

DEPARTMENT OF HEALTH AND HUMAN SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S2-26-12
Baltimore, MD 21244-1850



Financial Management Group

JUN 22 2017

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

RE: California State Plan Amendment 17-015

Dear Ms. Cantwell:

We have reviewed the proposed amendment to Attachment 4.19-A of your Medicaid state plan submitted under transmittal number (TN) 17-015. This amendment, effective July 1, 2017, updates California's All Patient Refined Diagnosis Related Group (APR-DRG) payment parameters for state fiscal year 2017-2018.

We conducted our review of your submittal according to the statutory requirements at sections 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. This is to inform you that Medicaid State plan amendment TN 17-015 is approved effective July 1, 2017. We are enclosing the HCFA-179 and the amended plan pages.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Kristin Fan". The signature is fluid and cursive.

Kristin Fan
Director

Enclosures

**TRANSMITTAL AND NOTICE OF APPROVAL OF
STATE PLAN MATERIAL**

1. TRANSMITTAL NUMBER:
17-015

2. STATE
CA

FOR: HEALTH CARE FINANCING ADMINISTRATION

3. PROGRAM IDENTIFICATION: TITLE XIX OF THE
SOCIAL SECURITY ACT (MEDICAID)

TO: REGIONAL ADMINISTRATOR
HEALTH CARE FINANCING ADMINISTRATION
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE
July 1, 2017

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

7. FEDERAL BUDGET IMPACT:
a. FFY 2016 \$0
b. FFY 2017 \$0

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:

Attachment 4.19-A pages 17.40- 17.43, 17.48, 17.49, 17.50
Appendix 6 to Attachment 4.19A, pages 1-3

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION
OR ATTACHMENT (*If Applicable*):

**Attachment 4.19-A pages 17.40- 17.43, 17.48, 17.49,
17.50**
Appendix 6 to Attachment 4.19A, pages 1-3

10. SUBJECT OF AMENDMENT:

Inpatient Hospital APR-DRG updates for SFY 2017-18

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:
The Governor's Office does not
wish to review the State Plan Amendment.

12. SIGNATURE OF STATE AGENCY OFFICIAL:

13. TYPED NAME
Mari Cantwell

14. TITLE:
State Medicaid Director

15. DATE SUBMITTED:

16. RETURN TO:

**Department of Health Care Services
Attn: State Plan Coordinator
1501 Capitol Avenue, Suite 71.326
P.O. Box 997417
Sacramento, CA 95899-7417**

FOR REGIONAL OFFICE USE ONLY

17. DATE RECEIVED:

18. DATE APPROVED:
JUN 22 2017

PLAN APPROVED - ONE COPY ATTACHED

19. EFFECTIVE DATE OF APPROVED MATERIAL:
JUL 01 2017

20. SIGNATURE OF REGIONAL OFFICIAL:

21. TYPED NAME:
Kristen Fan

22. TITLE:
Director, FMG

23. REMARKS:

10. "Border Hospitals" are hospitals located outside the State of California that are within fifty five miles driving distance from the nearest physical location at which a road crosses the California border as defined by the US Geological Survey.
11. "Estimated Gain" is the amount a DRG Hospital is estimated to gain on a final discharge claim for which the final APR-DRG Payment exceeds estimated costs.
12. "Estimated Loss" is the amount a DRG Hospital is estimated to lose on a final discharge claim for which the final APR-DRG Payment does not exceed estimated costs.
13. "Exempt Hospitals, Services, and Claims" are those hospitals, services, and claims as listed in Paragraph B.2.
14. "High Cost Outlier Threshold" is the amount that an estimated loss for a single complete discharge claim must exceed to be paid an outlier payment at the Marginal Cost Factor.
15. "Low Cost Outlier Threshold" is the amount that the Estimated Gain needs to be greater than to have the gained amount reduced by Marginal Cost Factor.
16. "Marginal Cost Factor" is the factor used for payment reductions and for determining outlier payments to DRG Hospitals for claims that have estimated losses exceeding the High Cost Outlier Threshold.
17. "Medi-Cal" is the name of California's Federal Medicaid program.
18. "Remote Rural Hospital" is a California hospital that is defined as a rural hospital by the Office of Statewide Health Planning and Development (OSHPD), is at least fifteen (15)

miles in driving distance from the nearest GAC hospital that has a basic level emergency room, and does not operate under a combined license or bill under a common National Provider Index (NPI) number with a non-remote rural hospital.

