



TOBY DOUGLAS
DIRECTOR

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



EDMUND G. BROWN JR.
GOVERNOR

March 28, 2014

Mr. Tim Hill
Director, Financial Management Group
Center for Medicaid, CHIP and Survey & Certification
U.S. Department of Health & Human Services
7500 Security Boulevard
Baltimore, MD 21244

CALIFORNIA REQUEST FOR WAIVER FOR HOSPITAL FEE-PHASE 4

Dear Mr. Hill:

California's Senate Bill 239 (Hernandez, Chapter 657, Statute of 2013) enacts the Medi-Cal Hospital Reimbursement Improvement Act of 2013, and establishes a new program period for the Hospital Quality Assurance Fee program. The California Department of Health Care Services (California) submits this letter requesting a waiver of the broad based and uniformity provisions concurrent with Medi-Cal State Plan Amendments 14-001 and 14-002. The hospital fee (which we refer to as the Phase 4 fee) is intended to apply to the period January 1, 2014 through December 31, 2016. The terms and conditions for the Phase 4 fee are substantially the same as those for which the prior waivers were granted.

California's request is for approval of a waiver of the broad-based and uniformity provisions of section 1903(w)(3)(B) and (C) of the Social Security Act. The terms of the Phase 4 fee for which the waiver is sought are as follows:

- (i) Public hospitals are excluded from the fee;
- (ii) Small and rural hospitals are excluded from the fee;
- (iii) Psychiatric and specialty hospitals are excluded from the fee;
- (iv) Out of State Hospitals may opt in to pay the fee on applicable categories of patient days and receive supplemental payments in the same manner that the hospital could participate if it were located in the state.
- (v) Non-Medi-Cal fee-for-service inpatient days in all other hospitals will be assessed a fee of \$563.62 for State Fiscal Year (SFY) 2013-14, \$466.46 for

- SFY 2014-15, \$539.80 for SFY 2015-16, and \$648.25 for SFY 2016-17, per inpatient day;
- (vi) Non-Medi-Cal managed care inpatient days in hospitals owned by a managed care organization will be assessed a fee of \$81.20 for SFY 2013-14, \$81.20 for SFY 2014-15, \$95.20 for SFY 2015-16, and \$95.20 for SFY 2016-17, per inpatient day;
 - (vii) Non-Medi-Cal managed care inpatient days in all other hospitals will be assessed a fee of \$145 for SFY 2013-14, \$145 for SFY 2014-15, \$170 for SFY 2015-16, and \$170 for SFY 2016-17, per inpatient day;
 - (viii) Medi-Cal managed care inpatient days in hospitals owned by a managed care organization will be assessed a fee of \$259.29 for SFY 2013-14, \$292.80 for SFY 2014-15, \$336.84 for SFY 2015-16, and \$362.83 for SFY 2016-17, per inpatient day; and
 - (ix) Medi-Cal fee-for-service and managed care days in all other hospitals and Medi-Cal fee-for-service days in hospitals owned by a managed care organization, will be assessed a fee of \$463.02 for SFY 2013-14, \$522.85 for SFY 2014-15, \$601.50 for SFY 2015-16, and \$647.91 for SFY 2016-17, per inpatient day.

All fees are based on inpatient days for each hospital's January to December 2010 data.

The value for the B1/B2 test is currently 1.07% for the last two subject fiscal quarters of SFY 2013-14 and 1.01%, 1.01% and 1.02% for SFY 2014-15, 2015-16 and the first two subject fiscal quarters of SFY 2016-17, respectively. Because the model is under further refinement, these numbers are subject to change. In that case, an updated B1/B2 calculation will be forwarded to the Centers for Medicare and Medicaid Services (CMS) as soon as review is completed.

For your information, we are setting forth the intended payments to hospitals that will be funded by the Phase 4 hospital fee, all of which are incorporated into the Medi-Cal State Plan Amendments 14-001 and 14-002, submitted concurrently to this waiver request. The payment structure is substantially the same as was utilized for the payments that were funded by the previously-approved hospital fees.

Fee-for-Service Payments: There will be six categories of payment increases to be incorporated into the state plan, as follows:

Inpatient supplements -	\$1,289.41 per 2010 calendar year Medi-Cal day for private hospitals for SFY 2013-14, \$1,029.99 per 2010 calendar year Medi-Cal day for private
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hospitals for SFY 2014-15, \$1,232.00 per 2010 calendar year Medi-Cal day for private hospitals, for SFY 2015-16, and \$1,490.97 per 2010 calendar year Medi-Cal day for private hospitals, divided by 2, for SFY 2016/17.

