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**State/Territory Name: Kentucky**

**State Plan Amendment (SPA) #:15-0004**

This file contains the following documents in the order listed:

- 1) Approval Letter
- 2) CMS 179 Form
- 3) Approved SPA Pages

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



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**Financial Management Group**

**September 24, 2015**

Ms. Lisa D. Lee  
Commissioner  
Commonwealth of Kentucky  
Cabinet for Health and Family Services  
Department of Medicaid Services  
275 East Main Street, 6 W-A  
Frankfort, KY 40621

RE: State Plan Amendment (SPA) 15-004

Dear Ms. Lee:

We have reviewed the proposed amendment to Attachment 4.19-A of your Medicaid state plan submitted under transmittal number (TN) 15-004. Effective August 1, 2015 this amendment modifies the State's reimbursement methodology for setting payment rates for inpatient hospital services. Specifically, the final distribution of the disproportionate share hospital (DSH) payments for fiscal years 2015 and 2016 will be based on the percentages established for each hospital during fiscal year 2014.

We conducted our review of your submittal according to the statutory requirements at sections 1902(a), 1902(a)(13), 1902(a)(30), 1903(a) and 1923 of the Social Security Act and the implementing Federal regulations at 42 CFR Part 447. We have found that the proposed changes in payment methodology comply with applicable requirements and therefore have approved them with an effective date of August 1, 2015. We are enclosing the CMS-179 and the amended approved plan pages.

If you have any questions, please call Stanley Fields at (502) 223-5332.

Sincerely,

//s//

Timothy Hill  
Director

<b>TRANSMITTAL AND NOTICE OF APPROVAL OF STATE PLAN MATERIAL</b>	1. TRANSMITTAL NUMBER: 15-004	2. STATE Kentucky
	3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL SECURITY ACT (MEDICAID)	
<b>FOR: HEALTH CARE FINANCING ADMINISTRATION</b>		
TO: REGIONAL ADMINISTRATOR HEALTH CARE FINANCING ADMINISTRATION DEPARTMENT OF HEALTH AND HUMAN SERVICES		4. PROPOSED EFFECTIVE DATE August 1, 2015

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:	7. FEDERAL BUDGET IMPACT: a. FFY 2015                      Budget Neutral b. FFY 2016                      Budget Neutral
8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:  Att. 4.19-A, Page 29, 29.1, and 30	9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT ( <i>If Applicable</i> ): Att. 4.19-A, Page 29 – Same Att. 4.19-A, Page 29.1 – New Att. 4.19-A, Page 30 – Same

10. SUBJECT OF AMENDMENT:  
The purpose of this SPA is to amend our DSH reimbursement to coincide with the budget passed by the KY General Assembly.

11. GOVERNOR'S REVIEW (*Check One*):

GOVERNOR'S OFFICE REPORTED NO COMMENT                       OTHER, AS SPECIFIED: Review delegated  
 COMMENTS OF GOVERNOR'S OFFICE ENCLOSED                      to Commissioner, Department for Medicaid  
 NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL                      Services

12. SIGNATURE OF STATE AGENCY OFFICIAL: //s//	16. RETURN TO:  Department for Medicaid Services 275 East Main Street 6W-A Frankfort, Kentucky 40621
13. TYPED NAME: Lisa D. Lee	
14. TITLE: Commissioner, Department for Medicaid Services	
15. DATE SUBMITTED: 7/28/2015	

**FOR REGIONAL OFFICE USE ONLY**

17. DATE RECEIVED: 07/30/15	18. DATE APPROVED: 09/24/15
PLAN APPROVED – ONE COPY ATTACHED	
19. EFFECTIVE DATE OF APPROVED MATERIAL: 08/01/15	20. SIGNATURE OF REGIONAL OFFICIAL: //s//
21. TYPED NAME: Timothy Hill	22. TITLE: Director