19. "Remote Rural Border Hospital" is a border hospital that is defined as a rural hospital by the federal Medicare program, is at least fifteen (15) miles in driving distance from the nearest GAC hospital that has a basic level emergency room, and does not operate under a combined license or bill under a common National Provider Index (NPI) number with a non-remote rural hospital.
20. "State Fiscal Year" (SFY) is California state government's fiscal year which begins on July 1 and ends the following June 30.
21. "Hospital-Specific Wage Area Index Values" are hospital-specific geographic adjustments that Medicare uses (from the Medicare hospital impact file) further adjusted by the California Wage Area Neutrality Adjustment of 0.9792 for California hospitals.

B. Applicability

1. Except as specified below in Paragraph 2, for admissions dated July 1, 2013 for private hospitals, and after and commencing on admissions dated January 1, 2014, and after for NDPHs, the Department of Health Care Services (DHCS) will reimburse "DRG Hospitals" through a prospective payment methodology based upon APR-DRG.
2. The following are "Exempt Hospitals, Services, and Claims" that are not to be reimbursed based upon APR-DRG:
 - a. Psychiatric hospitals and psychiatric units
 - b. Rehabilitation hospitals, rehabilitation units, and rehabilitation stays at general acute care hospitals
 - c. Designated Public Hospitals
 - d. Indian Health Services Hospitals
 - e. Inpatient Hospice
 - f. Swing-bed stays
 - g. Managed Care stays

- h. Administrative Day Reimbursement claims
 - i. Level I
 - ii. Level 2

C. APR-DRG Reimbursement

For admissions dated July 1, 2013, and after for private hospitals and for admissions dated January 1, 2014, and after for NDPHs, reimbursement to DRG Hospitals for services provided to Medi-Cal beneficiaries are based on APR-DRG. Effective July 1, 2015, APR-DRG Payment is determined by multiplying a specific APR-DRG HSRV by a DRG Hospital's specific APR:DRG Base Price with the application of adjustors and add-on payments, as applicable. Provided all pre-payment review requirements have been approved by DHCS, APR-DRG Payment is for each admit through discharge claim, unless otherwise specified in this segment of Attachment 4.19-A.

1. APR-DRG HSRV

The assigned APR-DRG code is determined from the information contained on a DRG Hospital's submitted UB-04 or 837I acute inpatient claim. The grouping algorithm utilizes the diagnoses codes, procedure codes, procedure dates, admit date, discharge date, patient birthdate, patient age, patient gender, and discharge status present on the submitted claim to group the claim to one of 318 specific APR-ORO-groups. Within each specific group of 318, there are four severities of illness and risk of mortality sub classes: minor (1), moderate (2), major (3), and extreme (4). This equates to a total of 1272 different APR- DRG (with two error code possibilities). Each discharge claim is assigned only one APR-DRG code. For each of the 1272 APR-DRG codes there is a specific APR-DRG HSRV assigned to it by the APR-DRG grouping algorithm. The APR-DRG HSRVs are

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calculated from Nationwide Inpatient Sample. 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

receive a percentage increase that would result in a transitional base price above the statewide base price.

- k. The DRG Hospital Specific Transitional APR-DRG Base Price for SFY2013-14 were sent to private hospitals January 30, 2013.
- l. The DRG Hospital Specific Transitional APR-DRG Base Price for SFY2013-14 were sent to NDPHs June 17, 2013.
- m. The DRG Hospital Specific Transitional APR-DRG Base Price for SFY 2014-15 and SFY 2015-16 was provided to hospitals on July 31, 2013. Transitional APR-DRG

Base Prices are subject to change based on changes to the Medicare Wage Index, hospital characteristics or other reasons. The updated DRG Hospital Specific Transitional APR-DRG Base Price for SFY 2015-16 were sent to private hospitals and NDPHs on May 29, 2015, June 2, 2015, and June 3, 2015.

- 4. DRG Hospital Specific APR-DRG Base Prices for SFY 2016-17 and for subsequent SFY.

The DRG Hospital Specific Transitional APR-DRG Base Price ceased starting SFY 2016-17. DRG payment rates no longer receive transition based adjustments to the DRG payment rate. All hospitals received the statewide base price in SFY 2016-17 and will continue to receive the statewide base price in subsequent SFY.

- 5. Wage Area Adjustor

- a. Hospital-Specific Wage Area Index values will be used to adjust the APR-DRG Base Price for DRG Hospitals and Border Hospitals. The Hospital-Specific Wage Area Index Value for a California hospital or Border hospital shall be the same hospital specific wage area index value that the Medicare program applies to that hospital, further adjusted by the California Wage Area Neutrality Adjustment of 0.9792. In determining the hospital-specific wage area index values for each SFY, DHCS will utilize data from the latest Medicare Impact file published prior to the start of the state fiscal year, including wage area boundaries, any reclassifications of hospitals into wage index areas, wage area index values, and any other wage area or index value adjustments that are used by Medicare Out of state hospitals that are not Border hospitals will receive a wage area adjustor of 1.00. The wage area adjustor is applied to the labor share percentage, as specified in Appendix 6, of the statewide base price or

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 2017 in August 2016 and it was used for the base prices for SFY 2017-18. 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).

