

## **Table of Contents**

**State/Territory Name: Hawaii**

**State Plan Amendment (SPA) #: 21-0011**

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 AND HUMAN SERVICES  
Centers for Medicare & Medicaid Services  
7500 Security Boulevard, Mail Stop S2-26-12  
Baltimore, MD 21244-1850



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**Financial Management Group**

November 15, 2021

Judy Mohr Peterson, PhD  
Med-QUEST Division Administrator  
Office of the Director  
Department of Human Services  
P.O. Box 339  
Honolulu, HI 96809-0339

RE: Hawaii State Plan Amendment (SPA) 21-0011

Dear Dr. Peterson:

We have reviewed the proposed amendment to Attachment 4.19-A of your Medicaid State plan submitted under transmittal number 21-0011. Effective July 1, 2022, this amendment changes the payment methodology for inpatient acute services to the All Patients Refined Diagnosis Related Groups (APR DRG) prospective payment system.

We conducted our review of your submittal according to the statutory requirements at sections 1902(a)(2), 1902(a)(13), 1902(a)(30), 1903(a), and 1923 of the Social Security Act and the implementing Federal regulations at 42 CFR 447 Subpart C. This is to inform you that Medicaid State plan amendment 21-0011 is approved effective July 1, 2022. The CMS-179 and the amended plan page(s) are attached.

If you have any additional questions or need further assistance, please contact Mark Wong at (415) 744-3561 or [mark.wong@cms.hhs.gov](mailto:mark.wong@cms.hhs.gov).

Sincerely,

A solid black rectangular box redacting the signature of the sender.

For  
Rory Howe  
Director

Enclosures

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

1. TRANSMITTAL NUMBER

2 1 — 0011

2. STATE

**Hawaii**

3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL SECURITY ACT (MEDICAID)

TO: REGIONAL ADMINISTRATOR  
CENTERS FOR MEDICARE & MEDICAID SERVICES  
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE

~~January 1, 2022~~ **July 1, 2022**

5. TYPE OF PLAN MATERIAL (*Check One*)

NEW STATE PLAN

AMENDMENT TO BE CONSIDERED AS NEW PLAN

AMENDMENT

COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (*Separate transmittal for each amendment*)

6. FEDERAL STATUTE/REGULATION CITATION

~~42 CFR § 412.60~~ **42 CFR 447 Subpart C**

7. FEDERAL BUDGET IMPACT

a. FFY <sup>2022</sup> \$ ~~253,564~~ **86,029**

b. FFY <sup>2023</sup> \$ ~~353,024~~ **362,158**

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT

Attachment 4.19-A, ~~pg 1-1.5, 2-2.1, 3.1, 4~~

**pages 1, 1.1, 1.2, 1.3, 1.4, 1.5, 1.6, 2, 3, 3.1**

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT (*If Applicable*)

Attachment 4.19-A, ~~pg 1-1.5, 2-2.1, 3.1, 4~~

**pages 1, 2, 3, 3.1**

10. SUBJECT OF AMENDMENT

APR-DRG

This SPA implements a new inpatient reimbursement model under a (APR-DRG) based payment for Hawaii Quest-Integration.

11. 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

12. SIGNATURE OF STATE AGENCY OFFICIAL

13. TYPED NAME

Judy Mohr Peterson, PhD

14. TITLE

Med-QUEST Division Administrator

15. DATE SUBMITTED

06/01/2021

16. RETURN TO

State of Hawaii

Department of Human Services

Office of the Director

P.O. Box 339

Honolulu, Hawaii 96809-0339

**FOR REGIONAL OFFICE USE ONLY**

17. DATE RECEIVED

**June 1, 2021**

18. DATE APPROVED

**November 15, 2021**

**PLAN APPROVED - ONE COPY ATTACHED**

19. EFFECTIVE DATE OF APPROVED MATERIAL

**July 1, 2022**

20. SIGNATURE OF REGIONAL OFFICIAL

For

21. TYPED NAME

**Rory Howe**

22. TITLE

**Director, Financial Management Group**

23. REMARKS

**Pen-and-ink changes made to Boxes 4, 6, 7, 8, and 9 by CMS with state concurrence.**

STATE OF HAWAII  
METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES  
PROSPECTIVE REIMBURSEMENT SYSTEM FOR INPATIENT SERVICES

I. GENERAL PROVISIONS

A. PURPOSE

This plan establishes a reimbursement system for inpatient facilities which complies with the Code of Federal Regulations. It describes principles to be followed by Title XIX acute care providers in making financial reports and presents the necessary procedures for setting rates, making adjustments, and auditing the cost reports.

