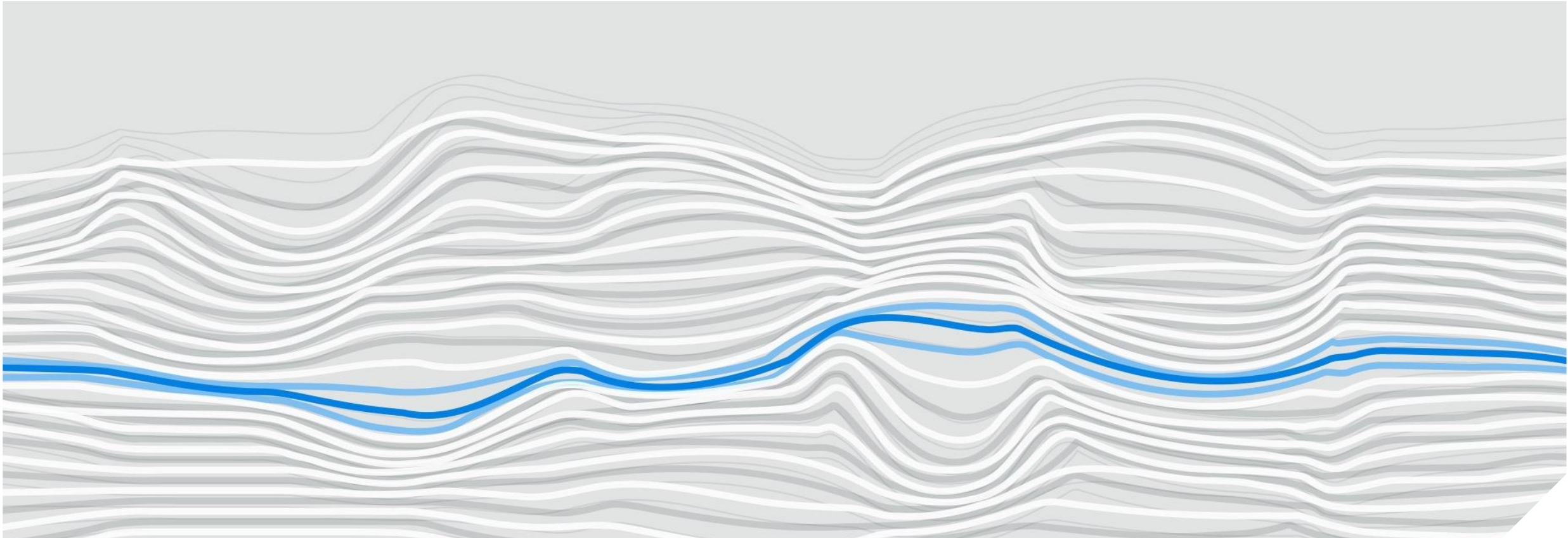


# Arizona Health Care Cost Containment System



Preliminary FFY 2024 Hospital Assessment Model  
March 8, 2023



# Agenda

- 3 **FFY 2024 Rebased Assessments**
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# **FFY 2024 Rebased Assessments**

# FFY 2024 Preliminary Rebased Assessments

## Overview

- The federal fiscal year (FFY) 2024 hospital assessment model presented today is a **preliminary version** for discussion purposes only (does not reflect final AHCCCS policy decisions, and is subject to change)
- Preliminary modeled assessments have been “rebased” using hospital fiscal year ending **(FYE) 2021 inpatient discharges and outpatient net patient revenues**
  - *“Hospital Assessment Fund” (HAF) assessments*: finance the non-federal share of Medicaid coverage (“coverage payments” for both hospital and non-hospital services) for the Proposition 204 (Childless Adults) and Newly Eligible Adult Expansion populations (“Impacted Populations”)
  - *“Health Care Investment Fund” (HCIF) assessments*: finance the non-federal share of the HEALTHII payments, payment increases for physician and dental services, and program administration (consistent with HB 2668 requirements)
- The preliminary model and results rely on draft discharge and revenues data that is subject to change based on review and feedback from hospital representatives and AHCCCS

