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State/Territory Name: California

State Plan Amendment (SPA) #: 20-0019

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



Financial Management Group

September 18, 2020

Jacey K. Cooper
Chief Deputy Director, Health Care Programs
California Department of Health Care Services
P.O. Box 997413, MS 0000
Sacramento, CA 95899-7413

RE: State Plan Amendment (SPA) 20-0019

Dear Ms. Cooper:

We have reviewed the proposed amendment to Attachment 4.19-A of your Medicaid State plan submitted under transmittal number 20-0019. This amendment, effective July 1, 2020, updates California's All Patient Refined Diagnosis Related Group (APR-DRG) payment parameters for state fiscal year 2020-2021.

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 and the implementing Federal regulations at 42 CFR 447 Subpart C. We have found that the proposed reimbursement methodology complies with applicable requirements and therefore have approved it with an effective date of July 1, 2020. We are enclosing the CMS-179 and the amended approved plan pages.

If you have any questions, please call Mark Wong at (415) 744-3561.

Sincerely,

[Redacted Signature]

For
Rory Howe
Acting Director

Enclosures

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

1. TRANSMITTAL NUMBER

2 0 — 0 0 19

2. STATE

California

3. PROGRAM IDENTIFICATION:

Title XIX of the Social Security Act (Medicaid)

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

4. PROPOSED EFFECTIVE DATE

July 1, 2020

5. TYPE OF PLAN MATERIAL (*Check One*) NEW STATE PLAN AMENDMENT TO BE CONSIDERED AS NEW PLAN AMENDMENTCOMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (*Separate transmittal for each amendment*)

6. FEDERAL STATUTE/REGULATION CITATION

42 CFR Part 447, Subpart C, 1902(a)(13) of the Act

7. FEDERAL BUDGET IMPACT

a. FFY 2021 \$ 0

b. FFY 2020 \$ 0

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT

Attachment 4.19-A pages 17.39, 17.43, 17.49, 17.49a,
~~17.62~~
Appendix 6 to Attachment 4.19-A, pages ~~1-3a~~ ~~1-2~~9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION
OR ATTACHMENT (*If Applicable*)Attachment 4.19-A pages 17.39, 17.43, 17.49,
17.49a, ~~17.62~~
Appendix 6 to Attachment 4.19-A, pages ~~1-3a~~ ~~1-2~~

10. SUBJECT OF AMENDMENT

Inpatient Hospital APR-DRG updates for SFY 2020-21

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

12. SIGNATURE OF STATE AGENCY OFFICIAL

13. TYPED NAME

Jacey Cooper

14. TITLE

State Medicaid Director

15. DATE SUBMITTED

June 29, 2020

16. RETURN TO

Department of Health Care Services

Attn: Director's Office

P.O. Box 997413, MS 0000

Sacramento, CA 95899-7413

FOR REGIONAL OFFICE USE ONLY

17. DATE RECEIVED

June 29, 2020

18. DATE APPROVED

9/18/20

PLAN APPROVED - ONE COPY ATTACHED

19. EFFECTIVE DATE OF APPROVED MATERIAL

July 1, 2020

20. SIGNATURE OF REGIONAL OFFICIAL

For

21. TYPED NAME

Rory Howe

22. TITLE

Acting Director, Financial Management Group

23. REMARKS

For Box 11 "Other, As Specified," Please note: The Governor's Office does not wish to review the State Plan Amendment.

Pen-and-ink changes made to Boxes 8 and 9 by CMS with state concurrence by email on 9/11/2020.

4. “APR-DRG Payment” is the payment methodology for acute inpatient services provided to Medi-Cal beneficiaries at DRG Hospitals for admissions on or after July 1, 2013, for private hospitals and for admissions on or after January 1, 2014, for NDPHs.
5. “APR-DRG Hospital-Specific Relative Value” (HSRV) is a numeric value representing the average resources utilized per APR-DRG. The relative weights associated with each APR-DRG are calculated from a two-year dataset of 15+ million stays in the 3M research dataset, which includes general acute care hospitals including freestanding children’s hospitals.
6. “DRG Hospital Specific Transitional APR-DRG Base Price” is a DRG Hospital specific APR-DRG Base Price calculated to assist DRG Hospitals to adapt to the change in payment methodologies. Transitional base prices are used during the three year implementation phase for qualifying hospitals.
7. “DRG Hospitals” are private general acute care hospitals reimbursed for acute inpatient services based on APR-DRG pricing for admissions dated on or after July 1, 2013, and NDPHs reimbursed for acute inpatient services based on APR-DRG pricing for admissions dated on or after January 1, 2014. “DRG Hospitals” are currently all private and nondesignated public general acute care hospitals not excluded as outlined in (Section B; paragraph 2).
8. “Nondesignated public hospital” means a public hospital defined in paragraph (25) of subdivision (a) of Section 14105.98, excluding designated public hospitals as that section reads as of of January 1, 2014.
9. "Private hospital" means a nonpublic hospital, nonpublic converted hospital, or converted hospitals, as those terms are defined in paragraphs (26) to (28) of subdivision (a) Section '14105.98 as that section reads as of July 1, 2013.

calculated from the 3M research dataset. Each version of the APR-DRG grouping algorithm has its own set of APR-DRG specific HSRVs assigned to it. The APR-DRG HSRVs are published in the Medi-Cal DRG Pricing Calculator posted on the DHCS website at <http://www.dhcs.ca.gov/provgovpart/pages/DRG.aspx>.

2. APR-DRG Statewide Base Prices Beginning SFY 2016-17

- a. In determining the APR-DRG Payment, California DRG Hospitals and out-of-state hospitals, including Border Hospitals, will utilize the statewide APR-DRG Base Price, except for California Remote Rural Hospitals and Remote Rural Border Hospitals, which will utilize the remote rural APR-DRG Base Price as reflected in Appendix 6 to Attachment 4.19-A.

3. DRG Hospital Specific Transitional APR-DRG Base Prices for SFYs 2013-14 through 2015-16

- a. Similar to implementation of DRGs in Medicare, DHCS is implementing a three-year transition period to allow California DRG Hospitals moving to the APR-DRG Payment methodology to adapt to the change in payment methodologies. A DRG Hospital Specific Transitional APR-DRG Base Price is utilized for qualifying DRG Hospitals for each of SFYs 2013-14, 2014-15, and 2015-16, in accordance with this section. The statewide APR-DRG base rates will be fully utilized by all DRG Hospitals beginning SFY 2016-17. Hospitals located outside of the State of California, including Border Hospitals and Remote Rural Border Hospitals do not receive a Transitional APR-DRG Base Price.
- b. First year DRG Hospital Specific Transitional APR-DRG Base Prices apply to DRG hospitals that were projected in general to see a change in estimated payments of no more than five percent for private hospitals and no more than 2.5 percent for NDPHs from their projected baseline payments. Some DRG Hospitals will receive a

the remote rural base price. The labor share percentage for a SFY shall be the same percentage that the Medicare program has established according to the latest published CMS final rule and notice published prior to the start of the state fiscal year, with the exception for hospitals having wage area index less than or equal to 1.00 will have the labor share percentage applied at 62.0%. Medicare published the Medicare impact file for FFY 2020 in September 2019 and it was used for the base prices for SFY 2020-21.

Similarly, final changes to all DRG hospitals wage area, index value, or labor share calculation published for future federal fiscal years will be used for the state fiscal year beginning after the start of each respective federal fiscal year. All wage area index values can be viewed on the Medi-Cal DRG Pricing Calculator posted on the DHCS website at <http://www.dhcs.ca.gov/provgovpart/Pages/DRG.aspx>.

- b. The wage area adjustor is not applied to the hospital-specific transitional base price (determined in paragraph C.3 above).

