



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



ARNOLD SCHWARZENEGGER  
GOVERNOR

DATE: May 12, 2008

MMCD All Plan Letter No. 08-004

TO: ALL MEDICAL MANAGED CARE HEALTH PLANS

SUBJECT: MANAGED CARE RATE REDUCTIONS FOR FY 2008-09

This letter is to provide information to Medi-Cal managed care health plans regarding the managed care rate reductions that will be implemented by the Department of Health Care Services (DHCS) beginning July 1, 2008. The payment reduction is mandated by Section 14105.19 of the Welfare and Institutions Code and is necessary to address California's significant structural budget deficit. The statute requires that payments to non-exempt Medi-Cal Fee-For-Service providers for dates of service on or after July 1, 2008 be reduced by ten percent and requires that capitation rates for Medi-Cal managed care health plans be reduced by the actuarial equivalent amount of this reduction.

The legislation adopting the budget is based on the assumption that managed care health plans will pass the reduction on to their plan providers. Each managed care health plan will determine how it will address this reduction and how it will affect plan providers. DHCS will implement the capitation rate reduction for the actuarial equivalent amount of the reduction effective July 1, through contract amendments or change orders.

In determining the actuarial equivalent of the provider payment reductions, DHCS considered the following exemptions:

- Acute hospital inpatient services provided under contract with DHCS.
- Federally Qualified Health Center (FQHC) services.
- Rural Health Clinic services.
- Skilled Nursing Facilities (SNF) as defined in subdivision (c) of Section 1250 of the Health and Safety Code, except a SNF that is a distinct part of a general acute care hospital.
- Intermediate Care Facilities for the Developmentally Disabled (ICF-DD) pursuant to subdivision (e), (g), or (h) of Section 1250 of the Health and Safety Code, or a

facility providing continuous skilled nursing care to developmentally disabled individuals pursuant to the pilot project established by Section 14495.10 of the Welfare and Institutions Code.

- Subacute Care Units as defined in Section 51215.5 of Title 22 of the California Code of Regulations.
- Payments to facilities owned or operated by the Department of Mental Health or Department of Developmental Services (not applicable to plans).
- Hospice services.
- Payments to Med-Cal managed care plans for services to consumers transitioning from Agnews Developmental Center into Alameda, San Mateo, and Santa Clara Counties pursuant to the Plan for the Closure of Agnews Developmental Center.
- Breast and cervical cancer treatment provided pursuant to Section 14607.71 of the Welfare and Institutions Code.
- Family Planning, Access, Care, and Treatment (Family PACT) Waiver Program

Please note that as listed above, the statute exempts acute inpatient services provided by hospitals under contract with DHS. In determining capitation rates for months of service beginning July 2008, the Department's consulting actuaries have made an adjustment for inpatient services using a statewide average of inpatient costs, rather than an allocation based upon hospitals' participation in the Selective Provider Contracting Program. A similar method was used to determine costs for FQHC services.

If you have questions regarding the information in this letter, please contact Mt. Russ Hart, Chief, Policy and Financial Management Branch at (916) 449-5000. Thank you for your continued cooperation.

Sincerely,

  
Vanessa M. Baird, MPPA, Chief  
Med-Cal Managed Care Division