B. OBJECTIVE

The objective of this plan is to establish a prospective payment system that complies with the Balanced Budget Act of 1997, which requires that reimbursements be in conformity with the applicable State and Federal laws, regulations; quality and safety standards; and provide for cost reimbursement for inpatient acute care services in Critical Access Hospitals (CAH).

C. REIMBURSEMENT PRINCIPLES

1. For dates of admission on or after July 1, 2022, the Hawaii Medicaid Program shall reimburse in-state general acute hospitals and children's hospitals for inpatient hospital services, excluding transplant services, based on prospective payment rates under an All Patient Refined Diagnosis Related Group (APR DRG) reimbursement methodology.

The Prospective payment rate shall include all services provided in an acute inpatient setting except:

- a. Professional component, including physician services or any other professional fees excluded under Part A Medicare.
- b. Ambulance; and
- c. Durable medical equipment (except for implanted devices) that the patient takes home after he or she is discharged.

Each claim for an inpatient hospital admission will be assigned a DRG code and a corresponding DRG relative weight based on the APR DRG classification system established. The APR DRG assignment will reflect adjustments for Health Care Acquired Conditions (HCACs) in the APR DRG software. The APR DRG payment is determined by multiplying the DRG base rate by the DRG relative weight and the applicable policy adjuster, with the applicable transfer adjustment, plus the applicable outlier payment.

A hospital will not be reimbursed separately for outpatient diagnostic services and admission-related outpatient non-diagnostic services provided to a patient within a three day window of an inpatient admission ("preadmission services"). A hospital will also not be reimbursed separately for changes to lower levels of care prior to patient discharge from the hospital ("waitlisted days"). Covered charges for preadmission services and waitlisted days will be included in the inpatient claim for outlier payment purposes (described in Section I.C.1.f).

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TN No. 21-0011  
Supersedes TN No. 00-008 Approval Date: 11/15/2021 Effective Date: 07/01/22

a. DRG Relative Weights

The APR DRG methodology classifies inpatient admissions into categories based on similar clinical conditions and similar levels of hospital resources required for treatment. The categories are identified using APR DRGs and Severity of Illness (SOI) levels, each of which is assigned a relative weight appropriate to the relative amount of hospital resources expected to be used to treat the patient. Each claim is assigned to a DRG primarily based on the patient's diagnoses, surgical procedures performed, age, sex, birth weight, and discharge status. A claim for an inpatient hospital admission will be assigned the DRG code derived from excluding diagnosis codes associated with HCACs or other provider-preventable conditions listed in Att. 4.19-A, page 3.1, using the APR DRG grouper software logic.

The DRG relative weights will be based on the APR DRG national "hospital specific relative value" (HSRV) weights published for the associated APR DRG grouper version. MQD will use the version 37.1 APR DRG grouper and national HSRV weights for payments effective July 1, 2022.

MQD will update its APR DRG grouper version and associated national HSRV weights no less than every five years, concurrently with rebasing DRG base rates (described in the next section). When updating its APR DRG grouper version and relative weights, MQD will apply a prospective scaling adjustment to the published national HSRV weights. This scaling adjustment factor will be determined by MQD to result in the same aggregate case mix as the prior APR DRG grouper version used by MQD for payment. Any update to the APR DRG Grouper version and relative weights will be submitted in a future state plan amendment for CMS approval.

The version 37.1 APR DRGs and relative weights effective July 1, 2022 are posted on the MQD website at:  
<https://medquest.hawaii.gov/en/plans-providers/fee-for-service/fee-schedules.html>

b. DRG Base Rates

Hospital DRG base rates are based on statewide standardized amounts, adjusted by applying the hospital's indirect medical education (IME) factor.

The statewide standardized amounts are prospective and differ by hospital class, as follows:

1. Privately owned in-state general acute hospitals and children's hospitals will have a statewide standardized amount modeled to be budget neutral to base period payments in aggregate. Base period payments are based on the reported paid amounts in the SFY 2018 Medicaid inpatient managed care encounter data and fee-for-service paid claims data. The MQD modeling process to determine budget neutral standardized amounts will consider the impacts of all other APR DRG payment parameters described in this section, including policy adjusters, transfer adjustments, and outlier payments.

