

December 19, 2023

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 # 23-0026, APR-DRG Rates

Dear Mr. Wong,

Enclosed is State Plan Amendment (SPA) # 23-0026, APR-DRG Rates. This SPA updates the state plan APR-DRG rates, with an effective date of October 1, 2023.

Tribal Consultation and Public Notice Requirements for this SPA have been fulfilled and the corresponding documentation is provided below:

Tribal Consultation (August 29, 2023):

https://www.azahcccs.gov/AmericanIndians/Downloads/Consultations/Meetings/2023/08292023QuarterlyTC_Presentation.pdf

Public Notice:

https://www.azahcccs.gov/AHCCCS/Downloads/PublicNotices/rates/Final_Public_Notice_Rate_Changes_20231001.pdf

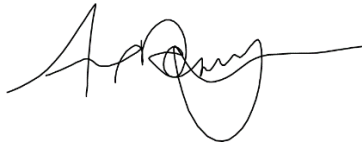
The Fiscal Impact of this SPA has been calculated as:

- FFY 2024: \$0
- FFY 2025: \$0

To arrive at this calculation, Arizona has projected the federal fiscal impact for FFY 2024 and FFY 2025 using the actual expenditure data from FFY 2022 and incorporating rate changes that occurred in FFY 2023 and the proposed changes in FFY 2024. The FMAP used in FFY 2024 66.67%. The FFY 2025 estimate was assumed to be the same as FFY 2024; however, the FMAP for FFY 2025 was 64.89%.

If there are any questions about the enclosed SPA, please contact Maxwell Seifer at maxwell.seifer@azahcccs.gov or 602-417-4722.

Sincerely,



Alex Demyan
Assistant Director
Arizona Health Care Cost Containment System (AHCCCS)

**TRANSMITTAL AND NOTICE OF APPROVAL OF
STATE PLAN MATERIAL
FOR: CENTERS FOR MEDICARE & MEDICAID SERVICES**

1. TRANSMITTAL NUMBER 23 — 0026	2. STATE AZ
3. PROGRAM IDENTIFICATION: TITLE 19 OF THE SOCIAL SECURITY ACT	

TO: CENTER DIRECTOR
CENTERS FOR MEDICAID & CHIP SERVICES
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE
October 1, 2023

5. FEDERAL STATUTE/REGULATION CITATION
42 CFR Part 447, Subpart C

6. FEDERAL BUDGET IMPACT (Amounts in WHOLE dollars)
a. FFY **24** \$ **0**
b. FFY: **25** \$ **0**

7. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT

Attachment 4.19-A: page 19 and 21

8. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT (If Applicable)

Attachment 4.19-A: page 19 and 21

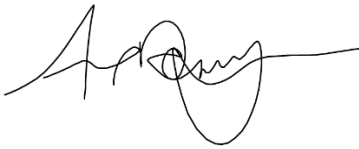
9. SUBJECT OF AMENDMENT
Updates the state plan APR-DRG rates, effective October 1, 2023.

10. 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:

11. SIGNATURE OF STATE AGENCY OFFICIAL



12. TYPED NAME
Alex Demyan

13. TITLE
Assistant Director

14. DATE SUBMITTED: December 19, 2023

15. RETURN TO

Alex Demyan
801 E. Jefferson St., MD #4200
Phoenix, AZ 85034

FOR CMS USE ONLY

16. DATE RECEIVED	17. DATE APPROVED
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PLAN APPROVED - ONE COPY ATTACHED

18. EFFECTIVE DATE OF APPROVED MATERIAL	19. SIGNATURE OF APPROVING OFFICIAL
20. TYPED NAME OF APPROVING OFFICIAL	21. TITLE OF APPROVING OFFICIAL