# FFY 2024 Preliminary Rebased Assessments (Cont'd)

Modeled Assessment Changes from FFY 2023 Model

## Changes From FFY 2023 Model

- Rebased using **FYE 2021** discharges and outpatient net patient revenues (from FYE 2019)
- **HAF: \$642M** target assessments (increase from \$588M) based on AHCCCS' projections
- **HCIF: \$434M** target assessments (decrease from \$450M), based on changes in prior period surplus applied, physician/dental payment portion, and effective federal match rate
- Preliminary modeled assessment unit thresholds (above which are subject to lower assessment rates) to pass CMS B1/B2 tests:
  - **Updated** inpatient acute discharge threshold of **23,800** (down from 24,000)
  - **New** outpatient net patient revenues threshold of **\$293M**

## Same As FFY 2023 Model

- Same hospital assessment types and associated assessment rate differentials (as a percentage of the full "base" assessment rate)
- Same lower assessment rate differential for psychiatric sub-provider discharges
- Same provider type exemptions and exemption for rehabilitation sub-provider discharges
- Same inpatient and outpatient allocation:
  - *Baseline HAF: 75% / 25%* between inpatient and outpatient
  - *HCIF: 25% / 75%* between inpatient and outpatient

# FFY 2024 Rebased Inpatient Assessments

Discharge basis

- FYE 2021 discharges used to model preliminary FFY 2024 inpatient assessments are based on amounts reported by hospitals under the same source hierarchy used for current assessments:

1

## **FYE 2021 Medicare Cost Reports:**

Worksheet S-3 Part I, column 15, lines 14, 16 and 17  
(extracted from the HCRIS database published by CMS or PDF copy)

2

## **FYE 2021 Uniform Accounting Reports (UAR):**

UAR data published by the Arizona Department of Health Services (used only if HCRIS data is not available)

