

DEPARTMENT OF HEALTH & HUMAN SERVICES  
Centers for Medicare & Medicaid Services  
7500 Security Boulevard, Mail Stop S3-13-15  
Baltimore, Maryland 21244-1850



Center for Medicaid and State Operations

Paul Reinhart, Director  
Medical Services Administration  
Department of Community Health  
400 South Pine  
Lansing, MI 48933

FEB - 1 2005

*2-7-05  
original  
to Nancy Bishop  
JG*

RE: Michigan State Plan Amendment (SPA) 04-05

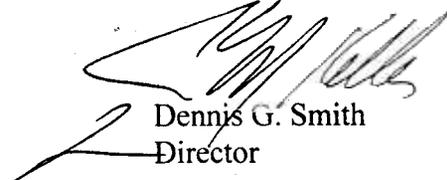
Dear Mr. Reinhart:

We have reviewed the proposed amendment to Attachments 4.19-A and 4.19-B of your Medicaid State plan submitted under transmittal number (TN) 04-05. This amendment increases and makes permanent the amounts available in the Michigan Access to Care Initiative payment pools for inpatient and outpatient supplemental upper payment limit (UPL) payments. This amendment also makes these pools permanent. These changes are effective for services on or after April 1, 2004.

We conducted our review of your submittal according to the statutory requirements at sections 1902(a)(2), 1902(a)(13), 1902(a)(30), 1903(a) and 1923 of the Social Security Act (the Act) and the regulations at 42 CFR 447 Subpart C. We are pleased to inform you that Medicaid State plan amendment TN #04-05 is approved effective April 1, 2004. We are enclosing the HCFA-179 and the amended plan pages.

If you have any questions regarding inpatient hospital reimbursement, please call Dianne Heffron at (410) 786-3247. Questions regarding outpatient reimbursement should be directed to Mary Cieslicki at (410) 786-4576 or Hye-Sun Lee at (312)353-1565.

Sincerely,



Dennis G. Smith  
Director

Enclosures

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

FOR: HEALTH CARE FINANCING ADMINISTRATION

1. TRANSMITTAL NUMBER:

0 4 - 0 5

2. STATE

Michigan

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

April 1, 2004

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 433.Subpart A

7 FEDERAL BUDGET IMPACT:

a. FFY 2004 \$ 45.83 million  
b. FFY 2005 \$ 97.65 million

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:

Attachment 4.19-A, pp. 32 thru 35,  
pages 33 thru 35 are new  
Attachment 4.19-B, pp. 2.b.5 thru 2.b.8  
pages 2.b.7 & 2.b.8 are new

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 PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT (If Applicable):

Attachment 4.19-A, p. 32.  
Page 32.1 is eliminated  
Attachment 4.19-B, pp. 2.b.5  
& 2.b.6

10. SUBJECT OF AMENDMENT:

MACI (taxi-related payments)

1. 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:

X Paul Reinhart, Director  
Medical Services Administration

12 SIGNATURE OF STATE AGENCY OFFICIAL:



13. TYPED NAME

Paul Reinhart

14. TITLE:

Director

15. DATE SUBMITTED:

May 17, 2004

16. RETURN TO:

Medical Services Administration  
Program Policy - Federal Liaison Unit  
400 South Pine Street, 7th Floor  
Lansing, Michigan 48933  
ATTN: Nancy Bishop

**FOR REGIONAL OFFICE USE ONLY**

17. DATE RECEIVED:

18. DATE APPROVED:

FEB - 1 2005

PLAN APPROVED - ONE COPY ATTACHED

19. EFFECTIVE DATE OF APPROVED MATERIAL:

APR - 1 2004

20. SIGNATURE OF REGIONAL OFFICIAL:



21. TYPED NAME:

Carmen Keller

22. TITLE:



23. REMARKS:

**RECEIVED**

MAY 18 2004

DMCH/MPC

**STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT**State: MICHIGAN**METHODS OF PAYMENT OF REASONABLE COSTS -  
INPATIENT HOSPITAL SERVICES**

If an appeal results in a change which affects claims already processed, three alternatives to implement the change shall be available.

1. The hospital may elect to submit adjustments through the normal billing process
2. The hospital may request an early initial settlement for the entire hospital. The initial settlement will incorporate the appeal decision in determining the gross program liability. Initial settlements are done only after the end of a hospital's fiscal year end.
3. The impact of the appeal decision may be incorporated into the hospital's final settlement process.

**V. Medicaid Access to Care Initiative (MACI) Payments****1. FY'03 & FY'04 MACI Payments**

The Department of Community Health (the department) is establishing four special funding pools for the next two State fiscal years (FY's '03 & '04). To keep payments within the Medicaid upper payment limits, separate pools will be established for privately-owned or operated hospitals and non-state government-owned or operated hospitals for inpatient hospital services. Only hospitals located within Michigan, enrolled in the Medicaid program, open and admitting Medicaid fee for service (FFS) and managed care patients 10 days prior to a scheduled payment will be eligible to receive distributions from these pools.

Allocation of payments from the inpatient hospital pools for fiscal year 2003 will be made based on inpatient FFS hospital paid claims for hospital admissions from September 1, 1999 to August 31, 2000. (The last year of paid claims data used to rebase hospitals in FY'02 will be used.) Allocation of payments for FY'04 will be made based upon similar data drawn from FY'03 payments.

**Privately-Owned or Operated Inpatient Hospital Pool (\$120 million)**

This inpatient pool will be computed based upon the total number of DRG reimbursed hospitals and distinct part rehabilitation units. Freestanding rehabilitation hospitals with Medicaid FFS payments will participate in this pool, also.

Hospitals with Medicaid inpatient FFS payments will share proportionately in a pool of \$120 million based on each hospital's total Medicaid FFS inpatient payments divided by the total Medicaid FFS inpatient payments for all privately-owned and operated hospitals and units.

**Non-State Government-owned or Operated Inpatient Hospital Pool (\$19 million)**

This inpatient pool will be computed based upon the total number of DRG reimbursed hospitals and distinct part rehabilitation units. Freestanding rehabilitation hospitals with Medicaid FFS payments will participate in this pool, also.

Hospitals with Medicaid inpatient FFS payments will share proportionately in a pool of \$19 million based on each hospital's total Medicaid FFS inpatient payments divided by the total Medicaid FFS inpatient payments for all non-state government-owned or operated hospitals and units.

**STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT**  
**State: MICHIGAN**

**METHODS OF PAYMENT OF REASONABLE COSTS -  
INPATIENT HOSPITAL SERVICES**

---

**Payment Schedule**

Payments will be made only after the department has received approval for this policy from the Centers for Medicare & Medicaid Services. Once approval has been received, the initial payment will be made within 45 days. Subsequent payments will be made within 45 days of the beginning of each quarter. The quarterly payments will be made in four equal installments based on the total annual amount each hospital is eligible to receive. If a hospital closes or is determined ineligible to receive funds from a pool, its funds will be redistributed to the remaining eligible hospitals based on the original distribution formula. All funds from both inpatient hospital pools will be distributed to eligible hospitals.

**2. FY'04 Expansion & Extension of MACI Payments**

To ensure continued access by Medicaid beneficiaries to high quality hospital care, the Michigan Department of Community Health (the department) is establishing two special funding pools. To keep payments within the federal Medicare upper payment limit (UPL), separate pools will be established for privately-owned or operated hospitals and non-state government-owned or operated hospitals for inpatient hospital services. Only hospitals located within Michigan, enrolled in the Medicaid program, open, treating, and admitting Medicaid fee for service (FFS) and managed care beneficiaries ten (10) days prior to a scheduled payment will be eligible to receive distributions from these pools.

For FY 2004, the expansion of the inpatient hospital MACI pools covered here will be in addition to, and will supplement, the existing MACI pools as described in sub-section 1. The policy for the supplemental MACI pools is effective April 1, 2004 and applies to the second half of the year only. During this period, pool sizes will be increased by the supplemental amounts indicated in the table below.

The distribution of payments from these pools will supplement the hospital's regular DRG and per diem payments (for rehabilitation units and hospitals) and is not considered part of the fee for service (FFS) reimbursement. Medicaid payers that normally match the department's FFS payments to medical providers are not required to include the distribution payments from the pools described here as part of their FFS payments.

Full pool sizes will be renewed annually for FY 2005 and beyond. The dollar amounts of these new pools will equal the previous year's total plus an added inflation factor for the current year. The inflation factor will be taken from the *Health-Care Cost Review* published quarterly by Global Insight. The report published for the calendar third-quarter prior to the beginning of the fiscal year being calculated will be used. The factor will be taken from the NEW CMS Hospital Prospective Reimbursement Market Basket (federal year) table. The moving average change for the final quarter of the fiscal year being calculated will be used. The current year inflation factor will be added to the following year's base for each pool.

**Payment Share - Inpatient Paid Claims File**

To determine each hospital's share of a pool, the department will use paid claims for the fiscal year ending two years prior to the current fiscal year. Claims will be restricted to those paid by June 30<sup>th</sup> of the following fiscal year (e.g., paid claims from FY 2002 will be used to calculate payments in FY 2004 with claims limited to those paid by June 30, 2003). The paid claims file

---

TN No. 04-05 Approval FEB - 1 2005 Effective Date 4/1/04  
Supersedes  
TN No. New

**STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT**  
**State: MICHIGAN**

**METHODS OF PAYMENT OF REASONABLE COSTS -  
INPATIENT HOSPITAL SERVICES**

will include all Medicaid FFS payments made for both Medicaid and CSHCS eligible beneficiaries through the Medicaid Invoice Processing System including DRG and per diem payments, DRG outliers payments, and claims paid based on a percent of charge. Paid claims will include those with other insurance and patient-pay amounts. Inpatient services will include both acute and rehabilitation services provided through distinct part rehabilitation units and freestanding rehabilitation hospitals. Services paid to LTC providers will not be included. Revenue from licensed hospital beds utilized at less than an acute or rehabilitation level of care will be excluded from the paid claims file. Payments made outside the Invoice Processing System, such as for capital, graduate medical education (GME), or disproportionate share hospital (DSH), will not be included in the paid claims file used to distribute the MACI pools.

**Pool Sizes**

Pool Descriptions	Pool Sizes (in millions of dollars)		
	FY'04 MACI Pools	FY'04 Supplemental	FY'05 & After MACI Pools*
<b>Privately-Owned or Operated Hospitals</b> Inpatient	\$120.0	\$57.0	\$241.5
<b>Non-State Government-Owned or Operated Hospitals</b> Inpatient	\$19.0	\$8.0	\$36.1
<b>TOTAL</b>	<b>\$139.0</b>	<b>\$65.0</b>	<b>\$277.6</b>

\*For FY'05 & after, MACI pools are equal to the FY'04 MACI pools, plus twice the FY'04 supplemental amounts (annualized), and an added inflation factor (estimated to be 3.2%).

**Allocation of Pool**

MACI distributions are made prospectively based on historical data. Eligible hospitals will share proportionately from each pool based upon a hospital's total Medicaid paid claims, divided by the total Medicaid paid claims for all eligible hospitals, times the dollar amount of the individual pool. If a hospital closes, is determined ineligible to receive distributions from a pool, or its MACI distribution causes the hospital's Medicaid payments to exceed charges, its MACI distribution in excess of charges will be redistributed to the remaining eligible hospitals based on the original distribution formula. All funds from the inpatient hospital pools will be distributed to eligible hospitals until the pools are empty. In the event that MACI distributions would result in aggregate Medicaid payments to exceed the UPL, the size of the pool(s) will be reduced to bring aggregate Medicaid payments within the UPL. All MACI payments are final.

**STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT**

State: MICHIGAN

**METHODS OF PAYMENT OF REASONABLE COSTS -  
INPATIENT HOSPITAL SERVICES**

---

**Payment Schedule**

Payments will be made only after the department has received approval of this policy from the Centers for Medicare & Medicaid Services. Once approval is received, the initial payment will be made within 45 days. Subsequent payments will be made within 45 days of the beginning of each quarter. Quarterly payments will be made in four equal installments based on the annual amount each hospital is eligible to receive.

**VI. Special Payment Adjustments**

Executive Orders No. 2001-9 and 2002-22 as well as the department's appropriations bill direct the Department of Community Health (DCH) to reduce hospital payments by \$21,982,500 for FY'03. The reductions will be made by gross adjustment applied to medical/surgical hospital, rehabilitation hospital and distinct part rehabilitation unit payments.

A calculated share of the total reduction will be assessed to all hospitals and units operating and enrolled in the Medicaid program on the date the E.O. Reduction is processed. The reduction will be based on inpatient hospital paid claims for hospital admissions from September 1, 1999 to August 31, 2000. (The last year of the paid claims data, used to rebase hospitals in FY'02, will be used to implement this E.O. Reduction.) Claims were processed and paid using Medicaid DRG Grouper 17.0 and October 1, 2000 hospital prices. Paid claims include Title V, Title XIX, and Title V/XIX inpatient hospital claims. A hospital's share of the reduction will be calculated by dividing the total of its paid claims by the total of the paid claims for all eligible hospitals *times* the total amount of funds to be recovered.

Merged hospitals will have their reductions combined. Reductions will be taken from the surviving hospital.

Each hospital's paid claim file was reviewed and appealed at the time the data was created for the purposes of rebasing inpatient hospitals in FY'02. No further appeal of the inpatient hospital paid claims data will be allowed.

Each hospital's share of the reduction will be made by two equal gross adjustments to the hospital's inpatient hospital Medicaid ID number. The first reduction for half the total dollar amount will be made by the last pay cycle in June 2003. The second reduction for the remaining dollar amount will be made during September 2003. Recoveries will be taken from the hospital's payments until the E.O. Reduction is complete.

---

TN No. 04-05 Approval FEB - 1 2004 Effective Date 4/1/04  
Supersedes  
TN No. New

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT  
State: MICHIGAN

**POLICY AND METHOD FOR ESTABLISHING PAYMENT RATES  
(OTHER THAN INPATIENT HOSPITAL AND LONG TERM CARE FACILITIES)**

---

At a minimum, agreements must provide for appropriately authorized, medically necessary inpatient hospital, outpatient hospital, emergency and clinical care arranged by a physician with admitting privileges to the facility and credentialed by the HMO.

Distributions from the managed care outpatient hospital adjustor pool will be calculated as follows:

*Charges are limited to outpatient hospital charges for provider types 40, 41, and 75.*

*Hospital Charges = Title XIX HMO outpatient hospital charges*  
*Hospital Costs = Hospital Charges x CC Ratio x Inflation Factor*

$$\text{Hospital's Distribution} = \frac{\text{Hospital's Costs}}{\sum \text{Hospitals' Costs}} \times \$8,406,600$$

*Title XIX = Medicaid Health Maintenance Organization*  
*CC Ratio = Hospital's outpatient cost-to-charge ratio*

Distribution of funds from all pools will be made prior to September 30, 2002. Should a hospital fail to qualify for a distribution from either pool, its share will not be redistributed.

