

Table of Contents

State/Territory Name: North Carolina

State Plan Amendment (SPA) #: 14-013

This file contains the following documents in the order listed:

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



JUN 19 2014

Dr. Robin Cummings, Director
Division of Medical Assistance
North Department of Health and Human Services
2001 Mail Service Center
Raleigh, NC 27699-2001

RE: State Plan Amendment NC 14-013

Dear Dr. Cummings:

We have reviewed the proposed amendment to Attachment 4.19-A of your Medicaid State plan submitted under transmittal number (TN) 14-013. Effective January 1, 2014 this amendment proposes to revise the payment methodology for inpatient hospital services. Specifically, this amendment proposes to reduce payment rates in effect as of June 30, 2013 by 3% for state fiscal years 2014. Effective July 1, 2014 rates will be frozen at the rates in effect as of June 30, 2014 for state fiscal year 2015.

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

We conducted our review of your submittal according to the statutory requirements at sections 1902(a), 1902(a)(13), 1902(a)(30), 1903(a) and 1923 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 January 1, 2014. 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

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

State: NORTH CAROLINA

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.

SFY 2014 – Base DRG rates, Base Psychiatric per diem rates, and Base Rehabilitative per diem rates, will be frozen at the rate in effect on June 30, 2013. Effective January 1, 2014, the hospital base rates will be adjusted such that they will equal 97% of the rate in effect on June 30, 2013. There will be no further annual adjustments this state fiscal year.

SFY 2015 - Rates will be frozen at the rate in effect on June 30, 2014. There will be no further annual adjustments this state fiscal year.

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

TN. No. 14-013
Supersedes
TN. No. 13-038

Approval Date: 06-19-14

Eff. Date 801/01/2014

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

HOSPITAL INPATIENT REIMBURSEMENT PLAN

REIMBURSEMENT PRINCIPLES

With respect to hospitals licensed by the State of North Carolina that are qualified to certify public expenditures in accordance with 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, State hospitals described in Paragraph (b) and hospitals described in Paragraph (a) of the Exceptions to DRG reimbursement 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 inpatients, as determined in accordance with Medicare principles. Payments to these hospitals will be made in stages (the first stage payment will be based on the DRG methodology applicable to private hospitals; the second stage payment will be for the difference between the hospital's reasonable costs and the first stage payment). Each hospital's allowable inpatient costs will be determined on an interim basis by multiplying the hospital's Medicaid inpatient ratio of cost-to-charges (RCCs), as derived from the hospital's most recent available as-filed CMS 2552 cost report by the hospital's allowable Medicaid inpatient charges for services provided during the same fiscal year as the filed 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 mid-point of the period for which FFP is being claimed by applying the applicable CMS PPS Hospital Input Price Indices. Hospitals' final allowable costs for serving Medicaid inpatients 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 costs 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, freestanding rehabilitation hospitals that are qualified to certify public expenditures, and Critical Access Hospitals pursuant to 42 USC 1395i-4 will be reimbursed their allowable costs in accordance with the EXCEPTIONS TO DRG REIMBURSEMENT section of this plan.

All other hospitals will be paid for acute care general hospital inpatient services using the DIAGNOSIS RELATED GROUPS (DRG) RATE-SETTING METHODOLOGY described below, except as noted in the EXCEPTIONS TO DRG REIMBURSEMENT. Hospitals that are not qualified to certify public expenditures will also be paid using the enhanced payments for inpatient services methodologies described below.

TN. No. 14-013
Supersedes
TN. No. 11-003

Approval Date JUN 19 2014

Eff. Date 01/1/2014

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

ENHANCED PAYMENTS FOR INPATIENT HOSPITAL SERVICES

(e) 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 inpatient services for the 12-month period ending September 30 of each year, paid annually in up to four installments.

(e.1) Base Enhanced Payment

- (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 inpatient "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 inpatient "Medicaid deficit" to be paid as the base enhanced payment for inpatient services.
- (2) The "Medicaid deficit" is calculated by subtracting Medicaid payments from reasonable Medicaid costs as follows:
 - (A) Reasonable costs of inpatient hospital Medicaid services including the reasonable direct and indirect costs attributable to inpatient Medicaid services of operating Medicare approved graduate medical education programs shall be determined annually by:
 - i. Calculating a hospital's inpatient charge to cost conversion factor, based on the Medicaid per diems and the ancillary cost-to-charge ratios, using the Medicaid cost from the Title XIX D-1, Part II worksheet using the most recent available CMS 2552 cost report,
 - ii. Multiplying the Medicaid inpatient charge to cost conversion factor calculated above by the hospital's Medicaid allowable charges for inpatient 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,
 - iii. Applying the applicable CMS PPS Hospital Input Price Indices to bring the cost data forward to the mid-point of the payment period.
 - (B) Subtracting from the reasonable Medicaid costs for inpatient services, Medicaid payments received (excluding all Medicaid disproportionate share hospital payments received) for the same fiscal year covered by the cost report and the Medicaid allowable charges for inpatient services referred to in 2. A. ii above. The payments shall be brought forward to the end of the payment period using the same percentage by which the Division increased Medicaid DRG and per diem payment rates between the year to which the DRG and per diem payments apply and the payment year for which the enhanced payments are being calculated.