2. Publicly-owned in-state general acute hospitals will have a statewide standardized amount equal to 55% of the private hospital standardized amount.

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TN No. 21-0011

Supersedes Approval Date: 11/15/2021 Effective Date: 07/01/22

TN No. NEW

MQD will rebase its DRG base rates, including the standardized amounts and IME factors, no less than every five years, concurrently with updating the APR DRG grouper version. When rebasing, MQD will model new DRG standardized amounts modeled to be budget neutral to new base period payments in aggregate using the most recently available mature state fiscal year or calendar year of Medicaid inpatient managed care encounter data and fee-for-service paid claims data. The MQD modeling process to determine rebased DRG base rates will consider the impacts of all other APR DRG payment parameters described in this section, including policy adjusters, transfer adjustments, and outlier payments. Any rebasing to the APR DRG base rates, including the standardized amounts and the IME factors, will be submitted in a future state plan amendment for CMS approval.

Hospital IME factors effective July 1, 2022 are based on the operating IME factors published by CMS in the federal fiscal year (FFY) 2021 Medicare inpatient prospective payment system (IPPS) Final Rule Impact File effective October 1, 2020. IME factors for hospitals that are not included in the Medicare IPPS Final Rule Impact File are based on data from the fiscal year ending 2019 Medicare Cost Report. MQD will rebase the IME factors, no less than every five years, concurrently with updating the statewide standardized amounts, based on the operating IME factors published by CMS in the Medicare IPPS Final Rule Impact File effective October 1<sup>st</sup> in the federal fiscal year ending prior to the start of the effective calendar year, and the most recently available Medicare cost report data for Medicare IPPS-exempt hospitals.

New hospitals reimbursed under the APR DRG methodology will be assigned a DRG base rate with the applicable standardized amount and a hospital IME factor based on the most recently available Medicare IPPS operating IME factor published by CMS as of the hospital Medicaid provider enrollment date.

The statewide standardized amounts, IME factors, and DRG base rates for each hospital effective July 1, 2022 are posted on the MQD website at: <https://medquest.hawaii.gov/en/plans-providers/fee-for-service/fee-schedules.html>

c. Policy Adjusters

MQD will apply policy adjusters to payment amounts when claims meet certain criteria, which are based on specific APR DRG assignments or patient age parameters, to ensure access to quality care to these services. The criteria established for application of these policy adjusters include the following:

1. Neonatal DRGs
2. Well newborn DRGs
3. Maternity DRGs (normal delivery and cesarean section delivery)
4. Psychiatric and alcohol and drug abuse DRGs
5. Trauma DRGs
6. All other pediatric services (patients aged 20 and under)

All other adult services will not be subject to a policy adjuster. Policy adjusters are mutually exclusive, and there will be only a single applicable policy adjuster applied for each inpatient admission.

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TN No. 21-0011

Supersedes Approval Date: 11/15/2021 Effective Date: 07/01/22

TN No. NEW

MQD will rebase its policy adjusters no less than every five years, concurrently with updating the APR DRG grouper version and rebasing APR DRG base rates. When rebasing, MQD will model updated policy adjuster factors for the services described in this section, as needed, to ensure access to quality care to these services. The MQD modeling process to determine rebased policy adjuster factors will consider the impacts of all other APR DRG payment parameters described in this section, including DRG base rates, transfer adjustments, and outlier payments. Any rebasing to the APR DRG policy adjusters will be submitted in a future state plan amendment for CMS approval.

The policy adjuster factors effective July 1, 2022, by APR DRG, are posted on the MQD website at:  
<https://medquest.hawaii.gov/en/plans-providers/fee-for-service/fee-schedules.html>

d. DRG Base Payment

For each hospital admission, the DRG base payment equals the hospital's DRG base rate multiplied by the DRG relative weight and the service's applicable policy adjuster.

e. Transfer Adjustment

The DRG base payment may be subject to transfer adjustments as described in the following paragraphs.

