March 23, 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) 16-010-B, which was submitted to the Centers for Medicare & Medicaid Services (CMS) San Francisco Regional Office on December 30, 2016. This SPA updates the rates for outpatient hospital services.

Based on the information provided, we are approving SPA 16-010-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
- Attachment 4.19-B, Page 1(a)

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,

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

TO: REGIONAL ADMINISTRATOR
CENENTS FOR MEDICARE AND MEDICAID SERVICES
DEPARTMENT OF HEALTH AND HUMAN SERVICES

1. TRANSMITTAL NUMBER: 16-010-B
2. STATE Arizona
3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL SECURITY ACT (MEDICAID)
4. PROPOSED EFFECTIVE DATE October 1, 2016

5. TYPE OF PLAN MATERIAL (Check One):
   - [ ] NEW STATE PLAN
   - [ ] AMENDMENT TO BE CONSIDERED AS NEW PLAN
   - [X] AMENDMENT

6. FEDERAL STATUTE/REGULATION CITATION:
   42 CFR Part 447

7. FEDERAL BUDGET IMPACT:
   FFY 17: $10,900
   FFY 18: $0

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:
   Att. 4.19-B, page 1 and
   Att. 4.19-B, page 1(a)

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT (If Applicable):
   Same

10. SUBJECT OF AMENDMENT:
    Updates the State Plan to make changes to outpatient hospital rates

11. GOVERNOR’S REVIEW (Check One):
    - [X] GOVERNOR’S OFFICE REPORTED NO COMMENT
    - [ ] OTHER, AS SPECIFIED:
      NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL

12. SIGNATURE OF STATE AGENCY OFFICIAL: Beth Kohler
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

FOR REGIONAL OFFICE USE ONLY

17. DATE RECEIVED: December 30, 2016
18. DATE APPROVED: March 23, 2017

19. EFFECTIVE DATE OF APPROVED MATERIAL: October 1, 2016

20. SIGNATURE OF REGIONAL OFFICIAL: Henrietta Sam-Louie
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
The following is a description of methods and standards for determining payment rates for specific services when payments are made directly to providers. Fee-for-services payments are made in accordance with the Arizona Health Care Cost Containment System Fee-For-Service Provider Manual and are subject to the limitations set forth in Attachment 3.1-A of the State Plan. State developed fee schedule rates are the same for both governmental and non-governmental providers, unless otherwise noted on the reimbursement pages. AHCCCS rates were set as of October 1, 2016, and are effective for dates of service on or after that date. AHCCCS rates are published on the agency’s website at https://www.azahcccs.gov/PlansProviders/RatesAndBilling/FFS/ and apply to the following services: Outpatient Hospital; Laboratory; Pharmacy; Hospice; Clinic Services, including Freestanding Ambulatory Surgery Centers and Freestanding Dialysis Centers; Migrant Health Center, Community Health Center and Homeless Health Center Services, Home Health Services, including Durable Medical Equipment, Supplies and Prosthetic Devices; Diagnostic, Screening and Preventive Services; EPSDT Services; Freestanding Birth Centers; Behavioral Health; Family Planning; Physician; Nurse-Midwife; Pediatric and Family Nurse Practitioner; Other Licensed Practitioner; Dental; Vision; Respiratory Care; Transportation; Private Duty Nurse; Other Practitioners; Physical Therapy; Occupational Therapy; Services for individuals with speech, hearing and language disorders; Prosthetic devices; Screening; Preventative; Rehabilitation.

- **Outpatient Hospital Services**

  From July 1, 2004 through June 30, 2005, AHCCCS shall reimburse a hospital by applying a hospital-specific outpatient cost-to-charge ratio to covered charges. If the hospital increases its charges for outpatient services filed with the Arizona Department of Health Services by more than 4.7 per cent for dates of service effective on or after July 7, 2004, the hospital-specific cost-to-charge ratio will be reduced by the amount that it exceeds 4.7 per cent. If charges exceed 4.7 per cent, the effective date of the increased charges will be the effective date of the adjusted AHCCCS cost-to-charge ratio.

  For dates of service beginning July 1, 2005, AHCCCS shall reimburse hospitals for outpatient acute care hospital services from a prospective fee schedule, by procedure code, established by AHCCCS. Hospitals with similar characteristics (peer groups) such as: rural/CAH designation, bed size, pediatric emphasis, special needs hospitals, public ownership, GME programs or Level I Trauma Centers, may be paid percentage adjustments above the fee schedule amount not to exceed the total payments received under comparable circumstances pursuant to Medicare upper limits. Rural hospitals, defined as hospitals in Arizona, but outside Maricopa and Pima counties, may be paid an adjustment above the fee schedule amount not to exceed the total payments received under comparable circumstances pursuant to Medicare upper limits.

  Services that do not have an established fee specified by the AHCCCS’ outpatient hospital prospective fee schedule will be paid by multiplying the charges for the service by a statewide outpatient cost-to-charge ratio. For dates of service July 1, 2005 through September 30, 2011, the statewide outpatient cost-to-charge ratio is computed from hospitals’ 2002 Medicare Cost Reports.

  For dates of service beginning October 1, 2011, the statewide cost-to-charge ratio calculation shall equal either the CMS Medicare Outpatient Urban or the CMS Medicare Outpatient Rural Cost to Charge Ratio for Arizona. The urban cost-to-charge ratio will be used for hospitals located in a county of 500,000 residents or more and for out-of-state hospitals. The rural cost-to-charge ratio will be used for hospitals located in a county of fewer than 500,000 residents.

  Hospitals shall not be reimbursed for emergency room treatment, observation hours, or other outpatient hospital services performed on an outpatient basis, if the eligible person is admitted as an inpatient to the same hospital directly from the emergency room, observation or other outpatient department. The emergency room, observation, and other outpatient hospital services provided before the admission are included in the inpatient reimbursement.

  Outpatient hospital payments shall be subject to the quick pay discounts and the slow pay penalties described in Attachment 4.19-A.

  **Rebase**

  AHCCCS will rebase the outpatient hospital fee schedule every five years.

---

**TN No. 16-010B**

**Supersedes**

**TN No. 15-005B**

**Approval Date:** March 23, 2017  
**Effective Date:** October 1, 2016
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.