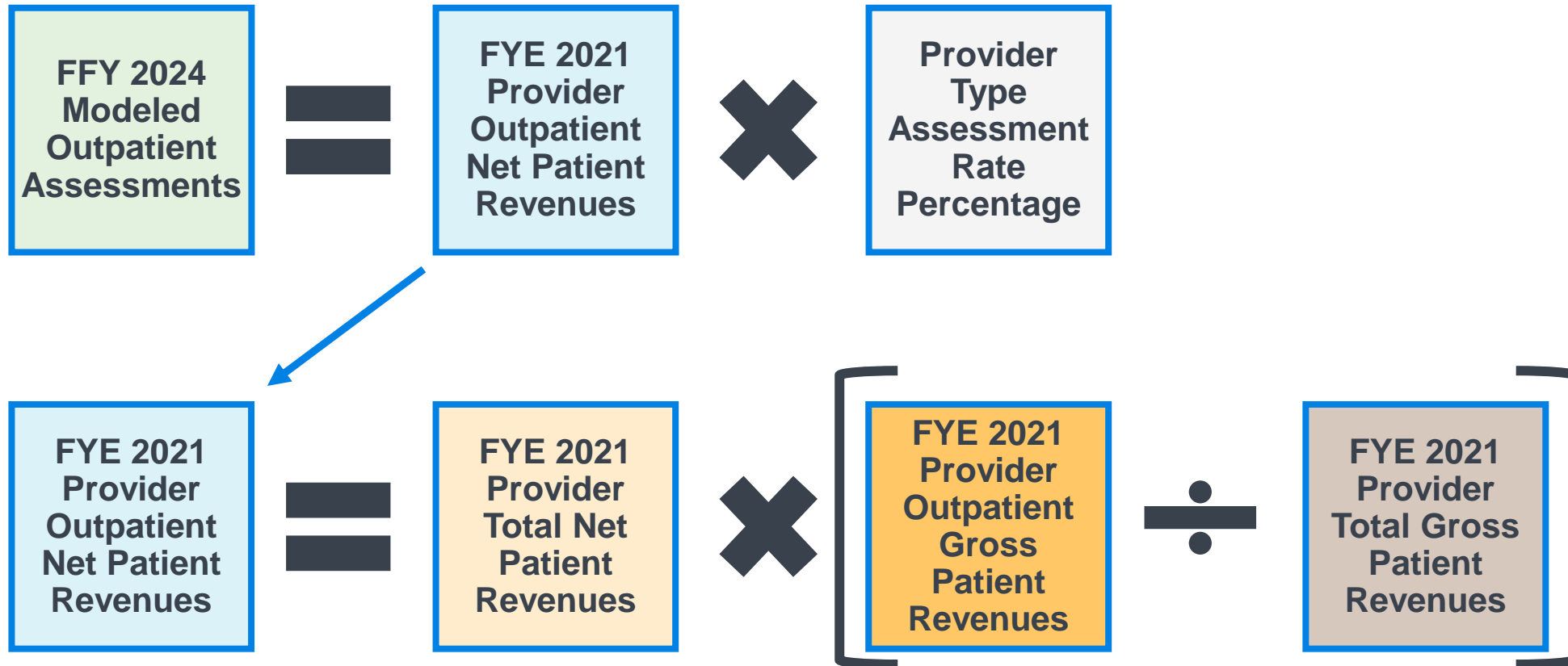
3

## **Provider Self-Reported Data:**

Most recent available data collected directly from providers  
(used only if HCRIS/UAR data are not available)

# FFY 2024 Rebased Outpatient Assessments

Outpatient assessment calculation



# FFY 2024 Rebased Outpatient Assessments (Cont'd)

## Outpatient revenues basis

- The FYE 2021 outpatient revenues used to calculate FFY 2024 outpatient assessments are based on amounts reported by hospitals under the same source hierarchy used for current assessments:

1	<b>FYE 2021 Uniform Accounting Reports (UAR):</b> UAR data published by the Arizona Department of Health Services (used if the UAR data reconciles to the audited financial statements)
2	<b>FYE 2021 Audited Financial Statements (AFS):</b> Audited financial statement data published by the Arizona Department of Health Services (used only if UAR data does not reconcile to the audited financial statements)
3	<b>FYE 2021 Medicare Cost Reports:</b> Worksheets G-2, columns 1 and 2, line 28 and G-2 column 1, line 3 (extracted from the HCRIS database published by CMS or PDF copy and use if UAR and AFS data is not available)
4	<b>Provider Self-Reported Data:</b> Most recent available data collected directly from providers (used only if UAR, AFS, or HCRIS data are not available)



