**Agency:** Health Care Authority

- Original Notice
- Continuance of WSR _____
- Supplemental Notice to WSR _____
- Preproposal Statement of Inquiry was filed as WSR 21-15-015; or
- Expedited Rule Making--Proposed notice was filed as WSR _____; or
- Proposal is exempt under RCW 34.05.310(4) or 34.05.330(1); or
- Proposal is exempt under RCW ______.

**Title of rule and other identifying information:** (describe subject) WAC 182-550-4800 Hospital payment methods – State administered programs

**Hearing location(s):**

<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Location (be specific)</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 26, 2021</td>
<td>10:00 AM</td>
<td>The Health Care Authority (HCA) remains closed in response to the coronavirus disease 2019 (COVID-19) public health emergency. Until further notice, HCA continues to hold public hearings virtually without a physical meeting place. This promotes social distancing and the safety of the residents of Washington State.</td>
<td>To attend the virtual public hearing, you must register in advance for this public hearing: <a href="https://zoom.us/webinar/register/WN_Ig_1_lBzQ0Oa2h_0Y6Ak0w">https://zoom.us/webinar/register/WN_Ig_1_lBzQ0Oa2h_0Y6Ak0w</a> After registering, you will receive a confirmation email containing information about joining the public hearing.</td>
</tr>
</tbody>
</table>

**Date of intended adoption:** Not sooner than October 27, 2021 (Note: This is NOT the effective date)

**Submit written comments to:**

Name: HCA Rules Coordinator  
Address: PO Box 42716, Olympia WA 98504-2716  
Email: arc@hca.wa.gov  
Fax: (360) 586-9727  
Other:  
By (date) October 26, 2021

**Assistance for persons with disabilities:**

Contact Amber Lougheed  
Phone: (360) 725-1349  
Fax: (360) 586-9727  
TTY: Telecommunication Relay Services (TRS): 711  
Email: amber.lougheed@hca.wa.gov  
Other:  
By (date) October 8, 2021
**Purpose of the proposal and its anticipated effects, including any changes in existing rules:** The agency is amending these rules to update the grouper from AP DRG to APR DRG and remove references to version 23.

**Reasons supporting proposal:** See Purpose

**Statutory authority for adoption:** RCW 41.05.021, 41.05.160

**Statute being implemented:** RCW 41.05.021, 41.05.160

<table>
<thead>
<tr>
<th><strong>Is rule necessary because of a:</strong></th>
<th>☐ Yes ☒ No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Law?</td>
<td></td>
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<tr>
<td>Federal Court Decision?</td>
<td>☐ Yes ☒ No</td>
</tr>
<tr>
<td>State Court Decision?</td>
<td>☐ Yes ☒ No</td>
</tr>
</tbody>
</table>

If yes, CITATION:

**Agency comments or recommendations, if any, as to statutory language, implementation, enforcement, and fiscal matters:** N/A

**Name of proponent:** (person or organization) Health Care Authority

**Name of agency personnel responsible for:**

<table>
<thead>
<tr>
<th>Name</th>
<th>Office Location</th>
<th>Phone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drafting</td>
<td>Valerie Freudenstein</td>
<td>PO Box 42716, Olympia WA 98504-2716</td>
</tr>
<tr>
<td>Implementation</td>
<td>Melissa Craig</td>
<td>PO Box 55687, Olympia, WA 98504-5687</td>
</tr>
<tr>
<td>Enforcement</td>
<td>Melissa Craig</td>
<td>PO Box 55687, Olympia, WA 98504-5687</td>
</tr>
</tbody>
</table>

**Is a school district fiscal impact statement required under RCW 28A.305.135?** ☐ Yes ☒ No

If yes, insert statement here:

The public may obtain a copy of the school district fiscal impact statement by contacting:

Name:
Address:
Phone:
Fax:
TTY:
Email:
Other:

**Is a cost-benefit analysis required under RCW 34.05.328?**

☐ Yes: A preliminary cost-benefit analysis may be obtained by contacting:

Name:
Address:
Phone:
Fax:
RCW 34.05.328 does not apply to Health Care Authority rules unless requested by the Joint Administrative Rules Review Committee or applied voluntarily.

### Regulatory Fairness Act Cost Considerations for a Small Business Economic Impact Statement:

This rule proposal, or portions of the proposal, may be exempt from requirements of the Regulatory Fairness Act (see chapter 19.85 RCW). Please check the box for any applicable exemption(s):

- ☐ This rule proposal, or portions of the proposal, is exempt under RCW 19.85.061 because this rule making is being adopted solely to conform and/or comply with federal statute or regulations. Please cite the specific federal statute or regulation this rule is being adopted to conform or comply with, and describe the consequences to the state if the rule is not adopted.

  **Citation and description:**
  - ☐ This rule proposal, or portions of the proposal, is exempt because the agency has completed the pilot rule process defined by RCW 34.05.313 before filing the notice of this proposed rule.
  - ☐ This rule proposal, or portions of the proposal, is exempt under the provisions of RCW 15.65.570(2) because it was adopted by a referendum.
  - ☐ This rule proposal, or portions of the proposal, is exempt under RCW 19.85.025(3). Check all that apply:
    - ☐ RCW 34.05.310 (4)(b) (Internal government operations)
    - ☐ RCW 34.05.310 (4)(c) (Incorporation by reference)
    - ☐ RCW 34.05.310 (4)(d) (Correct or clarify language)
    - ☐ RCW 34.05.310 (4)(e) (Dictated by statute)
    - ☐ RCW 34.05.310 (4)(f) (Set or adjust fees)
    - ☐ RCW 34.05.310 (4)(g) ((i) Relating to agency hearings; or (ii) process requirements for applying to an agency for a license or permit)

  ☐ This rule proposal, or portions of the proposal, is exempt under RCW ______.

  **Explanation of exemptions, if necessary:**

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COMPLETE THIS SECTION ONLY IF NO EXEMPTION APPLIES

If the proposed rule is not exempt, does it impose more-than-minor costs (as defined by RCW 19.85.020(2)) on businesses?

- ☒ No  Briefly summarize the agency's analysis showing how costs were calculated. The proposed rule does not impose any costs on businesses.
- ☐ Yes  Calculations show the rule proposal likely imposes more-than-minor cost to businesses, and a small business economic impact statement is required. Insert statement here:

  The public may obtain a copy of the small business economic impact statement or the detailed cost calculations by contacting:

  - Name:
  - Address:
  - Phone:
  - Fax:
  - TTY:
  - Email:
  - Other:

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**Date:** September 20, 2021

**Name:** Wendy Barcus

**Title:** HCA Rules Coordinator

**Signature:**

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Page 3 of 3
WAC 182-550-4800 Hospital payment methods—State-administered programs. This section does not apply to out-of-state hospitals unless they are border hospitals (critical or noncritical).

(1) The medicaid agency:
   (a) Pays for services provided to a client eligible for a state-administered program (SAP) based on SAP rates;
   (b) Establishes SAP rates independently from the process used in setting the medicaid payment rates;
   (c) Calculates a ratable each year to adjust each hospital's SAP rates for their percentage of community-based dollars to the total revenues for all hospitals;
   (d) Calculates an equivalency factor (EF) to keep the SAP payment rates at the same level before and after the medicaid rates were rebased.

(2) The agency has established the following:
   (a) SAP diagnosis-related group (DRG) conversion factor (CF) for claims grouped under DRG classifications services;
   (b) SAP per diem rates for claims grouped under the following specialty service categories:
      (i) Chemical-using pregnant (CUP) women;
      (ii) Detoxification;
      (iii) Physical medicine and rehabilitation (PM&R); and
      (iv) Psychiatric.
   (c) SAP ratio of costs-to-charges (RCC) for claims grouped under transplant services.

(3) This subsection describes the SAP DRG CF and payment calculation processes used by the agency to pay claims using the DRG payment method. The agency pays for services grouped to a DRG classification provided to clients eligible for a SAP based on the use of a DRG CF, a DRG relative weight, and a maximum service adjustor. This process is similar to the payment method used to pay for medicaid and CHIP services grouped to a DRG classification.

   (a) The agency's SAP DRG CF calculation process is as follows:
      (i) The hospital's specific DRG CF used to calculate payment for a SAP claim is the medicaid DRG CF multiplied by the applicable EF multiplied by the ratable;
      (ii) For hospitals that do not have a ratable or an EF, the SAP CF is the hospital's specific medicaid CF multiplied by the average EF and the average ratable; and
      (iii) For noncritical border hospitals, the SAP DRG CF is the lowest in-state medicaid DRG CF multiplied by the average ratable and the average EF.

   (b) The agency calculates the SAP DRG EF as follows:
      (i) The hospital-specific current SAP DRG CF is divided by the rebased medicaid DRG CF and then divided by the ratable factor to compute the preliminary EF.
      (ii) The current SAP DRG payment is determined by multiplying the hospital-specific SAP DRG CF by the ((AP-DRG version 23)) APR-DRG relative weight.
      (iii) The current aggregate DRG payment is determined by summing the current SAP DRG payments for all hospitals.
The hospital projected SAP DRG payment is determined by multiplying the hospital-specific current SAP DRG CF by the APR-DRG relative weights and the maximum service adjustor.

The projected aggregate DRG payment is determined by summing the projected SAP program DRG payments for all hospitals.

The aggregate amounts derived in (b)(iii) and (v) of this subsection are compared to identify a neutrality factor that keeps the projected aggregate SAP DRG payment (based on (DRG-APR)) APR-DRG relative weights) at the same level as the previous aggregate SAP DRG payment (based on APR-DRG relative weights ((version 23.0))).

The neutrality factor is multiplied by the hospital-specific preliminary EF to determine the hospital-specific final EF that is used to determine the SAP DRG conversion factors for the rebased system implementation.

