



DSS Hospital Methodology Update

SD Critical Access Hospital All System Call

March 25, 2026



Agenda

SD Critical Access Hospital all system call

- CAH hold harmless path forward
- Implementation next steps
- RHT “Rural Strong” Provider Grants

Hospital Methodology Changes

Goal: Ensure a strong and sound SD Hospital Medicaid payment system

Address inconsistencies and outdated methodologies

- ✓ Move to APR-DRG for Acute PPS Hospitals
 - Improved grouper for Medicaid population and payment support for maternal health, behavioral health
- ✓ Use industry standard for cost outliers and weights
 - increase base rates
- ✓ Out-of-State hospitals paid using APR-DRG and APC
 - alignment and cost containment
- ✓ Standardize APR-DRG and APC base rates
 - greater consistency across providers

Thank you SDAHO, system administrators and finance leaders, legislators. Our collaboration result: A “win-win” approach that enables forward movement **while holding in-state CAHs harmless**

Critical Access Hospitals Held Harmless

- \$2.8 million total additional investment to Critical Access Hospitals.
- The CAH Methodology Includes:
 - No reduction of overall revenue for any SD CAH.
 - All SD CAHs to have a combined Inpatient and Outpatient Hospital Medicaid cost coverage level of at least 100%, and no less than their 2024 Medicare cost report
 - Minimal changes for SD CAHs

Aggregate SD CAH Hospital 2024 Cost Coverage	Non-CAH SD Medicaid Hospital 2024 Cost Coverage
112.3%	81.6%

Critical Access Hospital Peer Groups

9 with increase to 100% allowable cost
7 above 100% remain steady

Peer Group 1 (16 total)

- AVERA GREGORY HOSPITAL
- AVERA MILBANK
- AVERA QUEEN OF PEACE HOSP
- AVERA ST BENEDICT HEALTH CTR
- BENNETT COUNTY HOSPITAL
- COTEAU DES PRAIRIES HOSPITAL
- HURON REGIONAL MEDICAL CENTER
- MADISON REGIONAL HEALTH SYSTEM
- MOBRIDGE REGIONAL HOSPITAL
- MONUMENT HEALTH STURGIS HOSP
- MONUMENT LEAD DEADWOOD HOSP
- SANFORD CHAMBERLAIN MEDICAL
- SANFORD VERMILLION HOSPITAL
- ST MICHAELS HOSPITAL
- WAGNER COMMUNITY MEMORIAL HOSP
- WINNER REGIONAL HEALTHCARE

Peer Group 2 (22 total)

- AVERA DE SMET MEMORIAL HOSPITA
- AVERA DELLS AREA HOSPITAL
- AVERA FLANDREAU HOSPITAL
- AVERA HAND COUNTY MEM HOSP
- AVERA MISSOURI RIVER HEALTH
- AVERA WESKOTA MEMORIAL HOSP
- BOWDLE HOSPITAL
- COMMUNITY MEMORIAL HOSPITAL (Burke)
- COMMUNITY MEMORIAL HOSPITAL (Redfield)
- CUSTER REGIONAL HOSPITAL
- DOUGLAS COUNTY MEMORIAL HOSP
- EUREKA COMMUNITY HEALTH SERV
- FALL RIVER HOSPITAL
- FAULKTON HOSPITAL
- FREEMAN MEDICAL CENTER
- HANS P PETERSON MEMORIAL HOSP
- MARSHALL COUNTY HEALTHCARE CTR
- PIONEER MEMORIAL HOSPITAL
- PLATTE HEALTH CENTER AVERA
- SANFORD CANTON INWOOD MEDICAL
- SANFORD CLEAR LAKE MEDICAL CTR
- SANFORD HOSPITAL WEBSTER

No change

Peer Group 2

CAH Peer Group 2

No change in methodology

- Inpatient services will continue to be paid at 95% of billed charges.
- Outpatient services will continue to be paid at 90% of billed charges.
 - Surgeries will be included in the 90% of charge reimbursement.
 - Labs will continue to pay fee for service to comply with federal regulations.

Hospitals will be required to file annual cost report with Medicaid.

