

October 8, 2019

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

The Honorable Karen Fann
Arizona State Senate
1700 W. Washington
Phoenix, AZ 85007

The Honorable Russell Bowers
Arizona House of Representatives
1700 W. Washington
Phoenix, AZ 85007

The Honorable Nancy Barto
Arizona House of Representatives
1700 W. Washington
Phoenix, AZ 85007

The Honorable Kate Brophy McGee
Arizona State Senate
1700 W. Washington
Phoenix, AZ 85007

Dear Governor Ducey, President Fann, Speaker Bowers, Representative Barto, and Senator Brophy McGee:

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 annually updated the cost-to-charge ratios that form a part of the outlier add-on calculation. The phase-in of the new reimbursement method was completed on September 30, 2017. The transition was occasioned by no major issues.

Since implementation, the administration has also increased one of the policy adjustors on three occasions to recognize the relative cost of high-acuity pediatric cases. Another policy adjustor has been increased once to recognize the high cost of burn services and will be increased a second time on October 1, 2019.

The administration performed its first rebase of the APR-DRG payment system effective for dates of discharge on and after January 1, 2018 which included updating the APR-DRG Grouper from version 31 to version 34. 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. AHCCCS will need to periodically update the APR-DRG version and contract with a consulting firm to ensure that updates are accompanied by an appropriate rebase in order for the administration to implement a program within the available appropriation.

Below are operational issues raised by hospitals in the previous year, together with the agency's response.

| Issue | Resolution |
|---|--|
| Prior to the transition to AHCCCS Complete Care on 10/01/18, services paid for by Regional Behavioral Health Authorities (RBHAs) provided at DRG hospitals were reimbursed off of the behavioral health inpatient fee schedule. This rate was higher than what hospitals would typically receive if they had been reimbursed using the APR-DRG fee schedule. With the 10/01 transition, most AHCCCS members are no longer receiving behavioral health services from a RBHA. | The administration changed the policy to allow inpatient claims not covered by a RBHA with a principal diagnosis of behavioral health to be paid for as an administrative day. Claims paid under this circumstance are paid at the same or a greater rate than if they were covered by a RBHA. |

Please feel free to contact Amy Upston, Hospital Finance Administrator, at (602) 417-4146 or via email at Amy.Upston@azahcccs.gov, if you have questions about this report or about the Inpatient Hospital APR-DRG reimbursement system.

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Sincerely,

A handwritten signature in black ink, appearing to read "Jami Snyder". The signature is fluid and cursive, with the first name "Jami" and last name "Snyder" clearly distinguishable.

Jami Snyder
Director

cc: Christina Corieri, Senior Policy Advisor, Arizona Governor's Office
Matthew Gress, Director, Governor's Office of Strategic Planning and Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee