailed to Mr. Mendoza at the above address and must be received on or before May 19, 2014.

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT

STATE: CALIFORNIA

Appendix 6

1. APR-DRG Payment Parameters

<u>Parameter</u>	<u>Value</u>	<u>Description</u>
Remote Rural APR-DRG Base Price	\$10,640	Statewide Remote Rural APR-DRG Base Price
Statewide APR-DRG Base Price	\$6,289	Statewide APR-DRG Base Price (non-Remote Rural)
Policy Adjustor - Age	1.25	Policy Adjustor for claims whose patients are less than 21 years old with a DRG in the ‘miscellaneous pediatric’ or ‘respiratory pediatric’ care categories.
Policy Adjustor – NICU services	1.25	Policy Adjustor for all NICU DRGs (i.e. DRGs assigned to the ‘neonate’ care category, except for those receiving the NICU Surgery policy adjuster below).
Policy Adjustor – NICU surgery	1.75	Enhanced Policy Adjustor for all designated NICU facilities and surgery sites recognized by California Children’s Services (CCS) Program to perform neonatal surgery. For all DRGs assigned to the neonate care category
Policy Adjustor – Each other category of service	1.00	Policy adjustor for each other category of service.
Wage Index Labor Percentage	69.6%	Percentage of DRG Base Price or Rehabilitation per diem rate adjusted by the wage index value.
High Cost Outlier Threshold 1	\$42,040	Used to determine Cost Outlier payments
High Cost Outlier Threshold 2	\$131,375	Used to determine Cost Outlier payments
Low Cost Outlier Threshold 1	\$42,040	Used to determine Cost Outlier payments
Marginal Cost Factor 1	60%	Used to determine Cost Outlier payments
Marginal Cost Factor 2	80%	Used to determine Cost Outlier payments
Outlier Percentage, upper bound	18%	Outlier payments as percentage of total
Outlier Percentage, lower bound	16%	Outlier payments as percentage of total
Casemix Corridor, upper bound	0.6684	Projected upper bound of patient acuity
Casemix Corridor, lower bound	0.6484	Projected lower bound of patient acuity
Discharge Status Value 02	02	<u>Transfer to a short-term general hospital for inpatient care</u> Transfer to a short term

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		hospital
Discharge Status Value 05	05	Transfer to a designated cancer center
Discharge Status Value 65	65	Transfer to a psychiatric hospital
Discharge Status Value 66	66	Transfer to a critical access hospital (CAH) Transfer to a critical access hospital
		Transfer to a short-term general hospital for inpatient care
		Transfer to a designated cancer center
		Transfer to a Medicare-certified long-term care hospital (LTCH)
Interim Payment	\$600	Per diem amount for Interim Claims
APR-DRG Grouper Version	V31	3M Software version used to group claims to a DRG*
HAC Utility Version	V30	3M Software version of the Healthcare Acquired Conditions Utility
Pediatric Rehabilitation Rate	\$1,841	Daily rate for rehabilitation services provided to a beneficiary under 21 years of age on admission.
Adult Rehabilitation Rate	\$1,032	Daily rate for rehabilitation services provided to a beneficiary 21 years of age or older on admission.

2. Separately Payable Services, Devices, and Supplies

Code	Description
Bone Marrow	
38204	Management of recipient hematopoietic progenitor cell donor search and acquisition
38204	Unrelated bone marrow donor
Blood Factors	
J7180	Blood factor XIII
J7183/J7184/Q2041	Blood factor Von Willebrand –injection
J7185/J7190/J7192	Blood factor VIII
J7186	Blood factor VIII/ Von Willebrand
J7187	Blood factor Von Willebrand
J7189	Blood factor VIIa
J7193/J7194/J7195	Blood factor IX
J7197	Blood factor Anti-thrombin III
J7198	Blood factor Anti-inhibitor

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3. List of Hospitals to receive the “Policy Adjustor – NICU Surgery”

- 1) California Hosp Medical Center of Los Angeles
- 2) California Pacific Medical Center - Pacific
- 3) Cedars Sinai Medical Center
- 4) Children’s Hospital & Research Center of Oakland
- 5) Children’s Hospital of Central California
- 6) Children’s Hospital of Los Angeles
- 7) Children’s Hospital of Orange County
- 8) Citrus Valley Medical Central – Queen of the Valley
- 9) Earl & Lorraine Miller Children’s Hospital
- 10) Good Samaritan – Los Angeles
- 11) Good Samaritan - San Jose
- 12) Huntington Memorial Hospital
- 13) Kaiser Permanente Medical Center - Oakland
- 14) Kaiser Foundation Hospital - Roseville
- 15) Loma Linda University Medical Center
- 16) Lucille Salter Packard Children’s Hospital - Stanford
- 17) Pomona Valley Hospital Medical Center
- 18) Providence Tarzana
- 19) Rady Children’s Hospital - San Diego
- 20) Santa Barbara Cottage Hospital
- 21) Sutter Memorial Hospital

For purposes of receiving the NICU policy adjustor, the hospital stay must be assigned to the neonate care category. For purposes of receiving the enhanced NICU Surgery policy adjustor, the hospital must meet the definition of a Regional NICU as defined in the CCS Manual of Procedures, Section 3.25.1 or a Community NICU with a neonatal surgery as defined in the CCS Manual of Procedures Sections 3.25.2.

Periodic reviews of CCS-approved NICUs may be conducted on an annual basis or as deemed necessary by the CCS program. If an NICU does not meet CCS program requirements, the NICU may be subject to losing CCS approval. If a hospital loses CCS approval as a designated NICU, the hospital will no longer qualify for the enhanced DRG Policy Adjustor – NICU surgery and be dropped from the list above. Additionally, hospitals that apply and receive NICU approval from CCS will be added to the list above.

- a. The DRG Hospital Specific Transitional APR-DRG Base Price for SFY 2013-14 were sent to private hospitals January 30, 2013.
- b. The DRG Hospital Specific Transitional APR-DRG Base Price for SFY 2013-14 were sent to NDPHs June 17, 2013.
- c. The DRG Hospital Specific Transitional APR-DRG Base Price for SFY 2014-15 and SFY 2015-16 was provided to hospitals on July 31, 2013. Transitional APR-DRG Base Prices are subject to change based on changes to the Medicare Wage Index, hospital characteristics or other reasons. Beginning in 2016-17 all hospitals will receive the statewide base price.

1. Wage Area Adjustor

- a. The “Wage Area Adjustor” adjusts the APR-DRG Base Price of a DRG Hospital depending on the wage area Medicare has assigned to them. DHCS will utilize the same wage area boundaries, wage area index values, labor share calculation, and any other wage area or index value adjustments as Medicare. DHCS will also use the Medicare reclassifications of DRG Hospitals into adjacent wage areas. Out of state hospitals will receive a wage area adjustor of 1.00. The wage area adjustor is applied to the labor share percentage, as specified in Appendix 6, of the statewide base price or the remote rural base price. Medicare published the Medicare impact file for FFY 2014 in January, 2014 and it was used for the transitional base prices for SFY 2014-15. 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>.

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Supersedes

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Provided all requirements for prepayment review have been approved by DHCS, Rehabilitation Services are paid a per diem amount for each day of service that is authorized, unless otherwise specified in Attachment 4.19-A. The specific per diem rates for pediatric and adult rehabilitation services are specified in Appendix 6 and are statewide rates. The specific pediatric and adult rehabilitation per diem rates were set at a level that is budget neutral on a statewide basis for both adult and pediatric rehabilitation services based on rates in effect June 30, 2013. The specific per diem rate for a hospital that provided services to both the adult and pediatric population is based on the blend of pediatric and adult rehabilitation services provided at that specific hospital. A facility-specific blended rate is the weighted average of the statewide adult and statewide pediatric per diem rates, weighted by the individual facility's number of adult and pediatric rehabilitation days in the base period used to determine the statewide per diem rates. All rehabilitation rates are further adjusted by the labor portion (69.6%) of the hospital-specific Medicare Wage Index value for each specific hospital.

A. Updating Parameters

DHCS will review and update the Rehabilitation Services payment parameters through the State Plan Amendment process. When reviewing and updating, DHCS shall consider: access to care related to Rehabilitation Services provided at a DRG Hospital, and any other issues warranting review.

B. Pre-Payment and Post Payment Review

All claims paid under the rehabilitation per diem are subject to DHCS' pre-payment medical necessity review and discretionary post-payment review.