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

ENHANCED PAYMENTS TO TEACHING HOSPITALS FOR INPATIENT HOSPITAL SERVICES

(f) Hospitals that are not qualified to certify public expenditures, are licensed by the State of North Carolina, qualify for disproportionate share hospital status under Paragraph (c) of this Section, 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 inpatient services paid annually in up to four installments.
- (1) The additional enhanced payment for Medicaid inpatient services shall satisfy the portion of the inpatient "Medicaid deficit" equal to 7.22 percent of the hospital's estimated uncompensated care cost of providing inpatient and outpatient services to uninsured.
- (2) The "Medicaid deficit" shall be calculated by subtracting Medicaid payments from reasonable Medicaid costs as follows:
- (A) Reasonable costs of inpatient hospital Medicaid services including the reasonable direct and indirect costs attributable to inpatient Medicaid services of operating Medicare approved graduate medical education programs shall be determined annually by:
- i. Calculating a hospital's Medicaid inpatient cost-to-charge ratio using the most recent available as-filed CMS 2552 cost report,
 - ii. Multiplying the Medicaid inpatient cost-to-charge ratio by the hospital's Medicaid allowable inpatient charges for inpatient 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,
 - iii. Applying the applicable CMS PPS Hospital Input Price Indices to bring the cost data forward to the mid-point of the payment period.

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

- (B) Subtracting from the reasonable Medicaid costs for inpatient services, Medicaid payments received (excluding all Medicaid disproportionate share hospital payments received) for the same fiscal year covered by the cost report and the Medicaid allowable charges for inpatient services referred to in 2.A.i and ii above. The payments shall be brought forward to the mid-point of the payment period using the same percentage by which the State increased Medicaid DRG and per diem payment rates between the year to which the DRG and per diem payments apply and the payment year for which the enhanced payments are being calculated.
- (3) Uncompensated care costs are calculated using hospitals' gross charges for services provided to uninsured patients as filed with and certified to the Division for the same fiscal year as the CMS cost report used in determining reasonable costs in 2. A. i and ii above. The Division shall convert hospitals' gross charges for uninsured patients to costs by multiplying them by the facility cost-to-charge ratio determined using hospitals' CMS 2552 cost reports for the same fiscal year used in determining reasonable cost in 2.A. i through ii above and then subtracting payments hospitals received from uninsured patients.
- (4) Payments calculated under Paragraph (f) (when added to Medicaid payments received or to be received for these services) shall not cause aggregate payments to any category of hospitals as specified in 42 CFR 447.272(a) to exceed the maximum allowed aggregate upper limits for that category established by applicable federal law and regulation.
- (5) The payments authorized under Paragraph (f) shall be effective in accordance with GS 108A-55(c).

TN. No. 06-008

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

HOSPITAL INPATIENT REIMBURSEMENT PLAN

REIMBURSEMENT PRINCIPLES

With respect to hospitals licensed by the State of North Carolina that are qualified to certify public expenditures in accordance with 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, State hospitals described in Paragraph (b) and hospitals described in Paragraph (a) of the Exceptions to DRG reimbursement 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 inpatients, as determined in accordance with Medicare principles. Payments to these hospitals will be made in stages (the first stage payment will be based on the DRG methodology applicable to private hospitals; the second stage payment will be for the difference between the hospital's reasonable costs and the first stage payment). Each hospital's allowable inpatient costs will be determined on an interim basis by multiplying the hospital's Medicaid inpatient ratio of cost-to-charges (RCCs), as derived from the hospital's most recent available as-filed CMS 2552 cost report by the hospital's allowable Medicaid inpatient charges for services provided during the same fiscal year as the filed 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 mid-point of the period for which FFP is being claimed by applying the applicable CMS PPS Hospital Input Price Indices. Hospitals' final allowable costs for serving Medicaid inpatients 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 costs 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, freestanding rehabilitation hospitals that are qualified to certify public expenditures, and Critical Access Hospitals pursuant to 42 USC 1395i-4 will be reimbursed their allowable costs in accordance with the EXCEPTIONS TO DRG REIMBURSEMENT section of this plan.

