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**State/Territory Name:** Colorado

**State Plan Amendment (SPA) #:** CO-10-012

This file contains the following documents in the order listed:

- 1) Approval Letter
- 2) CMS 179 Form/Summary Form (with 179-like data)
- 3) Approved SPA Pages

DEPARTMENT OF HEALTH & HUMAN SERVICES  
Centers for Medicare & Medicaid Services  
7500 Security Boulevard, Mail Stop S2-26-12  
Baltimore, Maryland 21244-1850



**Center for Medicaid and State Operations**

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JUN - 6 2011

Ms. Barbara Prehmus  
Colorado Department of Health Care  
Policy & Financing  
1570 Grant Street  
Denver, CO 80203-1818

Re: Colorado 10-012

Dear Ms. Prehmus:

We have reviewed the proposed amendment to Attachment 4.19-A of your Medicaid State plan submitted under transmittal number (TN) 10-012. Effective for services on or after October 1, 2010, this amendment provides clarification to the reimbursement methodology for psychiatric hospitals.

We conducted our review of your submittal according to the statutory requirements at sections 1902(a)(2), 1902(a)(13), 1902(a)(30), 1903(a) and 1923 of the Social Security Act (the Act) and the regulations at 42 CFR 447 Subpart C. We are pleased to inform you that Medicaid State plan amendment TN 10-012 is approved effective October 1, 2010. The HCFA-179 and the amended plan pages are attached.

If you have any questions, please call Christine Storey at (303) 844-7044.

Sincerely,



Cindy Mann  
Director, CMCS

**TRANSMITTAL AND NOTICE OF APPROVAL OF  
STATE PLAN MATERIAL**  
FOR: CENTERS FOR MEDICARE & MEDICAID SERVICES

1. TRANSMITTAL NUMBER: <b>10-012</b>	2. STATE: <b>COLORADO</b>
3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL SECURITY ACT (MEDICAID)	
4. PROPOSED EFFECTIVE DATE <b>10/1/2010</b>	

TO: REGIONAL ADMINISTRATOR  
CENTERS FOR MEDICARE & MEDICAID SERVICES  
DEPARTMENT OF HEALTH AND HUMAN SERVICES

5. TYPE OF PLAN MATERIAL (Check One):

NEW STATE PLAN                      AMENDMENT TO BE CONSIDERED AS A NEW PLAN                       AMENDMENT

COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate transmittal for each amendment)

6. FEDERAL STATUTE/REGULATION CITATION <b>42 CFR 482.60</b>	7. FEDERAL BUDGET IMPACT a. FFY09-10 \$0 b. FFY10-11 \$0
8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT <b>Attachment 4.19-A: Methods and Standards for Establishing Prospective Payment Rates – Inpatient Hospital Services: Pages 8 and Page 10</b>	9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT (If Applicable) <b>Attachment 4.19-A: Methods and Standards for Establishing Prospective Payment Rates – Inpatient Hospital Services: TN# 04-007, Pages 8 and 10 only.</b>

10. SUBJECT OF AMENDMENT  
**Eligible psychiatric hospitals.**

11. GOVERNOR'S REVIEW (Check One)

GOVERNOR'S OFFICE REPORTED NO COMMENT                       OTHER, AS SPECIFIED

**Comments of Governor's Office enclosed  
NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL**

**Governor's letter dated 29 July 2009**

12. [Redacted]

13. [Redacted]

**Robert C. Douglas**

16. RETURN TO

Colorado Department of Health Care Policy and Financing  
1570 Grant Street  
Denver, CO 80203-1818

Attn: Barbara Prehmus

14. TITLE  
**Legal Division Director**

15. DATE SUBMITTED  
**11/10/2010**

**FOR REGIONAL OFFICE USE ONLY**

17. DATE RECEIVED:	18. DATE APPROVED: <b>06-06-11</b>
PLAN APPROVED – ONE COPY	
19. EFFECTIVE DATE OF APPROVED MATERIAL: <b>OCT - 1 2010</b>	20. [Redacted]
21. TYPED NAME: <b>William Lasowski</b>	22. TITLE: <b>Deputy Director, CMCS</b>

23. REMARKS:

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT  
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STATE OF COLORADO

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Page 8

- f. Effective July 1, 2003 all adjustments outlined in number 2. of this section (Adjustments To The Payment Formula) are suspended.