**E. Medicaid Access to Care Initiative (MACI) Payments**

**1. FY'03 and FY'04 MACI Payments**

The Department of Community Health (the department) is establishing four special funding pools for the next two State fiscal years (FYs '03 & '04). To keep payments within the Medicaid upper payment limits, separate pools will be established for privately-owned or operated hospitals and non-state government-owned or operated hospitals for outpatient hospital services. Only hospitals located within Michigan, enrolled in the Medicaid program, open and treating Medicaid fee for service (FFS) and managed care patients 10 days prior to a scheduled payment will be eligible to receive distributions from these pools.

Allocation of payments from the outpatient hospital pools for FY'03 will be made based on Medicaid FFS outpatient payments reported on hospital Indigent Volume reports for hospital year ends from October 1, 1999 to September 30, 2000. Allocation of payments for FY'04 will be made based upon similar data drawn from FY'03 payments.

**Privately-Owned or Operated Outpatient Hospital Pool (\$35 million)**

This outpatient pool will be computed based upon the total number of outpatient units of DRG reimbursed hospitals and outpatient hospital rehabilitation units.

Hospitals with Medicaid outpatient FFS payments will share proportionately in a pool of \$35 million based on the hospitals total Medicaid FFS outpatient payments divided by the total Medicaid FFS outpatient payments for all privately-owned or operated hospitals and units.

---

TN No. 04-05  
Supersedes  
TN No. 02-20

Approval: FEB - 1 2005

4

**STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT**

State: MICHIGAN

**POLICY AND METHOD FOR ESTABLISHING PAYMENT RATES  
(OTHER THAN INPATIENT HOSPITAL AND LONG TERM CARE FACILITIES)**

---

**Non-State Government-owned or Operated Outpatient Hospital Pool (\$3.5 million)**

This outpatient pool will be computed based upon the total number of outpatient units of DRG reimbursed hospitals and outpatient hospital rehabilitation units.

Hospitals with Medicaid outpatient FFS payments will share proportionately in a pool of \$3.5 million based on each hospital's total Medicaid FFS outpatient payments divided by the total Medicaid FFS outpatient payments for all non-state government-owned or operated hospitals and units.

**Payment Schedule**

Payments will be made only after the department has received approval for this policy from the Centers for Medicare & Medicaid Services. Once approval has been received, the initial payment will be made within 45 days. Subsequent payments will be made within 45 days of the beginning of each quarter. The quarterly payments will be made in four equal installments based on the total annual amount each hospital is eligible to receive. If a hospital closes or is determined ineligible to receive funds from a pool, its funds will be redistributed to the remaining eligible hospitals based on the original distribution formula. All funds from both outpatient hospital pools will be distributed to eligible hospitals.

**2. FY'04 Expansion & Extension of MACI Payments**

To ensure continued access by Medicaid beneficiaries to high quality hospital care, the Michigan Department of Community Health (the department) is establishing two special funding pools. To keep payments within the federal Medicare upper payment limit (UPL), separate pools will be established for privately-owned or operated hospitals and non-state government-owned or operated hospitals for outpatient hospital services. Only hospitals located within Michigan, enrolled in the Medicaid program, open, treating, and admitting Medicaid fee for service (FFS) and managed care beneficiaries ten (10) days prior to a scheduled payment will be eligible to receive distributions from these pools.

For FY 2004, the expansion of the outpatient hospital MACI pools covered here will be in addition to, and will supplement, the existing MACI pools as described in sub-section 1. The policy for the supplemental MACI pools is effective April 1, 2004 and applies only the second half of the year. During this period, pool sizes will be increased by the supplemental amounts indicated in the table below.

The distribution of payments from these pools will supplement the hospital's regular outpatient services payments and is not considered part of the fee for service (FFS) reimbursement. Medicaid payers that normally match the department's FFS payments to medical providers are not required to include the distribution payments from the pools described here as part of their FFS payments.

