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**State/Territory Name: North Carolina**

**State Plan Amendment (SPA) #: 12-020**

This file contains the following documents in the order listed:

1) Approval Letter
2) 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 CHIP Services**

FEB 05 2013

Ms. Aldona Z. Wos, M.D., Ambassador (Ret)
Secretary
North Carolina Department of Health and Human Services
2001 Mail Service Center
Raleigh, North Carolina 27699-2001

Re: North Carolina State Plan Amendment 12-020

Dear Dr. Wos:

We have reviewed the proposed amendment to Attachment 4.19-A of your Medicaid State plan submitted under transmittal number (TN) 12-020. Effective October 1, 2012 this amendment proposes to adjust the payment methodology for Hospital services. Specifically the amendment proposes to allow the Division to utilize the most current DRG Grouper version in preparation of ICD-10 implementation, provide a methodology to establish a rate for a new hospital or a hospital that has a change of ownership, and allows for updating inpatient rates for updating Critical Access Hospitals. The State estimates that the Federal budget impact of this SPA will be have no impact on the state or federal budgets.

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 reimbursement methodology complies with applicable requirements and therefore have approved them with an effective date of October 1, 2012. We are enclosing the CMS-179 and the amended approved plan pages.

If you have any questions, please call Dicky Sanford at (334) 241-0044.

Sincerely,

//s//

Cindy Mann
Director

DEPARTMENT OF HEALTH AND HUMAN SERVICES
HEALTH CARE FINANCING ADMINISTRATION

FORM APPROVED
OMB NO. 0938-0193

| TRANSMITTAL AND NOTICE OF APPROVAL OF STATE PLAN MATERIAL | 1. TRANSMITTAL NUMBER: 12-020 | 2. STATE NC |
|---|---|---|
| FOR: HEALTH CARE FINANCING ADMINISTRATION | 3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL SECURITY ACT (MEDICAID) | |
| TO: REGIONAL ADMINISTRATOR<br>HEALTH CARE FINANCING ADMINISTRATION<br>DEPARTMENT OF HEALTH AND HUMAN SERVICES | 4. PROPOSED EFFECTIVE DATE<br>October 1, 2012 | |

5. TYPE OF PLAN MATERIAL *(Check One)*:

☐ NEW STATE PLAN ☒ AMENDMENT TO BE CONSIDERED AS NEW PLAN ☐ AMENDMENT

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

| 6. FEDERAL STATUTE/REGULATION CITATION: | 7. FEDERAL BUDGET IMPACT: |
|---|---|
| 42 CFR 447 | a. FFY 2012 $0.00<br>b. FFY 2013 $0.00 |
| 8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:<br>Attachment 4.19-A, Page 2, Attachment 4.19-A, Page 4, Attachment 4.19-A, Page 7, and Attachment 4.19-A, Page 8. | 9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT *(If Applicable)*:<br>Attachment 4.19-A, Page 2, Attachment 4.19-A, Page 4, Attachment 4.19-A, Page 7, and Attachment 4.19-A, Page 8. |

10. SUBJECT OF AMENDMENT:

Hospital DRG Reimbursement

11. GOVERNOR'S REVIEW *(Check One)*:
☐ GOVERNOR'S OFFICE REPORTED NO COMMENT
☐ COMMENTS OF GOVERNOR'S OFFICE ENCLOSED
☐ NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL
☒ OTHER, AS SPECIFIED: SECRETARY

| 12. SIGNATURE OF STATE AGENCY OFFICIAL:<br>//s// | 16. RETURN TO:<br>Office of the Secretary<br>Department of Health and Human Services<br>2001 Mail Service Center<br>Raleigh, North Carolina 27699-2001 |
|---|---|
| 13. TYPED NAME:<br>Albert A. Delia | |
| 14. TITLE: Secretary | |
| 15. DATE SUBMITTED: 12-31-12 | |

FOR REGIONAL OFFICE USE ONLY

| 17. DATE RECEIVED: 12-31-12 | 18. DATE APPROVED: 02-05-13 |
|---|---|

PLAN APPROVED – ONE COPY ATTACHED

| 19. EFFECTIVE DATE OF APPROVED MATERIAL:<br>10/01/12 | 20. SIGNATURE OF REGIONAL OFFICIAL:<br>//s// |
|---|---|
| 21. TYPED NAME:<br>Cindy Mann | 22. TITLE: Director |

23. REMARKS:

FORM HCFA-179 (07-92)

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

**DRG RATE SETTING METHODOLOGY**

(a) Diagnosis Related Groups is a system of classification for hospital inpatient services. For each hospital admission, a single DRG category shall be assigned based on the patient's diagnosis, age, procedures performed, length of stay, and discharge status. For claims with dates of services prior to January 1, 1995 payments shall be based on the reimbursement per diem in effect prior to January 1, 1995. However, for claims related to services where the admission was prior to January 1, 1995 and the discharge was after December 31, 1994, then the greater of the total per diem for services rendered prior to January 1, 1995, or the appropriate DRG payment shall be made.