Peer Group B (22 total)

AVERA DE SMET MEMORIAL HOSPITA
AVERA DELLS AREA HOSPITAL
AVERA FLANDREAU HOSPITAL
AVERA HAND COUNTY MEM HOSP
AVERA MISSOURI RIVER HEALTH
AVERA WESKOTA MEMORIAL HOSP
BOWDLE HOSPITAL
COMMUNITY MEMORIAL HOSPITAL (Burke)
COMMUNITY MEMORIAL HOSPITAL (Redfield)
CUSTER REGIONAL HOSPITAL
DOUGLAS COUNTY MEMORIAL HOSP
EUREKA COMMUNITY HEALTH SERV
FALL RIVER HOSPITAL
FAULKTON HOSPITAL
FREEMAN MEDICAL CENTER
HANS P PETERSON MEMORIAL HOSP
MARSHALL COUNTY HEALTHCARE CTR
PIONEER MEMORIAL HOSPITAL
PLATTE HEALTH CENTER AVERA
SANFORD CANTON INWOOD MEDICAL
SANFORD CLEAR LAKE MEDICAL CTR
SANFORD HOSPITAL WEBSTER

Peer Group 1

CAH Peer Group 1

Change in Methodology

- Inpatient services will move from MS-DRG payment to percent of charge.
- Outpatient services will continue to be at percent of charge.
 - Surgeries will move to percent of charge reimbursement.
 - Labs will continue to pay fee for service to comply with federal regulations.

Rate Determination

- Based on 2024 cost report:
 - Providers with cost coverage below 100%, rates will be set to 100% cost coverage.
 - Providers with cost coverage over 100%, remain at current cost coverage.

This change results in an increase or stable revenue levels.

CAH Peer Group 1 – Scenario Examples

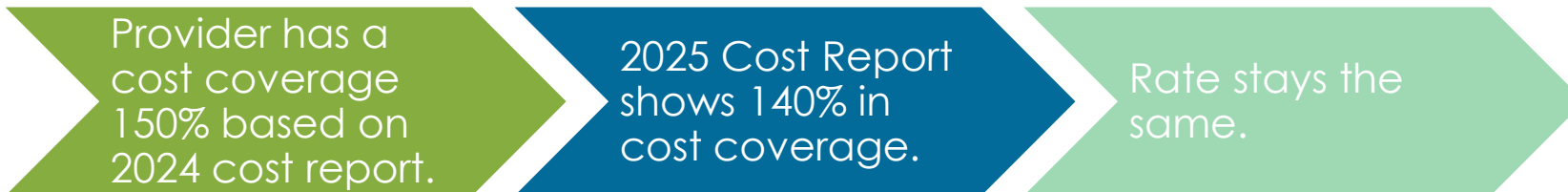
Example – Cost Coverage Set to 100% Cost Coverage



Example – Cost Coverage increases from 2024 Cost Report



Example – Cost Coverage decreases from 2024 Cost Report



Cost Reporting

- All Critical Access hospitals must submit cost reports within 5 months of the hospital's fiscal year end
 - Example: if hospitals fiscal year ends Dec 31, 2026 the hospital must submit report by May 31, 2027.
- Cost reporting for monitoring and transparency
 - Monitoring (not “settlement”)
 - (Peer Group A only) adjust % of charge only if exceed 2024 coverage levels or levels drop below 100% cost of current fiscal year.
- Annually, providers will receive a letter with workbook attachment

June 1 - May 31 FY Period	2025 Fiscal Year	Thursday, January 01, 2026 Last Updated
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Inpatient CCR to Apply to Claim	Outpatient CCR to Apply to Claim
62.00%	39.96%

Cost Center	Cost	Charges	Hospital CCR
Inpatient	\$11,553,175	\$18,635,160	0.619967
Outpatient	\$11,793,707	\$29,510,373	0.399646

Note: this image is for demonstration purposes only and is not the final workbook that will be provided to facilities.