6. 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 used to adjust payment weights for care categories. The projected financial impact of the policy adjustors was considered in developing budget-neutral base prices.

7. 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. In alternative, a hospital (other than a new hospital or an out-of-state border or

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in the state in which the border hospital is located. The average Medicare urban CCR and average Medicare rural CCR for operating costs shall be determined from Table 8A associated with the Hospital Inpatient Prospective Payment System (PPS) Final Rule and the Average CCR for capital costs shall be determined from Table 8B associated with the Hospital Inpatient PPS Rule. Border hospital state-specific CCRs will be updated annually with an effective date of July 1.

- a. Subtracting the APR-DRG Payment from the DRG Hospital's estimated cost on a given discharge claim gives the estimated loss. If the Estimated Loss is greater than the High Cost Outlier Threshold, then the Cost Outlier Payment is the Estimated Loss less the High Cost Outlier Threshold multiplied by the Marginal Cost Factor.
- b. APR-DRG Payment also utilizes a low-side outlier similar to the high side outlier adjustment calculations. The estimated gain is determined by subtracting the APR-DRG Payment from the DRG Hospital's estimated cost. If the Estimated Gain is greater than the Low Cost Outlier Threshold, payment will be decreased by the Estimated Gain less the Low Cost Outlier Threshold, and then multiplied by the Marginal Cost Factor.
- c. Values for High Cost Outlier Threshold, Low Cost Outlier Threshold, and Marginal Cost Factor are reflected in Appendix 6 of Attachment 4.19-A.

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT

STATE: CALIFORNIA

Appendix 6

1. APR-DRG Payment Parameters

<u>Parameter</u>	<u>Value</u>	<u>Description</u>
Remote Rural APR-DRG Base Price	\$12,832	Statewide Remote Rural APR-DRG Base Price
Statewide APR-DRG Base Price	\$6,760	Statewide APR-DRG Base Price (non-Remote Rural)
Policy Adjustor - Age	1.45	Policy Adjustor for claims whose patients are less than 21 years old with a DRG in the 'miscellaneous pediatric' or 'respiratory pediatric' care categories.
Policy Adjustor – NICU services	1.25	Policy Adjustor for all NICU DRGs (i.e. DRGs assigned to the 'neonate' care category, except for those receiving the NICU Surgery policy adjuster below).
Policy Adjustor – NICU surgery	1.75	Enhanced Policy Adjustor for all designated NICU facilities and surgery sites recognized by California Children's Services (CCS) Program to perform neonatal surgery. For all DRGs assigned to the neonate care category
Policy Adjustor- Obstetrics	1.06	Policy adjustor value for obstetric care
Policy Adjustor – Each other category of service	1.00	Policy adjustor for each other category of service.
Wage Index Labor Percentage	69.6%	Percentage of DRG Base Price or Rehabilitation per diem rate adjusted by the wage index value.
High Cost Outlier Threshold	\$60,000	Used to determine Cost Outlier payments
Low Cost Outlier Threshold	\$60,000	Used to determine Cost Outlier payments
Marginal Cost Factor	50%	Used to determine Cost Outlier payments
Outlier Percentage, upper bound	15%	Outlier payments as percentage of total
Outlier Percentage, lower bound	13%	Outlier payments as percentage of total
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.34	3M Software version used to group claims to a DRG
HAC Utility Version	V.34	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.

2. Separately Payable Services, Devices, and Supplies

Code	Description
Bone Marrow	
38204	Management of recipient hematopoietic progenitor cell donor search and acquisition
38204	Unrelated bone marrow donor
Blood Factors	
J7180	Blood factor XIII
J7183/J7184/Q2041	Blood factor Von Willebrand –injection
J7185/J7190/J7192	Blood factor VIII
J7186	Blood factor VIII/ Von Willebrand
J7187	Blood factor Von Willebrand
J7189	Blood factor VIIa

J7193/J7194/J7195	Blood factor IX
J7197	Blood factor Anti-thrombin III
J7198	Blood factor Anti-inhibitor
C9134	Blood Factor XIII Antihemophilic factor
J7199	Alprolix and Factor VIII
Long Acting Reversible Contraception Methods	
J7300	Intrauterine Copper (Paraguard)
J7301	Skyla
J7302	Levonorgestral-releasing intrauterine contraceptive system (Mirena)
J7307	Etonogestrel (Implanon, Nexplanon)

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

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