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(ii) A Medicaid encounter means services rendered in an emergency department on any one day where—

(A) Medicaid (or a Medicaid demonstration project approved under section 1115 of the Act) paid for part or all of the service; or

(B) Medicaid (or a Medicaid demonstration project approved under section 1115 of the Act) paid all or part of the individual's premiums, co-payments, and cost-sharing.

(3) For purposes of calculating needy individual patient volume, a needy patient encounter means services rendered to an individual on any one day where—

(i) Medicaid or CHIP (or a Medicaid or CHIP demonstration project approved under section 1115 of the Act) paid for part or all of the service;

(ii) Medicaid or CHIP (or a Medicaid or CHIP demonstration project approved under section 1115 of the Act) paid all or part of the individual's premiums, co-payments, or cost-sharing;

(iii) The services were furnished at no cost; and calculated consistent with § 495.310(h); or

(iv) The services were paid for at a reduced cost based on a sliding scale determined by the individual's ability to pay.

(f) *Exception.* A children's hospital is not required to meet Medicaid patient volume requirements.

(g) *Establishing an alternative methodology.* A State may submit to CMS for review and approval through the SMHP an alternative from the options included in paragraphs (c) and (d) of this section, so long as it meets the following requirements:

(1) It is submitted consistent with all rules governing the SMHP at § 495.332.

(2) Has an auditable data source.

(3) Has received input from the relevant stakeholder group.

(4) It does not result, in the aggregate, in fewer providers becoming eligible than the methodologies in either paragraphs (c) and (d) of this section.

(h) *Group practices.* Clinics or group practices will be permitted to calculate patient volume at the group practice/clinic level, but only in accordance with all of the following limitations:

(1) The clinic or group practice's patient volume is appropriate as a pa-

tient volume methodology calculation for the EP.

(2) There is an auditable data source to support the clinic's or group practice's patient volume determination.

(3) All EPs in the group practice or clinic must use the same methodology for the payment year.

(4) The clinic or group practice uses the entire practice or clinic's patient volume and does not limit patient volume in any way.

(5) If an EP works inside and outside of the clinic or practice, then the patient volume calculation includes only those encounters associated with the clinic or group practice, and not the EP's outside encounters.

§ 495.308 Net average allowable costs as the basis for determining the incentive payment.

(a) *The first year of payment.* (1) The incentive is intended to offset the costs associated with the initial adoption, implementation or upgrade of certified electronic health records technology.

(2) The maximum net average allowable costs for the first year are \$25,000.

(b) *Subsequent payment years.* (1) The incentive is intended to offset maintenance and operation of certified EHR technology.

(2) The maximum net average allowable costs for each subsequent year are \$10,000.

§ 495.310 Medicaid provider incentive payments.

(a) *Rules for Medicaid EPs.* The Medicaid EP's incentive payments are subject to all of the following limitations:

(1) *First payment year.* (i) For the first payment year, payment under this subpart may not exceed 85 percent of the maximum threshold of \$25,000, which equals \$21,250.

(ii) Medicaid EPs are responsible for payment for the remaining 15 percent of the net average allowable cost of certified EHR technology, or \$3,750 for the first payment year.

(iii) An EP may not begin receiving payments any later than CY 2016.

(2) *Subsequent annual payment years.*

(i) For subsequent payment years, payment may not exceed 85 percent of the maximum threshold of \$10,000, which equals \$8,500.

(ii) Medicaid EPs are responsible for payment for the remaining 15 percent of the net average allowable cost of certified EHR technology, or \$1,500 per payment year.

(iii) Payments after the first payment year may continue for a maximum of 5 years.

(iv) Medicaid EPs may receive payments on a non-consecutive, annual basis.

(v) No payments may be made after CY 2021.

(3) *Maximum incentives.* In no case may a Medicaid EP participate for more than a total of 6 years, and in no case will the maximum incentive over a 6-year period exceed \$63,750.

(4) *Limitation.* For a Medicaid EP who is a pediatrician described in paragraph (b) of this section payment is limited as follows:

(i) The maximum payment in the first payment year is further reduced by two-thirds, which equals \$14,167.

(ii) The maximum payment in subsequent payment years is further reduced by two-thirds, which equals \$5,667.

(iii) In no case will the maximum incentive payment to a pediatrician under this limitation exceed \$42,500 over a 6-year period.

