

**DEPARTMENT OF HEALTH CARE SERVICES
NOTICE OF GENERAL PUBLIC INTEREST AND
REQUEST FOR STAKEHOLDER INPUT
RELEASE DATE: MAY 20, 2022**

**PROPOSED STATE PLAN AMENDMENT TO UPDATE THE MEDI-CAL
REIMBURSEMENT METHODOLOGY FOR STATE FISCAL YEAR (SFY) 2022-23
DIAGNOSIS RELATED GROUP (DRG) PAYMENTS**

This notice provides information of public interest regarding a proposed State Plan Amendment (SPA) by the Department of Health Care Services (DHCS). Proposed SPA 22-0029 will make changes to the DRG program for general acute care inpatient hospital services provided by:

- (1) Private hospitals and non-designated public hospitals in California,
- (2) Out-of-state (border and non-border) hospitals, and
- (3) Medicare-designated critical access hospitals (See Cal. Welf. & Inst. Code §14105.28).

Proposed SPA 22-0029 will update the parameters of the DRG reimbursement methodology for SFY 2022-23 DRG payments and implement both annual changes to cost-to-charge ratios (CCR) and federal wage area definitions. These modifications include:

- Updating the 3M™ All-Patient Refined Diagnosis Related Groups (APR-DRG) grouping software to Version 39.1
- Increasing the statewide APR-DRG Base Price by 2.75 percent.
- Increasing the Remote Rural APR-DRG Base Price by 9.2 percent.
- Increase of High/Low Cost Outlier Threshold from \$67,000 to \$73,000.
- Reducing the Marginal Cost Factor from 55 percent to 53 percent.
- All Medicaid Care Category (MCC) policy adjustor values for Severity of Illness (SOI) levels 1 through 3 remain the same as SFY 2021-22.
- Reducing the MCC Obstetric policy adjustor value for SOI 4 from 1.30 to 1.10.
- Increasing the MCC Misc Pediatric policy adjustor value for SOI 4 from 1.65 to 1.75.
- Reducing the MCC Neonate Designated policy adjustor value for SOI 4 from 2.45 to 2.30.

- Reducing the MCC Neonate Standard policy adjustor value for SOI 4 from 1.95 to 1.80.
- Reducing the MCC Circulatory Adult policy adjustor value for SOI 4 from 1.20 to 1.00.
- Reducing the MCC Miscellaneous Adult policy adjustor value for SOI 4 from 1.20 to 1.00.
- Reducing the MCC Gastroenterology Adult policy adjustor value for SOI 4 from 1.15 to 1.00.
- Reducing the MCC Other policy adjustor value for SOI 4 from 1.25 to 1.00.
- Reducing the MCC Respiratory Adult policy adjustor value for SOI 4 from 1.25 to 1.00.
- Increasing the MCC Respiratory Pediatric policy adjustor value for SOI 4 from 1.75 to 1.80.
- Making required changes to the California and border hospital wage area index values, as provided by the Centers for Medicare and Medicaid Services (CMS), and adjusted by the California Wage Area Neutrality Adjustment which decreased from 0.9588 to 0.9579.

DHCS requests input from beneficiaries, providers, and other interested stakeholders concerning proposed SPA 22-0029, which is attached.

DHCS estimates that the annual aggregate expenditures for acute inpatient hospital services will be budget neutral. However, the impact to individual hospitals varies by utilization and casemix.

The effective date of the proposed SPA is July 1, 2022. All proposed SPAs are subject to approval by CMS.

PUBLIC REVIEW AND COMMENTS

The proposed changes in SPA 22-0029 are included in this notice for public comment. DHCS is requesting stakeholder input on the impact, if any, on access to services as a result of the proposed action.

Proposed SPA 22-0029 has been made available for public comment at:
<https://www.dhcs.ca.gov/formsandpubs/laws/Pages/Proposed-2022.aspx>

Upon submission to CMS, a copy of the proposed SPA 22-0029 will be published at:
<https://www.dhcs.ca.gov/formsandpubs/laws/Pages/Pending-2022.aspx>

If you would like to view the SPA in person once it becomes available, please visit your local county welfare department.

