DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
San Francisco Regional Office
90 Seventh Street, Suite 5-300 (5W)
San Francisco, CA 94103-6706

DIVISION OF MEDICAID & CHILDREN'S HEALTH OPERATIONS

June 5, 2018

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

Dear Ms. Cantwell:

CMS has made a technical correction to three of the four pages approved under California State Plan Amendment (SPA) 18-005, which changed the Programs of All-Inclusive Care for the Elderly (PACE) rate development methodology from a percent of fee-for-service (FFS) costs to an experience-based rate methodology that uses PACE organization cost experience, encounter data and other data to set rates.

CMS has corrected the footers on Supplement 4 to Attachment 3.1-A, pages 7 and 7b and on Supplement 4 to Attachment 3.1-B, page 7 as follows: page 7 now reflects that SPA 18-005 supersedes SPA 13-006 rather than SPA 02-003 and page 7b now shows it does not supersede any page. Supplement 4 to Attachment 3.1-B, page 7 now reflects that SPA 18-005 supersedes SPA 13-006 rather than SPA 02-003.

Please note that Supplement 4 to Attachment 3.1-A, page 7a originally approved on May 17, 2018 was not affected and should be retained in the state plan.

Separately, CMS also made some minor revisions to the CMS 179 to indicate in the "Remarks" section that box 8 and 9 indicate that Supplement 4 to Attachment 3.1-B, page 7a is to be deleted under this SPA and that Box 16 is part of the pen and ink changes approved by the state on April 20, 2018.

The effective date of this SPA is January 1, 2018 and the approval date of the SPA remains May 17, 2018. Enclosed are the following approved SPA pages that should be incorporated into your approved state plan:

- Supplement 4 to Attachment 3.1-A, Page 7 and 7b*
- Supplement 4 to Attachment 3.1-B, Page 7

*Supplement 4 to Attachment 3.1-A, page 7a originally approved on May 17, 2018 was not affected and should be retained in the state plan.

If you have any questions, please contact Cheryl Young at 415-744-3598 or via email at Cheryl.Young@cms.hhs.gov.

Sincerely,

/s/

Hye Sun Lee
Acting Associate Regional Administrator
Division of Medicaid & Children's Health Operations

cc: Rene Mollow, California Department of Health Care Services (DHCS)
Jennifer Lopez, DHCS
David Bishop, DHCS
Nathaniel Emery, DHCS

DEPARTMENT OF HEALTH AND HUMAN SERVICES
CENTERS FOR MEDICARE & MEDICAID SERVICES

FORM APPROVED
OMB No. 0938-0193

TRANSMITTAL AND NOTICE OF APPROVAL OF STATE PLAN MATERIAL

FOR: CENTERS FOR MEDICARE & MEDICAID SERVICES

1. TRANSMITTAL NUMBER: 18 — 005

2. STATE: CA

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: January 1, 2018

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
Sec.1934 &1905(a)(26) of the Social Security Act and 42 CFR Part 460

7. FEDERAL BUDGET IMPACT
a. FFY 2018 $ $0
b. FFY 2019 $ $0

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT
Supplement 4, Attachment 3.1-A, Page 7 and 7a, 7b
Supplement 4, Attachment 3.1-B, Page 7 and 7a*

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT *(If Applicable)*
Supplement 4, Attachment 3. 1-A, Page 7 and 7a
Supplement 4, Attachment 3. 1-B, Page 7 and 7a*

10. SUBJECT OF AMENDMENT
Rate methodology change for PACE

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

12. SIGNATURE OF STATE AGENCY OFFICIAL
ORIGINAL SIGNED

13. TYPED NAME
Mari Cantwell

14. TITLE
State Medicaid Director

15. DATE SUBMITTED
3/12/2018

16. RETURN TO
Department of Health Care Services
ATTN: State Plan Coordinator
1501 Capitol Avenue, MS 0000
P.O. Box 997417
Sacramento, CA 95899-7417

FOR REGIONAL OFFICE USE ONLY

17. DATE RECEIVED
March 12, 2018

18. DATE APPROVED
May 17, 2018

PLAN APPROVED - ONE COPY ATTACHED

19. EFFECTIVE DATE OF APPROVED MATERIAL
January 1, 2018

20. SIGNATURE OF REGIONAL OFFICIAL
/s/

21. TYPED NAME
Hye Sun Lee

22. TITLE
Acting Associate Regional Administrator, Division of Medicaid & Children's Health Operations

23. REMARKS

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

Boxes 6, 7 and 9: Edits made by CMS per CA permission via informal written response to CMS questions/comments dated 4/20/18.

State of California
PACE State Plan Amendment Pre-Print

II. Rates and Payments

A. The State assures CMS that the capitated rates will be equal to or less than the cost to the agency of providing those same fee-for-service State plan approved services on a fee-for-service basis, to an equivalent non-enrolled population group based upon one of the following methodologies. Please attach a description of the negotiate rate setting methodology and how the State will ensure that rates are less than the cost in fee-for- service. See Supplement 4, Attachment 3.1-A, Page 7a.