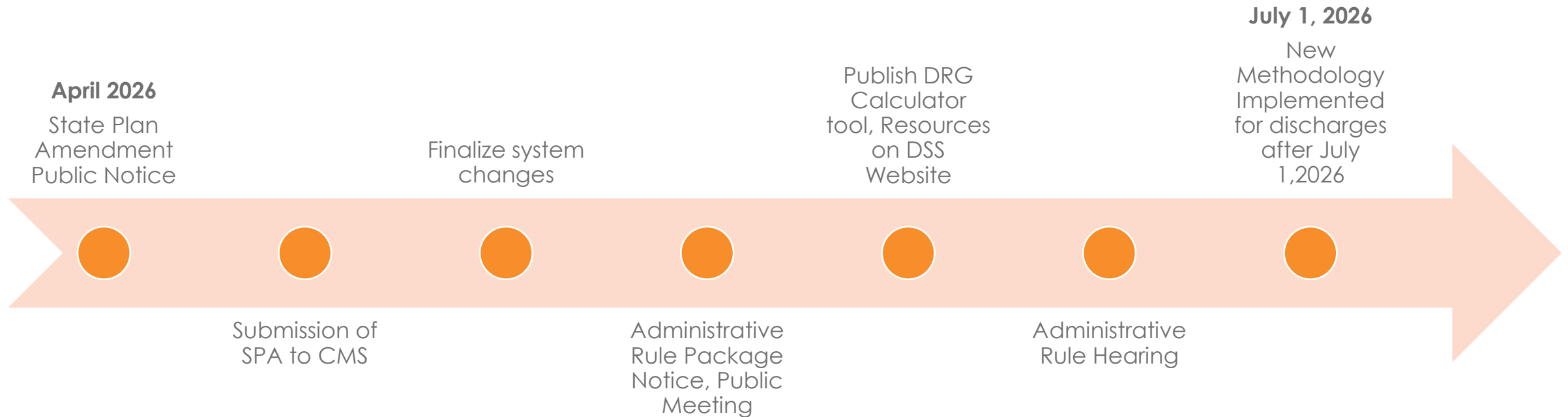
Cost Reporting

- Commitment to continue
 - Engagement
 - Continuous improvement
 - Transparency
- Revisit in future as needed
- *Image is for demonstration purposes / prototype*

Hospital Name	City	Peer Group	Hospital Target % of Cost	CY27 Inpatient CCR	CY27 Outpatient CCR
Avera Milbank	Milbank	1	125.70%	57.94%	50.91%
Avera Gregory Hospital	Gregory	1	100.50%	53.18%	42.80%
Avera Queen Of Peace Hosp	Mitchell	1	145.80%	30.26%	41.54%
Avera St Benedict Health Ctr	Parkston	1	122.90%	31.12%	41.90%
Bennett County Hospital	Martin	1	100.00%	95.00%	62.84%
Coteau Des Prairies Hospital	Sisseton	1	101.20%	68.94%	52.73%
Huron Regional Medical Center	Huron	1	87.10%	53.64%	37.01%
Lead Deadwood Regional Hosp	Deadwood	1	111.40%	46.32%	41.36%
Madison Regional Health System	Madison	1	86.70%	51.07%	49.53%
Mobridge Regional Hospital	Mobridge	1	100.40%	78.65%	38.78%
Monument Health Sturgis Hospi	Sturgis	1	143.90%	38.56%	46.73%
Sanford Chamberlain Medical Ce	Chamberlain	1	96.00%	70.64%	42.11%
Sanford Vermillion Hospital	Vermillion	1	102.40%	60.59%	40.25%
St Michaels Hospital	Tyndall	1	99.80%	57.34%	49.46%
Wagner Community Memorial Hosp	Wagner	1	100.80%	64.88%	43.62%
Winner Regional Healthcare	Winner	1	74.40%	57.76%	50.35%
Avera De Smet Memorial Hospita	De Smet	2	195.60%	95.00%	90.00%
Avera Dells Area Hospital	Dell Rapids	2	241.10%	95.00%	90.00%
Avera Flandreau Hospital	Flandreau	2	198.10%	95.00%	90.00%
Avera Hand County Mem Hosp	Miller	2	176.10%	95.00%	90.00%
Avera Missouri River Health	Gettysburg	2	133.80%	95.00%	90.00%
Avera Weskota Memorial Hospita	Wessington Sprin	2	176.30%	95.00%	90.00%
Bowdle Hospital	Bowdle	2	148.50%	95.00%	90.00%
Community Memorial Hospital - Burke	Burke	2	132.60%	95.00%	90.00%
Community Memorial Hospital - Redfie	Redfield	2	155.80%	95.00%	90.00%
Custer Regional Hospital	Custer	2	239.50%	95.00%	90.00%
Douglas County Memorial Hosp	Armour	2	124.20%	95.00%	90.00%
Eureka Community Health Serv	Eureka	2	75.30%	95.00%	90.00%
Fall River Hospital	Hot Springs	2	152.90%	95.00%	90.00%
Faulkton Hospital	Faulkton	2	98.80%	95.00%	90.00%
Freeman Medical Center	Freeman	2	180.90%	95.00%	90.00%
Hans P Peterson Memorial Hosp	Philip	2	153.00%	95.00%	90.00%
Landmann Jungman Memorial Hos	Scotland	2	128.60%	95.00%	90.00%
Marshall County Healthcare Ctr	Britton	2	188.80%	95.00%	90.00%
Pioneer Memorial Hospital	Viborg	2	222.40%	95.00%	90.00%
Platte Health Center Avera	Platte	2	140.80%	95.00%	90.00%
Sanford Canton Inwood Medical	Canton	2	236.10%	95.00%	90.00%
Sanford Clear Lake Medical Cen	Clear Lake	2	150.70%	95.00%	90.00%
Sanford Hospital Webster	Webster	2	195.70%	95.00%	90.00%