(b) *Optional exception for pediatricians.* A pediatrician described in this paragraph is a Medicaid EP who does not meet the 30 percent patient volume requirements described in §495.304 and §495.306, but who meets the 20 percent patient volume requirements described in such sections.

(c) *Limitation to only one EHR incentive program.* An EP may only receive an incentive payment from either Medicare or Medicaid in a payment year, but not both.

(d) *Exception for EPs to switch programs.* An EP may change his or her EHR incentive payment program election once, consistent with §495.10 of this part.

(e) *Limitation to one State only.* A Medicaid EP or eligible hospital may receive an incentive payment from only one State in a payment year.

(f) *Incentive payments to hospitals.* Incentive payments to an eligible hospital under this subpart are subject to all of the following conditions:

(1) The payment is provided over a minimum of a 3-year period and maximum of a 6-year period.

(2) The total incentive payment received over all payment years of the program is not greater than the aggregate EHR incentive amount, as calculated under paragraph (g) of this section.

(3) No single incentive payment for a payment year may exceed 50 percent of the aggregate EHR hospital incentive amount calculated under paragraph (g) of this section for an individual hospital.

(4) No incentive payments over a 2-year period may exceed 90 percent of the aggregate EHR hospital incentive amount calculated under paragraph (g) of this section for an individual hospital.

(5) No hospital may begin receiving incentive payments for any year after FY 2016, and after FY 2016, a hospital may not receive an incentive payment unless it received an incentive payment in the prior fiscal year.

(6) Prior to FY 2016, payments can be made to an eligible hospital on a non-consecutive, annual basis for the fiscal year.

(7) A multi-site hospital with one CMS Certification Number is considered one hospital for purposes of calculating payment.

(g) *Calculation of the aggregate EHR hospital incentive amount.* The aggregate EHR hospital incentive amount is calculated as the product of the (overall EHR amount) times (the Medicaid Share).

(1) *Overall EHR amount.* The overall EHR amount for an eligible hospital is based upon a theoretical 4 years of payment the hospital would receive based, for each of such 4 years, upon the product of the following:

(i) *Initial amount.* The initial amount is equal to the sum of—

(A) The base amount which is set at \$2,000,000 for each of the theoretical 4 years; plus

(B) The discharge-related amount for a 12-month period selected by the State, but ending in the Federal fiscal year before the hospital's fiscal year that serves as the first payment year. The discharge-related amount is the sum of the following, with discharges

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over the 12-month period and based upon the total discharges for the eligible hospital (regardless of any source of payment):

(1) For the first through 1,149th discharge, \$0.

(2) For the 1,150th through the 23,000th discharge, \$200.

(3) For any discharge greater than the 23,000th, \$0.

(C) For purposes of calculating the discharge-related amount under paragraph (g)(1)(i)(B) of this section, for the last 3 of the theoretical 4 years of payment, discharges are assumed to increase by the provider's average annual rate of growth for the most recent 3 years for which data are available per year. Negative rates of growth must be applied as such.

(ii) *Medicare share.* The Medicare share, which equals 1.

(iii) *Transition factor.* The transition factor which equals as follows:

(A) For the first of the theoretical 4 years, 1.

(B) For the second of the theoretical 4 years, $\frac{3}{4}$.

(C) For the third of the theoretical 4 years, $\frac{1}{2}$.

(D) For the fourth of the theoretical 4 years, $\frac{1}{4}$.

(2) *Medicaid share.* The Medicaid share specified under this paragraph for an eligible hospital is equal to a fraction—

(i) The numerator of which is the sum (for the 12-month period selected by the State and with respect to the eligible hospital) of—

(A) The estimated number of inpatient-bed-days which are attributable to Medicaid individuals; and

(B) The estimated number of inpatient-bed-days which are attributable to individuals who are enrolled in a managed care organization, a pre-paid inpatient health plan, or a pre-paid ambulatory health plan under part 438 of this chapter; and

(ii) The denominator of which is the product of—

(A) The estimated total number of inpatient-bed-days with respect to the eligible hospital during such period; and

(B) The estimated total amount of the eligible hospital's charges during such period, not including any charges that are attributable to charity care,

divided by the estimated total amount of the hospital's charges during such period.

(iii) In computing inpatient-bed-days under paragraph (g)(2)(i) of this section, a State may not include estimated inpatient-bed-days attributable to individuals with respect to whom payment may be made under Medicare Part A, or inpatient-bed-days attributable to individuals who are enrolled with a Medicare Advantage organization under Medicare Part C.

