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State/Territory Name: North Carolina

State Plan Amendment (SPA) #: 14-002

This file contains the following documents in the order listed:

- 1) Approval Letter
- 2) CMS 179 Form
- 3) Approved SPA Pages

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
Atlanta Regional Office
61 Forsyth Street, Suite 4T20
Atlanta, Georgia 30303



DIVISION OF MEDICAID & CHILDREN'S HEALTH OPERATIONS

June 20, 2014

Dr. Robin Cummings, Director
Division of Medical Assistance
Department of Health and Human Services
2501 Mail Service Center
Raleigh, NC 27699-2501

Re: North Carolina Title XIX State Plan Amendment, Transmittal 14-002

Dear Dr. Cummings:

We have reviewed the proposed State Plan Amendment (SPA) TN 14-002, which was initially submitted to CMS on March 31, 2014. The 90th day is June 29, 2014.

Based on the information provided, the changes in this SPA adjust the reimbursement methodologies for Outpatient Hospital Services. Effective January 1, 2014, this amendment proposes to reduce payment rates that were in effect as of June 30, 2013, by 10 percent, for state fiscal years 2014 and 2015. This reduction will result in payments that will equal 70 percent of cost for Outpatient Hospital Services.

This rate reduction will be offset by an increase in the total computable quarterly supplemental payments, up to the upper payment limit. The non-federal share will be funded by provider assessments.

Based on the information provided, the Medicaid State Plan Amendment NC 14-002 was approved on June 19, 2014. The effective date of this amendment is January 1, 2014. We are enclosing the HCFA Form 179 and the approved plan pages.

If you have any additional questions or need further assistance, please contact Clarence Lewis at 803-898-7647, or Donald Graves at 919-828-2999.

Sincerely,

//s//

Jackie Glaze
Associate Regional Administrator
Division of Medicaid and Children's Health Operations

**TRANSMITTAL AND NOTICE OF APPROVAL OF
STATE PLAN MATERIAL**

1. TRANSMITTAL NUMBER:
14-002

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
January 1, 2014

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:

42 CFR 447.300

7. FEDERAL BUDGET IMPACT:

a. FFY 2014 (\$66,894,380)

b. FFY 2015 (\$89,612,843)

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:

Attachment 4.19-B, Section 2, Page 1, Attachment 4.19-B, Section 2,
Page 1a, and Attachment 4.19-B, Section 2, Page 1c

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION
OR ATTACHMENT (If Applicable):

Attachment 4.19-B, Section 2, Page 1, Attachment 4.19-B,
Section 2, Page 1a, and Attachment 4.19-B, Section 2, Page 1c

10. SUBJECT OF AMENDMENT:

Outpatient Hospital

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:

//s//

13. TYPED NAME:

Aldona Z. Wos, M.D.

14. TITLE:

Secretary

15. DATE SUBMITTED:

16. RETURN TO:

Office of the Secretary
Department of Health and Human Services
2001 Mail Service Center
Raleigh, NC 27699-20014

FOR REGIONAL OFFICE USE ONLY

17. DATE RECEIVED:

03-31-14

18. DATE APPROVED: 06-19-14

PLAN APPROVED – ONE COPY ATTACHED

19. EFFECTIVE DATE OF APPROVED MATERIAL: 01-01-14

20. SIGNATURE OF REGIONAL OFFICIAL:

//s//

21. TYPED NAME: Jackie Glaze

22. TITLE: Associate Regional Administrator
Division of Medicaid & Children Health Opns

23. REMARKS: Approved with the following changes to item 7 as authorized by State Agency e-mail dated 06-10-14

Block # 7 changed to read: FFY 14 \$0 and FFY 15 \$0.

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

PAYMENTS FOR MEDICAL AND REMEDIAL CARE AND SERVICE

2.a OUTPATIENT HOSPITAL SERVICES

With respect to hospitals licensed by the State of North Carolina that are qualified to certify public expenditures in accordance 42 CFR 433.51(b), other than hospitals owned or controlled by the University of North Carolina Health Care System, as defined in N.C. Gen. Stat. 116-37, hospitals that are State-owned and operated by the Department of Health and Human Services, all primary affiliated teaching hospitals for the University of North Carolina Medical Schools and Critical Access Hospitals pursuant to 42 USC 1395i-4, the expenditures claimable for Federal Financial Participation (FFP) will be the hospitals' reasonable costs incurred in serving Medicaid outpatients, as determined in accordance with Medicare principles. Payment to these hospitals will be made in stages (the first stage payment will be 70% of reasonable cost determined on an interim basis; the second stage payment will be for the difference between the hospital's reasonable costs determined on an interim basis and the first stage payment). Each hospital's allowable Medicaid outpatient costs for the rate year will be determined on an interim basis by multiplying the hospital's Medicaid outpatient ratio of cost-to-charges (RCCs) as specified on lines 37-68 of Worksheet C or D from the hospital's most recent available as-filed CMS 2552 cost report by the hospital's allowable Medicaid outpatient charges for services provided during the same fiscal year as the cost report and paid not less than six months after the end of that same fiscal year. This cost data will be brought forward to the end of the period for which FFP is being claimed by applying the applicable CMS PPS Hospital Input Price Indices. Hospitals' final allowable costs of serving Medicaid outpatients will be determined using audited CMS 2552 cost reports for the year for which final FFP is being determined. The difference between the final and interim allowable Medicaid cost will be an adjustment(s) to the applicable period for which the cost was incurred and initial claim was made.

All hospitals that are state-owned and operated by the Department of Health and Human Services, all primary affiliated teaching hospitals for the University of North Carolina Medical Schools and Critical Access Hospitals pursuant to 42 USC 1395i-4 will be reimbursed their allowable outpatient costs as determined using the CMS 2552 in accordance with the provisions of the Medicare Provider Reimbursement Manual. All other hospitals will be reimbursed 70 percent of their allowable outpatient costs as determined using the CMS 2552 cost report and in accordance with the Medicare Provider Reimbursement Manual. Hospitals that are not qualified to certify public expenditures will also be paid using the enhanced payments for outpatient services methodologies described below.

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

PAYMENTS FOR MEDICAL AND REMEDIAL CARE AND SERVICE

2.a.1. ENHANCED PAYMENTS FOR OUTPATIENT HOSPITAL SERVICES

Hospitals that are licensed by the State of North Carolina, are not qualified to certify expenditures and that received payment for more than 50 percent of their Medicaid inpatient discharges under the DRG methodology for the most recent 12-month period ending September 30, shall be entitled to the following enhanced payments, for outpatient services for the 12-month period ending September 30 of each year, paid annually in up to four installments.

Base Enhanced Payments:

- (1) The base enhanced payment to hospitals shall equal a percent, not to exceed the State's federal financial participation rate in effect for the period, for which the payment is being calculated, of the hospital's outpatient "Medicaid deficit." At least 10 calendar days in advance of the first payment of the payment plan year, the Division will determine, and notify eligible hospitals of, the percent of the outpatient "Medicaid deficit" to be paid as the base enhanced payment for outpatient services.
- (2) The "Medicaid deficit" is calculated as follows:
 - A. Reasonable costs of outpatient hospital Medicaid services shall be determined annually by calculating a hospital's Medicaid outpatient cost-to-charge ratio using the most recent available as-filed hospital fiscal year CMS 2552 cost report data available before payments are calculated and multiplying the Medicaid outpatient cost-to-charge ratio by the hospital's Medicaid allowable charges for outpatient services provided during the same fiscal year as the filed cost report and paid not less than six months after the end of the fiscal year .
 - B. Applying an inflation factor calculated based on the most current information available at the time on the CMS website for the CMS PPS Hospital Input Price Index to bring the cost data forward to the mid-point of the payment period.
 - C. Multiplying the Medicaid outpatient costs by a percentage equal to 100 minus the percent of allowable outpatient costs specified in Section 2a on Page 1 above.

Equity Enhanced Payments:

- (1) The Equity enhanced payment shall, when added to the enhanced payment described in Paragraph 2.A.1 of this Section, equal one hundred percent of the hospital's outpatient "Medicaid deficit" as that term is defined in Subparagraph 2.a.1(2) of this Section 2.
- (2) Assessments collected under this section are considered an allowable cost and are not subject to cost settlement.

MEDICAL ASSISTANCE
STATE: NORTH CAROLINA

PAYMENTS FOR MEDICAL AND REMEDIAL CARE AND SERVICE

2.a.2. ENHANCED PAYMENTS TO TEACHING HOSPITALS FOR OUTPATIENT HOSPITAL SERVICES

Hospitals that are not qualified to certify, are licensed by the State of North Carolina, qualify for disproportionate share hospital status under Paragraph (c) of the Disproportionate Share Hospital payment section of this plan, and, for the fiscal year immediately preceding the period for which payments under this Paragraph are being calculated:

- i. Qualify to receive inpatient hospital rate adjustment payments described in Paragraph (g) of the section of this plan entitled "INPATIENT HOSPITAL RATE ADJUSTMENT PAYMENT TO HOSPITALS SERVING HIGH PORTIONS OF LOW INCOME PATIENTS;" and
 - ii. Operate at least two Medicare approved graduate medical education programs and report on cost reports filed with the Division, Medicaid costs attributable to such programs; shall be entitled to additional enhanced payments for outpatient services, paid annually in up to four installments.
- (1) The additional enhanced payment for Medicaid outpatient services shall satisfy the portion of the outpatient "Medicaid deficit" equal to 7.22 percent of the hospital's estimated uncompensated care cost of providing inpatient and outpatient services to uninsured patients
 - (2) The outpatient "Medicaid deficit" shall be calculated as follows:
 - A. Reasonable costs of outpatient hospital Medicaid services shall be determined annually by calculating a hospital's Medicaid outpatient cost-to-charge ratio using the most recent available as-filed CMS 2552 cost report data and multiplying the Medicaid outpatient cost-to-charge ratio by the hospital's Medicaid allowable charges for outpatient services provided during the same fiscal year as the filed cost report, but paid not less than six months after the end of the fiscal year,
 - B. Applying the applicable CMS PPS Hospital Input Price Indices to bring the cost data forward to the mid-point of the payment period.
 - C. Multiplying the Medicaid outpatient costs by a percentage equal to 100 minus the percent of allowable outpatient costs specified in Section 2a on Page 1 above.