Implementation Next Steps

Looking Forward



Anticipate Public Notice for SPA: **April 7 through May 6**

- Once posted, full text available at: <http://dss.sd.gov/medicaid/medicaidstateplan.aspx>.
- Comments may be emailed to MedicaidSPA@state.sd.us

State Plan Amendment Language - Inpatient

Attachment 4.19-A
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2. Critical Access Hospitals

Peer Group 1 In-State Critical Access Hospitals: Peer group 1 critical access hospitals (CAHs) will be reimbursed the greater of a percent of charge prospective payment methodology intended to approximate 100% of total reasonable allowable costs or actual total reasonable allowable costs. Payment rates will be unique to each individual hospital. Peer group 1 providers and their corresponding rate are published on the State's fee schedule website: <https://dss.sd.gov/medicaid/providers/feeschedules/>. Hospitals must submit a cost report annually using the CMS Cost Report form ID CMS-2552-10 or the most current version. The cost report is due within 5 months of the end of the hospital's state fiscal year. The rate will be updated annually to approximate a 100% prospective payment rate. The effective date of the new rate will be no later than 90 days after the department receives and accepts the cost report.

Peer Group 2 In-state Critical Access Hospitals: Peer group 2 critical access hospitals will be reimbursed at 95% of billed charges. Peer group 2 providers and their corresponding rate are published on the State's fee schedule website: <https://dss.sd.gov/medicaid/providers/feeschedules/>. Laboratory Services will be paid at a fee schedule rate in compliance with 1903(i)(7) of the Social Security Act. The Laboratory Services fee schedule is published at <https://dss.sd.gov/medicaid/providers/feeschedules/>. Hospitals must submit a cost report annually using the CMS Cost Report form ID CMS-2552-10 or the most current version. The cost report is due within 5 months of the end of the hospital's state fiscal year.

Peer Group 3 In-state Critical Access Hospitals: Peer group 3 critical access hospitals are hospitals that become licensed as a critical access hospitals in South Dakota on or after July 1, 2026. Peer group 3 hospitals will be paid using the same inpatient hospital reimbursement methodology as Peer group 1. If cost report data is not available, an interim rate will be established using an average of the peer group 1 rates. In the event, a provider is paid under the peer group 3 methodology, the provider and their corresponding rate will be published on the State's fee schedule website: <https://dss.sd.gov/medicaid/providers/feeschedules/>.

Out-of-State Critical Access Hospitals: Out-of-state critical access hospital will be reimbursed using the APR-DRG methodology in section one. Out-of-state critical access hospitals are paid using an enhanced base rate that is published on the State's fee schedule website: <https://dss.sd.gov/medicaid/providers/feeschedules/>.

