

STATE OF ARIZONA

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES
INPATIENT HOSPITAL CARE

VII. Temporary Rate Reduction

Notwithstanding the methods and rates as otherwise described in this attachment, for claims with dates of service between April 1, 2011 and September 30, 2011, payments in the following categories will be reduced by 5% of the payments that would otherwise have been made under the methodology in effect as of October 1, 2010 as described in this attachment:

- Tiered per diem payments including tiered per diem payments to new hospitals,
- Cost to Charge ratios used to qualify and pay inpatient outliers.
- Payments to out-of-state hospitals

The following payments described in this attachment will not be subject to this 5% rate reduction:

- Transplant services,
- Specialty services,
- Direct Medical Education payments,
- Indirect Medical Education payments,
- Payments for services provided by the Indian Health Service or Tribal 638 Health facilities
- Payments to freestanding psychiatric hospitals

TN No. 10-011-A
Supersedes
TN No. N/A

Approval Date: FEB 16 2011

Effective Date: April 1, 2011

OS Notification

State/Title/Plan Number: Arizona State Plan Amendment 10-011A

Type of Action: SPA Approval

Effective Date of SPA: April 1, 2011

Required Date for State Notification: February 17, 2011

Fiscal Impact: \$(24,688,600) federal for federal fiscal year 2011

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 proposes a five percent reduction to inpatient hospital reimbursement rates, for services between April 1, 2011 and September 30, 2011. Arizona provided sufficient responses to comprehensive questions regarding how this rate reduction 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. Additionally, Arizona contracted with Milliman, Inc. to conduct a cost study of the impact of the five percent rate reduction. The Milliman study considered the hospital unit cost, neutralized for acuity and geographical cost differences, in the Arizona market compared to that of other states and found that Arizona hospitals have potential for cost reductions from their current performance. The study further considered the hospitals' reliance on Medicaid payments to cover a share of their fixed costs. It also evaluated the current Arizona hospital profit margin, which is higher than national figure, and occupancy rate, which is at its lowest level in at least five years for Arizona. Overall conclusion of the study is that the five percent reduction would not have a significant adverse impact on access to quality hospital care in Arizona. And finally, public process requirements were met, and the State received no comments/complaints on this rate reduction. Arizona has adequately met tribal consultation requirements and responded to standard funding questions.

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.

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