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State/Territory Name: MA

State Plan Amendment (SPA) #: 25-0037

This file contains the following documents in the order listed:

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

DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S2-26-12
Baltimore, Maryland 21244-1850



Financial Management Group

07/30/2026

Dr. Ryan Schwarz
Medicaid Director and Assistant Secretary for MassHealth
Executive Office of Health and Human Services
One Ashburton Place
Room 1109
Boston, MA 02108

RE: Massachusetts 25-0037

Dear Dr. Schwarz:

The Centers for Medicare & Medicaid Services (CMS) has reviewed the proposed Massachusetts state plan amendment (SPA) to Attachment 4.19-A(2a) MA 25-0037, which was submitted to CMS on December 30, 2025. This plan amendment updates rate year 2026 reimbursement for chronic disease and rehabilitation inpatient hospital services.

We reviewed your SPA submission for compliance with statutory requirements, including in sections 1902(a)(2), 1902(a)(13), 1902(a)(30), and 1903 as it relates to the identification of an adequate source for the non-federal share of expenditures under the plan, as required by 1902(a)(2), and 1923 of the Social Security Act and the applicable implementing Federal regulations.

Based upon the information provided by the state, we have approved the amendment with an effective date of October 1, 2025. We are enclosing the approved CMS-179 and a copy of the new state plan pages.

If you have any additional questions or need further assistance, please contact Novena James-Hailey at 617-565-1291 or via email at Novena.JamesHailey@cms.hhs.gov.

Sincerely,

A black rectangular box redacting the signature of Rory Howe.

Rory Howe
Director
Financial Management Group

Enclosures

DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S2-26-12
Baltimore, Maryland 21244-1850



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07/30/2026

Dr. Ryan Schwarz
Medicaid Director and Assistant Secretary for MassHealth
Commonwealth of Massachusetts
Executive Office of Health and Human Services
One Ashburton Place
Room 1109
Boston, MA 02108

RE: Massachusetts 25-0037

Dear Dr. Schwarz:

The Centers for Medicare & Medicaid Services (CMS) is providing this letter as a companion to the approval of SPA MA-25-0037, which updates reimbursement for chronic disease and rehabilitation inpatient hospital services, effective October 1, 2025.

It appears that some of the previously approved payment methodologies that pay out of state providers differently (noted in “same page” review) may be problematic in light of the D.C. Circuit opinion in *Asante v. Kennedy*, No. 23-5055 (D.C. Cir. 2025), *petition for cert. filed* (U.S. Sept. 17, 2025) (No. 25-361). By approving the corresponding SPA, CMS is expressly not approving any payment methodologies that would violate *Asante*. At this time, CMS will not take enforcement action against the state over such payment methodologies provided that the state does not implement such methodologies in a manner that conflicts with *Asante*. CMS is currently exploring options for how to proceed with this issue, which may include rulemaking.

If you have any additional questions or need further assistance, please contact Novena James-Hailey at 617-565-1291 or via email at Novena.JamesHailey@cms.hhs.gov.

Sincerely,

A solid black rectangular box used to redact the signature of the sender.

Rory Howe
Director
Financial Management Group

Enclosures

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

1. TRANSMITTAL NUMBER

2 5 — 0 0 3 7

2. STATE

M A3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL
SECURITY ACTTO: CENTER DIRECTOR
CENTERS FOR MEDICAID & CHIP SERVICES
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE

10 /01 /2025

5. FEDERAL STATUTE/REGULATION CITATION

42 USC 1396a(a)(13); 42 CFR Part 447; 42 CFR 440.10

6. FEDERAL BUDGET IMPACT (Amounts in WHOLE dollars)

a. FFY 26 \$ 0b. FFY 27 \$ _____

7. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT

Attachment 4.19-A(2a) pp. 1-25

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

Attachment 4.19-A(2a) pp. 1-25

9. SUBJECT OF AMENDMENT

An amendment to the payment methodologies for chronic disease and rehabilitation inpatient hospitals

10. GOVERNOR'S REVIEW (Check One)

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☐

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

Mike Levine

13. TITLE

Undersecretary for MassHealth

14. DATE SUBMITTED

12/30/2025

15. RETURN TO

Commonwealth of Massachusetts
Executive Office of Health and Human Services
Office of Medicaid
One Ashburton Place, 10th Floor
Boston, MA 02108**FOR CMS USE ONLY**

16. DATE RECEIVED

December 30, 2025

17. DATE APPROVED

07/30/2026

PLAN APPROVED - ONE COPY ATTACHED

18. EFFECTIVE DATE OF APPROVED MATERIAL

October 1, 2025

19. SIGNATURE OF APPROVING OFFICIAL

20. TYPED NAME OF APPROVING OFFICIAL

Rory Howe

21. TITLE OF APPROVING OFFICIAL

Director, Financial Management Group

22. REMARKS

Pen and ink changes in blocks 7 & 8 per state

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I. General Description of Payment Methodology

The following sections describe the methods and standards utilized by the Executive Office of Health and Human Services (EOHHS) to establish rates of payment by contract for services rendered by chronic disease and rehabilitation hospitals to patients entitled to medical assistance under M.G.L. c. 118E, §1 *et seq.*

- A. Chief Components:** The payment methods described in this attachment result in a comprehensive per-diem rate for each participating hospital. The daily rate applicable to each hospital covers both routine and ancillary services provided to inpatients.
- B. Patients Transferred from State Facilities:** The following describes the payment method for Privately-Owned Chronic Disease and Rehabilitation Hospital services provided to former patients of Lakeville Hospital, a State-Owned Nonacute Hospital that has been closed.

The rate of payment in connection with this state facility closure has been set based on allowable actual costs under the methodology described herein and expenses that must be incurred by a provider in order to serve the particular patients transferred from this state facility. The Division of Health Care Finance and Policy (DHCFP) reviewed the budget costs of the hospital to which patients were to be transferred and found them to meet the reasonableness standards of the DHCFP rate methodology. Pursuant to such rate setting, the provider must demonstrate that items and services, furnished because of the special needs of the patients transferred, are necessary in the efficient delivery of necessary health care.

C. Provisions for a Hospital with no fewer than 500 Licensed Beds as of June 30, 2005

This section establishes payments for inpatient care to a privately-owned health care facility licensed by the Department of Public Health as a non-acute chronic hospital with no fewer than 500 licensed beds as of June 30, 2005, with no fewer than 150,000 Medicaid patient days in the state fiscal year ended June 30, 2006, and with an established geriatric teaching program for physicians, medical students, and other health professionals.