4. Policy Adjustors

The implementation of APR-DRG Payment includes the functionality of policy adjustors. These adjustors are created to allow the DHCS to address any current, or future, policy goals and to ensure access to care is preserved. Policy adjustors may be used to enhance payment for services where Medi-Cal plays a major role. This functionality of policy adjustors allows DHCS the ability to ensure access to quality care is available for all services. A list of the current policy adjustors is reflected in Appendix 6 of Attachment 4.19-A. These policy adjustors are multipliers used to adjust payment weights for care categories. The projected financial impact of the policy adjustors was considered in developing budget-neutral base prices.

5. Cost Outlier Payments

Outlier payments are determined by calculating the DRG Hospital's estimated cost and comparing it to the APR-DRG Payment to see if there is a loss or gain for the hospital for a discharge claim. The DRG Hospital's estimated cost on a discharge claim is determined by the following: The DRG Hospital's estimated cost may be determined by multiplying the Medi-Cal covered charges by the DRG Hospital's most currently accepted cost-to-charge ratio (CCR) from a hospital's CMS 2552-10 cost report. The CCR is calculated from a hospital's Medicaid costs (reported on worksheet E-3, part VII, line 4) divided by the Medicaid charges (reported on worksheet E-3, part VII, line 12). All hospital CCRs will be updated annually with an effective date of July 1, after the acceptance of the CMS 2552-10 by DHCS.

Alternatively, a hospital (other than a new hospital or an out-of-state border or

non-border hospital) may request that DHCS use a different CCR. The hospital may request a change in CCR by presenting substantial evidence the alternative CCR more accurately represents its current year cost and charge experience, resulting in more accurate outlier claim payment amounts. Options for requesting changes to the CCR are outlined below.

- For the first option a corresponding request for use of an alternative CCR for Medicare outlier reimbursement purposes must first be approved by CMS; the Medicare approval must affect the same period as requested for Medicaid and use the same underlying evidential cost and charge data. This method would allow hospitals to submit once each year projected Medicaid costs and projected Medicaid charges on relevant CMS-2552 worksheets, along with any necessary supporting documentation.
- The second option for an alternative CCR, hospitals may request a change in CCR to the sum of (a) the most current Medicare reported average CCR of operating costs for California urban hospitals and (b) the most current Medicare reported average CCR of capital cost for California hospitals.

The DRG Hospital's estimated cost on a discharge claim would then be determined by multiplying the Medi-Cal covered charges by the DRG Hospital's approved alternative CCR. Hospitals that have requested and submitted the required evidentiary support for a CCR change by December 31 and have received approval from DHCS will have the approved alternative CCR applied toward the following fiscal year's annual update. There will be no retroactive adjustment to hospital's CCR. Hospitals are still required to complete and annually file the CMS 2552- 10 cost report at the end of their respective cost reporting periods. Notwithstanding the pre- and post- payment review provisions in paragraph E, all approved projected costs and charges and alternative CCRs will be subject to 100% reconciliation based on the final audited CCRs for the cost reporting period(s) covering the actual payment year, and any resulting outlier overpayments will be recouped and FFP returned to the federal government in accordance with 42 CFR 433, Subpart F.

For new California hospitals for which there is no accepted prior period cost report to calculate a hospital specific CCR (or for other hospitals that can document that the apportionment data reported by the hospital in the cost report cannot be used to calculate a hospital specific CCR) and for non-border out-of-state hospitals, a CCR is assigned that is equal to the sum of (a) the Medicare reported average CCR of operating costs for California urban hospitals and (b), the Medicare reported average CCR of capital cost for California hospitals. Assigned CCRs will be updated annually with an effective date of July 1.

Border hospitals will be assigned their state-specific CCR that is equal to the sum of (a) the unweighted average of the Medicare reported average urban CCR and the Medicare reported average rural CCR of operating costs for hospitals in the state in which the border hospital is located, and (b) the Medicare reported average CCR of capital costs for hospitals