A transfer adjustment to the DRG base payment applies when a patient is transferred from a hospital that is subject to DRG reimbursement to another general acute hospital or Critical Access Hospital. The transferring hospital will be reimbursed the lesser of the full DRG base payment and the DRG transfer adjusted payment. The transfer adjusted payment is equal to the full DRG base payment divided by the DRG geometric mean length of stay for the assigned DRG code, multiplied by the sum of the actual length of stay plus one day. The receiving hospital (for the same patient) will not be impacted by the transfer adjustment unless it transfers the patient to another general acute hospital or Critical Access Hospital.

The DRG geometric mean lengths of stay will be based on the APR DRG HSRV national trimmed geometric mean lengths of stay published for the associated APR DRG grouper version. MQD will use APR DRG grouper version 37.1 and associated national geometric mean lengths of stay for transfer adjustments effective July 1, 2022.

The actual length of stay at the transferring hospital is based on discharge date less admission date, not to be less than 1.

MQD will update its APR DRG national geometric mean lengths of stay no less than every five years, concurrently with updating the APR DRG grouper version. Any update to the APR DRG geometric mean lengths of stay, in determining the transfer adjusted payments, will be submitted in a future state plan amendment for CMS approval.

The DRG national geometric mean lengths of stay effective July 1, 2022 are posted on the MQD website at:  
<https://medquest.hawaii.gov/en/plans-providers/fee-for-service/fee-schedules.html>

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TN No. 21-0011

Supersedes

Approval Date: 11/15/2021 Effective Date: 07/01/22

TN No. NEW

f. Outlier Payment

Cases which are extraordinarily costly in relation to other cases within the same DRG due to the severity of illness or complicating conditions may qualify for an outlier payment in addition to the DRG base payment. A claim will qualify for an outlier payment if the claim cost exceeds the outlier threshold. The claim cost is determined by multiplying the claim covered charges by the hospital's outlier cost-to-charge ratio (CCR). The outlier threshold is equal to the DRG base payment (including transfer adjustments described previously) plus the fixed loss amount.

The outlier CCRs for all hospitals will be determined as follows:

1. For children's hospitals in Hawai`i, the outlier CCR is based on sum of the Medicare IPPS Hawai`i statewide urban default operating and capital outlier CCRs published in the Federal Register Final Rule effective October 1<sup>st</sup> in the year preceding the start of the effective calendar year. Hawai`i children's hospitals outlier CCRs effective July 1, 2022 will be based on the sum of Medicare IPPS Hawai`i statewide urban default operating and capital outlier CCRs published in the FFY 2022 Federal Register Final Rule tables effective October 1, 2021.
2. For in-state general acute hospitals in Hawai`i, the outlier CCR is based on sum of hospital-specific Medicare IPPS operating and capital outlier CCRs published in the Final Rule Impact File effective October 1<sup>st</sup> in the year preceding the start of the effective calendar year. Hawai`i general acute hospital outlier CCRs effective July 1, 2022 will be based on the sum of Medicare IPPS hospital-specific operating and capital outlier CCRs published in the FFY 2022 Final Rule Impact File effective October 1, 2021.

New hospitals reimbursed under the APR DRG methodology will be assigned an outlier CCR based on the sum of the most recently available hospital-specific Medicare IPPS operating and capital outlier CCRs published by CMS as of the hospital Medicaid provider enrollment date. If hospital-specific Medicare IPPS outlier CCRs are not available, the new hospital outlier CCR will be based on the sum of the Medicare IPPS Hawai`i statewide urban default operating and capital outlier CCRs published in the Federal Register Final Rule effective October 1<sup>st</sup> in the year preceding the start of the effective calendar year.

MQD will update the outlier CCRs annually on January 1st each year, and will not adopt any Medicare IPPS outlier CCR updates for the rest of the calendar year.

MQD outlier payment parameters, including the fixed loss amount and marginal cost factors, is modeled to result in outlier payments equal to 10% of total inpatient APR DRG payments. The outlier fixed loss amount effective July 1, 2022 is \$58,000. The MQD modeling process to determine the outlier fixed loss amount will consider the impacts of all other APR DRG payment parameters described in this section, including DRG base payments, transfer adjustments, outlier payments, etc.

Where a claim qualifies for an outlier payment, the outlier payment is calculated by subtracting the outlier threshold from the claim cost and multiplying the result by the marginal cost factor. The marginal cost factor will be based on the APR DRG severity of illness level. The marginal cost factors effective July 1, 2022 will be 75% for claims assigned Severity of Illness levels 1 and 2, and 85% claims assigned Severity of Illness levels 3 and 4.

