

January 20, 2022

Jacey Cooper  
Chief Deputy Director, Health Care Programs  
California Department of Health Care Services  
1501 Capitol Avenue, 6<sup>th</sup> Floor, MS 0000  
Sacramento, CA 95814

Dear Ms. Cooper:

In accordance with 42 CFR 438.6(c), the Centers for Medicare & Medicaid Services (CMS) has reviewed and is approving California's submission of a proposal for delivery system and provider payment initiatives under Medicaid managed care plan contracts. The proposal was received by CMS on December 31, 2020 and has a control name of CA Proposal F 2021.

Specifically, the following proposal for delivery system and provider payment initiatives (i.e. state directed payment) is approved:

- Uniform increase for Designated Public Hospital Systems that hold a risk-based PMPM capitated contract with a Medi-Cal Managed Care Plan that includes capitation for the provision of most services, including inpatient hospital services, for the rating period covering January 1, 2021 through December 31, 2021.

This approval letter does not constitute approval of any Medicaid managed care plan contracts or rate certifications for the aforementioned rating period, or any specific Medicaid financing mechanism used to support the provider payment arrangement. All other federal laws and regulations apply. This approval letter only satisfies the regulatory requirement pursuant to 42 CFR 438.6(c)(2) for written approval prior to implementation of any payment arrangement described in 42 CFR 438.6(c)(1). Approval of the corresponding Medicaid managed care plan contracts and rate certifications is still required.

The state is always required to submit a contract action(s) to incorporate the contractual obligation for the state directed payment and related capitation rates that include this payment arrangement.

Note that this payment arrangement and all state directed payments must be addressed in the applicable rate certifications. Documentation of all state directed payments must be included in the initial rate certification as outlined in Section I, Item 4 of the [Medicaid Managed Care Rate Development Guide](#). The state and its actuary must ensure all documentation outlined in the Medicaid Managed Care Rate Development Guide is included in the initial rate certification. Failure to provide all required documentation in the rate certification may cause delays in CMS review. CMS is happy to provide technical assistance to states and their actuaries.

As part of the preprint, the state indicated that this state directed payment will be incorporated into the state's rate certification through a separate payment term. As the payment arrangement is addressed through a separate payment term, CMS has several requirements related to this payment arrangement, including but not limited to the requirement that the state's actuary must certify the

aggregate amount of the separate payment term and an estimate of the magnitude of the payment on a per member per month (PMPM) basis for each rate cell. Failure to provide all required documentation in the rate certification may cause delays in CMS review. As the PMPM magnitude is an estimate in the initial rate certification, no later than 12 months after the rating period is complete, the state must submit documentation to CMS that incorporates the total amount of the state directed payment into the rate certification's rate cells consistent with the distribution methodology described in the initial rate certification, as if the payment information (e.g., providers receiving the payment, amount of the payment, utilization that occurred, enrollees seen, etc.) had been known when the rates were initially developed. Please submit this documentation to [statedirectedpayment@cms.hhs.gov](mailto:statedirectedpayment@cms.hhs.gov) and include the control name listed for this review along with the rating period.

Additionally, if the total amount of the state directed payment or distribution methodology is changed from the initial rate certification, CMS requires the state to submit both a state directed payment preprint amendment and an amendment to the rate certification(s) for the rating period, and clearly describe the magnitude of and the reason for the change.

CMS is able to approve this state directed payment proposal with a requirement that the state provide baseline data as well as Year 1 and Year 2 evaluation findings with the state's CY 2022 preprint submission for prior approval under 42 CFR 438.6(c).

Lastly, please note that CMS will continue to work with the state on the underlying managed care rate certification issues related to inclusion of the unsatisfactory immigration status (UIS) beneficiary population.

If you have questions concerning this approval or state directed payments in general, please contact Alex Loizias, Division of Managed Care Policy, at (410) 786-2425, [alexandra.loizias@cms.hhs.gov](mailto:alexandra.loizias@cms.hhs.gov).

Sincerely,

John Giles, MPA  
Director, Division of Managed Care Policy  
Center for Medicaid and CHIP Services