DEPARTMENT OF HEALTH AND HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE

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SECRETARY

DAVE RICHARD
DEPUTY SECRETARY FOR MEDICAL ASSISTANCE

M E M O R A N D U M

TO: Mandy Cohen, MD, MPH
Secretary

FROM: Dave Richard
Deputy Secretary for Medical Assistance

SUBJECT: State Plan Amendment
Title XIX, Social Security Act
Transmittal #2017-001

DATE: February 16, 2017

Please find attached an amendment for North Carolina's State Plan under Title XIX of the Social Security Act for the Medical Assistance Program. The affected pages are Attachment 4.19-A, Page 5, Attachment 4.19-A, Page 8, and Attachment 4.19-A, Page 23.

This state plan amendment implements Session Law 2015-264, Section 12H.23. (a) which states no Medicaid provider may receive reimbursement for Graduate Medical Education (GME) as an add-on to their DRG Unit Value (Base) rate under the Base rate methodology as defined in the current Medicaid State Plan. GME costs will continue to be allowable in the calculation of supplemental payments made as part of cost settlements, Medicaid Reimbursement Initiative (MRI) and Upper Payment Limit (UPL) models as defined in the State Plan and allowed by the Centers for Medicare and Medicaid Services (CMS).

This amendment is effective January 1, 2017.

Your approval of this state plan amendment is requested. If you have any questions or concerns, please contact Teresa Smith or me at 919-855-4116.

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Medical Assistance Program
State: NORTH CAROLINA

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(e) Reimbursement for capital expense is included in the DRG hospital rate described in Paragraph (d) of this plan.

(f) Effective January 1, 2017, no Medicaid provider may receive reimbursement for Graduate Medical Education (GME) as an add-on to their DRG Unit Value (Base) rate under the DRG payment methodology as defined in the current Medicaid State Plan. Reasonable direct and indirect costs attributable to Medicaid services of operating Medicare approved graduate medical education programs will continue to be an allowable Medicaid cost to be recorded on the hospital's Medicaid cost report in accordance with Medicare cost principles. Reasonable direct and indirect costs attributable to Medicaid services of operating Medicare approved graduate medical education programs will continue to be allowable in the calculation of supplemental payments made as part of cost settlement, Medicaid Reimbursement Initiative (MRI) and Upper Payment Limit (UPL) models as defined in the State Plan and allowed by the Centers for Medicare and Medicaid Services (CMS).

(g) Cost outlier payments are an additional payment made at the time a claim is processed for exceptionally costly services. These payments shall be subject to retrospective review by the Division of Medical Assistance, on a case-by-case basis. Cost Outlier payments will be reduced if and to the extent that the preponderance of evidence on review supports a determination that the associated cost either exceeded the costs for services that were not medically necessary or was for services not covered by the North Carolina Medical Assistance program.

(1) A cost outlier threshold shall be established for each DRG at the time DRG relative weights are calculated, using the same information used to establish those relative weights. The cost threshold is the greater of twenty-five thousand dollars ($25,000) or mean cost for the DRG plus 1.96 standard deviations.

(2) Charges for non-covered services and services not reimbursed under the inpatient DRG methodology (such as professional fees) shall be deducted from total billed charges. The remaining billed charges are converted to cost using a hospital specific total cost to total charge ratio not from the cost report but developed. The cost to charge ratio excludes medical education costs.

(3) If the net cost for the claim exceeds the cost outlier threshold, a cost outlier payment is made at 75% of the costs above the threshold.

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(5) The per diem rate for rehabilitation services is established at the lesser of the actual cost trended to the rate year or the calculated median rate of all hospitals providing rehabilitation services as derived from the most recent filed cost reports.

(6) Rates established under this Paragraph are adjusted for inflation consistent with the methodology under Subparagraph (d)(5) of the DRG RATE SETTING METHODOLOGY.

(7) Rates established under this Paragraph shall be prospectively determined and shall not be subject to retrospective settlement.

(b) Hospitals operated by the Department of Health and Human Services, all the primary affiliated teaching hospitals for the University of North Carolina Medical Schools will be reimbursed their reasonable costs in accordance with the provisions of the Medicare Provider Reimbursement Manual. Critical Access Hospital pursuant to 42 USC 1395i-4 will be reimbursed their reasonable costs for acute care services in accordance with the provision of the Medicare Provider Reimbursement Manual. This Manual referred to as (CMS Publication #15-1) is hereby incorporated by reference including any subsequent amendments and editions. Interim payment rates will be estimated by the hospital and provided to the Division of Medical Assistance (DMA) subject to DMA review. These rates will be set at a unit value that can best be expected to approximate 100% of reasonable cost. Interim payments made under the DRG methodology to these providers shall be retrospectively settled to reasonable cost.

(c) Effective January 1, 2017, no Medicaid provider may receive reimbursement for Graduate Medical Education (GME) as an add-on to their per diem rate. Reasonable direct and indirect costs attributable to Medicaid services of operating Medicare approved graduate medical education programs will continue to be an allowable Medicaid cost to be recorded on the hospital's Medicaid cost report in accordance with Medicare cost principles. Reasonable direct and indirect costs attributable to Medicaid services of operating Medicare approved graduate medical education programs will continue to be allowable in the calculation of supplemental payments made as part of cost settlement, Medicaid Reimbursement Initiative (MRI) and Upper Payment Limit (UPL) models as defined in the State Plan and allowed by the Centers for Medicare and Medicaid Services (CMS).

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OUT-OF-STATE-HOSPITALS

(a) Except as noted in Paragraph (c) below, the Division of Medical Assistance shall reimburse out-of-state hospitals using the DRG methodology. Effective for dates of service on or after December 1, 2015, the DRG hospital unit value for all out-of-state hospitals shall be equal to the unit value of the North Carolina hospitals' statewide median rate of $2,704.50**.** Out-of-state providers are eligible to receive cost and day outlier payments, but not direct medical education payment adjustments.

(b) Hospitals certified as disproportionate share hospitals by the Medicaid agency in their home state may apply for a disproportionate share adjustment to their North Carolina Medicaid rate. The North Carolina disproportionate share hospital rate adjustment shall be the hospital's home state DSH adjustment, not to exceed 2.5 percent of the DRG or per diem payment. The Division will apply the disproportionate share hospital rate adjustment to Medicaid inpatient claims submitted by qualified out-of-state hospitals.

(c) The Division of Medical Assistance may enter into contractual relationships with certain hospitals providing highly specialized inpatient services, i.e. transplants in which case reimbursement for inpatient services shall be based upon a negotiated rate.