# CMS Assessment Requirements

Tests demonstrating permissible health care-related assessments

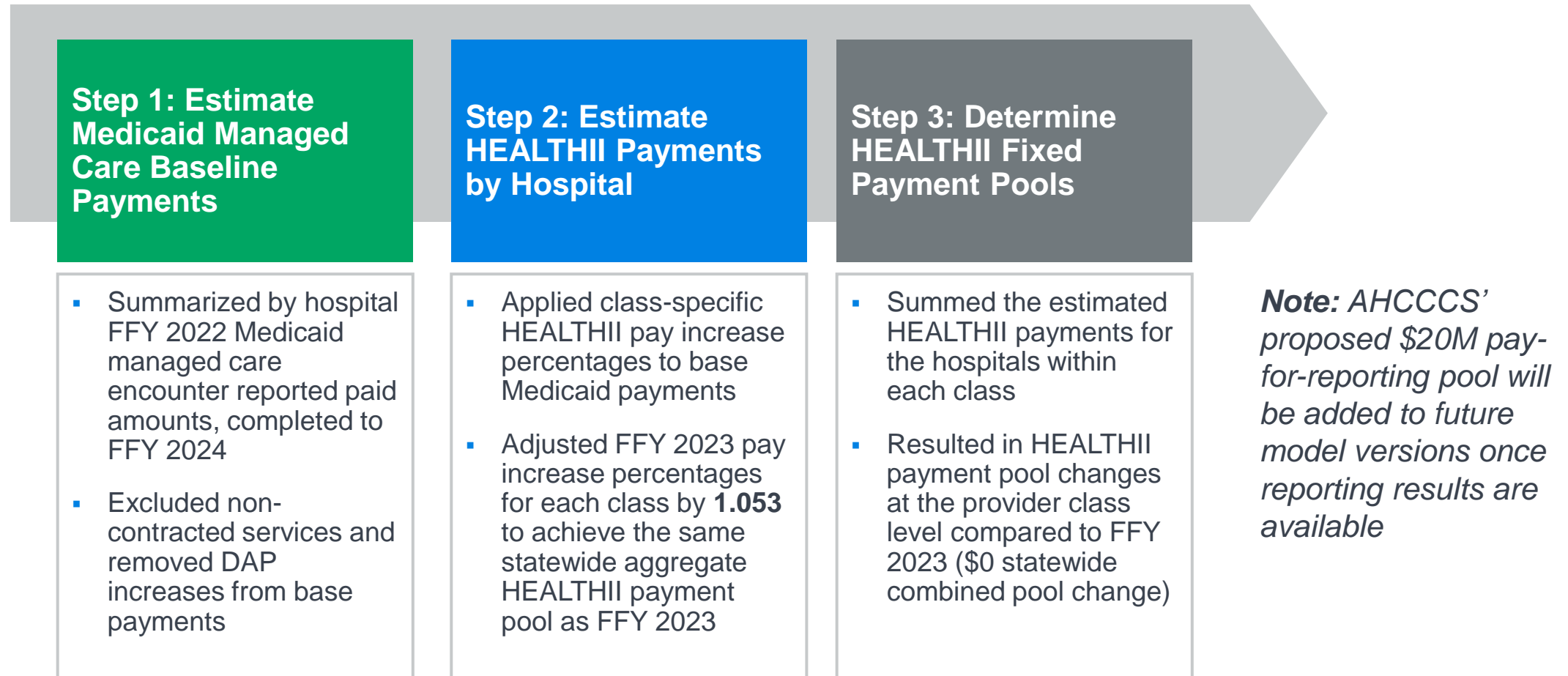
- **Assessments must be generally redistributive** – 42 CFR § 433.68(e):
  - Hospital assessments with tiered rates and rate exemptions must pass the “B1/B2” test to gain a waiver from CMS’ broad-based and uniform requirement
  - B1/B2 compares the relationship between each provider’s Medicaid assessable units and the provider’s share of total assessments assuming a) the assessment is broad based and uniform (B1), versus b) the proposed assessment structure (B2)
  - B1/B2 ratio must be greater than **1.0** to pass
- **Assessments must not violate hold harmless provisions** - 42 CFR § 433.68(f):
  - In the “Hold Harmless” test, assessments must be less than or equal to **6.0%** of the net patient revenue attributable to the permissible class of health care services
  - Under Arizona’s current assessment structure:
    - Aggregate inpatient discharge-based assessments must not exceed **6.0% of total statewide inpatient net patient revenues**
    - Aggregate outpatient net patient revenues-based assessments must not exceed **6.0% percent of total statewide outpatient net patient revenues**

# HEALTHII Payment Methodology

# FFY 2024 HEALTHII Payment Methodology

## Overview

- Preliminary FFY 2024 HEALTHII payments were modeled using the following steps:



