

December 30, 2016

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 #16-012-B, Outpatient Services Value Based Purchasing (VBP) Differential Adjusted Payment**

Dear Mr. Wong:

Enclosed is State Plan Amendment (SPA) #16-012-B, Outpatient Services Hospital Value Based Purchasing (VBP) Differential Adjusted Payment, which revises the State Plan to describe VBP differential adjusted payments for outpatient hospitals and integrated clinics, effective October 1, 2016.

If you have any questions about the enclosed SPA, please contact Mohamed Arif at (602) 417-4573.

Sincerely,



Beth Kohler  
Deputy Director  
Arizona Health Care Cost Containment System (AHCCCS)

cc: Jessica Woodard, CMS  
Brian Zolynas, CMS



State: ARIZONA  
METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES-  
OTHER TYPES OF CARE

The following is a description of methods and standards for determining payment rates for specific services when payments are made directly to providers. Fee-for-services payments are made in accordance with the Arizona Health Care Cost Containment System Fee-For-Service Provider Manual and are subject to the limitations set forth in Attachment 3.1-A of the State Plan. State developed fee schedule rates are the same for both governmental and non-governmental providers, unless otherwise noted on the reimbursement pages. AHCCCS rates were set as of October 1, 2015, and are effective for dates of service on or after that date. AHCCCS rates are published on the agency's website at <https://www.azahcccs.gov/PlansProviders/RatesAndBilling/FFS/> and apply to the following services: Outpatient Hospital; Laboratory; Pharmacy; Hospice; Clinic Services, including Freestanding Ambulatory Surgery Centers and Freestanding Dialysis Centers; Migrant Health Center, Community Health Center and Homeless Health Center Services, Home Health Services, including Durable Medical Equipment, Supplies and Prosthetic Devices; Diagnostic, Screening and Preventive Services; EPSDT Services; Freestanding Birth Centers; Behavioral Health; Family Planning; Physician; Nurse-Midwife; Pediatric and Family Nurse Practitioner; Other Licensed Practitioner; Dental; Vision; Respiratory Care; Transportation; Private Duty Nurse; Other Practitioners; Physical Therapy; Occupational Therapy; Services for individuals with speech, hearing and language disorders; Prosthetic devices; Screening; Preventative; Rehabilitation.

- **Outpatient Hospital Services**

From July 1, 2004 through June 30, 2005, AHCCCS shall reimburse a hospital by applying a hospital-specific outpatient cost-to-charge ratio to covered charges. If the hospital increases its charges for outpatient services filed with the Arizona Department of Health Services by more than 4.7 per cent for dates of service effective on or after July 7, 2004, the hospital-specific cost-to-charge ratio will be reduced by the amount that it exceeds 4.7 per cent. If charges exceed 4.7 per cent, the effective date of the increased charges will be the effective date of the adjusted AHCCCS cost-to-charge ratio.

For dates of service beginning July 1, 2005, AHCCCS shall reimburse hospitals for outpatient acute care hospital services from a prospective fee schedule, by procedure code, established by AHCCCS. Hospitals with similar characteristics (peer groups) such as: rural/CAH designation, bed size, pediatric emphasis, special needs hospitals, public ownership, GME programs or Level I Trauma Centers, may be paid percentage adjustments above the fee schedule amount not to exceed the total payments received under comparable circumstances pursuant to Medicare upper limits. Rural hospitals, defined as hospitals in Arizona, but outside Maricopa and Pima counties, may be paid an adjustment above the fee schedule amount not to exceed the total payments received under comparable circumstances pursuant to Medicare upper limits.

Services that do not have an established fee specified by the AHCCCS' outpatient hospital prospective fee schedule will be paid by multiplying the charges for the service by a statewide outpatient cost-to-charge ratio. For dates of service July 1, 2005 through September 30, 2011, the statewide outpatient cost-to-charge ratio is computed from hospitals' 2002 Medicare Cost Reports.

For dates of service beginning October 1, 2011, the statewide cost-to-charge ratio calculation shall equal either the CMS Medicare Outpatient Urban or the CMS Medicare Outpatient Rural Cost to Charge Ratio for Arizona. The urban cost-to-charge ratio will be used for hospitals located in a county of 500,000 residents or more and for out-of-state hospitals. The rural cost-to-charge ratio will be used for hospitals located in a county of fewer than 500,000 residents.

Hospitals shall not be reimbursed for emergency room treatment, observation hours, or other outpatient hospital services performed on an outpatient basis, if the eligible person is admitted as an inpatient to the same hospital directly from the emergency room, observation or other outpatient department. The emergency room, observation, and other outpatient hospital services provided before the admission are included in the inpatient reimbursement.

Outpatient hospital payments shall be subject to the quick pay discounts and the slow pay penalties described in Attachment 4.19-A.

TN No. 16-00x

Supersedes

TN No. N/A

Approval Date: \_\_\_\_\_

Effective Date: October 1, 2016

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See Supplement 2 to Attachment 4.19-B for value based purchasing (VBP) differential adjusted payment for outpatient hospital services.

Rebase

AHCCCS will rebase the outpatient hospital fee schedule every five years.

5% Rate Reduction

Notwithstanding the methods and rates as otherwise described, for claims with dates of service between April 1, 2011 and September 30, 2011, all payments for outpatient hospital services will be reduced by 5% of the payment that would otherwise have been made under the methodology in effect as of October 1, 2010, as described above.

For claims with dates of service effective from October 1, 2011 to September 30, 2014, all payments for outpatient hospital services will be reduced by 5% under the methodology in effect as of October 1, 2011.