State Plan Amendment Language - Outpatient

2. Outpatient Hospital Services

- a. In-state Acute Care Hospitals: Effective August 2, 2016, Medicare Prospective Payment System hospitals will be paid using the Medicaid Agency's Outpatient Prospective Payments System (OPPS). Under OPPS, services are reimbursed using Ambulatory Payment Classifications. Effective July 1, 2026, the Department will establish a statewide conversion factor for South Dakota hospitals. The conversion factor, APC weights, and payment rates for services not assigned to an APC are published on the State agency's website at <https://dss.sd.gov/medicaid/providers/feeschedules/>.
- b. Out-of-State Acute Care Hospitals: Effective July 1, 2026, out-of-state acute care hospitals will be reimbursed using the OPPS methodology in section 2a(i).
- c. Peer Group 1 In-State Critical Access Hospitals: Peer group 1 critical access hospitals (CAHs) will be reimbursed the greater of a percent of charge prospective payment methodology or actual total reasonable allowable costs. Payment rates will be unique to each individual hospital. Laboratory Services will be paid at a fee schedule rate in compliance with 1903(i)(7) of the Social Security Act. The Laboratory Services fee schedule is published at <https://dss.sd.gov/medicaid/providers/feeschedules/>. Hospitals must submit a cost report annually using the CMS Cost Report form ID CMS-2552-10 or the most current version. The cost report is due within 5 months of the end of the hospital's state fiscal year. The rate will be updated annually if it does not approximate at least 100% prospective payment rate or if the current percent of charge rate exceeds the hospital's 2024 cost coverage level. The effective date of the new rate will be no later than 90 days after the department receives and accepts the cost report.
- d. Peer Group 2 In-state Critical Access Hospitals: Peer group 2 critical access hospitals will be reimbursed the greater of 90% of billed charges. Laboratory Services will be paid at a fee schedule rate in compliance with 1903(i)(7) of the Social Security Act. The Laboratory Services fee schedule is published at <https://dss.sd.gov/medicaid/providers/feeschedules/>. Hospitals must submit a cost report annually using the CMS Cost Report form ID CMS-2552-10 or the most current version. The cost report is due within 5 months of the end of the hospital's state fiscal year.

- e. Peer Group 3 In-state Critical Access Hospitals: Peer group 3 critical access hospitals are hospitals that become licensed as a critical access hospital in South Dakota on or after July 1, 2026. Peer group 3 hospitals will be reimbursed the greater of a percent of charge prospective payment methodology intended to approximate 100% of total reasonable allowable costs or actual total reasonable allowable costs. Payment rates will be unique to each individual hospital. Laboratory Services will be paid at a fee schedule rate in compliance with 1903(i)(7) of the Social Security Act. The Laboratory Services fee schedule is published at <https://dss.sd.gov/medicaid/providers/feeschedules/>. Hospitals must submit a cost report annually using the CMS Cost Report form ID CMS-2552-10 or the most current version. The cost report is due within 5 months of the end of the hospital's state fiscal year. The rate will be updated annually to approximate a 100% prospective payment rate. The effective date of the new rate will be no later than 90 days after the department receives and accepts the cost report.
- f. Out-of-State Critical Access Hospitals: Effective July 1, 2026, out-of-state critical access hospitals will be reimbursed using the OPPS methodology in section 2a(i). Out-of-state critical access hospitals are paid using an enhanced conversion factor that is published on the State's fee schedule website: <https://dss.sd.gov/medicaid/providers/feeschedules/>.

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ATTACHMENT 4.19-B PAYMENTS FOR MEDICAL AND REMEDIAL CARE AND SERVICES

TN# 26-0003
Supersedes
TN# 25-0012

Approval Date

Effective Date 07/01/26

Rural Health Transformation Update

Medicaid Quality and Access Provider Grants

Rural Strong RFP - Medicaid Provider Quality and Access Grants

- Request for Proposals/Applications to be released by **end of March**
- Proposals Due **May 15**
- “Invitation Only” on SD BOA’s website = Open for your response
- **Funding decisions in June**

Rural Strong RFP - Medicaid Provider Quality and Access Grants

- **Operational Efficiency**: Supporting sustainability through streamlined operations
- **Strategic Partnerships**: Expanding specialized care access through collaboration
- **Healthcare Access Preservation**: Ensuring essential services remain available locally
- **Community Health Impact**: Improving population health to reduce crisis-driven care



Thank You

Heather Petermann



605-773-5463 (office)



605-280-7817 (cell)



DSS.Medicaid@state.sd.us