The hospital is paid one of two per diem rates for inpatient care. Per Diem Rate 2 is for more complex care patients. In order to bill for payment at Per Diem Rate 2, the hospital must obtain prior authorization of the admission and continuing inpatient stay from the Office of Medicaid or its designated screening entity based on services ordered by a physician and documented in the medical record showing a need for

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daily physician intervention, 24 hour care or intensive multidisciplinary rehabilitation overseen by a physician board certified in rehabilitation medicine.

1. Inpatient Per Diem Rates

The Inpatient Per Diem Rates are all-inclusive daily rates paid for any, and all, inpatient care and services. A rate adjustment may be incorporated whenever attributable to cost misreporting, audit findings, non-allowable cost, adjustments required under M.G.L. The Inpatient Per Diem Rates are derived using the following methods:

a. Per Diem Rate 1: the per diem rate is derived by using the following method: the sum of a hospital's base year operating costs and the allowable capital costs, divided by a hospital's base year patient days, inflated by the Adjustment to Base Year Operating and Capital Costs.

i. Data Sources.

1. The base year for inpatient costs is the hospital fiscal year (HFY) 2016. The MassHealth program utilizes the costs, statistics and revenue reported in the HFY 2016 Massachusetts Hospital Cost Report filed with the Center for Health Information Analysis (CHIA).
2. Inpatient costs include only costs incurred or to be incurred in the provision of hospital care and services, supplies and accommodations and determined in accordance with the Principles of Reimbursement for Provider Costs under 42 U.S.C. §§1395 et seq. as set forth in 42 CFR 413 et seq. and the Provider Reimbursement Manual, the HURM Manual, and Generally Accepted Accounting Principles. All references to tabs, columns and lines refer to the Massachusetts Hospital Cost Report filed with and reviewed by CHIA. Except where noted, all references are to the HFY 2016 version of the Massachusetts Hospital Cost Report.
3. The calculations use costs and statistics, as adjusted as a result of audits or reviews conducted by EOHHS. The MassHealth program may also request additional information, data and documentation from the hospital or CHIA as necessary to calculate rates.
4. If the specified data source is unavailable or inadequate, the MassHealth program will determine and use the best alternative data source and/or it may perform a statistical analysis to ensure comparability of data. If required information is not furnished by a hospital within the applicable

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time period, it may not receive any increase to its rate.

- ii. Determination of Base Year Inpatient Operating Costs. Base Year Inpatient Operating Costs are the sum of total Inpatient Direct Routine Costs, Inpatient Direct Ancillary Costs, and Inpatient Overhead Costs as described below.
 - 1. Inpatient Direct Routine Costs. Inpatient Direct Routine Costs are the Total Inpatient Routine Costs derived from the Massachusetts Hospital Cost Report.
 - 2. Inpatient Direct Ancillary Costs. Inpatient Direct Ancillary Costs are the Total Inpatient Ancillary Costs derived from the Massachusetts Hospital Cost Report.
 - 3. Inpatient Overhead Costs. Inpatient Overhead Costs are the Total Inpatient Overhead Costs derived from the Massachusetts Hospital Cost Report.
- iii. Calculation of the Base Year Inpatient Operating Per Diem. The Inpatient Operating Per Diem is calculated by dividing the sum of the Total Inpatient Operating Costs (Tab 2 Line 30.04 Column 8) by the total inpatient days (Tab 3 Line 3.01 Column 4).
- iv. Inpatient Capital Costs: Base year capital costs consist of the hospital's actual HFY 2016 patient care capital requirement for historical depreciation for building and fixed equipment; reasonable interest expenses; amortization and; leases and rental of facilities (Tab 17 Line 30.04 Column 1 minus Tab 18 Line 30.04 Column 1).
- v. Inpatient Capital Cost Per Diem. The Inpatient Capital Cost Per Diem is derived by dividing the total Inpatient Capital Costs by the total inpatient days (Tab 3 Line 3.01 Column 4).
- vi. Adjustments to Base Year Costs. The update factor, covering the period from the base year to the rate year beginning October 1, 2018, is 3.0%. The update factor covering the period beginning October 1, 2019 includes an additional 1.75%. The update factor covering the period beginning October 1, 2020, includes an additional 1.5%. As of January 1, 2023, the rate is increased by an additional update factor of 14.49%. Beginning October 1, 2023, the rate is increased by an additional update factor of 7.4% based on the costs reported by the hospital and an inflation estimate based on the

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Massachusetts Consumer Price Index. The update factor, covering the period beginning October 1, 2024, includes a reduction of 2.1%.

b. Per Diem Rate 2: Per Diem Rate 2 is determined by averaging the current rate year payment rates under Section III of this attachment for Chronic Disease and Rehabilitation Hospitals identified by the MassHealth program as having similar characteristics of treatment and populations. The Hospitals used to calculate the payment are: Braintree Rehabilitation Hospital, New Bedford Rehabilitation Hospital, New England Sinai Hospital, Kindred Hospital-Northeast, Vibra Hospital of Western Mass, Spaulding Rehabilitation Hospital-Boston, and Spaulding Hospital-Cambridge. This rate is comprehensive and all-inclusive covering both routine and ancillary services provided to inpatients by the hospital. Notwithstanding the above, Per Diem Rate 2 beginning January 1, 2025 will be \$1,257.00.

c. Quality Performance Incentive Payment. Subject to compliance with all applicable federal statutes, regulations, and state plan provisions, beginning January 1, 2026 EOHHS will make \$1.333M in total aggregate quality performance incentive payments to qualifying CDR hospitals, as described herein:

i. Qualification. In order to qualify for a Quality Performance Incentive Payment, a qualifying CDR hospital must meet the following criteria:

1. Be a CDR Inpatient Hospital located in Massachusetts with no fewer than 500 licensed beds as of June 30, 2005, with no fewer than 150,000 Medicaid patient days in the state fiscal year ended June 30, 2006, and with an established geriatric teaching program for physicians, medical students, and other health professionals, and that serves MassHealth members; and,
2. Have recorded performance, for the period January 1, 2023 – December 31, 2023, on the following Centers for Medicare and Medicaid Services (CMS) Medicare Minimum Data Set measures that exceed the state average, as reported by CMS: Percentage of long-stay high-risk patients with falls with severe injury and percentage of long-stay patients with depression who received an antipsychotic medication.

ii. Payment.