(h) *Approximate proxy for charity care.* If the State determines that an eligible provider's data are not available on charity care necessary to calculate the portion of the formula specified in paragraph (g)(2)(ii)(B) of this section, the State may use that provider's data on uncompensated care to determine an appropriate proxy for charity care, but must include a downward adjustment to eliminate bad debt from uncompensated care data. The State must use auditable data sources.

(i) *Deeming.* In the absence of the data necessary, with respect to an eligible hospital the amount described in paragraph (g)(2)(ii)(B) of this section must be deemed to be 1. In the absence of data, with respect to an eligible hospital, necessary to compute the amount described in paragraph (g)(2)(i)(B) of this section, the amount under such clause must be deemed to be 0.

(j) *Dual eligibility for incentives payments.* A hospital may receive incentive payments from both Medicare and Medicaid if it meets all eligibility criteria in the payment year.

(k) *Payments to State-designated entities.* Payments to entities promoting the adoption of certified EHR technology as designated by the State must meet the following requirements:

(1) A Medicaid EP may reassign his or her incentive payment to an entity promoting the adoption of certified EHR technology, as defined in § 495.302, and as designated by the State, only under the following conditions:

(i) The State has established a method to designate entities promoting the adoption of EHR technology that comports with the Federal definition in § 495.302.

(ii) The State publishes and makes available to all EPs a voluntary mechanism for reassigning annual payments and includes information about the verification mechanism the State will use to ensure that the reassignment is voluntary and that no more than 5 percent of the annual payment is retained by the entity for costs not related to certified EHR technology.

(2) [Reserved]

§ 495.312 Process for payments.

(a) *General rule.* States must have a process for making payments consistent with the requirements in subparts A and D of this part.

(b) *Reporting data consistent with this subpart.* In order to receive a payment under this part, a provider must report the required data under subpart A and this subpart within the EHR reporting period described in § 495.4.

(c) *State role.* The State determines the provider's eligibility for the EHR incentive payment under subpart A and this subpart and approves, processes, and makes timely payments using a process approved by CMS.

(d) *State disbursement.* The State disburses an incentive payment to the provider based on the criteria described in subpart A and this subpart.

(e) *Timeframes.* Payments are disbursed consistent with the following timeframes for each type of Medicaid eligible provider:

(1) *Medicaid EPs.* States disburse payments consistent with the calendar year on a rolling basis following verification of eligibility for the payment year.

(2) *Medicaid eligible hospitals.* States disburse payments consistent with the Federal fiscal year on a rolling basis following verification of eligibility for the payment year.

§ 495.314 Activities required to receive an incentive payment.

(a) *First payment year.* (1) In the first payment year, to receive an incentive payment, the Medicaid EP or eligible hospital must meet one of the following:

(i) Demonstrate that during the payment year, it has adopted, implemented, or upgraded certified EHR technology, as defined in § 495.302.

(ii) Demonstrate that during the EHR reporting period for a payment year, it is a meaningful EHR user as defined in § 495.4.

(2) A provider may notify the State of its non-binding intention to participate in the incentives program prior to having fulfilled all of the eligibility criteria.

(b) *Subsequent payment years.* (1) In the second, third, fourth, fifth, and sixth payment years, to receive an incentive payment, the Medicaid EP or eligible hospital must demonstrate that during the EHR reporting period for the applicable payment year, it is a meaningful EHR user, as defined in § 495.4.

(2) The automated reporting of the clinical quality measures will be accomplished using certified EHR technology interoperable with the system designated by the State to receive the data.

§ 495.316 State monitoring and reporting regarding activities required to receive an incentive payment.

(a) Subject to § 495.332 the State is responsible for tracking and verifying the activities necessary for a Medicaid EP or eligible hospital to receive an incentive payment for each payment year, as described in § 495.314.

(b) Subject to § 495.332, the State must submit a State Medicaid HIT Plan to CMS that includes—

(1) A detailed plan for monitoring, verifying and periodic auditing of the requirements for receiving incentive payments, as described in § 495.314; and

(2) A description of the how the State will collect and report on provider meaningful use of certified EHR technology.

(c) Subject to § 495.332 and § 495.352 the State is required to submit to CMS annual reports on the following:

(1) Provider adoption, implementation, or upgrade of certified EHR technology activities and payments; and

(2) Aggregated, de-identified meaningful use data.

(d)(1) The annual report described in paragraph (c) of this section must include, but is not limited to the following:

(i) The number, type, and practice location(s) of providers who qualified for