# AHCCCS Proposed HEALTHII Payment Process

Based on the FFY 2023 approach approved by CMS

Parameter	Note
Hospital Classes	<ul style="list-style-type: none"> <li>The aggregate HEALTHII payment pool is allocated to <b>six hospital class fixed payment pools</b></li> <li>\$20M pay-for-reporting pool will be allocated to eligible hospitals in addition to the class pools (not yet reflected in the modeling)</li> <li>Actual HEALTHII directed payments will be based on each hospitals' actual MCO utilization during the contract year</li> </ul>
Interim Payments	<ul style="list-style-type: none"> <li>Each hospital will have a <b>quarterly interim payment</b> based on modeled HEALTHII payments <b>divided by four</b></li> </ul>
Payment Reconciliation	<ul style="list-style-type: none"> <li>After the completion of the contract year and when there is sufficient claim runout, interim payments will be reconciled based on <b>actual contract year utilization</b></li> <li><b>Class final HEALTHII payment increase percentage</b> = Class HEALTHII payment pool / Class FFY 2024 managed care encounter paid amounts (with DAP removed)</li> <li><b>Final hospital HEALTHII payment</b> = Class final HEALTHII payment increase percentage * estimated FFY 2024 managed care base payments (with DAP removed)</li> </ul>
Reconciliation Adjustment	<ul style="list-style-type: none"> <li>Hospital payment reconciliation adjustment = <b>Final HEALTHII payment – Interim HEALTHII payment</b></li> <li>AHCCCS will direct hospital payment reconciliation adjustments as either increases to or offsets against interim HEALTHII payments in a future quarter</li> <li>FFY 2024 HEALTHII payment reconciliation will occur no later than Q1 FFY 2026</li> </ul>

# AHCCCS Proposed HEALTHII Payment Process (Cont'd)

## Quarterly Payment Schedule

### FFY 2024 Quarterly HEALTHII Payments

Quarter 1 Year 4	Interim Payment for Year 4, Quarter 1 (10/1/2023 – 12/31/2023)
Quarter 2 Year 4	Interim Payment for Year 4, Quarter 2 (1/1/2024 – 3/30/2024)
Quarter 3 Year 4	Interim Payment for Year 4, Quarter 3 (4/1/2024 – 6/30/2024)
Quarter 4 Year 4	Interim Payment for Year 4, Quarter 4 (7/1/2024 – 9/30/2024)

The FFY 2024 HEALTHII payment reconciliation will be directed as an adjustment to a FFY 2026 quarterly interim HEALTHII payment (no later than Q1)

### FFY 2026 Quarterly HEALTHII Payments

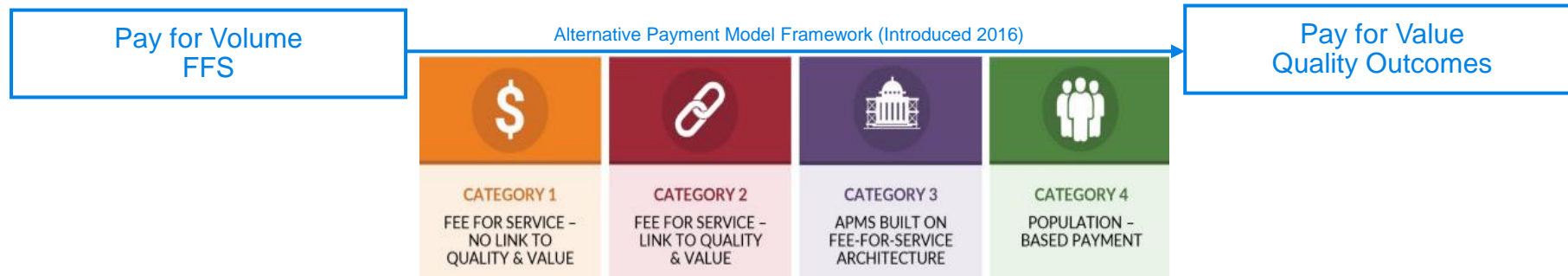
Quarter 1 Year 6	Interim Payment for Year 6, Quarter 1 (10/1/2025 – 12/31/2025)
Quarter 2 Year 6	Interim Payment for Year 6, Quarter 2 (1/1/2026 – 3/30/2026)
Quarter 3 Year 6	Interim Payment for Year 6, Quarter 3 (4/1/2026 – 6/30/2026)
Quarter 4 Year 6	Interim Payment for Year 6, Quarter 4 (7/1/2026 – 9/30/2026)

