June 8, 2017

Tom Betlach, Director
Arizona Health Care Cost Containment System
801 East Jefferson Street
Phoenix, AZ  85034

Dear Mr. Betlach:

We have reviewed the proposed State Plan Amendment (SPA) 16-012-B, which was submitted to the Centers for Medicare & Medicaid Services (CMS) San Francisco Regional Office on December 30, 2016. This SPA adds a description of Value Based Purchasing (VBP) differential adjusted payments for outpatient hospitals and integrated clinics.

Based on the information provided, we are approving SPA 16-012-B with an effective date of October 1, 2016 as requested. We are enclosing the approved Form CMS-179 and the following Medicaid State Plan pages:

- Attachment 4.19-B, Page 1(a)
- Supplement 2 to Attachment 4.19-B, Pages 1-2

If you have any additional questions or need further assistance, please contact Brian Zolynas at (415) 744-3601 or Brian.Zolynas@cms.hhs.gov.

Sincerely,

/s/

Henrietta Sam-Louie
Associate Regional Administrator
Division of Medicaid & Children’s Health Operations

Enclosure:

cc: Jessica Woodard
# Transmittal and Notice of Approval of State Plan Material

**FOR: Centers for Medicare and Medicaid Services**

<table>
<thead>
<tr>
<th>1. TRANSMITTAL NUMBER:</th>
<th>16-012-B</th>
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<tbody>
<tr>
<td>2. STATE</td>
<td>Arizona</td>
</tr>
<tr>
<td>3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL SECURITY ACT (MEDICAID)</td>
<td></td>
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<tr>
<td>4. PROPOSED EFFECTIVE DATE</td>
<td>October 1, 2016</td>
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**TO: REGIONAL ADMINISTRATOR**

CENTERS FOR MEDICARE AND MEDICAID SERVICES
DEPARTMENT OF HEALTH AND HUMAN SERVICES

<table>
<thead>
<tr>
<th>5. TYPE OF PLAN MATERIAL (Check One):</th>
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<tbody>
<tr>
<td>☑ NEW STATE PLAN</td>
</tr>
<tr>
<td>☑ AMENDMENT TO BE CONSIDERED AS NEW PLAN</td>
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<tr>
<td>☑ AMENDMENT</td>
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**COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate Transmittal for each amendment)**

<table>
<thead>
<tr>
<th>6. FEDERAL STATUTE/REGULATION CITATION:</th>
<th>42 CFR Part 447</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. FEDERAL BUDGET IMPACT:</td>
<td>FFY 17: $180,700 FFY 18: $0</td>
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<tr>
<th>8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:</th>
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<tbody>
<tr>
<td>Att. 4.19-B, pages 1, 1(a), and 5e</td>
</tr>
<tr>
<td>Supplement 2 to Att. 4.19-B, pages 1-2</td>
</tr>
<tr>
<td>9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT (If Applicable):</td>
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<td>Same</td>
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**10. SUBJECT OF AMENDMENT:**

Updates the State Plan to include Value Based Purchasing (VBP) differential adjusted payment for hospitals providing outpatient hospital services and providers registered with AHCCCS as integrated clinics.

**11. GOVERNOR’S REVIEW (Check One):**

| ☑ GOVERNOR’S OFFICE REPORTED NO COMMENT |
| ☑ COMMENTS OF GOVERNOR’S OFFICE ENCLOSED |
| ☑ NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL |
| ☑ OTHER, AS SPECIFIED: |

**12. SIGNATURE OF STATE AGENCY OFFICIAL:**

Beth Kohler
Deputy Director

**13. TYPED NAME:**

Beth Kohler

**14. TITLE:**

Deputy Director

**15. DATE SUBMITTED:**

December 30, 2016

**16. RETURN TO:**

Beth Kohler
801 E. Jefferson, MD#4200
Phoenix, Arizona 85034

**17. DATE RECEIVED:**

December 30, 2016

**18. DATE APPROVED:**

June 8, 2017

**19. EFFECTIVE DATE OF APPROVED MATERIAL:**

October 1, 2016

**20. SIGNATURE OF REGIONAL OFFICIAL:**

/s/

 Henrietta Sam-Louie
 Associate Regional Administrator,
 Division of Medicaid and Children’s Health Operations

**21. TYPED NAME:**

Henrietta Sam-Louie

**22. TITLE:**

Associate Regional Administrator,
Division of Medicaid and Children’s Health Operations

**23. REMARKS:**

Pen and ink changes to Box 8
See Supplement 2 to Attachment 4.19-B for value based purchasing (VBP) differential adjusted payment for outpatient hospital services.

