

U.S. District Court Grants Summary Judgment in Maryland Medicaid Case

On December 15, 2006, the U.S. District Court for the District of Maryland granted a motion for summary judgment filed by Chase Brexton Health Services and six other Federally Qualified Health Center plaintiffs against the State of Maryland's Department of Health and Mental Hygiene ("Maryland") finding that Maryland used an improper method to determine Prospective Payment System ("PPS") rates under the Maryland Medicaid Plan.

The court concluded that Maryland's "cap and ceiling method" was not properly adopted and cannot be applied to reduce the amount of Reasonable and Related Costs reimbursed to the FQHCs. Maryland's cap and ceiling method could result in a failure to reimburse an FQHC for 100% of its reasonable and Related Costs as it is required to do. Under this method, Maryland declined to reimburse FQHCs for perfectly reasonable and related administrative costs solely because the total of these costs were more than one-third of pertinent total costs. Similarly, Maryland did not reimburse perfectly reasonable primary care costs if an FQHC's costs varied more than 15% from the median cost per-visit of certain FQHCs.

The plaintiffs argued that Maryland's cap and ceiling method of determining Reasonable and Related Costs was arbitrary and capricious. The court agreed, noting that Maryland simply "picked out of the air" the idea that administrative costs that were perfectly reasonable became unreasonable merely because the total of such costs exceeded a prescribed percentage of total costs, and that the decision to utilize a one-third percentage was also made without a rational basis. Likewise the court dismissed CMS's approval of Maryland's methodology.

This decision, along with the recent Connecticut District Court ruling in the Connecticut Primary Care Association case, establishes important precedent for other health centers that may be considering challenging state Medicaid payment caps.