



Mr. Tom Betlach, Director
Arizona Health Care Cost
Containment System (AHCCCS)
801 East Jefferson St.
Phoenix, AZ 85034

JAN 14 2014

Dear Mr. Betlach:

This is in response to your request for waiver of the broad-based and uniformity requirements related to an assessment program on inpatient hospital services. Upon review and consideration of the information formally provided to CMS on September 20, 2013, I am pleased to inform you that your request for waiver of the broad-based and uniformity provisions of section 1903(w)(3)(B) and (C) of the Social Security Act is approved.

The assessment structure for which Arizona requested waiver would be imposed as follows:

- (i) Hospitals owned by the state, the United States government, or an Indian tribe are exempt from the assessment;
- (ii) Short term specialty hospitals, small psychiatric hospitals, freestanding children's hospitals, and high Medicare/out of state patient utilization hospitals are excluded from the assessment;
- (iii) Freestanding rehabilitation hospitals and rehabilitation sub-provider discharges are excluded from the assessment;
- (iv) Large psychiatric hospitals and psychiatric sub-provider discharges are assessed \$31.25 per patient discharge;
- (v) Long term acute care hospitals are assessed \$31.25 per patient discharge;
- (vi) Pediatric intensive general acute hospitals are assessed \$100.25 per patient discharge;
- (vii) Medium intensive general acute hospitals are assessed \$112.75 per patient discharge;
- (viii) Urban acute hospitals, critical access hospitals, and non-critical access rural acute hospitals are assessed \$125.25 per patient discharge.

Section 1903(w)(3)(E) of the Act specifies that the Secretary shall approve broad-based and uniformity waiver applications if the net impact of the tax is generally redistributive and that the amount of the tax is not directly correlated to Medicaid payments.

The federal regulation at 42 CFR 433.68(e)(2) describes the statistical test necessary for a state to demonstrate that the proposed tax structure is generally redistributive. Arizona's statistical demonstration is addressed below. Moreover, the federal regulation at 42 CFR 433.68(f) describes the circumstances in which a direct correlation would exist. Upon review of the Arizona statute implementing the proposed hospital assessment and the review of Arizona's proposed methodology for increasing Medicaid reimbursement to hospitals, it appears that no direct correlation exists between the increases in Medicaid reimbursement.

Analysis

To determine the generally redistributive nature of the proposed inpatient hospital assessment, Arizona calculated the slope (expressed as B1) of a linear regression for a broad based and uniform assessment in which the dependent variable was each inpatient hospital facility's percentage share of the total assessment paid, if the assessment was uniformly imposed on all inpatient hospital costs in the state and the independent variable was each inpatient hospital facility's amount of the Medicaid cost. Arizona then calculated the slope (expressed as B2) of a linear regression for the state's actual proposed assessment program in which the dependent variable was each inpatient hospital percentage share of the total assessment paid and the independent variable was the Medicaid cost for each inpatient hospital.

Using the inpatient hospital data you provided, CMS also performed the proportionality analysis calculations required in the regulations. CMS finds that the result of the generally redistributive calculation for the inpatient hospital portion of the assessment is **1.0115**.

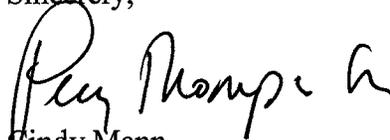
Therefore, we are able to approve your request for waiver of the broad-based and uniformity provisions of section 1903(w)(3)(B) and (C) of the Act for the proposed inpatient hospital assessment.

The Federal regulations at 42 CFR 433.72(c)(2) specify that a waiver will be effective for tax programs commencing on or after August 13, 1993, on the first day of the calendar quarter in which the waiver is received by CMS. CMS received the State of Arizona's initial request for waiver of the broad-based and uniformity requirements on September 20, 2013, with a requested effective date of July 1, 2013. Therefore, the effective date of Arizona's request for waiver of the broad-based and uniformity requirements is July 1, 2013.

CMS reserves the right to perform a financial management review at any time to ensure that the state operation of the assessment on inpatient discharges of certain hospitals continues to meet the requirements of section 1903(w) of the Act.

I hope this information addresses all of your concerns. If you have further questions or need additional information please contact Richard Cuno at (410) 786-1111.

Sincerely,



Cindy Mann
Director