23. REMARKS:

7. "Type I hospital" means an in-state disproportionate share hospital with 100 beds or less that participates in the Medicaid Program;
  8. "Type II hospital" means an in-state disproportionate share hospital with 101 beds or more that participates in the Medicaid Program, except for a hospital that meets the criteria established in this administrative regulation for a Type III or Type IV hospital;
  9. "Type III hospital" means an in-state disproportionate share state university teaching hospital, owned or operated by either the University of Kentucky or the University of Louisville Medical School; and
  10. "Type IV hospital" means an in-state disproportionate share hospital participating in the Medicaid Program that is a state-owned psychiatric hospital.
- C. Disproportionate Share Hospital Distribution to a DRG-Reimbursed Acute Care Hospital. The department shall determine a DSH distribution to a DRG-reimbursed acute care hospital by:
1. For the Federal Fiscal Year ending September 30, 2015 and September 30, 2016 by:
    - a. Multiplying the final SFY 2013-2014 indigent share factor by the total fund allocated to the acute care pool.
  2. For the period beginning October 1, 2016 and subsequent state fiscal years, by:
    - a. Determining a hospital's average reimbursement per discharge;
    - b. Dividing the hospital's average reimbursement per discharge by Medicaid days per discharge;
    - c. Multiplying the amount established in paragraph b by the hospital's total number of inpatient indigent care days for the most recently completed state fiscal year to establish the hospital's inpatient indigent care cost;
    - d. Determining an in-state hospital's outpatient indigent care cost by multiplying each in-state hospital's indigent outpatient charges by the most recent cost-to-charge ratio used in the Medicare Cost Report;
    - e. Combining the inpatient indigent care cost established in paragraph (c) with the outpatient indigent care cost established in paragraph (d) to establish a hospital's indigent care cost total; and
    - f. Comparing the total indigent care cost for each DRG-reimbursed hospital to the indigent care costs of all hospitals receiving DSH distributions under the acute care pool pursuant to the following procedure to establish a DSH distribution on a pro rata basis:
      - 1) The department shall calculate an indigent care factor for each hospital annually. The indigent care factor shall be determined by calculating the percentage of each hospital's annual indigent care costs toward the sum of the total annual indigent care cost for all hospitals within each respective pool. For purposes of this paragraph, "indigent care costs" means the hospital's inpatient and outpatient care as reported to the department multiplied by the hospital's Medicaid rate, or at a rate determined by the department in administrative regulation that, when multiplied by the hospital's reported indigent care, is equivalent to the amount that would be payable by the department under the fee-for-service Medicaid program for the hospital's total reported indigent care; and
      - 2) Annual distribution to acute care hospitals shall be calculated for the period ending September 30, 2015 and ending September 30, 2016, by:

- C. Disproportionate Share Hospital Distribution to a DRG-Reimbursed Acute Care Hospital (continued).
- a) Multiplying the final SFY 2013-2014 indigent care factor by the total fund allocated to the acute care pool.
  - 3) Annual distribution to acute care hospitals shall be calculated for the period beginning October 1, 2016 and subsequent state fiscal years, by:
    - a) Multiplying the annual indigent care factor for each hospital by the total fund allocated to the acute care pool.
  - 4) Each hospital's annual distribution shall be calculated by multiplying the hospital's indigent care factor by the total fund allocated to the acute care pool.

D. Disproportionate Share Hospital Distribution to a Critical Access Hospital, Rehabilitation Hospital or Long Term Acute Care Hospital. The department shall determine a DSH distribution to a critical access hospital, rehabilitation hospital, or long term acute care hospital:

1. For the period beginning state fiscal year beginning July 1, 2007 and ending June 30, 2008 by:
  - a. Multiplying the hospital's per diem rate in effect as of June 30, 2007 by its total number of inpatient indigent care days for the preceding state fiscal year (July 1, 2006 - June 30, 2007) to establish the hospital's inpatient indigent care cost;
  - b. Determining an in-state hospital's outpatient indigent care cost by multiplying each in-state hospital's indigent outpatient charges by the most recent cost-to-charge ratio used in the Medicare Cost Report;
  - c. Combining the inpatient indigent care cost established in paragraph (a) with the outpatient indigent care cost established in paragraph (b) to establish a hospital's indigent care cost total; and
  - d. Comparing the indigent care cost totals for each critical access hospital, rehabilitation hospital and long term acute care hospital to the indigent care costs of all hospitals receiving DSH distributions from the acute care pool pursuant to state regulations related to establishing a hospital's DSH distribution on a pro rata basis; and
2. For the state fiscal year period beginning July 1, 2008 and subsequent state fiscal years, by:
  - a. Multiplying the hospital's per diem rate in effect as of August 1 of the state fiscal year period included in the state fiscal year period referenced in subsection (2) of this Section by its total number of inpatient indigent care days for the preceding state fiscal year to establish the hospital's inpatient indigent care cost; and
  - b. Determining an in-state hospital's outpatient indigent care cost by multiplying each in-state hospital's indigent outpatient charges by the most recent cost-to-charge ratio used in the Medicare Cost Report;
  - c. Combining the inpatient indigent care cost established in paragraph (a) with the outpatient indigent care cost established in paragraph (b) to establish a hospital's indigent care cost total; and
  - d. Comparing the indigent care cost totals for each critical access hospital, rehabilitation hospital and long term acute care hospital to the indigent care costs of all hospitals receiving DSH distributions from the acute care pool pursuant to state statute establishing a hospital's DSH distribution on a pro rata basis.

E. Disproportionate Share Hospital Distribution to a Private Psychiatric Hospital. The department shall determine a DSH distribution to a private psychiatric hospital:

1. For the period beginning state fiscal year beginning July 1, 2007 and ending June 30, 2008 by:
  - a. Multiplying the hospital's per diem rate in effect as of June 30, 2007 by its total number of inpatient indigent care days for the preceding state fiscal year (July 1, 2006 - June 30, 2007) to establish the hospital's inpatient indigent care cost;