

## **Table of Contents**

**State/Territory Name: Arizona**

**State Plan Amendment (SPA) #: AZ-23-0026**

This file contains the following documents in the order listed:

- 1) Approval Letter
- 2) CMS 179 Form/Summary Form (with 179-like data)
- 3) Approved SPA Pages

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



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**Financial Management Group**

February 5, 2024

Carmen Heredia, Director  
Arizona Health Care Cost Containment System  
801 E. Jefferson  
Phoenix, AZ 85034

RE: Arizona State Plan Amendment Transmittal Number 23-0026

Dear State Medicaid Director Heredia:

We have reviewed the proposed amendment to Attachment 4.19-A of your Medicaid State plan submitted under transmittal number (TN) 23-0026. This amendment, effective October 1, 2023, updates All Patient Refined Diagnosis Related Group (APR-DRG) reimbursement rates for inpatient hospital services.

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 23-0026 is approved effective October 1, 2023. We are enclosing the CMS-179 and the amended plan pages.

If you have any questions, please call Mark Wong at (415) 744-3561 or [mark.wong@cms.hhs.gov](mailto:mark.wong@cms.hhs.gov).

Sincerely,

A solid black rectangular box redacting the signature of the sender.

Rory Howe  
Director

Enclosures

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

1. TRANSMITTAL NUMBER <b>23 — 0026</b>	2. STATE <b>AZ</b>
3. PROGRAM IDENTIFICATION: TITLE <u>19</u> 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

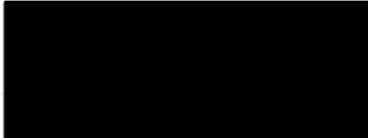
8. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT (If Applicable)  
  
Attachment 4.19-A: page 19 and 21

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

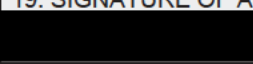
**FOR CMS USE ONLY**

16. DATE RECEIVED December 19, 2023	17. DATE APPROVED February 5, 2024
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**PLAN APPROVED - ONE COPY ATTACHED**

18. EFFECTIVE DATE OF APPROVED MATERIAL  
October 1, 2023

20. TYPED NAME OF APPROVING OFFICIAL  
Rory Howe

19. SIGNATURE OF APPROVING OFFICIAL  


21. TITLE OF APPROVING OFFICIAL  
Director, Financial Management Group

22. REMARKS

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

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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 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.

If a hospital qualifies for D.1 or D.2, it is not eligible for the alternative standardized amounts outlined in D.3, D.4 or D.5.

The following described hospitals will have a DRG base rate calculated in the same manner as above except that a separate alternative standardized amount unique to each category below will be used in place of the statewide standardized amount starting January 1, 2023:

3. Hospitals that have one hundred or fewer inpatient beds, that is located in a county with a population of less than five hundred thousand persons and has greater than twenty percent of Medicaid inpatient reimbursement with a primary diagnosis of behavioral health in the prior federal fiscal year as of April 30th.
4. Hospitals with two separate Arizona Department of Health Services (ADHS) acute care hospital licenses, with one hospital that has one hundred or fewer beds, that is located in a county with a population of less than five hundred thousand persons and has one single AHCCCS registration for both ADHS licenses.
5. Unless in a qualifying group above, Hospitals that have one hundred or fewer inpatient beds, and that are located in a county with a population of less than five hundred thousand persons; or a hospital that is licensed as a critical access hospital.

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 at <https://www.azahcccs.gov/PlansProviders/RatesAndBilling/FFS/APRDRGrates.html>.

STATE OF ARIZONA  
METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES  
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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 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.