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 15-033

Dear Ms. Cantwell:

We have reviewed the proposed amendment to Attachment 4.19-A of your Medicaid state plan submitted under transmittal number (TN) 15-033. This amendment allows DRG hospitals to request the use of an alternative CCR in determining cost outlier DRG payments for the following rate year, rather than using the 2552-10 cost report, effective September 7, 2015. It also makes a technical change to Appendix 6 to Attachment 4.19A, removing a duplicative hospital from the list of hospitals that receive the NICU Policy Adjustor payment, effective September 7, 2015.

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 15-033 is approved effective September 7, 2015. We are enclosing the HCFA-179 and the amended plan pages.

If you have any questions, please call Blake Holt at (415) 744-3754.

Sincerely,

Kristin Fan  
Director

Enclosures
**DEPARTMENT OF HEALTH AND HUMAN SERVICES**
**HEALTH CARE FINANCING ADMINISTRATION**

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

**FOR:** HEALTH CARE FINANCING ADMINISTRATION

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

<table>
<thead>
<tr>
<th>1. TRANSMITTAL NUMBER:</th>
<th>15-033</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. STATE</td>
<td>CA</td>
</tr>
</tbody>
</table>

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

4. PROPOSED EFFECTIVE DATE: September 7, 2015

5. TYPE OF PLAN MATERIAL (Check One):
   - [ ] NEW STATE PLAN
   - [ ] AMENDMENT TO BE CONSIDERED AS NEW PLAN
   - [X] 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. FY 2016: $0
   - b. FY 2017: $0

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:
   - Attachment 4.19-A pages 17.49 and 17.49a and Appendix 6 to Attachment 4.19A, Page 3

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT (If Applicable):
   - Attachment 4.19-A pages 17.49 and 17.49a, Appendix 6 to Attachment 4.19, Page 3

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

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

12. SIGNATURE OF STATE AGENCY OFFICIAL:

   Original Signed by Mari Cantwell

13. TYPED NAME:
   Mari Cantwell

14. TITLE:
   State Medicaid Director

15. DATE SUBMITTED:

<table>
<thead>
<tr>
<th>16. RETURN TO:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Health Care Services</td>
</tr>
<tr>
<td>Attn: State Plan Coordinator</td>
</tr>
<tr>
<td>1501 Capitol Avenue, Suite 71.326</td>
</tr>
<tr>
<td>P.O. Box 997417</td>
</tr>
<tr>
<td>Sacramento, CA 95899-7417</td>
</tr>
</tbody>
</table>

17. DATE RECEIVED: SEP 26 2015
18. DATE APPROVED: DEC 09 2015
19. EFFECTIVE DATE OF APPROVED MATERIAL: SEP 07 2015
20. SIGNATURE OF REGIONAL OFFICIAL: 
21. TYPED NAME: 
22. TITLE: 
23. REMARKS: Pen and ink changes made in Boxes 8 and 9 with the state's permission.

FORM HCFA-179 (07-92)
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 (other than a new hospital or an out-of-state border or non-border hospital) may request that DHCS use a different (higher or lower) CCR based on substantial evidences presented by the hospital to more accurately represent its current year cost and charge experience, resulting in more accurate outlier claims payment amounts. A corresponding request for use of an alternative CCR for Medicare outlier reimbursement purposes must first be approved by CMS;
the Medicare approval must affect the same period as requested for Medicaid and use the same underlying evidential cost and charge data. This method would allow hospitals to submit once each year projected Medicaid costs and projected Medicaid charges on relevant CMS-2552 worksheets, along with any necessary supporting documentation. 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 approved alternative CCR. The submission deadline for the request to be accepted by DHCS is no later than December 31, annually. For hospitals that have submitted a cost report request by the December 31 deadline and received approval from DHCS, the approved alternative CCR will only be applied toward the following fiscal year’s annual update. There will be no retroactive adjustment to hospital’s CCR.

Hospitals are still required to complete and annually file the CMS 2552-10 cost report at the end of their respective cost reporting periods. Notwithstanding the pre- and post payment review provisions in paragraph (E), all approved projected costs and charges and alternative CCRs will be subject to 100% reconciliation based on the final audited CCRs for the cost reporting period(s) covering the actual payment year, and any resulting outlier overpayments will be recouped and FFP returned to the federal government in accordance with 42 CFR 433, Subpart F.

For new California hospitals for which there is no accepted prior period cost report to calculate a hospital specific CCR (or for other hospitals that can document that the apportionment data reported by the hospital in the cost report cannot be used 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 and (b), the Medicare reported average CCR of capital cost for California hospitals. Assigned CCRs will be updated annually with an effective date of July 1.
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 (UCSF Benioff 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) Community Regional Medical Center Fresno
10) Good Samaritan – Los Angeles
11) Good Samaritan - San Jose
12) Huntington Memorial Hospital
13) Kaiser Anaheim
14) Kaiser Downey
15) Kaiser Fontana
16) Kaiser Foundation Hospital - Los Angeles
17) Kaiser Permanente Medical Center - Oakland
18) Kaiser Foundation Hospital – Roseville
19) Kaiser Permanente – Santa Clara
20) Loma Linda University Medical Center
21) Lucile Salter Packard Children’s Hospital – Stanford
22) Miller Children’s at Long Beach Memorial Medical Center
23) Pomona Valley Hospital Medical Center
24) Providence Tarzana
25) Rady Children’s Hospital - San Diego
26) Santa Barbara Cottage Hospital
27) 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