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State/Territory Name: Arizona

State Plan Amendment (SPA) #: AZ-25-0003

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 & HUMAN SERVICES

Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S3-14-28
Baltimore, Maryland 21244-1850



Financial Management Group

September 17, 2025

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

RE: Arizona State Plan Amendment Transmittal Number 25-0003

Dear Director Heredia:

The Centers for Medicare & Medicaid Services (CMS) has reviewed the proposed Arizona state plan amendment (SPA) to Attachment 4.19-A AZ-25-0003, which was submitted to CMS on June 23, 2025. This plan amendment adjusts the Inpatient Hospital APR-DRG newborn policy adjustor to account for increases in the newborn screening fee.

We reviewed your SPA submission for compliance with statutory requirements, including in sections 1902(a)(2), 1902(a)(13), 1902(a)(30), 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 June 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 handwritten signature in black ink that reads "Rory Howe". The signature is written in a cursive, flowing style.

Rory Howe
Director

Enclosures

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

1. TRANSMITTAL NUMBER

2 5 0 0 0 3

2. STATE

AZ3. 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

June 1, 20255. FEDERAL STATUTE/REGULATION CITATION
42 CFR § 440.130; 42 CFR § 441.56; 42 CFR § 440.345; Section
1902(e)(4) of the Social Security Act; Section 1902(a)(10)(A) of the Social
Security Act

6. FEDERAL BUDGET IMPACT (Amounts in WHOLE dollars)

a. FFY: 2025 \$ 194,000b. FFY: 2026 \$ 795,000

7. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT

Attachment ~~4.19-B~~, page ~~5(c)~~**4.19-A, page 20**8. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION
OR ATTACHMENT (If Applicable)Attachment ~~4.19-B~~, page ~~5(c)~~**4.19-A, page 20**

9. SUBJECT OF AMENDMENT

Newborn Screening Program Rate Updates

10. GOVERNOR'S REVIEW (Check One)



GOVERNOR'S OFFICE REPORTED NO COMMENT



OTHER, AS



SPECIFIED: COMMENTS OF GOVERNOR'S OFFICE ENCLOSED



NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL

11. SIGNATURE OF STATE AGENCY OFFICIAL



15. RETURN TO

Kyle Sawyer
801 E. Jefferson St., MD #4200
Phoenix, AZ 85034

12. TYPED NAME

Kyle Sawyer

13. TITLE

Assistant Director, Public Policy and Strategic Planning

14. DATE SUBMITTED: June 23, 2025

FOR CMS USE ONLY

16. DATE RECEIVED

June 23, 2025

17. DATE APPROVED

September 17, 2025

PLAN APPROVED - ONE COPY ATTACHED

18. EFFECTIVE DATE OF APPROVED MATERIAL

June 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 request.

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

E. DRG Base Rate for Out-of-State Hospitals

The DRG base rate for high volume out-of-state hospitals will be calculated in the same manner as for Arizona hospitals, using the Arizona statewide standardized amount. A high volume out-of-state hospital is a hospital that is located in a county that borders the state of Arizona and had 500 or more AHCCCS-covered inpatient days for the fiscal year beginning October 1, 2015. The DRG base rate for all other out-of-state hospitals is posted on the AHCCCS website that is referenced in paragraph D.

F. Policy Adjustors

Where AHCCCS has determined that an adjustment to the base payment is appropriate to ensure access to quality care, a policy adjustor will be applied to the base payment. Firstly, AHCCCS will apply a provider policy adjustor of 1.110 times the base rate to all claims from hospitals that are high volume Medicaid providers. A high volume Medicaid provider is a hospital that had AHCCCS-covered inpatient days during the fiscal year beginning October 1, 2015 equal to at least four hundred percent of the statewide average number of AHCCCS-covered inpatient days at all hospitals, and had a Medicaid utilization rate greater than 30% as reported in the hospital's Medicare Cost Report for the hospital's cost reporting period ending between January 1, 2016 and December 31, 2016, and received less than \$2 million in add-on payment for outliers for the fiscal year beginning October 1, 2015. These calculations include both Fee-For-Service and Managed Care Organization data. Secondly, and in addition to the provider policy adjustor if it applies, Effective June 1, 2025 AHCCCS will apply one of nine service policy adjustors where the claim meets certain conditions. The nine service policy adjustors, the conditions to which they apply, and the adjustment values are described below:

1. Normal newborn DRG codes:
 - For dates of Service beginning June 1, 2025, and ending March 31, 2026: 1.72 ;
 - For dates of Service beginning April 1, 2026: 1.73
2. Neonates DRG codes: 1.10
3. Obstetrics DRG codes: 1.55
4. Psychiatric DRG codes: 1.65
5. Rehabilitation DRG codes: 1.65
6. Burns DRG codes: 4.00
7. Claims for patients under age 19 assigned DRG codes other than those described in items 1 through 6 above and with severity of illness level 1 or 2: 1.25
8. Claims for patients under age 19 assigned DRG codes other than those described in items 1 through 6 above and with severity of illness level 3 or 4: 2.40
9. All Other Adjustor: 1.025