The agency calculates the DRG payment for services paid under the DRG payment method as follows:

(i) The agency calculates the allowed amount for the inlier portion of the SAP DRG payment by multiplying the SAP DRG CF by the DRG relative weight and the maximum service adjustor.

(ii) SAP claims are also subject to outlier pricing. See WAC 182-550-3700 for details on outlier pricing.

(4) This subsection describes how the agency calculates the SAP per diem rate and payment for CUP, detoxification, PM&R, and psychiatric services.

(a) The agency calculates the SAP per diem rate for in-state and critical border hospitals by multiplying the hospital's specific medicaid per diem by the ratable and the per diem EF.

(b) The agency calculates the SAP per diem rate for noncritical border hospitals by multiplying the lowest in-state medicaid per diem rate by the average ratable and the average per diem EF.

(c) For hospitals with more than twenty nonpsychiatric SAP per diem paid services during SFY 2011, the agency calculates a per diem EF for each hospital using the individual hospital's claims as follows:

(i) The agency calculates a SAP average payment per day by dividing the total current SAP per diem payments by the total number of days associated with the payments.

(ii) The agency calculates a medicaid average payment per day by dividing the aggregate payments based on the rebased medicaid rates by the total number of days associated with the aggregate payments (same claims used in (c)(i) of this subsection).

(iii) The agency divides the hospital estimated SAP average payment per day in (a) of this subsection by the hospital medicaid average payment per day in (b) of this subsection.

(iv) The agency divides the result of (c)(iii) of this subsection by the hospital-specific ratable factor to determine the EF.

(d) For hospitals with twenty or less nonpsychiatric SAP per diem paid services during SFY 2011, the EF is an average for all hospitals. The agency uses the following process to determine the average EF:

(i) The agency calculates a SAP average payment per day by dividing the total current SAP per diem payments for all hospitals by the total number of days associated with the aggregate payments.

(ii) The agency calculates a medicaid average payment per day by dividing the aggregate payments based on the rebased medicaid rates by the total number of days associated with the aggregate payment (same claims used in (d)(i) of this subsection).
(iii) The agency divides the SAP average per day in (a) of this subsection by the medicaid average payment per day in (b) of this subsection.

(iv) The agency divides the result of (d)(iii) of this subsection by the hospital-specific ratable factor to determine the EF. The EF is an average based on claims for all the hospitals in the group.

(e) The agency uses a psychiatric EF to keep SAP psychiatric rates at the level required by the Washington state legislature. The agency's SAP psychiatric rates are eighty-five and four one hundredths of a percent (85.04%) of the agency's medicaid psychiatric rates. The factor is applied to all hospitals.

(f) The agency calculates the SAP per diem allowed amount for CUP, detoxification, PM&R, and psychiatric services by multiplying the hospital's SAP per diem rate by the agency's allowed patient days.

(g) The agency does not apply the high outlier or transfer policy to the payment calculations for CUP, detoxification, PM&R, and psychiatric services.

(5) The agency calculates the SAP RCC by multiplying the medicaid RCC by the hospital's ratable.

(6) The agency annually establishes the hospital-specific ratable factor used in the calculation of SAP payment rate based on the most current hospital revenue data available from the department of health (DOH). The agency uses the following process to determine the hospital ratable factor:

(a) The agency adds the hospital's medicaid revenue, medicare revenue, charity care, and bad debts as reported in DOH data.

(b) The agency determines the hospital's community care dollars by subtracting the hospital's low-income disproportionate share hospital (LIDSH) payments from the amount derived in (a) of this subsection.

(c) The agency calculates the hospital net revenue by subtracting the hospital-based physician revenue (based on information available from the hospital's medicare cost report or provided by the hospitals) from the DOH total hospital revenue report.

(d) The agency calculates the preliminary hospital-specific ratable by dividing the amount derived in (b) of this subsection by the amount derived in (c) of this subsection.

(e) The agency determines a neutrality factor by comparing the hospital-specific medicaid revenue (used in (a) of this subsection) multiplied by the preliminary ratable to the hospital-specific medicaid revenue (used in (a) of this subsection) multiplied by the prior year ratable. The neutrality factor is used to keep the projected SAP payments at the same current payment level.

(f) The agency determines the final hospital-specific ratable by multiplying the hospital-specific preliminary ratable by the neutrality factor.

(g) The agency applies to the allowable for each SAP claim all applicable adjustments for client responsibility, any third-party liability, medicare payments, and any other adjustments as determined by the agency.

(7) The agency does not pay (an) a SAP claim paid by the DRG method at greater than the billed charges.

(8) SAP rates do not apply to the critical access hospital (CAH) program's weighted cost-to-charges, to the long-term acute care (LTAC) program's per diem rate, or to the certified public expenditure (CPE) program's RCC (except as the RCC applies to the CPE hold harmless described under WAC 182-550-4670).