

METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES -  
INPATIENT HOSPITAL SERVICES

Revised: January 1, 2007

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1. Inpatient Hospital Services

The State has in place a public process, which complies with the requirements of Section 1902(a)(13)(A) of the Social Security Act.

In accordance with Section 1902(s) of the Social Security Act, we do not impose dollar limits on any inpatient hospital services for children under age one (or children that are hospitalized on their first birthday). This includes the \$850.00 per diem cost limit, the TEFRA rate of increase limit, the customary charge upper limit or the \$150,000 bone marrow transplant limit. This applies to all inpatient hospitals.

Effective for claims with dates of service on or after **January 1, 2007**, all acute care hospitals with the exception of Pediatric Hospitals, **Border City University-Affiliated Pediatric Teaching Hospitals**, Arkansas State Operated Teaching Hospitals, Rehabilitative Hospitals, Inpatient Psychiatric Hospitals, Out-Of-State Hospitals and Critical Access Hospitals will be reimbursed based on reasonable cost with interim per diem rates and year-end cost settlements, with a cost limit of \$850 per day.

Arkansas Medicaid will use the lesser of cost or charges or the \$850 per diem cost limit multiplied by total hospital Medicaid days to establish cost settlements. Except for malpractice insurance, graduate medical education costs and the base period for determining the TEFRA target limits, the interim per diem rates and the cost settlements are calculated in a manner consistent with the method used by the Medicare Program. The definition of allowable costs to be used is as follows:

- (a) The State will use the Medicare allowable costs as stated in the HIM-15/PRM-15.

The State will use the criteria referenced in 42 CFR, Section 413.89(e) - Criteria for allowable bad debt, to determine allowable bad debt.

- (b) Physicians/Administrative/Teachers will be included in costs as recognized by Medicare reimbursement principles.

At cost settlement, Arkansas Medicaid will limit reimbursement to the lowest of the following:

- (a) Allowable costs after application of the TEFRA rate of increase limit. The TEFRA rate of increase limit is the hospital's TEFRA target rate multiplied by its total number of Medicaid discharges.

Effective for cost reporting periods ending on or after June 30, 2000, the TEFRA rate of increase limit will no longer be applied to Arkansas State Operated Teaching Hospitals.

- (b) The hospital's customary charges to the general public for the services. (This will be applied on an annual basis at cost settlement.)

- (c) A maximum limit per Medicaid days. The maximum limit is the total number of Medicaid inpatient days during the cost reporting period multiplied by the \$850.00 per diem cost limit.

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1. Inpatient Hospital Services (Continued)

Pediatric Hospitals (Continued)

Refer to Attachment 4.19-A, Page 3, 3a **and 3b**, for the reimbursement methodology for transplant services.

Arkansas' method of reimbursing malpractice insurance for pediatric hospitals will be a simple calculation made outside the cost report and the result added back on to the Medicaid settlement page of the report. The calculation would apply a Medicaid utilization factor based on cost to the portion of total malpractice expense (91.5%) which is reimbursed for Medicare on worksheet D-8 of the cost report. The remaining 8.5% remains on worksheet A of the cost report and flows through to be reimbursed like any other administrative cost. The final result would be to reimburse malpractice for Medicaid as though all malpractice expense remained on worksheet A and simply flowed through the cost report.

Direct medical education costs, including graduate medical education costs, are reimbursed based on Medicare reasonable cost rules in effect prior to the effective date of the September 29, 1989 rule.

**Border City University-Affiliated Pediatric Teaching Hospitals**

**Special consideration is given to border city university-affiliated pediatric teaching hospitals due to the higher costs typically associated with such hospitals. Arkansas Medicaid cost-settles with enrolled Medicaid providers for inpatient services provided to patients age 1 to 21 by border city university-affiliated pediatric teaching hospitals on a per diem basis. The per diem is the provider's actual allowable Medicaid per diem cost for all the inpatient Medicaid days for persons over age one that were furnished by the enrolled provider within the most recent completed cost reporting period. As a condition of the cost settlement, the provider shall certify the number of patient days for patients age 1 to 21 provided by the border city university-affiliated pediatric teaching hospital during the cost settlement period.**

**A border city university-affiliated pediatric teaching hospital is defined as a hospital located within a bordering city (see Attachment 4.19-A page 3b) that submits to the Arkansas Medicaid Program a copy of a current and effective affiliation agreement with an accredited university, and documentation establishing that the hospital is university-affiliated, is licensed and designated as a pediatric hospital or pediatric primary hospital within its home state, maintains at least five different intern pediatric specialty training programs, and maintains at least one-hundred (100) operated beds dedicated exclusively for the treatment of patients under the age of 21.**

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1. Inpatient Hospital Services (Continued)

