



TOBY DOUGLAS
DIRECTOR

State of California—Health and Human Services Agency
Department of Health Care Services



EDMUND G. BROWN JR.
GOVERNOR

DATE: January 7, 2014

TO: ALL GEOGRAPHIC MANAGED CARE PLANS

SUBJECT: DISTRIBUTION OF SENATE BILL 335 FUNDS RECEIVED AFTER
SEPTEMBER 2013 CAPITATION PAYMENTS

This letter provides guidance to the Geographic Managed Care (GMC) plans on the distribution of funds received after September 2013 capitation payments related to Chapter 286, Statutes of 2011 (SB 335, Hernandez). These funds are also referred to as the Hospital Quality Assurance Fee (HQAF) funds.

California Welfare and Institutions (W&I) Code Section 14169.57, authorized by Senate Bill 335, requires plans to pay HQAF funds to hospitals within thirty (30) days after receipt from the Department of Health Care Services (DHCS). For HQAF funds not distributed within this 30-day time frame, the contract between DHCS and the plans allows DHCS to impose sanctions provided in W&I Code, Section 14304 and Title 22 California Code of Regulations Section 53872.

Historically, HQAF funds have been distributed retrospectively. For example, the 2011-12 HQAF funds were disbursed in two lump sums with the June 2013 and July 2013 monthly capitation payments. Starting October 2013, DHCS began paying HQAF funds prospectively on a monthly basis as part of regular capitation payments. Distribution of HQAF funding under SB 335 is set to terminate with the December 2013 capitation payment for GMC plans.

This change in payment frequency requires plans to distribute HQAF funds to providers and reconcile the prospective dollar amounts received on a monthly basis based on the actual member months. DHCS is aware that plans may have operational challenges with this frequent reconciliation. In addition, hospitals have raised concerns that such reconciliation may mean that a portion of the funds received from the plans may have to be returned to the plans if the reconciliation leads to a lower payment due to the hospitals. Responding to the concerns from the plans and the hospitals, the department has agreed to not implement the option to penalize the plans for delaying distribution of SB 335 HQAF funds for the period October 2013 through December 2013. However, failure to distribute these funds by March 31, 2014 may subject the plans to monetary penalties in accordance with the terms of their contract.

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If you have any questions regarding this letter, please contact Stuart Busby, Chief, Capitated Rates Development Division by email at Stuart.Busby@dhcs.ca.gov or by phone at (916) 449-5003.

Sincerely,

Original Signed by Pilar Williams

Pilar Williams, Deputy Director
Health Care Financing