---

TN No. 04-05 Approval FEB - 1 2005 Effective Date 4/1/04  
Supersedes  
TN No. 02-20

**STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT**  
State: MICHIGAN

**POLICY AND METHOD FOR ESTABLISHING PAYMENT RATES**  
**(OTHER THAN INPATIENT HOSPITAL AND LONG TERM CARE FACILITIES)**

Full pool sizes will be renewed annually for FY 2005 and beyond. The dollar amounts of these new pools will equal the previous year's total plus an added inflation factor for the current year. The inflation factor will be taken from the *Health-Care Cost Review* published quarterly by Global Insight. The report published for the calendar third-quarter prior to the beginning of the fiscal year being calculated will be used. The factor will be taken from the NEW CMS Hospital Prospective Reimbursement Market Basket (federal year) table. The moving average change for the final quarter of the fiscal year being calculated will be used. The current year inflation factor will be added to the following year's base for each pool.

**Payment Share - Outpatient Paid Claims File**

Allocation of payments from the outpatient hospital pools will be made based on Medicaid FFS outpatient payments reported on hospitals' Indigent Volume reports for the fiscal year ending two years prior to the current fiscal year. Outpatient services will include both acute and rehabilitation services for Medicaid and CSHCS eligible beneficiaries. Payments made outside the Invoice Processing System, such as for capital, graduate medical education (GME), or disproportionate share hospital (DSH), will not be included in the payments used to distribute the MACI pools.

**Pool Sizes**

Pool Descriptions	Pool Sizes (in millions of dollars)		
	FY'04 MACI Pools	FY'04 Supplemental	FY'05& After MACI Pools*
<b>Privately-Owned or Operated Hospitals</b>			
Outpatient	\$35.0	\$14.0	\$65.0
<b>Non-State Government-Owned or Operated Hospitals</b>			
Outpatient	\$3.5	\$3.0	\$9.8
<b>TOTAL</b>	<b>\$38.5</b>	<b>\$17.0</b>	<b>\$74.8</b>

\*For FY'05 and after, MACI pools are equal to the FY'04 MACI pools, plus twice the FY'04 supplemental amounts (annualized), and an added inflation factor (estimated to be 3.2%).

**Allocation of Pool**

MACI payments are made prospectively based on historical data. Eligible hospitals will share proportionately from each pool based upon a hospital's reported Medicaid payments, divided by the total Medicaid payments reported for all eligible hospitals, times the dollar amount of the individual pool. If a hospital closes, is determined ineligible to receive funds from a pool, or its MACI distribution causes the hospital's Medicaid payments to exceed costs, its MACI distribution in excess of costs will be redistributed to the remaining eligible hospitals based on the original distribution formula. All funds from the outpatient hospital pools will be distributed to eligible hospitals until the pools are empty. In the event that MACI distributions would result in aggregate Medicaid payments exceeding the UPL, the size of the pool(s) will be reduced to bring aggregate Medicaid payments within the UPL. All MACI payments are final.

TN No. 04-05  
~~02-20~~ Approval FER - 1 2005 Effective Date 4/1/2004  
Supersedes ~~10/1/02~~  
TN No. New Page

*Correction approved by CMS 4/8- Lee*

**STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT**  
**State: MICHIGAN**

**POLICY AND METHOD FOR ESTABLISHING PAYMENT RATES**  
**(OTHER THAN INPATIENT HOSPITAL AND LONG TERM CARE FACILITIES)**

---

**Payment Schedule**

Payments will be made only after MDCH has received approval of this policy from the Centers for Medicare & Medicaid Services. Once approval is received, the initial payment will be made within 45 days. Subsequent payments will be made within 45 days of the beginning of each quarter. Quarterly payments will be made in four equal installments based on the annual amount each hospital is eligible to receive.

---

TN No. 04-05  
02-20  
Supersedes  
TN No. New Page

Approval FEB - 1 2004 Effective Date 4/1/2004  
10/1/02

*corrections approved by CMS/Sec 4/4/5*