All other hospitals will be paid for acute care general hospital inpatient services using the DIAGNOSIS RELATED GROUPS (DRG) RATE-SETTING METHODOLOGY described below, except as noted in the EXCEPTIONS TO DRG REIMBURSEMENT. Hospitals that are not qualified to certify public expenditures will also be paid using the enhanced payments for inpatient services methodologies described below.

TN. No. 14-013
Supersedes
TN. No. 11-003

Approval Date JUN 19 2014

Eff. Date 01/01/2014

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

ENHANCED PAYMENTS FOR INPATIENT HOSPITAL SERVICES

(e) 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 inpatient services for the 12-month period ending September 30 of each year, paid annually in up to four installments.

(e.1) Base Enhanced Payment

- (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 inpatient "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 inpatient "Medicaid deficit" to be paid as the base enhanced payment for inpatient services.
- (2) The "Medicaid deficit" is calculated by subtracting Medicaid payments from reasonable Medicaid costs as follows:
 - (A) Reasonable costs of inpatient hospital Medicaid services including the reasonable direct and indirect costs attributable to inpatient Medicaid services of operating Medicare approved graduate medical education programs shall be determined annually by:
 - i. Calculating a hospital's inpatient charge to cost conversion factor, based on the Medicaid per diems and the ancillary cost-to-charge ratios, using the Medicaid cost from the Title XIX D-1, Part II worksheet using the most recent available CMS 2552 cost report,
 - ii. Multiplying the Medicaid inpatient charge to cost conversion factor calculated above by the hospital's Medicaid allowable charges for inpatient 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,
 - iii. Applying the applicable CMS PPS Hospital Input Price Indices to bring the cost data forward to the mid-point of the payment period.
 - (B) Subtracting from the reasonable Medicaid costs for inpatient services, Medicaid payments received (excluding all Medicaid disproportionate share hospital payments received) for the same fiscal year covered by the cost report and the Medicaid allowable charges for inpatient services referred to in 2. A. ii above. The payments shall be brought forward to the end of the payment period using the same percentage by which the Division increased Medicaid DRG and per diem payment rates between the year to which the DRG and per diem payments apply and the payment year for which the enhanced payments are being calculated.

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

ENHANCED PAYMENTS TO TEACHING HOSPITALS FOR INPATIENT HOSPITAL SERVICES

- (f) Hospitals that are not qualified to certify public expenditures, are licensed by the State of North Carolina, qualify for disproportionate share hospital status under Paragraph (c) of this Section, 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 inpatient services paid annually in up to four installments.
- (1) The additional enhanced payment for Medicaid inpatient services shall satisfy the portion of the inpatient "Medicaid deficit" equal to 7.22 percent of the hospital's estimated uncompensated care cost of providing inpatient and outpatient services to uninsured.
- (2) The "Medicaid deficit" shall be calculated by subtracting Medicaid payments from reasonable Medicaid costs as follows:
- (A) Reasonable costs of inpatient hospital Medicaid services including the reasonable direct and indirect costs attributable to inpatient Medicaid services of operating Medicare approved graduate medical education programs shall be determined annually by:
 - i. Calculating a hospital's Medicaid inpatient cost-to-charge ratio using the most recent available as-filed CMS 2552 cost report,
 - ii. Multiplying the Medicaid inpatient cost-to-charge ratio by the hospital's Medicaid allowable inpatient charges for inpatient 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,
 - iii. Applying the applicable CMS PPS Hospital Input Price Indices to bring the cost data forward to the mid-point of the payment period.

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

- (B) Subtracting from the reasonable Medicaid costs for inpatient services, Medicaid payments received (excluding all Medicaid disproportionate share hospital payments received) for the same fiscal year covered by the cost report and the Medicaid allowable charges for inpatient services referred to in 2.A.i and ii above. The payments shall be brought forward to the mid-point of the payment period using the same percentage by which the State increased Medicaid DRG and per diem payment rates between the year to which the DRG and per diem payments apply and the payment year for which the enhanced payments are being calculated.
- (3) Uncompensated care costs are calculated using hospitals' gross charges for services provided to uninsured patients as filed with and certified to the Division for the same fiscal year as the CMS cost report used in determining reasonable costs in 2. A. i and ii above. The Division shall convert hospitals' gross charges for uninsured patients to costs by multiplying them by the facility cost-to-charge ratio determined using hospitals' CMS 2552 cost reports for the same fiscal year used in determining reasonable cost in 2.A. i through ii above and then subtracting payments hospitals received from uninsured patients.
- (4) Payments calculated under Paragraph (f) (when added to Medicaid payments received or to be received for these services) shall not cause aggregate payments to any category of hospitals as specified in 42 CFR 447.272(a) to exceed the maximum allowed aggregate upper limits for that category established by applicable federal law and regulation.
- (5) The payments authorized under Paragraph (f) shall be effective in accordance with GS 108A-55(c).