E. Adjustments For Exempt Providers

1. Exempt hospitals will receive annual modifications to per diem rates based on inflationary adjustments as determined by the Medicare Economic Index. In no case shall the per diem rate granted to an exempt hospital exceed the facility's allowable Medicaid cost per day.
2. Effective October 1, 2001, government-owned mental health institutes shall receive annual modifications to the per diem rates. The rates shall be established to cover 100 percent of the total allowable cost to treat Medicaid clients. Payments are calculated using interim rates and later adjusted to a final rate, as described below:
  - a. Interim Rates. The Colorado Department of Human Services (CDHS) files by November 30 of each year (5 months before the end of the fiscal year) the Medicare cost report for the state mental health institutes. CDHS calculates the interim per diem rates using a 9-month cost report that is identical to the first portion of the Medicare cost report. CDHS divides the total allowable costs (contained in the report) by the number of patient days for each unit in the mental health institutes. Once the CDHS Director of Hospital Services approves this report, the rates are sent to the Department, where the educational component of the rate is "carved out" and the resulting interim rates are put into the MMIS with an effective date of July 1.
  - b. Final Rates and Reconciliation. A Medicare audit is initiated after the Medicare cost report is submitted. Once the Medicare audit is complete, CDHS files the Medicaid cost report, a state-developed report based on the 2552 with some minor adjustments. The state mental health institutes must file the Medicaid cost report four months after the Medicare audit is finalized. The Department initiates the Medicaid audit once the Medicaid cost report has been filed and the Department has access to the necessary expenditure summary data from the MMIS. After the Medicaid audit has been completed, the Department calculates retroactive per diem rates for each of the units in the mental health institutes. These are the state's final rates and are used to complete the cost settlements.
3. Exempt hospitals are eligible for the Major Teaching Hospital and Disproportionate Share Payments.

TN No. 10-012  
Supersedes TN No. 04-007

Approval Date JUN 6 2011  
Effective Date 10/1/2010

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT  
MEDICAL ASSISTANCE PROGRAM

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G. Free-Standing Psychiatric Hospitals (Excluding State Institutions):

1. Care provided in free-standing hospitals to Medicaid clients under the age of 21 is reimbursed using two per diem rates:
  - (a) The initial per diem rate is paid during the first seven days of a client's stay.
  - (b) The second per diem rate begins on the eighth day of a client's stay and is paid for the remainder of the stay. This rate is lower than the initial per diem rate.
  - (c) Rationale: The Department analyzed historical Medicaid payment rate data and evaluated the relationship between hospital cost data and patient length of stay. Medicaid cost data from FY1987 revealed that costs for the first seven days of care were 38% higher than costs for the remainder of the certified stay. Based upon this cost relationship, the existing per diem payments made to these facilities were recalibrated to reflect a "step down" in payment after day 7. The two per diem rates, when paid for the entire 42-day average length of stay, will pay an average amount equal to previous payments to these facilities. This revision in payment methodology is designed to be revenue neutral while providing incentives for cost containment.
2. Free-standing psychiatric hospital rates may be updated annually by the methodology outlined in Section E (Adjustments For Exempt Providers), paragraph 1.
3. Effective October 1, 2010, any psychiatric hospital in the state of Colorado that meets all hospital enrollment requirements may be enrolled and eligible for reimbursement as a Colorado Medicaid provider.

H. Public Process for Hospital Rate-Setting

The State has in place a public process which complies with the requirements of Section 1902(a)(13)(A) of the Social Security Act.

TN No. 10-012  
Supersedes TN No. 04-007

Approval Date JUN - 6 2011  
Effective Date 10/1/2010