

October 1, 2017

The Honorable Douglas A. Ducey  
Governor of the State of Arizona  
1700 West Washington  
Phoenix, Arizona 85007

Dear Governor Ducey:

Laws 2013, First Regular Session, Chapter 202, Section 5 includes the following requirement:

For contract years 2015 through 2019, the Arizona health care cost containment system administration is required to report on the implementation of the new payment methodology authorized by this act, including any concerns raised by hospitals and any realized costs savings. The administration is required to submit its report by October 1 of each year to the governor, the president of the senate and the speaker of the house of representatives, together with the chairpersons of the house and senate health committees.

In accordance with Laws 2013, First Regular Session, Chapter 202, the AHCCCS administration replaced its 20-year old tiered per diem payment methodology with a diagnosis-related group (DRG) payment methodology effective October 1, 2014 for acute care hospitals. For the majority of in-state hospitals, the DRG base rate is a statewide standardized amount adjusted by hospital wage and labor indices to account for different geographic areas. The administration also adopted several policy adjustors which further modify reimbursement based on the nature of the service (e.g., newborn, obstetric, psychiatric), and an outlier add-on payment for claims which exceed established cost thresholds. The fiscal impact on each individual hospital of the transition to an APR-DRG payment methodology was phased in over a three-year period. Long-term acute care hospitals, rehabilitation hospitals, and psychiatric hospitals are excluded from the APR-DRG payment methodology and continue to be reimbursed by per diem rates.

During the three-year phase-in, the administration has annually updated the cost-to-charge ratios that form a part of the outlier add-on calculation, and has twice increased one of the policy adjustors to recognize the relative cost of high-acuity pediatric cases. The phase-in of the new reimbursement method is complete. The transition was occasioned by no major issues, and by an operational issue addressed in last year's report which is described further below.

The administration is currently in the process of rebasing the APR-DRG payment system with the goal of implementing the rebase for dates of discharge on and after January 1, 2018. For that purpose, the administration contracted with Navigant Consulting to provide assistance in analyzing various options and the potential fiscal impact of each. The administration also solicited and received input from hospital representatives. A Notice of Proposed Rulemaking was filed on June 16, 2017, and a Notice of Final Rulemaking was filed the week of August 25, 2017.

Following is a summary of the key aspects of the APR-DRG rebase:

- Updating the inpatient reimbursement fiscal analysis to use the most recent complete year of AHCCCS paid claims and adjudicated encounters;
- Updating the APR-DRG Grouper to the most recent version available;
- Updating the statewide standardized rates, as well as the wage and labor indices that modify the statewide standardized rates into hospital-specific base rates;
- Adding two new policy adjustors, and increasing the policy adjustor for pediatric cases

In addition, the proposed rule includes a language change intended to serve as a permanent remedy for the following issue addressed in last year's report:

<b>Issue</b>	<b>Resolution</b>
The administration's requirements for claim submission when a member changes his/her health plan enrollment during an inpatient stay is, in some cases, preventing an outlier add-on where the outlier add-on would otherwise be appropriate.	The proposed rule strikes the overly restrictive direction regarding the coding of claims when a member's enrollment changes during an inpatient stay, The administration will allow a change to billing rules that should permit an outlier add-on for an AHCCCS member who is eligible during the entire length of the hospital stay despite the change of enrollment from one AHCCCS plan to another.

Please feel free to contact Victoria Burns, Reimbursement Administrator, at (602) 417-4049 or via email at [Victoria.Burns@azahcccs.gov](mailto:Victoria.Burns@azahcccs.gov), if you have questions about this report or about the Inpatient Hospital APR-DRG reimbursement system.

Sincerely,



Thomas J. Bellach  
Director

- cc: The Honorable Steve Yarbrough, President, Arizona State Senate  
The Honorable Javan D. Mesnard, Speaker, Arizona House of Representatives  
The Honorable Heather Carter, Chairman House Health Committee  
The Honorable Nancy Barto, Chairman, Senate Health and Human Services Committee  
Christina Corieri, Senior Policy Advisor, Arizona Governor's Office  
Matthew Gress, Director, Governor's Office of Strategic Planning and Budgeting  
Beth Kohler, Deputy Director, AHCCCS  
Richard Stavneak, Director, Joint Legislative Budget Committee