# National Landscape

## Directed Payments and Linking Payment to Quality and Value

- Nationally, continuing transition from payments for volume (FFS) to payments for quality and value
- MACPAC June 2022 Report to Congress on Medicaid and CHIP, Oversight of Managed Care Directed Payments:

***“Understanding the goals of any payment is an important first step for assessing whether it is meeting its objectives. Although CMS requires states to describe how directed payments advance at least one goal of the state’s managed care quality strategy, the link between directed payments and quality and access goals is often unclear.”***



- AHCCCS proposes to continue the glide path to payment for quality outcomes:



Sources:

- <https://www.macpac.gov/wp-content/uploads/2022/06/Chapter-2-Oversight-of-Managed-Care-Directed-Payments-1.pdf>
- <https://hcp-lan.org/workproducts/apm-refresh-whitepaper-final.pdf>

# Preliminary Model Results

# Preliminary FFY 2024 Model Totals

Combined Inpatient and Outpatient

FFY 2024 Preliminary Model Totals		Total Amount (\$ Millions)
<b>Modeled Assessments</b>		
<b>Hospital Assessment Fund (HAF)</b>		
Modeled baseline HAF assessments	A	\$ 641.8
<b>Health Care Investment Fund (HCIF)</b>		
Modeled HCIF assessments for HEALTHII payments (includes administration)	B	\$ 363.6
Modeled HCIF assessments for physician/dental payments	C	70.5
Total modeled FFY 2024 HCIF assessments	D = B+C	\$ 434.1
Applied HCIF surplus balance from prior periods	E	\$ 100.0
Total HCIF costs including surplus from prior periods	F = D+E	\$ 534.1
<b>Total Modeled FFY 2024 Assessments</b>	<b>G = A+D</b>	<b>\$ 1,075.8</b>
<b>Estimated Coverage Payment Net Revenue Gain (Relates to HAF Assessment)</b>		
Total modeled Coverage Payments	H	\$ 1,535.2
Less: Total modeled HAF assessments	I	(641.8)
<b>Total Estimated FFY 2024 Coverage Payment Net Revenue Gain</b>	<b>J = H+I</b>	<b>\$ 893.4</b>
<b>Estimated HEALTHII Net Revenue Gain (Relates to HCIF Assessment)</b>		
Total modeled HEALTHII directed payments (net of premium tax)	K	\$ 1,884.5
Less: Total modeled HCIF assessments	L	(434.1)
<b>Total Estimated FFY 2024 HEALTHII Net Revenue Gain</b>	<b>M = K+L</b>	<b>\$ 1,450.5</b>
<b>Total Estimated FFY 2024 Hospital Net Revenue Gain</b>	<b>N = J+M</b>	<b>\$ 2,343.9</b>

*Note: Non-federal share of AHCCCS' proposed \$20M pay-for-reporting pool included in modeled HCIF assessments, but pay-for-reporting payments not yet included in the total HEALTHII payments (will be added to future model versions once reporting results are available)*