EOHHS will issue the Quality Performance Incentive Payment to qualifying CDR Hospitals for RY2026 based on each qualifying non-acute chronic hospital's proportional number of qualifying Medicaid days (both Medicaid fee-for-service and managed care) within the total number of

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qualifying Medicaid days from all qualifying non-acute chronic hospitals during RY2026 with one payment during April 2026.

d. Supplemental Payment. Subject to compliance with all applicable federal statutes, regulations, and state plan provisions, in RY 2026 EOHHS will make \$6.65M in total aggregate supplemental payments to qualifying non-acute hospitals as described herein.

i. Qualification. In order to qualify for a supplemental payment, a non-acute chronic hospital must meet the following criteria:

1. Be a non-acute chronic Hospital located in Massachusetts with no fewer than 500 licensed beds as of June 30, 2005, with no fewer than 150,000 Medicaid patient days in the state fiscal year ended June 30, 2006, and with an established geriatric teaching program for physicians, medical students, and other health professionals, and that serves MassHealth members, and;
2. Be a non-acute chronic Hospital located in Massachusetts with no fewer than 15,000 Medicaid fee-for service and managed care Inpatient Per Diem Rate 1 days.

ii. Payment. EOHHS will issue a RY 2026 Supplemental Payment to qualifying non-acute chronic hospitals during RY 2026 based on each qualifying non-acute chronic hospital's proportional number of qualifying Medicaid days (both Medicaid fee-for-service and managed care) within the total number of qualifying Medicaid days from all qualifying non-acute chronic hospitals during RY2026 with one payment during RY2026, no later than September 2026.

D. Inpatient Per Diem Rate for Hospitals that Serve Solely Children and Adolescents.

The following sections describe the methods and rates of payment, effective October 1, 2025, for services rendered by chronic disease and rehabilitation (CDR hospitals) that serve solely children and adolescents (Pediatric CDR Hospitals).

1. Inpatient Per Diem Rate.

The Inpatient Per Diem Rate is an all-inclusive daily rate paid for any, and all, inpatient care and services provided by a Pediatric CDR Hospital to a MassHealth member, with the exception of any, and all, Administrative Days (see Section 2). The Inpatient Per Diem Rate is derived using the following method: (a) the sum of a hospital's base year inpatient Operating Cost (Section 1, paragraph b.) plus the

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Adjustment to Base Year Costs (Section 1, paragraph c.) is divided by a hospital's base year patient days; plus (b) the Allowance for Inpatient Capital are calculated as for RY2012. Then, in accordance with Section 271 of Chapter 224, MassHealth applies a factor of 1.6 times the hospital's rate year 2012 inpatient per diem rate established in RY 2012. After having applied the factor of 1.6 the update factors described in Section 1, paragraph c. and Section 1, paragraph d.iii. for RY14-15 are applied. Beginning January 1, 2023 the resulting rate of \$1785.59 is further increased by applying a factor of 1.5 times said rate. Beginning December 15, 2023, the rate is further increased by applying a factor of 3% based on the costs reported by the hospital and an inflation estimate based on the Massachusetts Consumer Price Index. Beginning RY 2025 the rate is decreased by 2.1% resulting in a rate of \$2,700.81.

The administrative day per diem rate is calculated using the methodology described in Section 2 below.

a. Data Sources.

- i. The base year for inpatient costs and the outpatient cost-to-charge ratio is the (HFY) 2003. The MassHealth program utilizes the costs, statistics and revenue reported in the HFY 2003 HCFP-403 cost report.
- ii. Inpatient costs include only costs incurred or to be incurred in the provision of hospital care and services, supplies and accommodations and determined in accordance with the Principles of Reimbursement for Provider Costs under 42 U.S.C. §§1395 *et seq.* as set forth in 42 CFR 413 *et seq.* and the Provider Reimbursement Manual, the HURM Manual, and Generally Accepted Accounting Principles. All references to specific schedules, columns and lines refer to the HCFP-403 report filed with and reviewed by the Division of Health Care Finance and Policy (DHCFP). Except where noted, all references are to the HFY 2003 version of the HCFP-403.
- iii. The calculations use each hospital's costs and statistics, as adjusted as a result of prior audits or reviews conducted by DHCFP or successor agency. The MassHealth program may also request additional information, data and documentation from a hospital or DHCFP or successor agency as necessary to calculate rates.
- iv. If the specified data source is unavailable or inadequate, the MassHealth program will determine and use the best alternative data source and/or it may perform a statistical analysis to ensure comparability of data. If required information is not furnished by a hospital within the applicable time period, it may not receive any increase to its rate.

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b. Determination of Base Year Inpatient Operating Costs.

Base Year Inpatient Operating Costs are the sum of Inpatient Direct Routine Costs, Inpatient Direct Ancillary Costs, and Inpatient Overhead Costs as described below.

- i. Inpatient Direct Routine Costs. Inpatient Direct Routine Costs are a hospital's Total Inpatient Routine Costs derived from the HCFP-403.
- ii. Inpatient Direct Ancillary Costs. Inpatient Direct Ancillary Costs are calculated as follows:

Inpatient Direct Ancillary Costs are calculated by multiplying each hospital's chronic and rehabilitation inpatient ancillary expenses times the ratio of Total Direct Ancillary Expenses to Total Ancillary Expenses (including overhead). The resulting product constitutes the Total Inpatient Direct Ancillary Cost. For hospitals that reported costs in Sch. XIV, Column 2, Line 15 (Central Service/Supplies) and/or Column 2, Line 16 (Pharmacy), those costs are removed from Overhead costs and reclassified to Ancillary costs pursuant to Section I.D.1.b.iii.a.

- iii. Total Inpatient Overhead. Total Inpatient Overhead is calculated by comparing Total Inpatient Overhead to an efficiency standard as described below.

- a. A HFY 2003 Inpatient Overhead per diem amount is computed for each hospital as follows:

1. Inpatient Routine Overhead cost is calculated by subtracting Direct Inpatient Routine Cost from Inpatient Routine Cost after step-down of overhead.
2. Inpatient Ancillary Overhead Cost is calculated by subtracting the Total Inpatient Direct Ancillary Cost determined in Section 1, paragraph b.ii from the Total Chronic and Rehabilitation Inpatient Ancillary Expenses reported on the HCFP-403.
3. The Central Service and Supplies and Pharmacy expenses are then reclassified to Ancillary costs as follows:

The Central Service/Supplies Direct Expense is multiplied by the ratio of the inpatient medical supplies patient service statistics to the total medical supplies patient service statistics, all as derived from the HCFP-403 report.

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The Pharmacy Direct Expense is multiplied by the ratio of the inpatient drug patient service statistics to the total drug patient service statistics, all as derived from the HCFP-403 report.