Limited Acute Care Hospital Inpatient Quality Incentive Payment

Effective for claims with dates of service on or after **January 1, 2007**, all acute care hospitals with the exception of Pediatric Hospitals, **Border City University-Affiliated Pediatric Teaching Hospitals**, Arkansas State Operated Teaching Hospitals, Rehabilitative Hospitals, Inpatient Psychiatric Hospitals, Critical Access Hospitals, and Out-of-State Hospitals may qualify for an Inpatient Quality Incentive Payment. The Inpatient Quality Incentive Payment shall be a per diem amount reimbursed in addition to the hospital's cost-based interim per diem rate and shall be payable for beneficiaries ages 1 and above only (does not include children hospitalized on their first birthday). The Inpatient Quality Incentive Payment shall equal \$50 or 5.9% of the interim per diem rate, whichever is lower. The Inpatient Quality Incentive Payment reimbursement amounts shall not be included when calculating hospital year-end cost settlements.

The State Agency will determine which quality measures will be designated for the Inpatient Quality Incentive Payment for the upcoming year and the required compliance rate for each measure. The State Agency will utilize quality measures which are reported by hospitals under the Medicare program. In order to qualify for an Inpatient Quality Incentive Payment, a hospital must meet or exceed the compliance rate on two-thirds of the designated quality measures designated by the State Agency for the most recently completed reporting period. A hospital that meets or exceeds the compliance rate on two-thirds of the designated quality measures shall receive an Inpatient Quality Incentive Payment for that year.

Private Hospital Inpatient Adjustment

Effective April 19, 2001, all Arkansas private acute care and critical access hospitals (that is, all acute care and critical access hospitals within the state of Arkansas that are neither owned nor operated by state or local government), with the exception of private pediatric hospitals, shall qualify for a private hospital inpatient rate adjustment. Effective August 1, 2002, all Arkansas private inpatient psychiatric and rehabilitative hospitals (that is, all inpatient psychiatric and rehabilitative hospitals within the state of Arkansas that are neither owned nor operated by state or local government) shall qualify for a private hospital inpatient rate adjustment. The adjustment shall be equal to each eligible hospital's pro rata share of a funding pool, based on the hospital's Medicaid discharges. The adjustment shall be calculated as follows:

1. The amount of the funding pool shall be \$24,200,000 for State Fiscal Year (SFY) 2007 and \$25,200,000 for SFY 2008.
2. For each private hospital eligible for the adjustment, Arkansas shall determine the number of Medicaid discharges for the hospital for the most recent audited fiscal year.

For hospitals who, for the most recently audited cost report year filed a partial year cost report, such partial year cost report data shall be annualized to determine their rate adjustment; provided that such hospital was licensed and providing services throughout the entire cost report year. Hospitals with partial year cost reports who were not licensed and providing services throughout the entire cost report year shall receive pro-rated adjustments based on the partial year data.



# Arkansas Department of Health and Human Services

## Division of Medical Services



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**TO:** Arkansas Medicaid Health Care Providers – Hospital/Critical Access Hospital (CAH)/End Stage Renal Disease (ESRD)

**DATE:** July 1, 2007

**SUBJECT:** Provider Manual Update Transmittal #117

| <u>REMOVE</u> |        | <u>INSERT</u> |        |
|---------------|--------|---------------|--------|
| Section       | Date   | Section       | Date   |
| 250.230       | 7-1-06 | 250.230       | 7-1-07 |
| 250.240       | 7-1-06 | 250.240       | 7-1-07 |
| —             | —      | 251.010       | 7-1-07 |

**Explanation of Updates**

Section 250.230: This section is revised to add “Border city, University-affiliated, Pediatric Teaching Hospitals” to the list of hospital class groups and services that are exempt from the Arkansas Title XIX State Plan’s daily upper limit to inpatient hospital reimbursement.

Section 250.240: This section now includes the rule that “Border city, University-affiliated, Pediatric Teaching Hospitals” do not qualify for an IQIP, effective for claims with dates of service on and after January 1, 2007.

Section 251.010: This section defines “Border city, University-affiliated, Pediatric Teaching Hospitals” and describes per diem and cost-settlement arrangements for the class group.

Paper versions of this update transmittal have updated pages attached to file in your provider manual. See Section I for instructions on updating the paper version of the manual. For electronic versions, these changes have already been incorporated.

If you need this material in an alternative format, such as large print, please contact our Americans with Disabilities Act Coordinator at (501) 682-6789 (TDD only).

If you have questions regarding this transmittal, please contact the EDS Provider Assistance Center at 1-800-457-4454 (Toll-Free) within Arkansas or locally and Out-of-State at (501) 376-2211.

Arkansas Medicaid provider manuals (including update transmittals), official notices and remittance advice (RA) messages are available for downloading from the Arkansas Medicaid website: [www.medicaid.state.ar.us](http://www.medicaid.state.ar.us).

Thank you for your participation in the Arkansas Medicaid Program.

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Roy Jeffus, Director

**TOC required****250.230 Daily Upper Limit****7-1-07**

A daily upper limit to inpatient hospital reimbursement is established in the Title XIX State Plan.