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TN No. 21-0011

Supersedes Approval Date: 11/15/2021 Effective Date: 07/01/22

TN No. NEW



MQD will prospectively update the outlier fixed loss amount on July 1<sup>st</sup>, 2023 if it determines that annual outlier payments were above 11.0% of total APR DRG payments, to result in modeled outlier payments equal to 10.0% of total statewide modeled inpatient APR DRG payments. For the outlier fixed loss amount effective July 1, 2023, MQD will measure outlier payments using Medicaid inpatient managed care encounter data and fee-for-service claims data paid under APR DRGs from the period July 1, 2022 through December 31, 2022.

MQD will subsequently make prospective updates to the outlier fixed loss amount on January 1<sup>st</sup> each year starting in 2024 through the next rebasing period if it determines that annual outlier payments were above 11.0% of total APR DRG payments, to result in modeled outlier payments equal to 10.0% of total statewide modeled inpatient APR DRG payments. Each year MQD will measure annual outlier payments using Medicaid inpatient managed care encounter data and fee-for-service paid claims data paid under APR DRGs for the 12 month state fiscal year ending 6 months prior to the fixed loss update effective date (for example, for the outlier fixed loss amount effective January 1, 2024, MQD will measure outlier payments using Medicaid inpatient managed care encounter data and fee-for-service claims data from the period July 1, 2022 through June 30, 2023).

Updates to the outlier fixed loss amount will be modeled using the same Medicaid inpatient managed care encounter data and fee-for-service claims data paid under APR DRGs used to measure the outlier payments, and will be posted on the MQD website: <https://medquest.hawaii.gov/en/plans-providers/fee-for-service/fee-schedules.html>

MQD will rebase its outlier payment parameters, including the fixed loss amount and marginal cost factors when updating the APR DRG grouper version and rebasing APR DRG base rates, to result in outlier payments equal to a targeted percentage of total inpatient APR DRG payments. The MQD modeling process will consider the impacts of all other APR DRG payment parameters described in this section, including DRG base payments, transfer adjustments, outlier payments, etc. Any update to the outlier payment parameters as part of this APR-DRG rebasing will be submitted in a future state plan amendment for CMS approval.

Covered charges for preadmission services and waitlisted days will be included in the inpatient claim for outlier payment purposes. Claim covered charges can be subject to retrospective utilization review, and may be adjusted for items such as non-covered services (such as personal care and convenience items), medical necessity of length of stay (for non-waitlisted days), and appropriate level of care among others.

g. DRG Final Payment

The DRG final payment amount is equal to the DRG base payment amount (with applicable transfer adjustment) plus the DRG outlier payment amount.

h. Readmissions

a) An inpatient readmission to the same facility within twenty four (24) hours of discharge for the same spell of illness and for a similar primary diagnosis as the index admission is considered to be the same admission and must be billed as a single stay. When the inpatient readmission occurs at a different hospital from the index admission, both the index admission hospital and the readmission hospital should bill separately, and denial or partial payment adjustments may be made for the index admission at the original hospital based on nationally recognized admission and discharge review criteria. This policy does not apply to patients who leave the original facility against medical advice.

b) Readmission to the same facility within thirty (30) days of a discharge for a similar diagnosis is subject to review by the Department based on nationally recognized admission and discharge review criteria. Based on this review, the DRG payment for a readmission within 30 days may be consolidated with the index admission DRG payment. This policy does not apply to patients who leave the facility during the original admission against medical advice, or for planned readmissions.

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TN No. 21-0011

Supersedes Approval Date: 11/15/2021 Effective Date: 07/01/22

TN No. NEW

i The following definitions shall apply for the purpose of APR-DRG payment methodology.