The two products of these calculations are then added together to equal the Total Inpatient CSS and Pharmacy Expense.

4. The Allowable Chronic Disease and Rehab Inpatient Overhead Expense is then determined by adding together the amounts in i. and ii (above) and subtracting from this the amount determined in iii (above). The resulting amount is then divided by HFY 2003 Patient Days.

- b. The efficiency standards for pediatric CDR hospitals are determined as follows:

The chronic disease hospital group consists of PAM Health Specialty Hospital, Franciscan Hospital for Children, Radius Specialty Hospital, New England Sinai Hospital, Vibra Hospital of Western Mass and Spaulding Hospital-Cambridge.

The Inpatient Overhead Per Diem Cost for each chronic disease hospital in the chronic disease hospital group is calculated and the median is set as the efficiency standard for pediatric CDR hospitals.

- c. If a pediatric CDR hospital's Total Inpatient Overhead Per Diem Cost does not exceed the appropriate efficiency standard, its Total Inpatient Overhead Cost is calculated pursuant to Section I.D.1.b.iii.a., without further adjustment.
- d. If a pediatric CDR hospital's Total Inpatient Overhead Per Diem Cost exceeds the appropriate efficiency standard, the hospital's Total Inpatient Overhead Cost is the efficiency standard multiplied by HFY 2003 Patient Days.
- c. Adjustment to Base Year Operating Costs. Total Inpatient Routine Direct Costs, Total Inpatient Ancillary Direct Costs, and Total Inpatient Overhead Costs are updated using a composite index comprised of two cost categories: labor and non-labor. The categories are weighted according to the weights used by CMS for PPS-excluded hospitals. The inflation proxy for the labor cost category is the Massachusetts Consumer Price Index (optimistic forecast). The inflation proxy for the non-labor cost category is the non-labor portion of the CMS market basket for

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hospitals. The year-to-year update factors used in the rate calculation are 2003-2004 2.21%; 2004-2005 1.198%; 2005-2006 1.84%; 2006-2007 1.637%; 2007-2008 1.588%; 2008-2009 1.459%; 2009-2010 0.516%; 2012-2013 1.643%; 2013-2014 0.00; 2014-2015 1.672%; 2015-2016 0.0%; and 2016-2017 0.0%.

d. Allowance for Inpatient Capital.

- i. Each hospital's base year capital costs consist of the hospital's actual HFY 2003 patient care capital requirement for historical depreciation for building and fixed equipment; reasonable interest expenses; amortization and; leases and rental of facilities.
- ii. The limitations applicable to base year capital costs are:
 - a. Interest expense attributable to balloon payments on financed debt is excluded. Balloon payments are those in which the Final payment on a partially amortized debt is scheduled to be larger than all preceding payments.
 - b. Where there was a change of ownership after July 18, 1984, the basis of the fixed assets used in the determination of depreciation and interest expense is the lower of the acquisition cost to the new owner or the basis allowed for reimbursement purposes to the immediate prior owner. The depreciation expense is calculated using the full useful lives of the assets.
 - c. All costs (including legal fees, accounting, and administrative costs, travel costs, and the costs of feasibility studies) attributable to the negotiation or settlement of the sale or purchase of any capital asset after July 18, 1984 (by acquisition or merger), for which payment has previously been made by any payer, and which have been included in any portion of prior years' rates, are subtracted from capital costs.
- iii. Each hospital's base year inpatient unit capital cost equals the base year inpatient capital cost divided by the greater of: (i) the actual base year routine patient days; or (ii) eighty-five percent (85%) of base year maximum licensed bed capacity, measured in days. The CMS Capital Input Price Index adjusts the base year inpatient unit capital cost to determine the Inpatient Unit Capital amount. The year-to-year update factors used in the rate calculation are 2003-2004 .7%; 2004-2005 .7%; 2005-2006 .7%; 2006-2007 .8%; 2008-2009 .7%; 2009-2010 1.2%; 2012-2013 1.2%; 2013-2014 0.0%; 2014-2015 1.5%; 2015-2016 0.0%; and 2016-2017 0.0%.

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- iv. The Inpatient Unit Capital amounts of all chronic hospitals in the Chronic Disease Hospital Group as set forth at Section I.D.1.b.iii.b. is calculated and the median is set as the efficiency standard, which serves as the Pediatric Chronic Disease Hospital Allowance for Inpatient Capital.

2. Determination of Rate for Administrative Day Patients.

A Pediatric CDR Hospital will be paid for Administrative Days using an Administrative Day Per Diem Rate (AD Rate). The AD Rate is an all-inclusive daily rate paid for each Administrative Day. The AD Rate is comprised of three components: a statewide AD routine per diem amount, a statewide AD ancillary per diem amount and a hospital-specific supplementary per diem amount. The statewide AD routine per diem amount is derived from the weighted average Medicaid payment rate for case mix category T (10) patients in nursing facilities in 2003. The statewide AD ancillary per diem amount is derived from the statewide weighted average Medicaid ancillary payment for AD patients in Chronic Disease and Rehabilitation Hospitals in FY 2003. The sum of the statewide AD routine and ancillary per diem amounts for RY 2020 is \$513.05. For RY 2020, the supplementary per diem amount for each hospital is the AD routine and ancillary per diem amount of \$513.05 increased by 80% of the difference between each hospital's Inpatient Per Diem Rate and the statewide AD routine and ancillary per diem amount of \$513.05.

3. Quality Performance Incentive Payments.

Subject to compliance with all applicable federal statutes, regulations, and state plan provisions in RY2026 EOHHS will make a total aggregate amount of \$500,000 available for Quality Performance Incentive Payments to qualifying Pediatric CDR Hospitals, and as described below:

- i. Qualification. In order to qualify for Quality Performance Incentive Payments, a Pediatric CDR Hospital must meet the following criteria:
 - a. Be a chronic disease and rehabilitation hospital that serves solely children and adolescents with complex acute rehabilitation and chronic needs that is located in Massachusetts and serving MassHealth members;
 - b. For Quality Performance Incentive Payment A., have recorded performance, for the second quarter March 2025- May 2025 that meets or exceeds the Performance Measurement A criteria described in Section 3.ii.a. below, for the following measures, as reported by The

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Children's Hospitals' Solutions for Patient Safety National Children's Network:

