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State/Territory Name: Arizona

State Plan Amendment (SPA) #: 10-010A

This file contains the following documents in the order listed:

- 1) Approval Letter
- 2) CMS 179 Form/Summary Form (with 179-like data)
- 3) Approved SPA Pages

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



Center for Medicaid, CHIP, and Survey & Certification

NOV 30 2010

Tom Betlach, Director
Arizona Health Care Cost Containment System
801 E. Jefferson
Phoenix, AZ 85034

RE: Arizona SPA 10-010A

Dear Mr. Betlach:

We have reviewed the proposed amendment to Attachment 4.19-A of your Medicaid State plan submitted under transmittal number (TN) 10-010A. This amendment revises payments for inpatient hospital services by suspending the application of annual inflation factor for the rate year of October 1, 2010 to September 30, 2011.

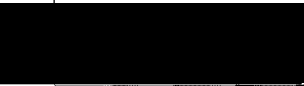

We conducted our review of your submittal according to the statutory requirements at sections 1902(a)(13), 1902(a)(30), 1903(a), and 1923 of the Social Security Act and the implementing Federal regulations at 42 CFR 447 Subpart C. This letter is to inform you that Medicaid State Plan Amendment 10-010A is approved effective October 1, 2010. We are enclosing the HCFA-179 and the amended plan pages.

If you have any questions, please call Mark Wong at (415) 744-3561.

Sincerely,


Cindy Mann
Director, CMCS

Enclosures

TRANSMITTAL AND NOTICE OF APPROVAL OF STATE PLAN MATERIAL		1. TRANSMITTAL NUMBER: 10-010-A	2. STATE Arizona
FOR: Centers for Medicare and Medicaid Services		3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL SECURITY ACT (MEDICAID)	
TO: REGIONAL ADMINISTRATOR CENTERS FOR MEDICARE AND MEDICAID SERVICES DEPARTMENT OF HEALTH AND HUMAN SERVICES		4. PROPOSED EFFECTIVE DATE October 1, 2010	
5. TYPE OF PLAN MATERIAL (Check One): <input type="checkbox"/> NEW STATE PLAN <input type="checkbox"/> AMENDMENT TO BE CONSIDERED AS NEW PLAN <input checked="" type="checkbox"/> AMENDMENT			
COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate Transmittal for each amendment)			
6. FEDERAL STATUTE/REGULATION CITATION: 42 CFR 447, Subpart C		7. FEDERAL BUDGET IMPACT: \$ 32.4 million FFY 2010-2011 \$(32.4 million)	
8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT: Pages 6, 8, and 10 of Attachment 4.19-A		9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT (If Applicable): Same	
10. SUBJECT OF AMENDMENT: An update of the inpatient hospital reimbursement rates for rate year beginning October 1, 2010 to September 30, 2011, to reflect a rate freeze such that inflation factors would not be applied.			
11. GOVERNOR'S REVIEW (Check One): <input type="checkbox"/> GOVERNOR'S OFFICE REPORTED NO COMMENT <input checked="" type="checkbox"/> OTHER, AS SPECIFIED: <input type="checkbox"/> COMMENTS OF GOVERNOR'S OFFICE ENCLOSED <input type="checkbox"/> NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL			
12. SIGNATURE OF STATE AGENCY OFFICIAL: 		16. RETURN TO: Monica Coury 801 E. Jefferson, MD#4200 Phoenix, Arizona 85034	
13. TYPED NAME: Monica Coury			
14. TITLE: Assistant Director			
15. DATE SUBMITTED: September 14, 2009			
FOR REGIONAL OFFICE USE ONLY			
17. DATE RECEIVED:		18. DATE APPROVED: 11-30-10	
PLAN APPROVED - ONE COPY ATTACHED			
19. EFFECTIVE DATE OF APPROVED MATERIAL: OCT - 1 2010		20. SIGNATURE OF REGIONAL OFFICIAL: 	
21. TYPED NAME: William Lasowski		22. TITLE: Deputy Director, CMCS	
23. REMARKS: Regional Office made pen-and-ink change to Box 7 with State concurrence (email dated 11/3/2010).			

STATE OF ARIZONA
METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES
INPATIENT HOSPITAL CARE

1) **Outliers:** Effective with dates of service on and after October 1, 2007, AHCCCS shall reimburse hospitals for outlier claims by multiplying covered charges by the sum of Medicare's urban or rural statewide average operating cost-to-charge ratio and Medicare's statewide average capital cost-to-charge ratio, updated annually and phased in as described below. For rates effective on and after October 1, 2007, outlier cost thresholds shall be updated annually by the increase or decrease in the index published by the Global Insight hospital market basket index for prospective hospital reimbursement. For the rate year effective October 1, 2010, to September 30, 2011, AHCCCS will not apply the Global Insight hospital market basket index to adjust the outlier cost thresholds.

