

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



Financial Management Group

NOV 17 2017

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

RE: Arizona SPA 16-009

Dear Mr. Betlach:

We have reviewed the proposed amendment to Attachment 4.19-A of your Medicaid State plan submitted under transmittal number (TN) 16-009. This amendment, effective September 30, 2016, updates the amounts of Arizona's graduate medical education and indirect medical education payment pools and the qualifying hospital list for each payment pool for the fiscal period ending June 30, 2017. The amendment further makes adjustments to the state's indirect medical education payment formula.

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 is to inform you that Medicaid State plan amendment TN 16-009 is approved effective September 30, 2016. 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,

A handwritten signature in blue ink, appearing to read "Kristin Fan", is positioned above the printed name.

Kristin Fan
Director

Enclosures

TRANSMITTAL AND NOTICE OF APPROVAL OF STATE PLAN MATERIAL FOR: Centers for Medicare and Medicaid Services		1. TRANSMITTAL NUMBER: 16-009	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 September 30, 2016	
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: 1902(a)(13); 42 CFR 447 Subpart C		7. FEDERAL BUDGET IMPACT: FFY 15: \$108,475,107 FFY 2016 - \$50,001,091 FFY 2017 - \$150,699,747	
8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT: Pages 8, 9(c), 9(d), 9(e), 9(f), and 9(g)		9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT (If Applicable): Same	
10. SUBJECT OF AMENDMENT: Updates GME funding for the service period July 1, 2016 through June 30, 2017 for programs with submitted IGAs.			
11. GOVERNOR'S REVIEW (Check One): <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: September 30, 2016			
FOR REGIONAL OFFICE USE ONLY			
17. DATE RECEIVED:		18. DATE APPROVED: NOV 17 2017	
PLAN APPROVED - ONE COPY ATTACHED			
19. EFFECTIVE DATE OF APPROVED MATERIAL: SEP 30 2016		20. SIGNATURE OF REGIONAL OFFICIAL: 	
21. TYPED NAME: Kristin Fan		22. TITLE: Director, FMC	
23. REMARKS: Pen-and-ink changes made to Boxes 7 and 8 by CMS RO with state concurrence on 11/6/2017.			

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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, 2016 through June 30, 2017, the Administration shall distribute \$40,833,600 as described in this paragraph to the following hospitals: Abrazo Central Campus, Banner University Medical Center - Phoenix, Banner University Medical Center - Tucson, Maricopa County Medical Center, Phoenix Children's Hospital, Scottsdale Healthcare - Osborn, Scottsdale Healthcare - Shea, St. Joseph's Hospital - Phoenix, and Tucson 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

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resident positions that are eligible for expansion funding. The per-resident allocation to Program X will be based on the 2 resident positions.

Medicaid utilization for each hospital will be determined using the most recent as-filed Medicare Cost Report on file with the Administration and the Administration's inpatient hospital Fee-For-Service claims and managed care encounter data for the time period corresponding to the MCR for each hospital. The Medicaid utilization percent for each hospital will be calculated as its total Medicaid inpatient days divided by total MCR inpatient days, rounded up to the nearest 5%. Total MCR inpatient days will be taken from Form 2552, Worksheet S-3, Part 1, Lines 14 and 16 through 18, Column 8. The Medicaid utilization from the most recent as-filed Medicare cost reporting period is a proxy for the Medicaid utilization for the service period.

The statewide average per-resident cost will be determined using the most recent as-filed MCR on file with the Administration and resident counts reported by hospitals and GME programs. The average will be calculated by totaling all Intern/Resident direct costs for all hospitals reporting such costs on the MCR and dividing by the total number of residents at those hospitals. The direct I/R costs will be taken from Form 2552, Worksheet B, Part 1, Lines 21 & 22, Column 0.

A filled resident position is a GME program position for which a resident is enrolled and receiving a salary. The number of filled resident positions in a program will be derived by hospital and program reporting to the Administration.

A hospital's level of participation is defined by the hospital's share of resident rotations within the program. For example, if residents in Program X spend nine months of the year on rotation at hospital A and three months at hospital B, then hospital A's level of participation in Program X is 75% and hospital B's level of participation is 25%. The program rotation schedules will be derived by program and hospital reporting to the Administration.