1. Reliability to bloodstream infection maintenance bundle must be equal to or greater than 80%;
 2. Pressure injuries rate (stages 3 & 4, Unstageable per 1,000 patient days) that is less than 1.0.
- c. For Quality Performance Incentive Payment B, have recorded performance for January 2025 – March 2025 that meets or exceeds the Performance Measurement B criteria described in Section 3.ii.b., below on the following measures, as reported by The Joint Commission:
1. Rate of less than or equal to 3 hours of physical restraint use per 1,000 hours – Children (age 1 year through 12 years), as described in Joint Commission National Quality Measure HBIPs-2b; and,
 2. Rate of less than or equal to 3 hours of physical restraint use per 1,000 hours – Adolescent (age 13 years – 17 years) as described in Joint Commission National Quality Measure HBIPs-2c.
- ii. Payment.
- a. EOHHS will issue Quality Performance Incentive Payment A in a total aggregate amount of \$300,000 and apportioned equally across the Pediatric CDR Hospitals that qualify for Payment A. Payment will be issued during RY 2026 as follows: April 2026.
 - b. EOHHS will issue the Quality Performance Incentive Payment B in a total aggregate amount of \$200,000 and apportioned equally across the Pediatric CDR Hospitals that qualify for Payment B. Payment B during RY2026 as follows: April 2026.

4. Supplemental Payment for High-Complexity Pediatric Care

Subject to compliance with all applicable federal statutes, regulations, and state plan provisions, EOHHS will make a total aggregate amount of \$3 million available for Supplemental Payments for High-Complexity Pediatric Care provided by Pediatric CDR Hospitals to qualifying Pediatric CDR Hospitals, as described below:

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In order to qualify for a Supplemental Payment for High-Complexity Pediatric Care provided by a Pediatric CDR Hospital, a Pediatric CDR Hospital must be a chronic disease and rehabilitation hospital that serves solely children and adolescents with complex acute rehabilitation and chronic needs that is located in Massachusetts and serving MassHealth members.

Payment. EOHHS will issue the Supplemental Payment for High-Complexity Pediatric Care in a total aggregate amount of \$3 million and apportioned equally across the Pediatric CDR Hospitals that qualify. Payment will be issued April 2026.

5. RY2026 Supplemental Payment

In RY 2026 EOHHS will make \$1.3M in total aggregate supplemental payments to qualifying pediatric non-acute hospitals as described herein.

i. Qualification.

In order to qualify for a supplemental payment, a qualifying pediatric non-acute chronic hospital must be a non-acute chronic Hospital located in Massachusetts with less than 15,000 and more than 10,000 Medicaid fee-for-service and managed care days paid at the Inpatient Per Diem rate in CY 2023.

ii. Payment.

EOHHS will issue a RY 2026 Supplemental Payment to qualifying pediatric nonacute chronic hospitals during RY2026 based on each qualifying pediatric nonacute hospital's proportional number of qualifying Medicaid days (both Medicaid fee-for-service and managed care) within the total number of qualifying Medicaid days from all qualifying pediatric non-acute chronic hospitals with one payment during September 2026.

E. Determination of Inpatient Hospital Rate for Out-of-State Chronic Disease or Rehabilitation Hospitals

Payment to an out-of-state chronic disease or rehabilitation hospital for any Inpatient Service payable by the MassHealth agency is the lowest of:

- a. The rate of payment established for the medical service under the other state's Medicaid program;
- b. The MassHealth rate of payment established for such medical service or comparable medical service in Massachusetts; or
- c. The MassHealth rate of payment established for a comparable provider in Massachusetts.

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When MassHealth is not able to determine the other state's inpatient rate, it pays out-of-state chronic disease or rehabilitation hospitals a rate comparable to the median or weighted average in-state rate for comparable Hospitals.

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II. Definitions

Administrative Day (AD). An inpatient day spent in a hospital by a patient who has been identified by the Executive Office of Health and Human Services (EOHHS), or its designee or by the Department of Public Health (DPH), or any combination of these organizations as a patient not requiring hospital level of care.

Administrative Day Per-diem Rate (AD Rate). An all-inclusive daily rate of payment paid to hospitals for Administrative Days. There are two AD payment rates for non-Pediatric CDR Hospitals paid under Section III: one for short-stay Administrative Days and one for long-stay Administrative Days. There is one AD payment rate for CDR Hospitals paid under Section I.C. and one AD payment rate for Pediatric CDR Hospitals under Section I.D.

Base Year. The base year is year identified in each payment section as the base year (See Section I.C. Section I.D., and Section III).

Center for Health Information and Analysis (CHIA) – An agency of the Commonwealth of Massachusetts established under M.G.L. c. 12C.

Chronic Disease and Rehabilitation Hospital (Hospital). A hospital facility licensed by the Massachusetts Department of Public Health under M.G.L. c. 111, §51, with a majority of its beds providing chronic care services and/or comprehensive rehabilitation services to patients with appropriate medical needs. This definition includes such a facility licensed with a pediatric specialty. Hospitals with 50 percent or more of their beds licensed as medical/surgical, intensive care, coronary care, burn, maternal (obstetrics) and neonatal intensive care beds (Level III) possess acute hospital licensure and do not meet the definition of a chronic Disease and Rehabilitation Hospital.

Department of Public Health (DPH). An agency of the Commonwealth of Massachusetts, Executive Office of Health and Human Services established under M.G.L. c. 17, §1.

Direct Cost. The patient care costs of a cost center exclusive of overhead and capital.

Division of Health Care Finance and Policy (DHCFP). An agency of the Commonwealth of Massachusetts, Executive Office of Health and Human Services established under M.G.L. c. 118G and from 2003 until the passage of Chapter 224 of the Acts of 2012. EOHHS is DHCFP's successor agency for rate setting functions, and the Center for Health Information and Analysis is DHCFP's successor agency for certain other functions. All references to DHCFP or DHCFP regulations also refer to the applicable successor.

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Executive Office of Health and Human Services (EOHHS). The single state agency that is responsible for the administration of the MassHealth program, pursuant to M.G.L. c. 118E and Titles XIX and XXI of the Social Security Act and other applicable laws and waivers.

Hospital Fiscal Year (HFY). The fiscal year used by an individual hospital.

HURM Manual. The Commonwealth of Massachusetts Hospital Uniform Reporting Manual promulgated by DHCFP under 101 CMR 42.00.

Inpatient Per-diem Rate. An all-inclusive daily rate of payment for any and all Inpatient Services provided to a Recipient by a hospital.

Inpatient Services. Routine and ancillary services that are provided to Recipients admitted as patients to a Chronic Disease and Rehabilitation Hospital.

