The Hospital Fee Program

In 2009, the Hospital Fee Program was created to ensure that California hospitals secured the maximum federal Medi-Cal funding available. Hospitals in the program receive supplemental fee-for-service (FFS) payments and Medi-Cal Managed Care (MCMC) pass through payments to help reduce the losses incurred by caring for California’s Medi-Cal population.

New federal rules require changes to how the supplemental MCMC payments are made. Effective July 1, 2017, two methods will be used to make supplemental payments: the current pass through mechanism and the new directed payment mechanism. Roughly half of the supplemental payments must be transitioned to the new directed payment mechanism. The graphic below illustrates the Hospital Fee Program financing and how hospitals are paid for services through the program. Amounts are illustrative, yet representative, for presentation and clarity.

## How the Program is Funded

- **$4B** Hospital Fees
  - California hospitals’ contribution
- **$5B** Federal Matching Funds
  - Includes “enhanced” federal matching due to Medi-Cal expansion
- **$4B** Supplemented FFS Payment
  - California Department of Health Care Services
- **$9B** State Share — 24% for Children’s Health Care Coverage
  - State share can never exceed 24 percent of Hospital Fee Program net benefit
  - Medi-Cal FFS payments to hospitals cannot be reduced
  - All available federal Medicaid dollars for hospitals must be claimed
  - 100 percent of supplemental FFS and MCMC payments must be paid to hospitals

## How Hospitals Receive Supplemental Payments

- **$1B** Increased Rates to MCMC Plans
  - Current Pass Through Payment Method
    - Based upon historic Medi-Cal utilization
    - Applies to all inpatient days and outpatient visits
    - Paid as a lump sum after federal approval of MCMC rates
- **$4B** MCMC Supplemental Payments
  - New Directed Payment Method
    - Based upon current utilization
    - Applies to inpatient days and outpatient visits for paid claims
    - Pays network providers for contracted services
    - Paid as a lump sum retrospective supplemental payment on paid claims

- **$2B** Current Pass Through Payment Method
- **$2B** New Directed Payment Method

- **$4B** State Share — 24% for Children’s Health Care Coverage

- **$4B** Federal Matching Funds

- **$5B** Hospital Fees

- **$9B** Supplemented FFS Payment