For calculations using the Medicare urban or rural cost-to-charge ratios, including outlier determination and threshold calculation, AHCCCS shall phase in the use of the Medicare urban or rural cost-to-charge ratios as follows: For outlier claims with dates of service on or after October 1, 2007 through September 30, 2008, AHCCCS shall adjust each hospital specific inpatient cost-to-charge ratio in effect on September 30, 2007 by subtracting one-third of the difference between the hospital specific inpatient cost-to-charge ratio and the sum of Medicare's urban or rural statewide average operating cost-to-charge ratio and Medicare's statewide average capital cost-to-charge ratio. For outlier claims with dates of service on or after October 1, 2008 through September 30, 2009, AHCCCS shall adjust each hospital specific inpatient cost-to-charge ratio in effect on September 30, 2007 by subtracting two-thirds of the difference between the hospital specific inpatient cost-to-charge ratio and the sum of Medicare urban or rural statewide average operating cost-to-charge ratio and Medicare's statewide average capital cost-to-charge ratio.

For payment of outlier claims with dates of service on or after October 1, 2007 through September 30, 2008, AHCCCS shall adjust the statewide inpatient hospital cost-to-charge ratio in effect on September 30, 2007 by subtracting one-third of the difference between the statewide inpatient hospital cost-to-charge ratio and the effective Medicare urban or rural cost-to-charge ratio. For payment of outlier claims with dates of service on or after October 1, 2008 through September 30, 2009, AHCCCS shall adjust the statewide inpatient hospital cost-to-charge ratio in effect on September 30, 2007 by subtracting two-thirds of the difference between the statewide inpatient hospital cost-to-charge ratio and the effective Medicare urban or rural cost-to-charge ratio.

For outlier claims with dates of service on or after October 1, 2009, the full Medicare urban or rural cost-to-charge ratios shall be utilized for all calculations. The three year phase-in does not apply to out of state or new hospitals.

TN No. 10-010A
Supersedes
TN No. 09-003A

Approval Date: NOV 30 2010

Effective Date: October 1, 2010

STATE OF ARIZONA
METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES
INPATIENT HOSPITAL CARE

inflation factor. Accommodation costs were derived by multiplying the covered days on the claim/encounter times the accommodation cost per diems from the cost report.

e. Costed claims/encounters were then assigned to tiers using the logic specified above. For claims assigned to more than one tier, ancillary costs were allocated to the tiers in the same proportion as the accommodation costs.

f. All costs were reduced by an audit adjustment factor equal to four percent since cost reports were not audited.

2) **Inflation Factor:** For rates effective on and after October 1, 1999, AHCCCS shall inflate the operating component of the tiered per diem rates to the mid-point of the prospective rate year, using the DRI inflation factor. For rates effective October 1, 2010, to September 30, 2011, no inflation factor will be applied.

Length of Stay (LOS) Adjustment: For rates effective October 1, 1999 through September 30, 2000, the operating component of the Maternity and Nursery tiers shall be adjusted to reflect changes in LOS as required by the federal mandate that allows women at least 48 hours of inpatient care for a normal vaginal delivery, and at least 96 hours of inpatient care for a cesarean section delivery, effective for dates of service on and after January 1, 1998. There shall be no LOS updates for any tiers for rates effective on or after October 1, 2000.

B. Direct Medical Education Component

Direct medical education includes nursing school education, intern and resident salaries, fringes and program costs and paramedical education.

1) For the service period July 1, 2009 through June 30, 2010, the Administration shall distribute up to \$19,652,200 as described in this paragraph to the following hospitals: Maricopa Medical Center, Phoenix Baptist, Phoenix Children's Hospital, St. Joseph's Hospital, and University Medical Center. For dates of service on and after October 1, 1997 (FFY98), GME payment dollars will be separated from the tiered per diem rates to create an AHCCCS GME pool. For FFY98 and each year thereafter, the value of the GME pool will be based on the total GME payments made for claims and encounters in FFY96, inflated by the DRI inflation factor. On an annual basis GME pool funds will be distributed to each hospital with an approved GME program based on the percentage of the total FFY96 GME pool that each hospital's FFY96 GME payment represented. In

STATE OF ARIZONA

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES
INPATIENT HOSPITAL CARE

5 (10/1/97-9/30/98)	50%	50%
6 (10/1/98) and after	40%	60%

3) **Capital Payment by Tier:** Capital payments effective before September 30, 2000, shall be indexed to each tier by a relative weight factor, which is calculated by dividing each of the hospital's tiered operating rates by the weighted average of all the tiered operating rates for that hospital. For rates effective on and after October 1, 2000, this weighting of capital rates by tier will be frozen at the level in effect on September 30, 2000.