MassHealth Program (also MassHealth or Medicaid). The Medical Assistance Program administered by EOHHS to furnish and pay for medical services pursuant to M.G.L. c. 118E and Titles XIX and XXI of the Social Security Act, and any approved waivers of such provisions.

Member. A person determined by EOHHS to be eligible for medical assistance under the MassHealth Program.

Overhead. Overhead consists of expenses for fringe benefits, administration, plant maintenance and repairs, plant operations, laundry, housekeeping, cafeteria, dietary, maintenance personnel, nursing administration, and in-service education, RN and LPN education, medical staff teaching and administration, post-graduate medical education, central service and supplies, pharmacy, medical records, medical care review, and social services.

Pediatric Chronic Disease and Rehabilitation Hospital (Pediatric CDR Hospital).— A hospital licensed by the Massachusetts Department of Public Health under M.G.L. c. 111, §51, with a majority of its beds licensed to provide chronic care services and/or comprehensive rehabilitation services to patients with appropriate medical needs and licensed with a pediatric specialty that serves solely children and adolescents. Hospitals with 50 percent or more of their beds licensed as medical/surgical, intensive care, coronary care, burn, maternal (obstetrics) and neonatal intensive care beds (Level III) possess acute hospital licensure and do not meet the definition of a Chronic Disease and Rehabilitation Hospital.

Rate Year (RY). Unless specifically stated otherwise, the period beginning October 1 and ending September 30.

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III. Medicaid Payment Methodology for Privately-Owned Chronic Disease and Rehabilitation Hospitals

A. Determination of Inpatient Per-diem Rate

The Inpatient Per-diem Rate is an all-inclusive daily rate paid for any and all inpatient care and services provided by a hospital to a MassHealth Member, except for any and all Administrative Days (see Section III.C). The Inpatient Per-diem Rate is derived using the following method: (a) the sum of a hospital's base year inpatient Operating Costs (Section III.A.2) and the allowable capital costs (Section III.A.3) divided by a hospital's base year patient days, inflated by the Adjustment to Base Year Costs (Section III.A.4.).

1. Data Sources

- a. The base year for inpatient costs is the Hospital Fiscal Year (HFY) 2019. The Masshealth program uses statistics and revenue reported in the HFY 2019 CHIA D403 cost report.
- b. Inpatient costs include only costs incurred or to be incurred in the provision of hospital care and service, supplies and accommodations and determined according to the Principles of Reimbursement for Provider Costs under 42 U.S.C. §§1395 *et seq.* as set forth in 42 CFR 413 *et seq.*, the Provider Reimbursement Manual, the HURM Manual, and Generally Accepted Accounting Principles. All references to specific schedules, columns and lines refer to the CHIA D403 report filed with and reviewed by the Center for Health Information and Analysis (CHIA). Except where noted, all references are to the HFY 2019 version of the CHIA D403.
- c. The calculations use each hospital's costs and statistics, as adjusted as a result of prior audits or reviews conducted by CHIA. The MassHealth program may also request additional information, data and documentation from a hospital or CHIA as necessary to calculate rates.
- d. If the specified data source is unavailable or inadequate, the MassHealth program will determine and use the best alternative data source and/or it may perform a statistical analysis to ensure comparability of data. If required information is not furnished by a hospital within the applicable time period, it may not receive any increase to its rate.

2. Determination of Base Year Inpatient Operating Costs.

Base Year Inpatient Operating Costs are the sum of Inpatient Direct Routine

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Costs, Inpatient Direct Ancillary Costs, and Inpatient Overhead Costs as described below.

- a. **Inpatient Direct Routine Costs.** Inpatient Direct Routine Costs are a hospital's Total Inpatient Routine Costs derived from the CHIA D403.
- b. **Inpatient Direct Ancillary Costs.** Inpatient Direct Ancillary Costs are calculated as follows:

Inpatient Direct Ancillary Costs are calculated by multiplying each hospital's chronic and rehabilitation inpatient ancillary expenses times the ratio of Total Direct Ancillary Expenses to Total Ancillary Expenses (including overhead). The resulting product constitutes the Total Inpatient Direct Ancillary Cost.

- c. **Total Inpatient Overhead.** Total Inpatient Overhead Costs are calculated as follows:
 - i. Inpatient Routine Overhead cost is calculated by subtracting Inpatient Direct Routine Cost from Inpatient Routine Cost after step-down of overhead.
 - ii. Inpatient Ancillary Overhead Cost is calculated by subtracting the Total Inpatient Direct Ancillary Cost determined in Section III, paragraph 2.b. from the Total Chronic and Rehabilitation Inpatient Ancillary Expenses reported on the CHIA D403.
 - iii. The Allowable Chronic Disease and Rehab Inpatient Overhead Expense is then determined by adding together the amounts in 1. and 2. (above).

3. Allowance for Inpatient Capital

- a. Each hospital's base year capital costs consist of the hospital's actual HFY 2019 patient care capital requirement for historical depreciation for: building and fixed equipment; reasonable interest expenses; amortization and leases; and rental of facilities, subject to the limitations described below.
- b. The limitations applicable to base-year capital costs are:
 - i. Interest expense attributable to balloon payments on financed debt is excluded. Balloon payments are those in which the proposed payment on a partially amortized debt is scheduled to be larger than all preceding payments.

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- ii. Where there was a change of ownership after July 18, 1984, the basis of the fixed assets used in the determination of depreciation and interest expense is the lower of the acquisition cost to the new owner or the basis allowed for reimbursement purposes to immediate prior owner. The depreciation expense is calculated using the full useful lives of the assets.
- iii. All costs (including legal fees, accounting costs, and administrative costs, travel costs, and the costs of feasibility studies) attributable to the negotiation or settlement of the sale or purchase of any capital asset after July 18, 1984 (by acquisition or merger), for which payment has previously been made by any payer, and which have been included in any portion of prior years' rates, are subtracted from capital costs
- c. Each hospital's base-year inpatient unit capital cost equals the base-year inpatient capital cost divided by the actual base-year routine patient days.
- d. The Inpatient Unit Capital amounts of all chronic hospitals in the Chronic Disease Hospital Group (below) are calculated and the median is set as the efficiency standard, which serves as the Chronic Disease Hospital Allowance for Inpatient Capital. Each chronic hospital in the Chronic Disease Hospital Group will be paid the lower of their actual costs or the Chronic Disease Hospital Allowance for Inpatient Capital.

The Chronic Disease Hospital Group consists of PAM Health Specialty Hospital, New England Sinai Hospital, Vibra Hospital of Western Mass, and Spaulding Hospital-Cambridge.