Payments for services provided by the Indian Health Service or Tribal 638 Health facilities are not subject to this 5% rate reduction.

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Rate Update

Rates in effect on September 30, 2014, are updated effective October 1, 2014 in the following manner:

- Laboratory and X-ray Services -Page 2 of Att. 4.19-B: -1.1 % in aggregate
- Behavioral Health Services in Att. 3.1-A Limitations: 4(b)(ii), 6(d)(viii), 9, and 13d - Page 5a of Att. 4.19-B:  
+2.0% uniformly
- Physician Services -Page 5a of Att. 4.19-B: 0.0% in aggregate
- Dental Services-Page 5b of Att. 4.19-8: 0.0% uniformly
- Transportation Services - Page 5b of Att. 4.19-B: Emergency Ground Ambulance Services + 11.3% in aggregate; all other transportation services 0.0% uniformly
- Clinic Services - Page 5a of Att. 4.19-B: +4.3% in aggregate. **See Supplement 2 to attachment 4.19-B for the value based purchasing (VBP) differential adjusted payment rates for integrated clinics.**
- Family Planning Services - Page 5a of Att. 4.19-B: +5.6% in aggregate
- Nurse-Midwife Services -Page 5a of Att. 4.19-8: +0.2% in aggregate
- Pediatric and Family Nurse Practitioner Services -Page 5a of Att. 4.19-B: +0.5% in aggregate
- Other types of care furnished by all Licensed Practitioners in Att. 3.1-A, item 6d - Page 5b of Att.4.19-B: +0.2% in aggregate
- Diagnostic, Screening and Preventive Services -Page 5b of Att. 4.19-B: +0.5% in aggregate
- Respiratory Care Services - Page 5b of Att. 4.19-B: -1.9% in aggregate
- Physical Therapy, Occupational Therapy, and Speech Therapy Services -Page 5b of Att. 4.19-B: +1.0% in aggregate
- Prosthetic devices -Page 5b of Att. 4.19-B: +0.6% in aggregate
- Medical Supplies, Equipment and Appliances - Page 5a of Att. 4.19-B: DMEPOS +0.7% in aggregate
- Case Management Services - Page 6 of Att. 4.19-B: +2.0% uniformly
- Home Health Services provided in the eligible person's home - Page 5a of Att. 4.19-B: +2.0% uniformly
- Private Duty Nursing Services when provided in the eligible person's home. -Page 5b of Att. 4.19-B: +2.0% uniformly

Payments for services provided by the Indian Health Services or Tribal 638 Health facilities are not subject to any of the rate updates described above.

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The following is a description of methods and standards for determining Value Based Purchasing (VBP) Differential Adjusted Payments for hospitals providing outpatient hospital services and providers registered with AHCCCS as integrated clinics. The purpose of the VBP Differential Adjusted Payment is to distinguish facilities which have committed to supporting designated actions that improve patients' care experience, improve members' health, and reduce cost of care growth. The VBP Differential Adjusted Payment Schedule represents a positive adjustment to the AHCCCS Fee-For-Service rates. These payment adjustments will occur for all dates of service in Contract Year Ending (CYE) 2017 (October 1, 2016 through September 30, 2017) only.

**1) Outpatient Hospital Services****A. Applicability**

A hospital providing outpatient hospital services must meet the following criteria to qualify for the VBP Differential Adjusted Payment:

1. Must be an Arizona licensed hospital; or a high volume out-of-state hospital as defined at AAC R9-22-712.64(C);
2. By June 1, 2016, the hospital must have executed an agreement with and electronically submitted admission, discharge, and transfer information, as well as data from the hospital emergency department, to a qualifying health information exchange organization; and
3. No sooner than January 4, 2016, and no later than February 29, 2016, CMS must have approved the hospital's attestation demonstrating meaningful use as described in 42 CFR 495.22 during an electronic health record reporting period in 2015; or, received its fourth year incentive payment prior to 2016; or, for a children's hospital that does not participate in the Medicare electronic health record incentive program, no sooner than January 4, 2016, and no later than April 30, 2016, the administration must have approved the hospital's attestation demonstrating meaningful use stage 2 as described in 42 CFR 495.22 during an electronic health record reporting period in 2015.

**B. Exemptions:**

IHS and 638 tribally owned and/or operated facilities, including hospitals are exempt from this initiative based on payments primarily at the all-inclusive rate.

**C. Payment Methodology**

For outpatient services with dates of service from October 1, 2016 through September 30, 2017, the payment otherwise required for outpatient hospital services provided by qualifying hospitals shall be increased by 0.5%.

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**2) Integrated Clinics****A. Applicability**

Providers must meet the following criteria to qualify for the VBP differential adjusted payment as an integrated clinic:

1. Must be registered with AHCCCS as Integrated Clinic and licensed by the Arizona Department of Health Services as an Outpatient Treatment Center that provides both behavioral health services and physical health services.

**B. Exemptions:**

IHS and 638 tribally owned and/or operated Integrated Clinics are exempt from this initiative at this time based on payments primarily at the all-inclusive rate.

**C. Payment Methodology**

For the contracting year October 1, 2016 through September 30, 2017, VBP Differential Adjusted Rates will be paid for select physical health services and will provide an increase of 10% over the AHCCCS Fee-For-Service rates for the same services. The physical health services that qualify for the VBP Differential Adjusted Rate are published on the Agency's website:

<https://www.azahcccs.gov/AHCCCS/Downloads/PublicNotices/rates/ValueBasedPaymentRateDifferentialPublicNoticeForICs04222016Final>