4) **Annual Update:** On an annual basis, AHCCCS shall adjust the capital component by the DRI inflation factor. For rates effective October 1, 2010, to September 30, 2011, no inflation factor will be applied.

H. Discounts and Penalties

AHCCCS shall subject all inpatient hospital admissions on and after March 1, 1993 to quick-pay discounts and slow-pay penalties in accordance with Arizona Revised Statute (A.R.S.) Title 36, Chapter 29, Article 1.

For dates of service or admissions on or after October 1, 1999, a quick pay discount of 1% is applied to claims paid within 30 days of the clean claim date.

Effective with dates of service or admissions on or after March 1, 1993, if a hospital's bill is paid after 30 days but within 60 days of the clean claim date, AHCCCS shall pay 100% of the rate. If a hospital's bill is paid any time after 60 days of the clean claim date, AHCCCS shall pay 100% of the rate plus a fee of 1% per month for each month or portion of a month following the 60th day of receipt of the bill until the date of payment.

IV. PAYMENT TO NEW HOSPITALS AND OUT-OF-STATE HOSPITALS, AND FOR NEW PROGRAMS

A. New Hospitals

New hospitals are assigned the statewide (or peer group) average operating cost and the statewide average capital amount for each tier, as appropriate. Capital reimbursement for new hospitals is indexed according to statewide relative weights per tier. A new hospital's statewide operating and capital components shall be updated annually by the DRI inflation factor. For rates effective October 1, 2010, to September 30, 2011, no inflation factor will be applied.

TN No. 10-010A
Supersedes
TN No. 09-003A

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OS Notification

State/Title/Plan Number: Arizona State Plan Amendment 10-010A

Type of Action: SPA Approval

Effective Date of SPA: October 1, 2010

Required Date for State Notification: December 13, 2010

Fiscal Impact: \$(32,400,000) federal for federal fiscal year 2011* (see note below)

Number of Services Provided by Enhanced Coverage, Benefits or Retained Enrollment: 0

Number of Potential Newly Eligible People: 0

or

Eligibility Simplification:

Provider Payment Increase or Decrease: Decrease

Delivery System Innovation: No

Number of People Losing Medicaid Eligibility: 0

Reduces Benefits: No

Detail: This state plan amendment freezes inpatient hospital rates for the fiscal year beginning October 1, 2010 by suspending the application of the annual inflation factor. Arizona provided sufficient responses to comprehensive questions regarding how this rate freeze impacts access to care for inpatient hospital services. The State, as an 1115 waiver State where almost all of its Medicaid services are furnished through managed care and reimbursed under capitation, focused on the extensive managed care network standards and requirements that are in place. Robust tools allow the State to monitor health plan compliance with network adequacy requirements and track complaints and provider dropouts, and any health plan that fails to maintain adequate networks are subject to corrective action plans and sanctions. This is the third consecutive year of this inpatient hospital rate freeze, and there is no indication of access to care concerns observed. The hospital provider network has not diminished, and the Arizona Medicaid managed care plans continue to contract with over 93% of Arizona hospitals. Furthermore, public process requirements were met, and the State received no comments/complaints on this rate freeze. And finally, the State has conducted studies in the past on Medicaid payment coverage of hospital costs; the most recent study, in 2007, shows Arizona Medicaid covers between 87-94% of hospital inpatient Medicaid costs. Arizona has adequately met tribal consultation requirements and responded to standard funding questions.

***Note -** The fiscal impact reported represents the difference between what the rates are under the freeze and what the rates would have been had this year's inflation factor been applied in the absence of this SPA; it does not represent an actual reduction to the hospitals' current reimbursement.

Other Considerations: We do not recommend the Secretary contact the Governor.

Recovery Act Impact: There are no known violations of the Recovery Act requirements, including political subdivision contribution requirements, eligibility maintenance of effort, prompt payment, and rainy day funds.

CMS Contacts: Mark Wong, NIRT, 415-744-3561 Venesa Day, NIRT, 410-786-8281

Tim Weidler, NIRT, 816-426-6429 Janet Freeze, DRSF, 410-786-3247