



DATE: June 1, 2023

Behavioral Health Information Notice No: 23-023

TO: California Alliance of Child and Family Services  
California Association for Alcohol/Drug Educators  
California Association of Alcohol & Drug Program Executives, Inc.  
California Association of DUI Treatment Programs  
California Association of Social Rehabilitation Agencies  
California Consortium of Addiction Programs and Professionals  
California Council of Community Behavioral Health Agencies  
California Hospital Association  
California Opioid Maintenance Providers  
California State Association of Counties  
Coalition of Alcohol and Drug Associations  
County Behavioral Health Directors  
County Behavioral Health Directors Association of California  
County Drug & Alcohol Administrators

SUBJECT: Elimination of Cost Reporting Requirements for Counties and Providers

PURPOSE: This Behavioral Health Information Notice (BHIN) notifies Mental Health Plans (MHPs), Drug Medi-Cal Organized Delivery System (DMC-ODS) plans, and DMC counties (DMC-ODS/DMC counties) of the elimination of cost reporting requirements for Medi-Cal to support implementation of the California Advancing and Innovating Medi-Cal Act.

REFERENCE: [California Welfare and Institutions Code \(W&I Code\) Article 5.51, Sections 14184.100, 14184.102, 14184.402, 14184.403, 14184.404, and 14184.405](#)

**BACKGROUND:**

In 2021, Article 5.51, titled the California Advancing and Innovating Medi-Cal (CalAIM) Act, was added to the California W&I Code. CalAIM is intended to support the following three goals: 1) identify and manage the risk and needs of Medi-Cal beneficiaries through whole-person-care approaches and addressing social determinants of health; 2) transition and transform the Medi-Cal program to a more consistent and seamless system by reducing complexity and increasing flexibility; and 3) improve quality outcomes, reduce health disparities, and drive delivery system transformation through value-based initiatives, modernization systems, and payment reform. Behavioral Health Payment Reform is one initiative within CalAIM which promotes the second and third goals listed above by reducing complexity and reforming how behavioral health services are reimbursed.

Currently, for Medi-Cal behavioral health services, counties are reimbursed via Certified Public Expenditures (CPE). The CPE methodology limits Medi-Cal reimbursements to costs incurred by the county and their contracted providers and requires a lengthy, complex, and labor-

intensive cost reconciliation process. As part of this process, counties must collect state Medi-Cal cost reports from all network providers, including subcontracted and county operated providers for SMHS, DMC-ODS, and DMC services, and submit those cost reports to DHCS. DHCS then reconciles all interim payments to actual cost.

Per W&I Code Section 14184.403(b), Behavioral Health Payment Reform will transition the specialty mental health, DMC, and DMC-ODS programs from cost-based reimbursement funded via CPEs to fee-for-service reimbursement funded via Intergovernmental Transfers. This transition will reduce complexity by eliminating the need for counties and subcontracted network providers to prepare state Medi-Cal cost reports, for counties to collect and submit those cost reports to DHCS, and for counties to undergo financial audits and reconciliation of those cost reports. Over time, the Behavioral Health Payment Reform initiative can enable value-based reimbursement structures that reward better care and quality of life for Medi-Cal beneficiaries.

**POLICY:**

In accordance with the requirements of the W&I Code Sections 14184.102, 14184.402, and 14184.403, DHCS expects counties to develop and implement local policies and procedures that reduce administrative burden, reduce complexity, and increase flexibility for their network providers, consistent with the CalAIM goals listed above. Effective July 1, 2022, MHPs, DMC-ODS/DMC counties will no longer be required to submit an annual Medi-Cal cost report. This policy change will eliminate the need for counties to collect and submit cost reports from subcontracted network providers for purposes of Medi-Cal reimbursement. However, counties may still need to collect cost information from subcontracted network providers for a variety of reasons, including, but not limited to:

- MHPs and DMC-ODS/DMC counties are required to continue to collect cost reports from network providers in compliance with DHCS cost reporting policies for services rendered prior to the date Behavioral Health Payment Reform is implemented on July 1, 2023.
- MHPs and DMC-ODS/DMC counties may reconcile payments to providers to actual cost for services rendered prior to the date Behavioral Health Payment Reform is implemented on July 1, 2023.
- When cost reporting is required by state or federal law.

Further, DHCS does not recommend the use of reconciling providers to actual costs or the requirement of cost information in the negotiation of rates. However, MHPs and DMC-ODS/DMC counties may reconcile payments to a network provider based on actual costs and/or collect cost information from a network provider for services rendered after Behavioral Health Payment Reform is implemented if:

- The financial arrangement advances the goals of CalAIM, and is mutually agreed to by the county and the network provider, or
- The cost reporting is required by state or federal law.

Except when required by state or federal law, a MHP or DMC-ODS/DMC County may

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not condition participation as a network provider on cost reconciliation and/or submitting cost information to the county. In the event that DHCS develops new financial reporting tools for counties under Behavioral Health Payment Reform, the department will provide further guidance to counties.

Questions regarding this BHIN may be directed to [BHFSEops@dhcs.ca.gov](mailto:BHFSEops@dhcs.ca.gov).

Sincerely,

Original signed by

Brian Fitzgerald, Chief  
Local Governmental Financing Division