# Preliminary Modeled Assessment Rates

## Combined Baseline HAF and HCIF Assessment Rates

Hospital Assessment Peer Group	Inpatient		Outpatient	
	Percent of Base Assessment	Modeled FFY 2024 Assessment Rate	Percent of Base Assessment	Modeled FFY 2024 Assessment Rate
<b>Rates Applicable to Each Hospital Type:</b>				
Critical Access Hospitals	100%	\$ 1,122.00	25%	2.0015%
Freestanding Children's Hospitals	20%	\$ 224.75	20%	1.6012%
Freestanding Rehabilitation Hospitals	0%	\$ 0.00	0%	0.0000%
High Medicare/Out-of-State Patient Utilization Hospital	0%	\$ 0.00	0%	0.0000%
Large Psychiatric Hospitals	25%	\$ 280.75	25%	2.0015%
LTAC Hospitals	25%	\$ 280.75	25%	2.0015%
Medium Pediatric Intensive General Acute Hospitals	90%	\$ 1,009.75	75%	6.0046%
Non-CAH Rural Acute Hospitals	100%	\$ 1,122.00	60%	4.8037%
Pediatric-Intensive General Acute Hospitals	80%	\$ 897.75	65%	5.2040%
Public Acute Hospital	0%	\$0.00	0%	0.0000%
Short Term Specialty Hospitals	0%	\$ 0.00	0%	0.0000%
Small Psychiatric Hospitals and AZ State Hospital	0%	\$ 0.00	0%	0.0000%
Urban Acute Hospitals	100%	\$ 1,122.00	100%	8.0062%
<b>Rates Applicable to All Non-Exempted Hospital Types:</b>				
Rate Applied to Non-Exempted Psychiatric Sub-Provider Units	25%	\$ 280.75	N/A	N/A
Rate Applied to Non-Exempted Rehabilitation Sub-Provider Units	0%	\$ 0.00	N/A	N/A
Rate Applied to Units Above Threshold <sup>(1)</sup>	10%	\$ 112.50	N/A	0.8006%

Note: (1) The modeled inpatient assessment unit threshold is 23,800 while the modeled outpatient assessment unit threshold is \$293 million. The inpatient threshold is not applicable to inpatient discharges for Psychiatric Sub-Providers, Rehabilitation Sub-Providers.

# Preliminary Modeled HEALTHII Payment Impact

Combined Inpatient and Outpatient (In Millions)

HEALTHII Reimbursement Class	Class HEALTHII Payment Increase Percentage	Modeled HEALTHII Class Fixed Payment Pool	Modeled HCIF Assessments	Estimated Net Revenue Gain / (Loss) From Assessments <sup>(1)</sup>
A	B	C	D	E = C – D
Freestanding Children's Provider	22.42%	\$ 70.5	\$ 3.7	\$ 66.8
Private Urban Acute Hospital	91.01%	\$ 1,365.5	\$ 348.5	\$ 1,017.0
Public Acute Hospital	21.86%	\$ 32.8	\$ 0.0	\$ 32.8
Rural Hospital	95.30%	\$ 266.6	\$ 59.8	\$ 206.8
Rural Reservation-Adjacent Hospitals	127.27%	\$ 102.9	\$ 19.0	\$ 83.9
Specialty Hospital	19.67%	\$ 46.3	\$ 3.1	\$ 43.3
<b>Total</b>		<b>\$ 1,884.5</b>	<b>\$ 434.1</b>	<b>\$ 1,450.5</b>

# Preliminary Modeled Impact from Total Assessments

Combined Coverage Payments and HEALTHII Payments (Inpatient and Outpatient in Millions)

