

December 29, 2015

Mark Wong  
Division of Medicaid and Children's Health Operations  
U.S. Department of Health & Human Services  
Centers for Medicare & Medicaid Services  
90 Seventh Street, Suite 5-300 (5W)  
San Francisco, CA 94103-6707

**RE: Arizona SPA #15-010, DRG Update**

Dear Mr. Wong:

Enclosed is State Plan Amendment (SPA) #15-010, DRG Update, which revises the State Plan to describe DRG rates, effective October 1, 2015.

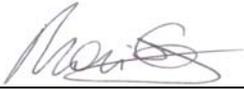
If you have any questions about the enclosed SPA, please contact Theresa Gonzales at (602) 417-4732.

Sincerely,



Monica H. Coury  
Assistant Director  
Office of Intergovernmental Relations

cc: Brian Zolynas, CMS  
Blake Holt, CMS  
Jessica Woodard, CMS

<b>TRANSMITTAL AND NOTICE OF APPROVAL OF STATE PLAN MATERIAL</b>  <b>FOR: Centers for Medicare and Medicaid Services</b>		1. TRANSMITTAL NUMBER: 15-010	2. STATE Arizona
		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, 2015	
5. TYPE OF PLAN MATERIAL ( <i>Check One</i> ):  <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 ( <i>Separate Transmittal for each amendment</i> )			
6. FEDERAL STATUTE/REGULATION CITATION:  42 CFR 447 Subpart C		7. FEDERAL BUDGET IMPACT:  FFY 16: \$2,897,200	
8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:  Att. 4.19-A, pages 18 and 20.		9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT ( <i>If Applicable</i> ):  Same	
10. SUBJECT OF AMENDMENT:  Updates the State Plan to revise DRG			
11. GOVERNOR'S REVIEW ( <i>Check One</i> ): <input checked="" type="checkbox"/> GOVERNOR'S OFFICE REPORTED NO COMMENT <input 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: December 29, 2015			
<b>FOR REGIONAL OFFICE USE ONLY</b>			
17. DATE RECEIVED:		18. DATE APPROVED:	
PLAN APPROVED – ONE COPY ATTACHED			
19. EFFECTIVE DATE OF APPROVED MATERIAL:		20. SIGNATURE OF REGIONAL OFFICIAL:	
21. TYPED NAME:		22. TITLE:	
23. REMARKS:			

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

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**VIII. INPATIENT HOSPITAL PAYMENTS EFFECTIVE OCTOBER 1, 2014**

A. Applicability

Except as specified in this paragraph, the inpatient payment method applies to all inpatient stays in all acute care hospitals. It does not apply to the following:

1. Stays in Indian Health Services (IHS) hospitals, or hospitals operated as 638 facilities, which are paid the all-inclusive rate published annually by IHS.
2. Stays in rehabilitation hospitals and long term acute care hospitals which, for the period October 1, 2014 through September 30, 2015, are paid on a per diem basis using the per diem rates that were in effect for each hospital on September 30, 2014, and thereafter are paid in accordance with Att. 4.19-A, page 27, paragraphs X and IX respectively.
3. Stays in psychiatric hospitals, which are paid on a per diem basis in accordance with the methodology described in Att. 4.19-A, page 11, paragraph V.
4. Stays associated with organ transplant services that are paid under contract, which are paid in accordance with the contract between AHCCCS and the transplant hospital.
5. Stays where the principle diagnosis ~~upon admission~~ is a behavioral health diagnosis, which are covered by ~~the Arizona Department of Health Services~~ RBHA or TRBHA in accordance with state law and which are paid on a per diem basis in accordance with the methodology described in Att. 4.19-A, page 11, paragraph V.

B. APR-DRG Reimbursement

For dates of discharge on and after October 1, 2014, inpatient hospital services will be reimbursed using the diagnosis related group (DRG) payment methodology. Each claim for an inpatient hospital stay will be assigned a DRG code and a corresponding DRG relative weight based on the All Patient Refined Diagnosis Related Group (APR-DRG) classification system established by 3M Health Information Systems. DRG payments made using this methodology shall be the sole reimbursement to the hospital for all inpatient hospital services and related supplies provided by the hospital. A hospital will not be reimbursed separately for emergency room treatment, observation hours, or other outpatient hospital services performed on an outpatient basis, if the patient is admitted as an inpatient to the same hospital directly from the emergency room, observation or other outpatient department.

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E. DRG Base Rate for Out-of-State Hospitals

The DRG base rate for high volume out-of-state hospitals will be calculated in the same manner as for Arizona hospitals, using the Arizona statewide standardized amount. A high volume out-of-state hospital is a hospital that is located in a county that borders the state of Arizona and had 500 or more AHCCCS-covered inpatient days for the fiscal year beginning October 1, 2010. The DRG base rate for all other out-of-state hospitals is posted on the AHCCCS website that is referenced in paragraph D.

F. Policy Adjustors

Where AHCCCS has determined that an adjustment to the base payment is appropriate to ensure access to quality care, a policy adjustor will be applied to the base payment. Firstly, AHCCCS will apply a provider policy adjustor of 1.055 times the base rate to all claims from hospitals that are high volume Medicaid providers. A high volume Medicaid provider is a hospital that had at least 46,112 AHCCCS-covered inpatient days during the fiscal year beginning October 1, 2010 and had a Medicaid utilization rate greater than 30% as reported in the hospital's Medicare Cost Report for the hospital's cost reporting period ending between January 1, 2011 and December 31, 2011. These calculations include both Fee-For-Service and Managed Care Organization data. Secondly, and in addition to the provider policy adjustor if it applies, AHCCCS will apply one of ~~six~~ seven service policy adjustors where the claim meets certain conditions. The ~~six~~ seven service policy adjustors, the conditions to which they apply, and the adjustment values are described below:

1. Normal newborn DRG codes: 1.55
2. Neonates DRG codes: 1.10
3. Obstetrics DRG codes: 1.55
4. Psychiatric DRG codes: 1.65
5. Rehabilitation DRG codes: 1.65
6. Claims for patients under age 19 assigned DRG codes other than ~~listed above~~ those described in items 1 through 5 above and with severity of illness level 1 or 2: 1.25
7. Claims for patients under age 19 assigned DRG codes other than those described in items 1 through 5 above and with severity of illness level 3 or 4: 1.60