1. _____ Rates are set at a percent of fee-for-service costs
2. __X__ Experience-based (contractors/State's cost experience or encounter data (please describe)
3. _____ Adjusted Community Rate (please describe)
4. _____ Other (please describe)

B. The State Medicaid Agency assures that the rates were set in a reasonable and predictable manner. Please list the name, organizational affiliation of any actuary used, and attestation/description for the initial capitation rates.

California Department of Health Care Services Capitated Rates Development Division assigned or contracted actuary.

C. The State will submit all capitated rates to the CMS Regional Office for prior approval.

State of California
PACE State Plan Amendment Pre-Print

Rate Setting Methodology for PACE

The Program of All-Inclusive Care for the Elderly (PACE) is a capitated program for individuals who are 55 years of age or older, that are eligible for placement in a Long-Term Care facility. Under a risk contract, Medicaid payments to the contractor, for a defined scope of services to eligible recipients, may not exceed 99.99% of the cost to the State of providing those same services to an actuarially equivalent non-PACE-enrolled population group.

Capitation rates paid under contracts between the State and PACE Organizations (POs) are to be developed using actuarial principles, including data developed from actual experience of the PACE population, in a manner consistent with Welfare and Institutions Code Section 14301.1(n), effective January 1, 2018.

A program-specific rate development template (RDT) will capture cost and utilization experience for each PO, separately for each county or region where the PO operates. The RDT will also capture total costs and eligibility reported by population group, as defined below:

Population Group	Definition
Part A&B	Medi-Cal enrollees with Medicare Part A & B coverage
Part A	Medi-Cal enrollees with Medicare Part A only coverage
Part B	Medi-Cal enrollees with Medicare Part B only coverage
Medi-Cal Only	Medi-Cal enrollees with no Medicare coverage

In the event the PO is unable to properly allocate the cost and utilization experience appropriately using the table above, the actuary will estimate the appropriate distribution of the data among the population groups. If this is necessary, the actuary will have final discretion in distributing the data.

POs are required to provide all medically necessary care for both the Medi-Cal population and Medi-Cal/Medicare dually eligible populations (Part A&B, Part A and Part B).

For the development of all PACE capitation rate cells (rate ranges), the actuary may utilize other data, including but not limited to historical FFS, PO encounter data, wage index information, medical services prices or indices, Medicare county factors, frailty/acuity risk scores and Medi-Cal managed care experience as comparison points for utilization and cost data reported on the RDT by POs.

All PACE capitation rate cells shall be developed using the PO reported RDT data, Medi-Cal only claims costs, and member months. For dually eligible populations, Medi-Cal costs shall be determined by taking the total costs with the consideration of other revenues and/or expenditures.

State of California
PACE State Plan Amendment Pre-Print

The total Medi-Cal costs and eligibility data by population group will then be grouped by Category of Aid (COA) to calculate the Medi-Cal Dual and Medi-Cal Non-Dual per member per month (PMPM) claim costs as defined below:

Category of Aid (COA)	Population Group
Medi-Cal Dual Rate	Part A & B
Medi-Cal Non-Dual Rate	Part A Only Part B Only Medi-Cal Only

A PO's total enrollment is inherently smaller than traditional managed care models. Because of the small enrollment size for some POs, plan-specific data for each PO may be subject to more variation and volatility, and therefore lack predictive value in forecasting future rates. For any PO that the actuary deems their total enrollment is not fully credible, the PO's capitation rates will be blended with other POs in the county or region, or using an adjacent, nearby, or similar county or region, as necessary.

Reasonable, appropriate and attainable utilization, unit cost/pricing and/or service mix adjustments will be applied to the underlying base data or as part of projection factors for the rate setting contract period as necessary.

Other potential factors considered in rate development may include, but is not limited to:

- Frailty/acuity levels: Because POs may enroll populations with differing frailty/acuity levels, these adjustments will be considered, particularly for new or expanded POs,
- Material program changes, where appropriate, will be applied to the base data, and/or prospectively from the effective date to the rate setting contract period,
- Trend factors, bringing utilization, unit cost/pricing and resulting PMPM costs from the base data time period to the rate setting contract period,
- Administrative loads developed with consideration of Medi-Cal administrative expenses and PACE model coordination of care,
- Underwriting gain for cost of capital and risk,
- Government mandated assessments, fees and taxes as appropriate.

Capitation rate ranges will be developed to reflect Medi-Cal costs only (not to include share of cost/patient liability or Medicare costs/administrative expenses).

State of California
PACE State Plan Amendment Pre-Print

II. Rates and Payments

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B. The State Medicaid Agency assures that the rates were set in a reasonable and predictable manner. Please list the name, organizational affiliation of any actuary used, and attestation/description for the initial capitation rates.

California Department of Health Care Services Capitated Rates Development Division assigned or contracted actuary.

C. The State will submit all capitated rates to the CMS Regional Office for prior approval.