Hospital Assessment Peer Group	Total Modeled FFY 2024 HAF Assessments	Total Modeled FFY 2024 HCIF Assessments	Total Modeled FFY 2024 Coverage Payments	Total Modeled FFY 2024 HEALTHII Payments	Estimated Hospital Net Revenue Gain / (Loss) from Total Assessments <sup>(1)</sup>	Number of Hospitals with Estimated Gain	Number of Hospitals with Estimated \$0 Gain	Number of Hospitals with Estimated Loss
CAH	\$ 10.7	\$ 7.1	\$ 41.2	\$ 68.5	\$ 92.0	12	0	0
Freestanding Children's Hospitals	\$ 4.0	\$ 3.7	\$ 5.9	\$ 70.5	\$ 68.6	1	0	0
Freestanding Rehabilitation Hospitals	\$ 0.0	\$ 0.0	\$ 18.0	\$ 5.3	\$ 23.3	13	0	0
High Medicare/Out-of-State Patient Utilization Hospital	\$ 0.0	\$ 0.0	\$ 10.7	\$ 5.9	\$ 16.5	1	0	0
Large Psychiatric Hospitals	\$ 11.7	\$ 2.9	\$ 121.4	\$ 34.0	\$ 140.8	12	0	0
LTAC Hospitals	\$ 0.5	\$ 0.1	\$ 7.4	\$ 1.6	\$ 8.4	5	0	0
Medium Pediatric Intensive General Acute Hospitals	\$ 110.4	\$ 75.3	\$ 244.5	\$ 417.2	\$ 476.0	5	0	0
Non-CAH Rural Acute Hospitals	\$ 88.9	\$ 57.0	\$ 152.2	\$ 222.4	\$ 228.7	12	0	0
Pediatric-Intensive General Acute Hospitals	\$ 23.4	\$ 14.4	\$ 68.3	\$ 117.9	\$ 148.3	1	0	0
Public Acute Hospital	\$ 0.0	\$ 0.0	\$ 108.7	\$ 32.8	\$ 141.4	1	0	0
Short Term Specialty Hospitals	\$ 0.0	\$ 0.0	\$ 8.8	\$ 2.1	\$ 10.9	8	3	0
Small Psychiatric Hospitals and AZ State Hospital	\$ 0.0	\$ 0.0	\$ 12.7	\$ 3.4	\$ 16.1	10	0	0
Urban Acute Hospitals	\$ 392.2	\$ 273.5	\$ 702.9	\$ 903.0	\$ 940.2	28	0	1
Total Border Hospitals	\$ 0.0	\$ 0.0	\$ 29.6	\$ 0.0	\$ 29.6	0	0	0
Total Out of State Hospitals	\$ 0.0	\$ 0.0	\$ 2.9	\$ 0.0	\$ 2.9	0	0	0
<b>Total</b>	<b>\$ 641.8</b>	<b>\$ 434.1</b>	<b>\$ 1,535.2</b>	<b>\$ 1,884.5</b>	<b>\$ 2,343.9</b>	<b>109</b>	<b>3</b>	<b>1</b>

# Preliminary Model Feedback

## Model Parameters and Hospital Reported Amounts

- AHCCCS is soliciting feedback from the hospital community on the preliminary FFY 2024 HEALTHII assessment model parameters for consideration
  - Please email comments related to model parameters and inputs to AHCCCS at [HospitalAssessmentProject@azahcccs.gov](mailto:HospitalAssessmentProject@azahcccs.gov) by **Thursday, March 16, 2023**
- Please review and validate your hospital's FYE 2021 discharges and revenues amounts shown in the Milliman report "*Preliminary Federal Fiscal Year 2024 Hospital Assessment Model*" Appendix A, dated March 7, 2023 (also shared previously by AHCCCS)
- Please contact AHCCCS if there are any issues or questions

# Next Modeling Steps

- Collect stakeholder feedback for consideration
- Update other preliminary assessment model inputs and model parameters as needed and based on direction from AHCCCS
- Incorporate \$20M pay-for-reporting pool in the modeled HEALTHII payments
- Share updated results with hospital stakeholder group

# Limitations

*The services provided for this project were performed under the signed Consulting Services Agreement between Milliman and Acro Service Corp dated December 22, 2022.*

*This presentation has been prepared for the internal business use of the Arizona Health Care Cost Containment System (AHCCCS) in preparation for AHCCCS' hospital stakeholder work group on March 8, 2023. We understand this presentation will be shared with Arizona Medicaid hospital stakeholders. This presentation may not be distributed to other third parties without the prior consent of Milliman. To the extent that the information contained in this presentation is provided to any approved third parties, the presentation should be distributed in its entirety. Any user of the data must possess a certain level of expertise in health care modeling that will allow appropriate use of the data presented.*

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*The preliminary model described in this presentation relies on data and information provided by CMS, AHCCCS, Arizona Department of Health Services, and hospitals, which we have accepted without audit. To the extent that the data and information provided is not accurate, or is not complete, the values provided in this report may likewise be inaccurate or incomplete.*

*Differences between our projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience. **Modeled hospital specific HEALTHII payments are estimates subject to change based on actual contracted MCO utilization during the 2024 contract year.***

*This work is not complete. Final results and recommendations may vary significantly from this draft document based on additional findings and information gathering.*



# Thank you

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