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT

STATE: CALIFORNIA

Appendix 6

1. APR-DRG Payment Parameters

Parameter	Value	Description
Remote Rural APR-DRG Base Price	\$15,036	Statewide Remote Rural APR-DRG Base Price.
Statewide APR-DRG Base Price	\$6,596	Statewide APR-DRG Base Price (non-Remote Rural).
Policy Adjustor – Each category of service	1.00	Policy adjustor for each category of service.
Policy Adjustor – Pediatric Severity of Illness (SOI) 1-3	1.25	Policy Adjustor for all DRGs with SOI 1-3 in the Miscellaneous Pediatric or Respiratory Pediatric care categories.
Policy Adjustor – Neonate SOI 1-3	1.25	Policy Adjustor for all DRGs with SOI 1-3 in the Neonate care category, except for those receiving the Designated NICU policy adjustor below
Policy Adjustor – Neonate (designated NICU) SOI 1-3	1.75	Enhanced Policy Adjustor for all DRGs with SOI 1-3 in the Neonate care category for all Designated NICU facilities and surgery sites recognized by California Children’s Services (CCS) Program to perform neonatal surgery
Policy Adjustor- Obstetrics SOI 1–3	1.06	Policy adjustor for all DRGs with SOI 1-3 in the Obstetrics care category
Policy Adjustor – Pediatric SOI 4	1.75	Policy Adjustor for all DRGs with SOI 4 in the Miscellaneous Pediatric or Respiratory Pediatric care categories
Policy Adjustor – Neonate SOI 4	1.75	Policy Adjustor for all DRGs with SOI 4 in the Neonate care category, except for those receiving the Designated NICU policy adjustor below
Policy Adjustor – Neonate (designated NICU) SOI 4	2.45	Enhanced Policy Adjustor for all DRGs with SOI 4 in the Neonate care category for all Designated NICU facilities and surgery sites recognized by California Children’s Services (CCS) Program to perform neonatal surgery
Policy Adjustor – Adult SOI 4	1.10	Policy Adjustor for all DRGs with SOI 4 in the Miscellaneous Adult, Respiratory

Parameter	Value	Description
		Adult, Gastroenterology Adult or Circulatory Adult care categories
Policy Adjustor –Obstetrics SOI 4	1.17	Policy Adjustor for all DRGs with SOI 4 in the Obstetrics care category
California Wage Area Neutrality Adjustment	0.9584	Adjustment factor used by California or Border hospital
Wage Index Labor Percentage	68.3%	Percentage of DRG Base Price or Rehabilitation per diem rate adjusted by the wage index value.
High Cost Outlier Threshold	\$61,000	Used to determine Cost Outlier payments.
Low Cost Outlier Threshold	\$61,000	Used to determine Cost Outlier payments.
Marginal Cost Factor	55.0%	Used to determine Cost Outlier payments.
Discharge Status Value 02	02	Transfer to a short-term general hospital for inpatient care
Discharge Status Value 05	05	Transfer to a designated cancer center
Discharge Status Value 63	63	Transfer to a long-term care hospital
Discharge Status Value 65	65	Transfer to a psychiatric hospital
Discharge Status Value 66	66	Transfer to a critical access hospital (CAH)
Discharge Status Value 82	82	Transfer to a short-term general hospital for inpatient care with a planned acute care hospital inpatient readmission
Discharge Status Value 85	85	Transfer to a designated cancer center or children’s hospital with a planned acute care hospital inpatient readmission
Discharge Status Value 91	91	Transfer to a Medicare certified Long Term Care Hospital with a planned acute care hospital inpatient readmission
Discharge Status Value 93	93	Transfer to a psychiatric distinct part unit of a hospital with a planned acute care hospital inpatient readmission
Discharge Status Value 94	94	Transfer to a Critical Access Hospital with a planned acute care hospital inpatient readmission
Interim Payment	\$600	Per diem amount for Interim Claims
APR-DRG Grouper Version	V.35	3M Software version used to group claims to a DRG
HAC Utility Version	V.37.1	3M Software version of the Healthcare Acquired Conditions Utility
Pediatric Rehabilitation Rate	\$1,841	Daily rate for rehabilitation services provided to a beneficiary under 21 years of age on admission.
Adult Rehabilitation Rate	\$1,032	Daily rate for rehabilitation services provided to a beneficiary 21 years of age or older on admission.