(b) The Division of Medical Assistance (Division) shall use the DRG assignment logic of the Medicare Grouper to assign individual claims to a DRG category. Medicare revises the Grouper each year in October. The Division shall install the most recent version of the Medicare Grouper implemented by Medicare to be effective October 1 of each following rate year. Effective October 1, 2012, the Division shall install the most recent version of the Medicare Grouper implemented by Medicare to be effective October 1 of each rate year. The initial DRG in Version 12 of the Medicare Grouper, related to the care of premature neonates and other newborns numbered 385 through 391, shall be replaced with the following classifications:

385 Neonate, died or transferred, length of stay less than 3 days
801 Birth weight less than 1,000 grams
802 Birthweight 1,000 – 1,499 grams
803 Birthweight 1,500 – 1,999 grams
804 Birthweight >=2,000 grams, with Respiratory Distress Syndrome
805 Birthweight >=2,000 grams premature with major problems
810 Neonate with low birthweight diagnosis, age greater than 28 days at admission
389 Birthweight >= 2,000 grams, full term with major problems
390 Birthweight >= 2,000 grams, full term with other problems or premature without major problems
391 Birthweight >= 2,000 grams, full term without complicating diagnoses

Effective October 1, 2008, the premature neonates and other newborn DRGs listed above are replaced by the premature neonates and other newborn DRGs in Version 25 of the Medicare Grouper (i.e. DRGs 789-795).

DRG 789 Neonate, died or transferred, length of stay less than 3 days.

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

(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. New hospitals inpatient rates will subsequently be established based on one year's cost report and implemented on the October 1 of next year. Existing hospitals that enter into a Change of Ownerships (CHOW) shall have the hospital's rates established based on the previous hospital's rates. Critical Access Hospitals' (CAH) rates will be established based on the same hospital's Acute Care Hospital rates. Effective each October 1, Critical Access Hospitals (CAH) interim rates will be established at 90% of the last audited CAH cost report completed as of June 1. 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 CMS Publication 15-1.

State Plan Under Title XIX of the Social Security Act
Medical Assistance Program
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Payments for Medical and Remedial Care and Services: Inpatient Hospital

**EXCEPTIONS TO DRG REIMBURSEMENT**

(a) Covered psychiatric and rehabilitation inpatient services provided in either specialty hospitals, Medicare recognized Long Term Acute Care Hospitals (LTCH), Medicare recognized distinct part units (DPU), or other beds in general acute care hospitals shall be reimbursed on a per diem methodology.

(1) Prior to October 1, 2008, psychiatric inpatient services are defined as admissions where the primary reason for admission would result in the assignment of a psychiatric DRG code in the range 424 through 437 and 521 through 523. Effective October 1, 2008, the assignment of a psychiatric DRG code is in the range 880 through 887 or 894 through 897 or 876. All services provided by specialty psychiatric hospitals are presumed to come under this definition.

Prior to October 1, 2008, rehabilitation inpatient services are defined as admissions where the primary reason for admissions would result in the assignment of DRG 462. Effective October 1, 2008, the assignment of a rehabilitation DRG code is 945 or 946. All services provided by specialty rehabilitation hospitals and Medicare recognized Long Term Acute Care Hospitals (LTCH) are presumed to come under this definition.

(2) When a patient has a medically appropriate transfer from a medical or surgical bed to psychiatric or rehabilitative distinct part unit within the same hospital or to a specialty hospital the admission to the distinct part unit or the specialty hospital shall be recognized as a separate service which is eligible for reimbursement under the per diem methodology.

Transfers occurring within general hospitals from acute care services to non-DPU psychiatric or rehabilitation services are not eligible for reimbursement under this Section. The entire hospital stay in these instances shall be reimbursed under the DRG methodology.

(3) The per diem base rate for psychiatric services is established at the lesser of the actual cost or the calculated median rate of all hospitals providing psychiatric services, as derived from the 2003 Medicaid cost report or the most recent as filed cost report, trended forward to the rate year. Providers that routinely provide psychiatric services and whose base rate trended forward to State Fiscal Year 2005 is less than their rate as of October 1, 2004, shall have their base rate established at the October 1, 2004 amount and trended forward in subsequent years.

(4) Hospitals that do not routinely provide psychiatric services shall have their rate set at the median rate for all other psychiatric hospitals in paragraph (3) above.

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

(5) The per diem rate for rehabilitation services is established at the lesser of the actual cost trended to the rate year or the calculated median rate of all hospitals providing rehabilitation services as derived from the most recent filed cost reports.

(6) Rates established under this Paragraph are adjusted for inflation consistent with the methodology under Subparagraph (d)(5) of the DRG RATE SETTING METHODOLOGY.

(7) Rates established under this Paragraph shall be prospectively determined and shall not be subject to retrospective settlement.

(b) Hospitals operated by the Department of Health and Human Services, all the primary affiliated teaching hospitals for the University of North Carolina Medical Schools will be reimbursed their reasonable costs in accordance with the provisions of the Medicare Provider Reimbursement Manual. Critical Access Hospital pursuant to 42 USC 1395i-4 will be reimbursed their reasonable costs for acute care services in accordance with the provision of the Medicare Provider Reimbursement Manual. This Manual referred to as (CMS Publication #15-1) is hereby incorporated by reference including any subsequent amendments and editions. Interim payment rates will be estimated by the hospital and provided to the Division of Medical Assistance (DMA) subject to DMA review. These rates will be set at a unit value that can best be expected to approximate 100% of reasonable cost. Interim payments made under the DRG methodology to these providers shall be retrospectively settled to reasonable cost.

(c) Hospitals operating Medicare approved graduate medical education programs shall receive a per diem rate adjustment which reflects the reasonable direct and indirect costs of operating these programs. The per diem rate adjustment will be calculated in accordance with the provisions of DRG Rate Setting Methodology.