Outpatient supplements -

to the Upper Payment Limit for private hospitals for each subject fiscal year. The supplemental payments and other Medi-Cal payments for hospital outpatient services furnished by private hospitals for each fiscal year shall equal as close as possible the applicable federal upper payment limit. The outpatient supplemental rate shall be 150 percent of the outpatient base amount for the two remaining subject fiscal quarters in the 2013–14 subject fiscal year, 257 percent of the outpatient base amount for the subject fiscal quarters in the 2014–15 subject fiscal year, 290 percent of the outpatient base amount for the subject fiscal quarters in the 2015–16 subject fiscal year, and 160 percent of the outpatient base amount for the first two subject fiscal quarters in the 2016–17 subject fiscal year

Acute psychiatric supplements -

\$965 per 2010 calendar year Medi-Cal acute psychiatric day for private hospitals for SFY 2013-14, \$970 per 2010 calendar year Medi-Cal acute psychiatric day for private hospitals for SFY 2014-15, \$975 per 2010 calendar year Medi-Cal acute psychiatric day for private hospitals for 2015-16, and \$975 per 2010 calendar year Medi-Cal acute psychiatric day for private hospitals, divided by 2, for SFY 2016-2017.

High Acuity supplements -

\$2,500 per 2010 calendar year Medi-Cal high acuity day for qualifying hospitals for each subject fiscal year, for the two remaining subject fiscal quarters in the 2013–14, SFY 2014-15, 2015-16, and the first two subject fiscal quarters in the 2016–17 subject fiscal year.

Sub-acute supplements-	50 percent of the 2010 calendar year Medi-Cal subacute payments for SFY 2013-14, 55 percent for 2014-15, 60 percent for 2015-16, and 60 percent of the 2010 calendar year Medi-Cal subacute payments for SFY 2016-17.
Transplant supplements-	The transplant days shall be those identified in the 2010 Patient Discharge file from the Office of Statewide Health Planning and Development accessed on June 28, 2011. The transplant per diem supplemental rate shall be two thousand five hundred dollars (\$2,500) for the two remaining subject fiscal quarters in the 2013-14, SFY 2014-15, 2015-16, and the first two subject fiscal quarters in the 2016-17 subject fiscal year.
Trauma supplements-	The trauma per diem supplemental rate shall be two thousand five hundred dollars (\$2,500) for the two remaining subject fiscal quarters in the 2013-14 subject fiscal year, two thousand five hundred dollars (\$2,500) for the subject fiscal quarters in the 2014-15 subject fiscal year, two thousand five hundred dollars (\$2,500) for the subject fiscal quarters in the 2015-16 subject fiscal year, and two thousand five hundred dollars (\$2,500) for the first two subject fiscal quarters in the 2016-17 subject fiscal year.

The inpatient, outpatient, and acute psychiatric supplements will be paid to all private hospitals, whether or not they are subject to the fee, in the same amount for all Medi-Cal days. The criteria for the high acuity and sub-acute supplements will be paid in manner defined in the Medi-Cal State Plan Amendments 14-001 and 14-002, submitted concurrently with this waiver request.

The anticipated amount of total supplements for each category for the 36-month period is as follows:

Inpatient supplements -	\$ 7,286,902,973
Outpatient supplements -	\$ 3,737,342,941
Acute psychiatric supplements -	\$ 557,348,000
High acuity supplements -	\$ 1,317,547,500
Sub-acute supplements -	\$ 444,229,835

Transplant supplements -	\$ 54,262,500
Trauma supplements -	\$ 404,025,000

Managed Care Payments: As in the prior phase, managed care capitation rates will be increased for the Phase 4 period, with the requirement that the plans expend the entire amount of the increase for hospital services by hospitals. California will play no role in deciding how the plans will distribute these payments. The amount funded by the fee to be distributed through managed care capitation increases during the Phase 4 period is expected to be \$9,163,500,000.

Waiver Justification: We believe the Phase 4 hospital fee proposal satisfies the criteria of the CMS regulations for a waiver under 42 C.F.R. §433.72(b):

- The net impact of the fee and of the payments to be made to hospitals utilizing the revenue generated by the fee is generally redistributive, as demonstrated by the results of the B1/B2 test set forth above.
- The amount of the fee is not directly correlated to Medicaid payments. As before, a substantial number of hospitals that are not subject to the fee will participate in the payment increases funded by the fee. An updated table showing the absence of correlation of hospital fees and Medicaid utilization is forthcoming.
- The fee program does not fall within the hold harmless provisions specified in 42 C.F.R. §433.68(f):
 - The State does not provide for any direct or indirect non-Medicaid payment to hospitals paying the fee that is positively correlated with either the fee amount or the difference between the Medicaid payment and the fee amount.
 - No portion of the Medicaid payments varies based only on the amount of the fee paid.
 - There is no direct or indirect guarantee by which the State holds any hospital harmless for all or any portion of the fee amount. The aggregate revenue from the fee will not exceed 6 percent of inpatient net revenues projected for the program period January 1, 2014 through December 31, 2016, based on net revenue received by the hospitals.

Mr. Tim Hill
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We would be pleased to provide any additional information that you require for processing this request. We look forward to your favorable response.

Sincerely,
Originally Signed for Toby Douglas


Toby Douglas
Director