For the service period of July 1, 2016, to June 30, 2017, the Administration shall distribute up to \$25,736,548 under this paragraph to the following hospitals: Banner University Medical Center - Phoenix, Banner University Medical Center - South, Banner University Medical Center - Tucson, John C. Lincoln Medical Center, Kingman Regional Medical Center, Maricopa County Medical Center, Mayo Hospital, Phoenix Children's Hospital, Scottsdale Healthcare - Osborn, Scottsdale Healthcare - Shea, St. Joseph's Hospital - Phoenix, and Tucson Medical Center. If funds are insufficient to cover all calculated distributions within any priority group described in paragraphs B(3)(a) and (b), the Administration shall adjust the distributions proportionally within that priority group.

- 4) Beginning July 1, 2007 the AHCCCS Administration shall distribute monies appropriated for graduate medical education above the amounts prescribed in paragraphs B(1) and B(3) for the direct costs of graduate medical education programs established or expanded on or after July 1, 2006. These programs must be approved by the Administration.

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The Administration will allocate funds to eligible GME programs based on the number of filled resident positions in each program, weighted by Medicaid utilization, and a statewide average per-resident cost according to the methodology described in paragraph B(3).

For the service period of July 1, 2016, to June 30, 2017, the Administration shall distribute up to \$14,521,948 under this paragraph to the following hospitals: Banner University Medical Center - Phoenix, Banner University Medical Center - South, Banner University Medical Center - Tucson, John C. Lincoln Medical Center, Maricopa County Medical Center, Mayo Hospital, Mountain Vista Medical Center, Phoenix Children's Hospital, Scottsdale Healthcare - Osborn, Scottsdale Healthcare - Shea, Scottsdale Healthcare - Thompson Peak, St. Joseph's Hospital - Phoenix, Tucson Medical Center, and Yuma Regional 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. If funds are insufficient to cover all calculated distributions, the Administration shall adjust the distributions proportionally.

C. New Hospitals

Payments made to new hospitals with GME programs will be calculated using a statewide average where necessary until hospital-specific data can be obtained.

D. Indirect Medical Education Component

Beginning July 1, 2007, the AHCCCS Administration shall distribute monies appropriated for graduate medical education above the amounts prescribed in paragraphs B(1), B(3), and B(4) for a portion of additional indirect medical education costs at hospitals with GME programs with residency positions

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that include rotations in any county other than Maricopa or Pima whose population was less than five hundred thousand persons at the time the residency rotation was added to the academic year rotation schedule. These programs must be approved by the Administration.

The Administration will allocate funds for indirect costs to eligible GME programs based on the number of filled resident positions in each program that include rotations in qualifying counties, the number of months that a program's residents rotate to facilities in those counties, and a Medicaid-specific statewide average per-resident-per-month cost. The program allocation will be calculated as follows:

Program Allocation = (Total filled resident positions that include rotations in qualifying counties) x (Number of months per academic year that each resident will spend on such rotations) x (Medicaid-specific statewide average per-resident-per-month cost).

A filled resident position is a GME program position for which a resident is enrolled and receiving a salary. The number of filled resident positions in a program and the number of months that program residents rotate to facilities in qualifying counties will be derived by hospital and program reporting to the Administration.

The Medicaid-specific statewide average per-resident-per-month cost will be determined using the most recent as-filed Medicare cost reports on file with the Administration, and will be based on a calculated Medicaid IME cost for all hospitals that calculate a Medicare IME payment on the Medicare cost report and the total number of residents at those hospitals.

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The Medicaid-specific statewide average per-resident-per-month cost will be calculated by totaling the Medicaid IME costs for all hospitals that have such costs, dividing the result by the total number of residents at those hospitals, and dividing that result by 12. The Medicaid IME cost for each hospital is to be calculated as follows:

