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Michelle Baass, Director & Interim State Medicaid Director  
Department of Health Care Services  
1501 Capitol Ave  
MS 0000  
Sacramento, CA 95899-7413

Dear Director Baass:

This is in response to your request for a waiver of the broad-based and uniformity requirements related to a health care-related tax program on inpatient hospital services. California is requesting this waiver as an update to its previously approved waiver of the broad-based and uniformity requirements for the Hospital Quality Assurance Fee (HQAF) for its inpatient hospital assessment program. Upon review and consideration of the information formally provided to the Centers for Medicare & Medicaid Services (CMS) on March 22, 2023, and subsequently revised on June 30, 2023, July 24, 2023, September 19, 2023, and November 20, 2023, I am writing to inform you that your request for a waiver of the broad-based and uniformity provisions of sections 1903(w)(3)(B) and (C) of the Social Security Act (the Act) is approved.

The tax structure for which California requested a waiver would be imposed as follows:

- (i) Public hospitals are excluded from the tax;
- (ii) Small and rural hospitals are excluded from the tax;
- (iii) Psychiatric and specialty hospitals are excluded from the tax;
- (iv) New hospitals as defined in California Welfare and Institutions Code section 14169.51, subdivision (ai) are excluded from the tax;
- (v) Out of state hospitals are excluded from the tax;
- (vi) Non-Medi-Cal fee-for-service inpatient days will be assessed a fee of \$364.94 per inpatient day for calendar year 2023 and \$432.79 per inpatient day for calendar year 2024;
- (vii) Non-Medi-Cal managed care inpatient days in hospitals owned by managed care organizations will be assessed a fee of \$204.34 per inpatient day for calendar year 2023 and \$243.04 per inpatient day for calendar year 2024;
- (viii) Non-Medi-Cal managed care inpatient days in all other hospitals will be assessed a fee of \$364.89 per inpatient day for calendar year 2023 and \$434.00 per inpatient day for calendar year 2024;
- (ix) Medi-Cal managed care inpatient days in hospitals owned by managed care organizations will be assessed a fee of \$347.20 per inpatient day for calendar year 2023 and \$408.80 per inpatient day for calendar year 2024; and
- (x) Medi-Cal managed care inpatient days in all other hospitals and Medi-Cal fee-for-service inpatient days will be assessed a fee of \$620.00 per inpatient day for calendar year 2023 and \$730.00 per inpatient day for calendar year 2024.

Section 1903(w)(3)(E) of the Act specifies that the Secretary shall approve uniformity (and broad-based) waiver applications if the net impact of the tax is generally redistributive and that the amount of the tax is not directly correlated to Medicaid payments.

Federal regulations at 42 CFR § 433.68(e)(2) describe the statistical test necessary for a state to demonstrate that the proposed structure is generally redistributive. California's statistical demonstration is addressed below. Moreover, federal regulations at 42 CFR § 433.68(f) describe the circumstances in which a direct correlation would exist. Upon review of the California statute implementing the proposed hospital tax and California's proposed methodology for increasing Medicaid reimbursement to hospitals, it appears that no direct correlation exists between the tax and any associated increases in Medicaid reimbursement.

To determine the generally redistributive nature of the proposed inpatient hospital patient day tax, California calculated the slope (expressed as B1) of a linear regression for a broad-based and uniform tax in which the dependent variable was each hospital's percentage share of the total tax paid, if the tax was uniformly imposed on all hospital inpatient days in the state and the independent variable was each hospital's number of Medicaid inpatient days. California then calculated the slope (expressed as B2) of a linear regression for the state's actual proposed tax program in which the dependent variable was each hospital's percentage share of the total tax paid and the independent variable was the number of Medicaid patient days for each hospital.

Using the patient day and tax rate data you provided, CMS also performed the regression analysis calculations required in the regulations for the proposed tax. CMS finds that the result of the generally redistributive calculation for the California inpatient hospital patient day tax is **1.00568** for calendar year 2023 and **1.00761** for calendar year 2024.

Therefore, we are able to approve your request to modify your waiver of the broad-based and uniformity provisions of sections 1903(w)(3)(B) and (C) of the Act for the proposed inpatient hospital patient day tax. Please be advised that any future changes to the taxing structure, including a non-uniform change to the approved tax rates, may require the state of California to submit a new broad-based and/or uniformity waiver request.

Federal regulations at 42 CFR § 433.72(c)(2) specify that a waiver will be effective for tax programs commencing on or after August 13, 1993, on the first day of the calendar quarter in which the waiver is received by CMS. CMS received the state of California's initial request for a waiver of the broad-based and uniformity requirements on March 22, 2023, with a requested effective date of January 1, 2023. Therefore, the effective date of California's request for a waiver of the broad-based and uniformity requirements is January 1, 2023. Please be advised that any changes to the federal requirements concerning health care-related taxes may require the state to come into compliance by modifying its tax structure.

CMS is also providing a companion letter to this tax waiver approval letter. Please be advised that any changes to the federal requirements concerning health care-related taxes may require the state to come into compliance by modifying its tax structure. CMS reserves the right to perform a financial management review at any time to ensure that the state operation of the tax on hospitals continues to meet the requirements of section 1903(w) of the Act.

I hope this information addresses all of your concerns. If you have further questions or need additional information, please contact Jonathan Endelman at (410) 786-4738.

Sincerely,

Rory Howe  
Director  
Financial Management Group