- A. A daily upper limit amount of \$675.00 is effective for dates of service April 1, 1996 through June 30, 2006. The \$675.00 daily upper limit for this period represents the 90th percentile of the cost-based per diems (per the cost settlements of their fiscal year-end 1994 cost reports) of all hospitals subject to the Arkansas Medicaid daily upper limit at the time of the computation.
- B. For dates of service July 1, 2006 and after, DMS will review the hospital cost report data at least biennially and adjust the daily upper limit reimbursement amount if necessary.
- C. A daily upper limit amount of \$850.00 is effective for dates of service on and after January 1, 2007.
- D. The daily upper limit does not apply to the following.
  1. Pediatric hospitals
  2. Arkansas State Operated Teaching Hospitals, effective for cost reporting periods ending on or after June 30, 2000
  3. Border City, University-affiliated, Pediatric Teaching hospitals
  4. Inpatient services for children under the age of 1
  5. Inpatient services for children, from their first birthday until their discharge date, who were admitted on or before their first birthday and were discharged after their first birthday
- E. The daily upper limit is determined as follows.
  1. The aggregate daily upper limit amount is calculated by multiplying the cost-reporting period's Medicaid-covered days (in all affected hospitals) by the daily upper limit amount in force at the time.
  2. The aggregate daily upper limit amount is compared to the amount carried forward from the comparison of TEFRA-limited costs or charges.
  3. The lesser of those two amounts becomes the new aggregate daily upper limit amount, subject to any additional payments or adjustments that may apply, such as direct graduate medical education (GME) costs or disproportionate share hospital (DSH) payments.
  4. Effective for dates of service on or after July 1, 2006, Medicaid will review hospital cost report data at least biennially, in accordance with the methodology described above in subparts 1. 2. and 3 and adjust the daily upper limit amount if necessary.

**250.240 Limited Acute Care Hospital Inpatient Quality Incentive Payment****7-1-07**

- A. Effective for claims with dates of service on or after July 1, 2006, all acute care hospitals with the exception of pediatric hospitals, Arkansas State operated teaching hospitals, rehabilitative hospitals, inpatient psychiatric hospitals, critical access hospitals, and out-of-state hospitals (in both bordering and non-bordering states) may qualify for an Inpatient Quality Incentive Payment (IQIP).
- B. Effective for claims with dates of service on and after January 1, 2007, Border City, University-Affiliated Pediatric Teaching Hospitals do not qualify for an Inpatient Quality Incentive Payment.

1. An IQIP is a per diem-based payment in addition to the hospital's cost-based interim per diem.
  2. A qualifying hospital's IQIP is the lesser of \$50 (per Medicaid-covered day during the subject cost-reporting period) or 5.8% (also per Medicaid-covered day) of the hospital's interim per diem.
- C.** Annually, Arkansas Medicaid will designate the quality measures to be reported and will establish a required compliance rate for each measure.
1. To the extent practicable, Medicaid will attempt to choose the quality measures that hospitals report to the Title XVIII (Medicare) Program.
  2. To qualify for an IQIP, a hospital must meet or exceed Medicaid's required compliance rate on two-thirds (66.7%) of Arkansas Medicaid's designated quality measures for the most recently completed reporting period.
  3. A hospital that meets or exceeds the compliance rate on 66.7% of a reporting period's specified quality measures will receive an IQIP for that year.

**251.010****Border City, University-Affiliated, Pediatric Teaching Hospitals**

7-1-07

Special consideration is given to border city, university-affiliated, pediatric teaching hospitals because of the higher costs typically associated with such hospitals.

- A.** A Border City, University-affiliated, Pediatric Teaching Hospital is an Arkansas Medicaid-enrolled acute care/general hospital located within a bordering city (see Attachment 4.19-A page 3b), that complies with all of the following requirements.
1. The provider submits and maintains (in its Arkansas Medicaid Program provider file) a copy of the current and effective affiliation agreement with an accredited university, as well as any additional documentation necessary to further establish that the hospital is university-affiliated.
  2. The provider is licensed and credentialed as a pediatric hospital or a pediatric primary hospital in its home state.
  3. The provider maintains at least five different, pediatric specialty, intern training programs.
  4. The provider maintains and operates at least one hundred (100) beds dedicated exclusively to the care and treatment of patients under the age of 21.
- B.** Arkansas Medicaid cost settles on a per diem basis with Border city, University-affiliated, Pediatric Teaching hospitals, for inpatient services the hospitals provide to Arkansas Medicaid beneficiaries aged 1 to 21, inclusive.
1. The Arkansas Medicaid per diem of this type hospital comprises all Medicaid-allowable per diem costs that it incurred, within its most recent *completed* cost reporting period, for the aggregated inpatient days of Arkansas Medicaid beneficiaries older than one year.
  2. A condition of this cost settlement arrangement is that the provider shall certify the number of patient days that it provided to patients aged 1 to 21, inclusive, during the cost settlement period.