22. REMARKS

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

C. DRG Relative Weights

The APR-DRG methodology classifies inpatient stays into categories based on similar clinical conditions and similar levels of hospital resources required for treatment. The categories are identified using diagnosis-related group codes, each of which is assigned a relative weight appropriate to the relative amount of hospital resources expected to be used to treat the patient. Each claim is assigned to a DRG based on the patient's diagnoses, surgical procedures performed, age, gender, birth weight, and discharge status. An APR-DRG payment is determined by multiplying the DRG base rate by the DRG relative weight and any applicable policy adjusters. The DRG relative weights are posted on the AHCCCS website as of October 1, 2023~~2~~ at <https://www.azahcccs.gov/PlansProviders/RatesAndBilling/FFS/APRDRGrates.html>.

D. DRG Base Rate for Arizona Hospitals

The DRG base rate for each hospital other than those described in paragraphs 1 and 2 below is a statewide standardized amount adjusted by applying the hospital's wage index to the hospital's labor-related share. The hospital wage index and labor-related share are those published by Medicare on September 18, 2020 for the Medicare inpatient prospective payment system for the fiscal year October 1, 2020 through September 30, 2021, and will not be subject to annual updates. For the following described hospitals, the DRG base rate will be calculated in the same manner except that an alternative standardized amount will be used in place of the statewide standardized amount:

1. Hospitals that are licensed by the state of Arizona Department of Health Services as short-term hospitals, indicated by a license number beginning with the letters "SH." These hospitals typically practice in a limited, specialized field.
2. Hospitals that are located in a city with a population greater than one million, which on average have at least 15% of inpatient days for patients who reside outside of Arizona and at least 50% of discharges reimbursed by Medicare as reported on the hospital's Medicare Cost Report for the hospital's cost reporting period ending between January 1, 2011 and December 31, 2011.

The statewide standardized amount, the alternative standardized amount, and the DRG base rates for all hospitals are posted on the AHCCCS website as of October 1, 2023~~2~~ at <https://www.azahcccs.gov/PlansProviders/RatesAndBilling/FFS/APRDRGrates.html>.

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

G. DRG Initial Base Payment

A claim for an inpatient hospital stay will be assigned both a DRG code derived from all diagnosis and surgical procedure codes included on the claim and a DRG code derived by excluding diagnosis and surgical procedure codes associated with health care acquired conditions or other provider-preventable conditions listed in Att. 4.19-A, page 13. The DRG code with the lower relative weight will be used to process the claim. For each hospital stay, the DRG initial base payment equals the DRG base rate multiplied by the DRG relative weight and any applicable policy adjustors.

The DRG initial base payment may be subject to additional adjustments as described in the following paragraphs to produce a DRG final base payment.

H. Outlier Add-on Payments

Cases which are extraordinarily costly in relation to other cases within the same DRG due to the severity of illness or complicating conditions may qualify for an outlier add-on payment. A claim will qualify for an outlier add-on payment if the claim cost exceeds the outlier cost threshold. The claim cost is determined by multiplying the covered charges by the hospital's outlier cost-to-charge ratio. The outlier threshold is equal to the DRG base payment plus the fixed loss amount, where the DRG base payment for this purpose is the lesser of the DRG initial base payment determined under paragraph G and the DRG transfer payment determined under paragraph I. The fixed loss amounts for critical access hospitals and for all other hospitals are posted on the AHCCCS website as of October 1, 2023~~2~~ at <https://www.azahcccs.gov/PlansProviders/RatesAndBilling/FFS/APRDRGrates.html>.

The outlier cost-to-charge ratios for all hospitals will be determined as follows:

1. For children's hospitals in Arizona, the outlier cost-to-charge ratio will be calculated by dividing the hospital's total costs by its total charges using the most recent Medicare Cost Report available as of September 1st each year.
2. For Critical Access Hospitals in Arizona, the outlier cost-to-charge ratio will be the sum of the statewide rural default operating cost-to-charge ratio and the statewide capital cost-to-charge ratio contained in the Medicare inpatient prospective payment system data file available as of September 1st each year.