

DATE:

Behavioral Health Information Notice No: 25-XXX

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: Modifications to the Rate Methodology for Fee-for-Service Medi-Cal Contract (FFS/MC) Hospitals and Reporting Requirement Submissions.

PURPOSE: The purpose of this Behavioral Health Information Notice (BHIN) is to inform Mental Health Plans (MHP) of modifications to the rate methodology for rates negotiated between MHPs and FFS/MC Hospitals and the new requirements for reporting those rates to DHCS.

REFERENCE: State Plan Amendment (SPA) [23-0045](#)

BACKGROUND: FFS/MC hospitals that contract with an MHP to provide acute psychiatric inpatient hospital services are paid a rate negotiated between the MHP and the hospital for those services. The negotiated rate must comply with parameters described in the California Medicaid State Plan. The parameters established with SPA 09-004 required the negotiated rate to be less than or equal to the lower of the hospital's usual and customary charge or the maximum per diem rate as determined by DHCS for the region where the hospital was located using the Fiscal Year 2013-14 Annual Financial Disclosure Report submitted to the California Department of Health Care Access and Information for all negotiated rate hospitals in each region annually trended to the rate year by the IHS Global Inc. CMS Market Basket Index for Inpatient Psychiatric Facilities.

CMS approved SPA 23-0045 on May 23, 2024, with an effective date of December 12, 2023, to amend the parameters applied to the rates MHPs negotiate with hospitals for acute psychiatric inpatient hospital services. The purpose for amending the parameters was to use more current cost information in setting the limit placed on the negotiated rate. The amended parameters limit each fiscal year's negotiated rate to the lower of the hospital's usual and customary charge or the hospital's cost per day as determined in its most recently audited CMS 2552 cost report trended to the rate year using the percentage change in the IHS Global Inc. CMS Market Basket Index for Inpatient Psychiatric Facilities or another cost-of-living index approved by CMS.

MHPs may renegotiate rates with FFS/MC hospitals in accordance with the parameters described in SPA 23-0045. Those renegotiated rates may be applied to dates of service starting on December 12, 2023, and will be applied to dates of service through June 30, 2026, unless the MHP submits a subsequent negotiated rate for an effective date after December 12, 2023, based upon a new audited CMS 2552 and published charge schedule. The MHP may select any effective date for a subsequent negotiated rate. This BHIN provides additional guidance for MHPs to negotiate those rates and describes the information that must be submitted with each hospital's negotiated rate so that DHCS can verify the rate is compliant with the new parameters.

**POLICY:**

MHPs may renegotiate rates with FFS/MC hospitals in accordance with the parameters described in SPA 23-0045. These renegotiated rates must be submitted to DHCS, along with all required documentation, before DHCS can approve the rates and deploy them in the payment system. DHCS will implement all renegotiated rates that are compliant with the new parameters and will process an Erroneous Payment Correction (EPC) for any claims for dates of service on or after the effective date of the renegotiated rate that were paid at the previous rate as long as the date of service is not more than 700 days from the date the EPC is processed.

The renegotiated rate must be less than or equal to the lower of the hospital's usual and customary charge or its cost per day as determined in its most recently settled CMS 2552 cost report, trended to the rate year using the percentage change in the IHS Global Inc CMS Market Basket Index for Inpatient Psychiatric Facilities or another cost-of-living index that is approved by CMS. Hospitals that do not have a settled CMS 2552 will be reimbursed at the appropriate regional rate. Counties may obtain the audited CMS 2552 hospital cost report and associated forms from the hospital or by submitting a Freedom of Information Act request in the CMS [website](#). MHPs must submit a

negotiated rate package with the following information to DHCS for each hospital's renegotiated rate(s) or their existing rates within three months of the date of the BHIN:

1. Renegotiated rates and hospital information (Enclosure 2)
2. The facility's published charge schedule containing its usual and customary charge for each accommodation code and age group for which the MHP is submitting a negotiated rate. Please clearly identify the applicable charge on the charge schedule.
3. The facility's most recent settled CMS 2552 hospital cost report. The status of the CMS 2552, identified in Worksheet S, Part I, Item 5 of the cost report, must be either 2, settled without audit, or 3, settled with audit.
4. The Negotiated Rate Limit verification worksheet (Enclosure 1).

If an MHP does not submit a rate package with this information for an existing negotiated rate for a hospital within three months of the date of this BHIN, the hospital's rate will revert to the appropriate regional rate until the MHP submits a complete rate package. DHCS published the Fiscal Year 2023-24 regional rate as an [enclosure](#) to BHIN [23-038](#), the Fiscal Year 2024-25 regional rate as an [enclosure](#) to BHIN [24-037](#), and will publish the Fiscal Year 2025-26 regional rate in the Fall.

If an MHP determines that the IHS Global Inc. CMS Market Basket Index does not adequately capture a hospital's increased costs from the audited CMS 2552 hospital cost report to the rate year, it may propose an alternative cost of living index to DHCS for evaluation. DHCS will consider an alternative cost of living index for negotiated rates that are effective on or after July 1, 2024. An MHP may propose another standardized cost of living index for one or all hospitals located in the county, or a non-standardized cost of living index based upon a hospital's specific cost data. To request and to use an alternative standardized cost of living index, please submit Form MC 2024D (Enclosure 3) to [SDMCRates@dhcs.ca.gov](mailto:SDMCRates@dhcs.ca.gov). Please include Alternative Cost of Living Index in the subject line of the e-mail. DHCS will scrutinize the MHP's justification for the proposed index; If DHCS agrees with the proposed index, DHCS will engage CMS to request approval to use the proposed index.

Please e-mail DHCS at [SDMCRates@dhcs.ca.gov](mailto:SDMCRates@dhcs.ca.gov) to request assistance with preparing a request for CMS to review and approve a hospital-specific non-standardized cost of living index. Please include Non-Standardized Alternative Cost of Living Index in the subject line. CMS approval of a non-standardized hospital-specific cost-of-living index may only be applied to the year in which it was requested, and the MHP must use the IHS Global Inc. CMS Market Basket Index for Inpatient Psychiatric Facilities in subsequent years unless CMS approves an alternative standardized cost of living index.

The parameters described in SPA 23-0045 and the process described in this BHIN apply to the rates DHCS may pay FFS/MC hospitals for acute psychiatric inpatient hospital services provided to Medi-Cal members. If an MHP determines the per diem rate for a hospital should be higher than the rate limit determined pursuant to the parameters in SPA 23-0045 and the process described in this BHIN, the MHP may choose to pay a supplemental rate to the FFS/MC hospital. This supplemental rate would be separate from the rate the MHP submitted to DHCS pursuant to this BHIN and would be paid by the MHP not DHCS. The supplemental rate would not be eligible for federal reimbursement.

The parameters described in SPA 23-0045 and the process described in this BHIN do not apply to rates paid to FFS/MC hospitals for acute psychiatric inpatient hospital services that are subject to the Institution for Mental Disease (IMD) exclusion. BHIN 20-008 provides guidance regarding county responsibility to pay for psychiatric inpatient hospital services that are subject to the IMD exclusion.

Sincerely,

Charles Anders  
Acting Chief  
Local Governmental Financing Division