1. Calculate each hospital's Medicare share by dividing the Medicare inpatient discharges on the Medicare Cost Report (Worksheet S-3 Part I, Column 13, Line 14 plus Line 2) by the total inpatient hospital discharges on the Medicare Cost Report (Worksheet S-3 Part I, Column 15, Line 14).
2. Calculate the ratio of the residents to beds by dividing the number of filled resident positions for each hospital derived from reporting by the GME programs to the Administration as described in paragraph B(2) by the bed days available divided by the number of days in the cost reporting period from the Medicare Cost Report (Worksheet E Part A, Line 4, Column 1).
3. Calculate the indirect medical education adjustment factor by using the following formula: $1.35 \times \{(1+r)^{405} - 1\}$ where r is the ratio of residents to beds calculated above.
4. Calculate each hospital's total indirect medical education cost by adding the DRG amounts other than outlier payments from the Medicare cost report and the managed care simulated payments from the Medicare Cost Report (Worksheet E Part A, Lines 1, 1.01, 1.02, 1.03, 1.04 and 3, Column 1), multiplying the total by the indirect medical education adjustment factor and dividing the result by the Medicare share.
5. Calculate each hospital's Medicaid indirect medical education cost by multiplying the hospital's total indirect medical education by the Medicaid Utilization Percent used to determine the direct GME component.

The amount allocated to each program will be distributed to the program's sponsoring hospital or the program's base hospital if the sponsoring institution is not a hospital.

The total amount computed for a teaching hospital under this paragraph shall not exceed the greatest among the amounts described in paragraph F(1) through F(3).

A hospital that does not have any IME amount reported on the Medicare cost report, other than a children's hospital or a new teaching hospital whose latest available Medicare cost report used does not include the hospital's Medicare IME amount as a teaching hospital, will be ineligible for IME payment under this paragraph D.

For the service period of July 1, 2016, to June 30, 2017, the Administration shall distribute up to \$5,174,875 under this paragraph to the following hospitals: Banner University Medical Center - South, Banner University Medical Center - Tucson, Kingman Regional Medical Center, and Yuma Regional Medical Center. If funds are insufficient to cover all calculated distributions, the Administration shall adjust the distributions proportionally.

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E. Medical Education Funding Transfer Authority

Any remaining unallocated authority from paragraphs B(3), B(4) or D, may be redistributed among those pools if necessary to address insufficient funding levels in any of them.

F. Indirect Medical Education – Second Payment Pool

Beginning July 1, 2007, the Administration establishes a second Indirect Medical Education payment pool. Those funds will be used for the purposes of reimbursing hospitals specified by the local, county, or tribal government for indirect program costs other than those reimbursed under paragraph D. Funds available under this subsection shall be distributed in accordance with paragraph D except that (a) reimbursement with such funds includes resident positions or rotations other than those in counties with populations of less than five hundred thousand persons, and (b) the hospitals eligible to receive the funds are participating hospitals that incur indirect medical education costs. The total amount computed for a teaching hospital under paragraphs D and F combined shall be equal to the greatest among the following amounts:

1. The hospital's Medicaid IME costs calculated under paragraph D;
2. The median of all such costs if the hospital does not have an IME payment calculated on its Medicare Cost Report because the hospital is a children's hospital or a new teaching hospital and the latest available Medicare cost report used does not include the hospital's Medicare IME amount as a teaching hospital; and
3. The hospital's program allocation amount, as calculated under paragraph D but for the qualifying rotations in both paragraphs D and F counted at the participating hospital (rather than only rural rotations counted for the sponsoring or base hospital).

The amount that a teaching hospital receives under paragraph D will be subtracted from the total amount computed above to determine the calculated IME payment amount under this paragraph F.

A hospital that does not have any IME amount reported on the Medicare cost report, other than a children's hospital or a new teaching hospital described above, will be ineligible for IME payment under paragraphs D and F.

For the service period of July 1, 2016 to June 30, 2017, the Administration shall distribute up to \$203,930,886 in total funds under this paragraph to the following hospitals: Abrazo Central Campus , Banner University Medical Center - Phoenix, Banner University Medical Center - South, Banner University Medical Center - Tucson, John C. Lincoln Medical Center, Kingman Regional Medical Center, Maricopa County Medical Center, Mayo Hospital, Mountain Vista Medical Center, Phoenix Children's Hospital, Scottsdale Healthcare - Osborn, Scottsdale Healthcare - Shea, Scottsdale Healthcare - Thompson Peak, St. Joseph's Hospital - Phoenix, and Tucson Medical Center. Any unallocated authority remaining from paragraphs B(3), B(4) or D after any necessary redistribution under paragraph E may be distributed under this paragraph. If funds are insufficient to cover all calculated distributions, the Administration shall adjust the distributions proportionally.

All payments for GME and IME provided for in paragraphs B-F are payable annually at the end of the year.