1. All Patient Refined Diagnosis Related Groups (APR DRGs): Base APR-DRG classifications assigned to inpatient claims based on a variety of factors (including patient diagnosis and surgical procedures, among others) using the APR-DRG Health Information Systems software.
2. DRG geometric mean lengths of stay (GMLOS): factor that represents the GMLOS for each combination of APR DRG and SOI level used for transfer adjustments, based on APR DRG national HSRV trimmed GMLOS amounts published for the APR DRG grouper version used for payment.
3. DRG Relative Weights: factor that represents the average resource requirements and level of acuity for each combination of APR DRG and SOI level used for base DRG payments, based on APR DRG national HSRV weights published for the APR DRG grouper version used for payment.
4. DRG Base Rates: Based on statewide standardized amounts adjusted by applying the hospital's IME factor, used for base DRG payments.
5. DRG Base Payments: For each hospital admission, the DRG base payment equals the hospital's DRG base rate multiplied by the HAC-adjusted DRG relative weight and the service's applicable policy adjuster.
6. Health Care Acquired Condition (HCAC)-Adjusted DRG: APR DRG and SOI assignment derived from excluding diagnosis codes associated with HCACs or other provider-preventable conditions listed in Att. 4.19-A, page 3.1.
7. Indirect Medical Education (IME) factors: based on hospital-specific operating IME factors in the Medicare inpatient prospective payment system (IPPS) published by CMS, used to adjust DRG base rates.
8. Outlier cost: Estimated claim cost for outlier payment purposes, based on claim covered charges multiplied by the hospital outlier CCR.
9. Outlier cost-to-charge ratio (CCR): Based on the Medicare IPPS combined operating and capital outlier CCRs for outlier payment purposes.
10. Outlier threshold: Based on the base DRG payment plus the fixed loss amount, for purposes of determining if a claim qualifies for an outlier payment.
11. Outlier marginal cost factor: Factor based on SOI level that is applied to the claim outlier cost exceeding the outlier threshold, for outlier payment purposes.
12. Outlier Payment: Claim payment add-on, in addition to the base DRG payment, for extraordinarily high cost cases where the claim outlier cost exceeds the claim outlier threshold.
13. Policy Adjusters: Adjusters to base DRG payments when claims meet certain criteria, which are based on specific APR DRG assignments or patient age parameters, to ensure access to quality care to these services.
14. Severity of Illness (SOI) level: SOI level 1 through 4 assigned to inpatient claims based on comorbid conditions and the severity of the underlying illness, using the APR-DRG Health Information Systems software.
15. Transfer Adjustment: Adjustment to the DRG base payment when a patient is transferred from a hospital that is subject to DRG reimbursement to another general acute hospital or Critical Access Hospital, equal to the full DRG base payment divided by the DRG geometric mean length of stay for the assigned DRG code, multiplied by the sum of the actual length of stay plus one day (not to exceed the full DRG base payment).

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TN No. 21-0011

Supersedes Approval Date: 11/15/2021 Effective Date: 07/01/22

TN No. NEW 1.6

2. The Hawaii Medicaid Program shall reimburse all in-state freestanding psychiatric and rehabilitation providers for inpatient hospital services based primarily on the prospective per diem payment rates developed for each facility as determined in accordance with this Plan, except for CAH. In addition, certain costs (Such as Capital Related Costs) shall be reimbursed separately. The estimated average proposed payment rate under this plan is reasonably expected to pay not more in the aggregate for inpatient hospital services than the amount that the Department reasonably estimates would be paid for those services under Medicare principles of reimbursement.
3. A hospital -specific retrospective settlement adjustment shall be made for those providers whose Medicaid charges are less than Medicaid payments on the cost report and do not qualify as nominal charge providers under Medicare principles of reimbursement.
4. Prospective rates shall be derived from historical facility costs, and facilities shall be classified based on discharge volume and participation in an approved Medical Education program.
5. Providers that average fewer than 250 Medicaid discharges per year shall be classified as Classification I facilities and shall receive All-Inclusive Rates plus all appropriate Adjustments (Section I.D.3.). Capital Related Costs shall be reimbursed separately from the All-Inclusive Rates.
6. Providers which average 250 Medicaid discharges or more per year shall be separated into two facility classifications (Classifications II and III) and shall receive payment based upon the type of services required by the patient. Psychiatric services will be paid an All-Inclusive Rate, plus all appropriate Adjustments (Section I.D.3.). Nonpsychiatric claims will be designated as requiring either surgical, medical, or maternity care and will be paid on the basis of a routine per diem rate for the service type plus an ancillary per discharge rate for the service type, plus all appropriate Adjustments, (Section I.D.3.). Capital Related Costs shall be reimbursed separately from the per diem and per discharge rates.
7. The freestanding rehabilitation hospital shall be excluded from Classifications I, II, and III, shall be designated as Classification IV, and will be paid an All-Inclusive Rate, plus all appropriate Adjustments, (Section I.D.3.). Capital Related Costs shall be reimbursed separately from the per diem and per discharge rates.

