

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 CHIP Services

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**OCT 20, 2011**

Mr. Lanier M. Cansler  
Secretary  
North Carolina Department of Health and Human Services  
2001 Mail Service Center  
Raleigh, North Carolina 27699-2001

RE: SPA NC 11-036

Dear Secretary Cansler:

We have reviewed the proposed amendment to Attachment 4.19-A of your Medicaid State plan submitted under transmittal number (TN) 11-036. Effective October 1, 2011 this amendment proposes to revise the payment methodology for inpatient acute hospital and non-state owned psychiatric and rehabilitation hospital services. Specifically, this amendment proposes to decrease payment rates by 9.80% for inpatient acute hospitals to yield a 12 month 7.32% reduction in the remaining 9 months of the State Fiscal Year. For non-state owned psychiatric and rehabilitation hospitals rates will be decreased by 2.67% to yield a 12 month 2% reduction. Also effective July 1, 2012 the amendment proposes to adjust rates to 92.68% for inpatient acute hospitals and 98% for non-state owned psychiatric and rehabilitation hospitals of the rates in effect on July 1, 2011.

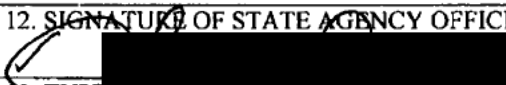
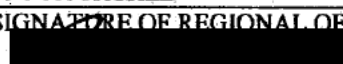
We conducted our review of your submittal according to the statutory requirements at sections 1902(a)(13), 1902(a)(30), and 1903(a) of the Social Security Act and the implementing Federal regulations at 42 CFR Part 447. We have found that the proposed changes in payment methodology comply with applicable requirements and therefore have approved them with an effective date of October 1, 2011. We are enclosing the CMS-179 and the amended approved plan pages.

If you have any questions, please call Stanley Fields at (502) 223-5332.

Sincerely

//s//

Cindy Mann  
Director, CMCS

<b>TRANSMITTAL AND NOTICE OF APPROVAL OF STATE PLAN MATERIAL</b>		1. TRANSMITTAL NUMBER:  11-036	2. STATE  NC
FOR: HEALTH CARE FINANCING ADMINISTRATION		3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL SECURITY ACT (MEDICAID)	
TO: REGIONAL ADMINISTRATOR HEALTH CARE FINANCING ADMINISTRATION DEPARTMENT OF HEALTH AND HUMAN SERVICES		4. PROPOSED EFFECTIVE DATE  October 1, 2011	
5. TYPE OF PLAN MATERIAL (Check One):  <input type="checkbox"/> NEW STATE PLAN <input checked="" type="checkbox"/> AMENDMENT TO BE CONSIDERED AS NEW PLAN <input type="checkbox"/> AMENDMENT			
COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate Transmittal for each amendment)			
6. FEDERAL STATUTE/REGULATION CITATION:  42 CFR 447 Subpart C		7. FEDERAL BUDGET IMPACT: a. FFY 2012 (\$51,129,337) b. FFY 2013 (\$40,769,798)	
8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:  Attachment 4.19-A, Page 4 and Attachment 4.19-A, Supplement 1, Page 3		9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT (If Applicable):  Attachment 4.19-A, Page 4	
10. SUBJECT OF AMENDMENT:  Inpatient Hospital			
11. GOVERNOR'S REVIEW (Check One): <input type="checkbox"/> GOVERNOR'S OFFICE REPORTED NO COMMENT <input checked="" type="checkbox"/> OTHER, AS SPECIFIED: SECRETARY <input type="checkbox"/> COMMENTS OF GOVERNOR'S OFFICE ENCLOSED <input type="checkbox"/> NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL			
12. SIGNATURE OF STATE AGENCY OFFICIAL: 		16. RETURN TO:  Office of the Secretary Department of Health and Human Services 2001 Mail Service Center Raleigh, North Carolina 27699-2001	
13. TYPED NAME: Lanier M. Cansler			
14. TITLE: Secretary			
15. DATE SUBMITTED: 7/29/11			
<b>FOR REGIONAL OFFICE USE ONLY</b>			
17. DATE RECEIVED:		18. DATE APPROVED: OCT 20 2011	
<b>PLAN APPROVED - ONE COPY ATTACHED</b>			
19. EFFECTIVE DATE OF APPROVED MATERIAL: OCT - 1 2011		20. SIGNATURE OF REGIONAL OFFICIAL: 	
21. TYPED NAME: Penny Thompson		22. TITLE: Deputy Director, CMCS	
23. REMARKS:			