To be assured of consideration prior to SPA submission, written comments must be received no later than 5 p.m. on June 20, 2022. Any written comments concerning this notice or the proposed SPA may be sent to the following address:

Department of Health Care Service
Safety Net Financing Division
Attn: Loni Anderson
1501 Capitol Avenue, MS 4504
Sacramento, California 95899-7417

Comments may also be e-mailed to PublicInput@dhcs.ca.gov. Please indicate SPA 22-0029 in the subject line or message.

Please note that comments will continue to be accepted after June 20, 2022, but DHCS may not be able to consider those comments prior to the initial submission of SPA 22-0029 to CMS.

For a copy of submitted public comments for SPA 22-0029, please send a request in writing to the mailing or email addresses listed above.

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 2022 in November 2021 and it was used for the base prices for SFY 2022-23.

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

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	\$16,486	Statewide Remote Rural APR-DRG Base Price.
Statewide APR-DRG Base Price	\$7,132	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	1.00	Policy adjustor for all DRGs with SOI 1-3 in the Obstetrics care category
Policy Adjustor – Miscellaneous Pediatric SOI 4	1.75	Policy Adjustor for all DRGs with SOI 4 in the Miscellaneous Pediatric care category
Policy Adjustor – Respiratory Pediatric SOI 4	1.80	Policy Adjustor for all DRGs with SOI 4 in the Respiratory Pediatric care category
Policy Adjustor – Neonate SOI 4	1.80	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	2.30	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 – Circulatory Adult SOI 4	1.00	Policy Adjustor for all DRGs with SOI 4 in the Circulatory Adult care category
Policy Adjustor – Miscellaneous Adult SOI 4	1.00	Policy Adjustor for all DRGs with SOI 4 in the Miscellaneous Adult care category
Policy Adjustor – Gastroenterology Adult SOI 4	1.00	Policy Adjustor for all DRGs with SOI 4 in the Gastroenterology Adult care category
Policy Adjustor – Other SOI 4	1.00	Policy Adjustor for all DRGs with SOI 4 in the Other care category
Policy Adjustor – Respiratory Adult SOI 4	1.00	Policy Adjustor for all DRGs with SOI 4 in the Respiratory Adult care category

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Parameter	Value	Description
Policy Adjustor –Obstetrics SOI 4	1.10	Policy Adjustor for all DRGs with SOI 4 in the Obstetrics care category
California Wage Area Neutrality Adjustment	0.9579	Adjustment factor used by California or Border hospital
Wage Index Labor Percentage	67.6%	Percentage of DRG Base Price or Rehabilitation per diem rate adjusted by the wage index value.
High Cost Outlier Threshold	\$73,000	Used to determine Cost Outlier payments.
Low Cost Outlier Threshold	\$73,000	Used to determine Cost Outlier payments.
Marginal Cost Factor	53.0%	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.39.1	3M Software version used to group claims to a DRG
HAC Utility Version	V.39.1	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.

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List of Hospitals Eligible to receive the “DRG- NICU- Surgery Policy Adjustor”

A. Hospitals approved to receive Policy Adjustor – NICU Surgery, status as of December 23, 2021:

- 1) California Pacific Medical Center - Pacific
- 2) Cedars Sinai Medical Center
- 3) Children’s Hospital & Research Center of Oakland (UCSF Benioff Oakland)
- 4) Children’s Hospital of Los Angeles
- 5) Children’s Hospital of Orange County
- 6) Citrus Valley Medical Central – Queen of the Valley
- 7) Community Regional Medical Center Fresno
- 8) Good Samaritan - San Jose
- 9) Huntington Memorial Hospital
- 10) Kaiser Anaheim
- 11) Kaiser Downey
- 12) Kaiser Fontana
- 13) Kaiser Foundation Hospital - Los Angeles
- 14) Kaiser Permanente Medical Center - Oakland
- 15) Kaiser Foundation Hospital – Roseville
- 16) Kaiser Permanente – Santa Clara
- 17) Kaiser Foundation Hospital San Diego
- 18) Loma Linda University Medical Center
- 19) Lucille Salter Packard Children’s Hospital – Stanford
- 20) Miller Children’s at Long Beach Memorial Medical Center
- 21) Pomona Valley Hospital Medical Center
- 22) Providence Tarzana Regional Medical Center
- 23) Rady Children’s Hospital - San Diego
- 24) Santa Barbara Cottage Hospital
- 25) Sutter Memorial Hospital
- 26) Valley Children’s Hospital