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TN No. 21-0011

Supersedes

TN No. 94-006

Approval Date: 11/15/2021 Effective Date: 07/01/22

8. Claims for payment shall be submitted following discharge of a patient, except as follows:
  - a. Claims for nonpsychiatric inpatient stays which exceed the Outlier Threshold (Section I.D.34.), shall be submitted in accordance with Section IV.D.
  - b. If a patient is hospitalized in the freestanding rehabilitation hospital for more than 30 days, the facility may submit an interim claim for payment every 30 days until discharge. The final claim for payment shall cover services rendered on all days not previously included in an interim claim.
9. The prospective payment rates shall be paid in full for each Medicaid discharge. Hospitals may not separately bill the patient or the Medicaid program for medical services rendered during an inpatient stay, except for outlier payments and as provided in Section I.E. below.
10. At the point that a patient reaches the Outlier Threshold (Section I.D.34.), the facility is eligible for interim payments computed pursuant to Section IV. D.
11. Reimbursement for inpatient services provided by CAH facilities will be on a reasonable cost basis under Medicare principles of reimbursement without application of any Medicaid Tax Equity and Fiscal Responsibility Act (TEFRA) target amounts. Outpatient, waitlisted and acute swing to continue to be reimbursed under the current method.
12. Reimbursement for services related to organ transplants will be made by a contractor selected by the State. The contractor will also be responsible to coordinate and manage transplant services. Reimbursement of services related to organ transplants will be approved by the State. The negotiated care rate will not exceed Medicare or prevailing regional market rates.

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TN No. 21-0011  
Supersedes TN No. 03-005 Approval Date: 11/15/2021 Effective Date: 07/01/22

Citation: 42 CFR 434, 438 and 447; and Social Security Act 1902(a)(4), 1901(a)(4), 1902(a)(6), and 1903

Payment Adjustment for Provider Preventable Conditions.

The Medicaid agency meets the requirements of 42 CFR Part 447, Subpart A, and sections 1902(a)(4), 1902(a)(6), and 1903 with respect to non-payment for provider-preventable conditions.

Health Care-Acquired Conditions.

The State identifies the following Other Provider-Preventable Conditions for non-payment under section 4.19-A.

Hospital-Conditions as identified by Medicare other than Deep Vein Thrombosis (DVT)/Pulmonary Embolism (PE) following total knee replacement or hip replacement surgery in pediatric and obstetric patients.

Other Provider-Preventable Conditions.

The State identifies the following Other Provider-Preventable Conditions for non-payment under section 4.19-A.

Wrong surgical or other invasive procedure performed on a patient; surgical or other invasive procedure performed on the wrong body part; surgical or other invasive procedure performed on the wrong patient.

Additional Other Provider-Preventable Conditions identified below of the plan:

Adjustment of inpatient hospital reimbursement to account for non-payment of HCACs and OPPCs.

In accordance with 42 CFR 447.26(c), no reduction in payment for a Provider Preventable Condition (PPC) will be imposed on a provider when the condition defined as a PPC for a particular patient existed prior to the initiation of treatment that patient by that provider. Reductions in provider payment are limited to the extent that the State can reasonably isolate for non-payment, the portion of the payment directly related to treatment for, and related to, the PPC that would otherwise result in an increase in payment.

Hospitals will use the Present on Admission indicator to identify whether an identified HCAC or OPPC was present on admission or hospital acquired. For hospitals reimburse on a per diem basis, such claims will be reviewed to determine whether the HCAC or OPPC resulted in a longer length of stay or increased acuity that can be directly and independently attributable to the HCAC or OPPC. For hospitals reimbursed on an APR DRG[~~+~~] basis, the APR DRG and SOI level assignment will be based on the Medicare HCAC adjusted classifications under the APR DRG software logic, and payment will not include additional payment for the HCAC or OPPC that was not present on admission.

Lastly, in accordance with 42 CFR 447.26(c)(5), non-payment for OPPCs shall not prevent access to medically necessary covered services for Medicaid recipients.

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TN No. 21-0011

Supersedes

Approval Date: 11/15/2021 Effective Date: 07/01/2022

TN No. 12-006