- e. The Inpatient Unit Capital amounts of all rehabilitation hospitals in the Rehabilitation Hospital Group (below) are calculated and the median is set as the efficiency standard, which serves as the Rehabilitation Hospital Allowance for Inpatient Capital. Each rehabilitation hospital in the Rehabilitation Hospital Group will be paid the lower of their actual costs or the Rehabilitation Hospital Allowance for Inpatient Capital.

The Rehabilitation Hospital Group consists of Encompass Health of Braintree, Fairlawn Rehab Hospital, Vibra Hospital of Southeastern Massachusetts, Encompass Health Rehab Hospital of New England, Spaulding Hospital-Cape Cod, Vibra Hospital of Western Massachusetts, Spaulding Rehabilitation Hospital-Boston, Whittier Rehabilitation Hospital-Bradford and Whittier Rehabilitation Hospital-Westborough.

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4. Adjustment to Base Year Operating and Capital Costs.

Beginning RY 2025, an update factor of 6.383% was applied to base year costs based on the costs reported by the hospitals and an inflation estimate based on the Massachusetts Consumer Price Index.

B. Determination of Inpatient Rate for New Hospitals (i.e., Newly Licensed as Chronic Disease or Rehabilitation Hospitals after October 1, 2018).

1. The allowable overhead, routine and ancillary per diem costs will be established at the median of HFY 2019 per diem costs reported by chronic and rehabilitation hospitals, updated by the inflation factor calculated pursuant to Section III.A.4.
2. The allowable capital per diem costs will be established at the efficiency standards as calculated pursuant to Section III.A.3.

C. Determination of Rate for Administrative Day Patients

A hospital will be paid for Administrative Days using either a facility-specific short-stay or statewide standard long-stay Administrative Day Per Diem Rate (AD Rate). AD Rates are all-inclusive daily rates.

The short-stay and long-stay AD Rates are based on an AD Base Per Diem Rate comprised of the statewide AD routine per diem amount and the statewide AD ancillary per diem amount. The statewide AD routine per diem amount is derived from the weighted average Medicaid payment rate for case mix category T (10) patients in nursing facilities in 2003. The statewide AD ancillary per diem amount is derived from the statewide weighted average Medicaid ancillary payment for AD patients in Chronic Disease and Rehabilitation Hospitals in FY 2003. The sum of the routine per diem and ancillary add-on amount equals \$513.05 which is then inflated by 6.95%, resulting in an AD base per diem rate of \$548.71.

Beginning RY 2025, the short-stay AD per diem rate is the AD base per diem rate of \$548.71 increased by 64% of the difference between each hospital's Inpatient Per Diem Rate and the AD base per diem rate.

Beginning RY 2025, the long-stay AD per diem rate is the AD base per diem rate of \$548.71 increased by 35%, for a single statewide per diem rate of \$740.75.

D. Quality Performance Incentive Payments to CDR Hospitals other than Pediatric CDR Hospitals

1. Subject to compliance with all applicable federal statutes, regulations, and state plan provisions in RY 2026 EOHHS will make a total aggregate amount of \$3 Million available for Quality Performance Incentive Payments to qualifying CDR Hospitals,

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as described below:

- a. **Qualification.** To qualify for a Quality Performance Incentive Payment for RY 2026, a CDR hospital must meet the following criteria:

- i. Be a CDR Hospital (other than a Pediatric CDR Hospital) located in Massachusetts that serves MassHealth members; and
- ii. Have recorded performance, on the following Centers for Medicare and Medicaid Services (CMS) 2022 Inpatient Rehabilitation Facility Compare and Long Term Care Hospital Compare measures, as reported by CMS and updated as of March 28, 2024:
 - a. Quality Measure: Catheter-associated urinary tract infections (CAUTI) from LTCH/IRF
 (Measure Period: 04/01/2023-03/31/2024; Improvement Base Period: 04/01/2021- 03/31/2022);
 - b. Quality Measure: Percentage of patients with pressure ulcers/pressure injuries that are new or worsened from an LTCH/IRF
 (Measure Period for both IRF and LTCH: 07/01/2023 – 06/30/2024; Improvement Base Period for IRF and LTCH: 07/01/2022-06/30/2023);
 - c. Quality Measure: Percentage of patients whose medications were reviewed and who received follow-up care when medication issues were identified
 (Measure Period for both IRF and LTCH 07/01/2023 – 06/30/2024; Improvement Base Period for IRF and LTCH 07/01/2022 – 06/30/2023).

- b. **Performance Measurement.** A qualifying CDR Hospital's performance on the selected quality measure will be calculated using a quality point system. CDR Hospitals may earn points based on where the CDR Hospital's Measure Rate falls, relative to the Attainment and Benchmark thresholds for the applicable Measure Period, and may earn points for improvement from the applicable Improvement Base Period for each Quality Measure.

The Benchmark Threshold is the mean of the 10th percentile scores for all hospitals in the national database during the Measure Period as applicable to each Quality Measure. The Attainment Threshold is the national median score during the Measure Period as applicable to each Quality Measure.

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- i. **Attainment Point Scale.** CDR hospitals will be awarded Attainment Points as follows:
 - a. 10 points if the Hospital's recorded performance is above the Benchmark Threshold;
 - b. 0.5-9.5 points if the Hospital's recorded performance is above the Attainment Threshold, but at or below the Benchmark Threshold; and,
 - c. Zero (0) points if performance is at or below the Attainment Threshold.
- ii. **Attainment Point Calculation.** The number of Attainment points a CDR Hospital receives is determined by the ratio of the difference between the CDR Hospital's Measure Rate and the Attainment Threshold divided by the difference between the Benchmark Threshold and the Attainment Threshold. That ratio is then multiplied by 9 and the product is increased by 0.5.

$$\text{CDR Hospital's Attainment Points Earned} = \frac{((\text{Attainment Threshold} - \text{hospital measure rate}) / (\text{Attainment Threshold} - \text{Benchmark})) \times 9}{1} + 0.5.$$

- iii. **Improvement Point Scale.** CDR Hospitals will be awarded Improvement Points based on how much the CDR hospital's recorded performance on each Quality Measure has improved from the applicable Improvement Base Period. A CDR hospital will be awarded between 0 and 10 points if performance improves over the previous year.
- iv. **Improvement Point Calculation.** The number of improvement points a CDR Hospital receives is determined by the ratio of the difference between the CDR Hospital's recorded performance and the previous year's recorded performance, as applicable to each Quality Measure, divided by the difference between the Benchmark Threshold and the previous year's recorded performance. This ratio is multiplied by 10 and the product is decreased by 0.5.

$$\text{CDR Hospital's Improvement Points Earned} = \frac{((\text{CDR Hospital's recorded performance} - \text{Previous Year's recorded performance}) / (\text{Benchmark Threshold} - \text{Previous Year's recorded performance})) \times 10}{1} - 0.5.$$

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- c. **Calculation of the Quality Performance Incentive Payment** EOHHS will calculate the amount of each qualifying CDR Hospital's Quality Performance Incentive Payment as follows:
- i. For each CDR Hospital and each measure, the Hospital's point total is the sum of 25% of the Hospital's Attainment Point score and 75% of the Hospital's Improvement Point score.
 - ii. For each CDR Hospital, an adjusted point total is calculated by multiplying the point total by the Hospital's Medicaid days, excluding Medicaid MCO days.
 - iii. The CDR Hospital's payment equals the ratio of the Hospital's adjusted point total divided by the statewide sum of the adjusted point total for all eligible Hospitals, times \$3 million.
- d. Payment. EOHHS will issue the RY 2026 Quality Performance Incentive Payment to qualifying CDR Hospitals during RY 2026 as follows: April 2026.
2. EOHHS will issue Discharge Planning Centered (DPC) Quality Performance Incentive Payments to qualifying CDR hospitals in RY 2026 as described below. The criteria for receiving a quality incentive payment are as follows:
- a. Qualification: In order to qualify for a DPC Quality Performance Incentive Payment in RY 2026, a CDR Hospital must meet the following criteria:
 - i. Be a CDR Hospital other than: a Pediatric CDR Hospital or nonacute chronic hospital with no fewer than 500 licensed beds as of June 30, 2005, with no fewer than 150,000 Medicaid patient days in the state fiscal year ended June 30, 2006 and with an established geriatric teaching program for physicians, medical students, and other health professionals;
 - ii. Be a CDR Hospital located in Massachusetts and serving MassHealth members;
 - iii. Demonstrate to EOHHS that CDR hospital made appropriate efforts to discharge MassHealth member(s) in accordance with criteria as designated by EOHHS in the Chronic Disease and Rehabilitation Inpatient Hospital Bulletin 101 and embedded Quality Performance Incentive Payment for Discharge Planning Form, available on the Commonwealth's website at <https://www.mass.gov/doc/chronic-disease-and-rehabilitation-inpatient-hospital-bulletin-101-quality-performance-incentive-payments-for-discharge-planning-0/download>;
 - iv. Bill for unpaid administrative days using appropriate billing codes as

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designated by EOHHS.

- b. Payment: Subject to compliance with all applicable federal statutes, regulations, and state plan provisions beginning in RY 2023 EOHHS will make a total aggregate amount of \$700 to each qualifying CDR Hospital for each patient day on which the hospital meets the criteria designated pursuant to **Section D.2.**, for a MassHealth member, for up to a maximum of 45 qualifying patient days per member. Payment will be issued as described below:

EOHHS will issue the DPC Quality Performance Incentive Payments to qualifying CDR hospitals on or before the last day of the month following the month that the discharge planning form was submitted to EOHHS.

E. RY2026 Supplemental Payment to CDR Hospitals other than Pediatric CDR Hospitals

Subject to compliance with all applicable federal statutes, regulations, and state plan provisions in RY 2026 EOHHS will make \$7.05M in total aggregate supplemental payments to qualifying non-acute CDR hospitals as described herein.

- a. Qualification: In order to qualify for a supplemental payment, a qualifying non-acute CDR hospital must be a non-acute CDR Hospital located in Massachusetts with less than 10,000 Medicaid fee-for-service and managed care days paid at the Inpatient Per Diem rate in CY 2023.
- b. Payment: EOHHS will issue a RY 2026 Supplemental Payment to qualifying non-acute CDR hospitals during RY2026 with one payment during January 2026 which will be based on each non-acute CDR hospital's proportional number of qualifying Medicaid fee-for-service and managed care days within the total number of qualifying Medicaid days from all qualifying non-acute CDR hospitals.

IV. Pediatric Outlier:

A. For Infants Less Than One Year of Age

- 1. In accordance with section 1902 of the Social Security Act, as amended by Section 4604 of OBRA 90, effective July 1, 1991, the Commonwealth will make an annual payment adjustment to Privately-owned Chronic/Rehabilitation Hospitals for inpatient hospital services furnished to infants less than one year of age involving

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exceptionally high costs or exceptionally long lengths of stay.

2. Determination of Eligibility. Determination of eligibility for infants less than one year of age shall be made as follows:

a. Exceptionally long lengths of stay.

- (i) First, calculate the statewide weighted average Medicaid inpatient length-of-stay. This shall be determined by dividing the sum of Medicaid days for all Privately-owned Chronic/Rehabilitation Hospitals in the state by the sum of total discharges for all Privately-owned Chronic Disease and Rehabilitation Hospitals.
- (ii) Second, calculate the statewide weighted standard deviation for Medicaid inpatient length-of-stay statistics.
- (iii) Third, add one and one-half times the statewide weighted standard deviation for Medicaid inpatient length-of-stay to the statewide weighted average Medicaid inpatient length-of-stay. Any stay equal to or lengthier than the sum of these two numbers shall constitute an exceptionally long length-of-stay for purposes of payment adjustments under this section.

b. Exceptionally High Cost. For each Privately-owned Chronic/Rehabilitation Hospital providing services on or after July 1, 1991 to individuals under one year of age the Commonwealth shall:

- (i) First, calculate the average cost per Medicaid inpatient discharge for each hospital;
- (ii) Second, calculate the standard deviation for the cost per Medicaid inpatient discharge for each hospital;
- (iii) Third, add one and one-half times the hospital's standard deviation for the cost per Medicaid inpatient discharge to the hospital's average cost per Medicaid inpatient discharge. Any cost that equals or exceeds the sum of these two numbers shall constitute an exceptionally high cost for purposes of payment adjustments.
 - (a) The amount of funds allocated shall be twenty five thousand dollars (\$25,000) annually. This includes Chronic/Rehabilitation, Psychiatric and State-Owned Non-acute hospitals.
 - (b) Any hospital that qualifies for a payment adjustment for infants

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less than one year of age shall receive one percent of the total funds allocated for such payments. In the event that the payments to qualifying Privately-owned Chronic/Rehabilitation Hospitals would exceed the total, each share shall be proportionately reduced to stay within the allocation.