Rate Updates
Notwithstanding the methods and rates as otherwise described, for claims with dates of service between April 1, 2011 and September 30, 2011, all payments for outpatient hospital services will be reduced by 5% of the payment that would otherwise have been made under the methodology in effect as of October 1, 2010, as described above.

For claims with dates of service effective from October 1, 2011 to September 30, 2015, all payments for outpatient hospital services will be reduced by 5% under the methodology in effect as of October 1, 2011. For claims with dates of service effective October 1, 2015 to September 30, 2016, all payments for outpatient hospital services will be made using the methodology in effect as of September 30, 2015 resulting in a year to year 0% aggregate impact on Outpatient Hospital Rates. For claims with dates of service effective on or after October 1, 2016, outpatient hospital services will be made according to the AHCCCS fee schedule located on the AHCCCS website at https://www.azahcccs.gov/PlansProviders/RatesAndBilling/FFS/. These fees were updated October 1, 2016 for a 0% aggregate impact.
The following is a description of methods and standards for determining Value Based Purchasing (VBP) Differential Adjusted Payments for hospitals providing outpatient hospital services and providers registered with AHCCCS as integrated clinics. The purpose of the VBP Differential Adjusted Payment is to distinguish facilities which have committed to supporting designated actions that improve patients’ care experience, improve members’ health, and reduce cost of care growth. The VBP Differential Adjusted Payment Schedule represents a positive adjustment to the AHCCCS Fee-For-Service rates. These payment adjustments will occur for all dates of service in Contract Year Ending (CYE) 2017 (October 1, 2016 through September 30, 2017) only.

1) Outpatient Hospital Services

   A. Applicability
      A hospital providing outpatient hospital services must meet the following criteria to qualify for the VBP Differential Adjusted Payment:
      1. Must be an AHCCCS registered Arizona hospital; or a high volume out-of-state hospital as defined at AAC R9-22-712.64(C) with AHCCCS payments exceeding $5 million in CYE 2014;
      2. By June 1, 2016, the hospital must have executed an agreement with and electronically submitted admission, discharge, and transfer information, as well as data from the hospital emergency department, to a qualifying health information exchange organization; and
      3. CMS must have approved the hospital’s attestation demonstrating meaningful use as described in 42 CFR 495.22 during an electronic health record reporting period in 2015; or, received its fourth year incentive payment prior to 2016; or, for a children’s hospital that does not participate in the Medicare electronic health record incentive program, the AHCCCS Administration must have approved the hospital’s attestation demonstrating meaningful use as described in 42 CFR 495.22 during an electronic health record reporting period in 2015.

   B. Exemptions:
      IHS and 638 tribally owned and/or operated facilities, including hospital and nursing facilities are exempt from this initiative based on payments primarily at the federally-mandated all-inclusive rate.

   C. Payment Methodology
      For outpatient services with dates of service from October 1, 2016 through September 30, 2017, the payment otherwise required for outpatient hospital services provided by qualifying hospitals shall be increased by 0.5%.
2) Integrated Clinics

A. Applicability
Providers must meet the following criteria to qualify for the VBP differential adjusted payment as an integrated clinic:
   1. Must be registered with AHCCCS as Integrated Clinic and licensed by the Arizona Department of Health Services as an Outpatient Treatment Center that provides both behavioral health services and physical health services.

B. Exemptions:
IHS and 638 tribally owned and/or operated Integrated Clinics are exempt from this initiative at this time based on payments primarily at the federally-mandated all-inclusive rate.

C. Payment Methodology
For the contracting year October 1, 2016 through September 30, 2017, VBP Differential Adjusted Rates will be paid for select physical health services and will provide an increase of 10% over the AHCCCS Fee-For-Service rates for the same services. The physical health services that qualify for the VBP Differential Adjusted Rate are published on the Agency’s website: https://www.azahcccs.gov/AHCCCS/Downloads/PublicNotices/rates/ValueBasedPaymentRateDifferentialPublicNoticeForICs04222016Final