

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 on and after October 1, 2010, 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, 2010 through June 30, 2011, the Administration shall distribute up to \$15,122,881 as described in this paragraph to the following hospitals: Maricopa Medical Center, Phoenix Children's Hospital, and University Medical Center. In addition to the above amount, this pool also includes the payment amounts listed on page 9(g)(i) for other teaching hospitals. 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

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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 on and after October 1, 2010, 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 on and after October 1, 2010, no inflation factor will be applied.

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VII. Temporary Rate Reduction

Notwithstanding the methods and rates as otherwise described in this attachment, for claims with dates of admission 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

For claims with dates of admission effective from October 1, 2011 to September 30, 2013, the following payments will be at the payment rates in effect as of September 30, 2011, reduced by 5%:

- Tiered per diem payments including tiered per diem payments to new hospitals,
- Cost to Charge ratios used to qualify and pay inpatient outliers. For more information about Cost to Charge ratios, refer to page 6 of this Attachment.
- Payments to out-of-state hospitals
- Payments to freestanding psychiatric 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

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