State Plan Under Title XIX of the Social Security Act  
Medical Assistance Program

State: NORTH CAROLINA

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Inpatient Hospital:

**SFY 2012 – Rates will be frozen at the rate in effect on June 30, 2011. Effective October 1, 2011, existing hospital rates are adjusted by a negative 9.80%, and non-state-owned freestanding psychiatric and rehabilitation hospitals existing rates are adjusted by a negative 2.67%.**

**SFY 2013 – Effective July 1, 2012, the hospital rates will be adjusted such that they will equal 92.68% of the rate in effect on June 30, 2011, and non-state-owned freestanding psychiatric and rehabilitation hospitals rates will be adjusted such that they will equal 98% of the rate in effect on June 30, 2011. There will be no further annual adjustments this state fiscal year.**

**Reference: Attachment 4.19-A, Page 4, (d)(5)**

TN. No. 11-036  
Supersedes  
TN. No. NEW

Approval Date OCT 20 2011

Eff. Date 10-1-2011

State Plan Under Title XIX of the Social Security Act  
Medical Assistance Program  
State: NORTH CAROLINA

Payments for Medical and Remedial Care and Services: Inpatient Hospital

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(d) The Division of Medical Assistance shall establish a unit value for each hospital which represents the DRG payment rate for a DRG with a relative weight of one. This rate is established as follows:

- (1) Using the methodology described in Paragraph (c) of this plan, the Division shall estimate the cost less direct and indirect medical education expense on claims for discharges occurring during calendar year 1993, using cost reports for hospital fiscal years ending during that period or the most recent cost report available. All cost estimates are adjusted to a common 1994 fiscal year and inflated to the 1995 rate year. The average cost per discharge for each provider is calculated. (See Exhibit page 25 of the plan). The state reserves the right to rebase based upon a year selected by the state.
- (2) Using the DRG weights to be effective on January 1, 1995, a CMI is calculated for each hospital for the same population of claims used to develop the cost per discharge amount in Subparagraph (d)(1) of this plan. Each hospital's average cost per discharge is divided by its CMI to get the cost per discharge for a service with a DRG weight of one.
- (3) The amount calculated in Subparagraph (d)(2) of this plan is reduced by 7.2% to account for outlier payments.
- (4) Hospitals are ranked in order of increasing CMI adjusted cost per discharge. The DRG Unit Value for hospitals at or below the 45th percentile in this ranking is set using 75% of the hospital's own adjusted cost per discharge and 25% of the cost per discharge of the hospital at the 45th percentile. The DRG Unit Value for hospitals ranked above the 45th percentile is set at the cost per discharge of the 45th percentile hospital. The DRG unit value for new hospitals and hospitals that did not have a Medicaid discharge in the base year is set at the cost per discharge of the 45th percentile hospital. The actual reimbursement amount for a DRG billing is the product of the hospital specific rate times the relative weight and unit value for that DRG exclusive of add-ons (i.e. dsh and outliers).
- (5) The hospital unit values calculated in Subparagraph (d)(4) of this plan shall be updated annually by the National Hospital Market Basket Index as published by Medicare and applied to the most recent actual and projected cost data available from the North Carolina Office of State Budget, Planning, and Management. This annual update shall not exceed the update amount approved by the North Carolina General Assembly. Effective October 1, 1997, for fiscal year ended September 30, 1998 only the hospital unit values calculated in Subparagraph (d)(4) of this plan shall be updated by the lower of the National Hospital Market Basket Index as published by Medicare and applied to the most recent actual and projected cost data available from the North Carolina Office of State Budget, Planning, and Management or the Medicare approved Inpatient Prospective Payment update factor. Notwithstanding any other provision, if specified, these rates will be adjusted as shown on Attachment 4.19-A, Supplement 1, Page 3 of the Sate Plan.
- (6) Allowable and reasonable costs will be reimbursed in accordance with the provisions of the Medicare Provider Reimbursement Manual referred to as HCFA Publication 15-1.

TN. No. 11-036  
Supersedes  
TN. No. 05-015

Approval Date OCT 20 2011

Eff. Date 10/01/2011