

September 30, 2025

Edwin Walaszek
Division of Medicaid and Children's Health Operations
U.S. Department of Health & Human Services
Centers for Medicare & Medicaid Services
90 Seventh Street, Suite 5-300 (5W)
San Francisco, CA 94103-6707

RE: Arizona SPA # AZ-25-0015, Graduate Medical Education (GME) Intergovernmental Agreement (IGA)

Dear Mr. Walaszek:

Enclosed is State Plan Amendment (SPA) # AZ-25-0015, Graduate Medical Education (GME) Intergovernmental Agreement (IGA). This SPA describes the amounts and methodology for the Intergovernmental Agreement (IGA) Graduate Medical Education Program, effective September 30, 2025.

Tribal Consultation occurred for this SPA on August 29, 2025, via a letter to Tribal Leaders. The 45-day clock after the public notice was given for this SPA will run through October 14th. The State will continue to take comments until that October 14th date and will work with CMS on any comments received in the 45-day window.

The public notice period for this SPA will close on October 15, 2025, and comments will be taken through that day . Public Notice for this SPA was posted on the following

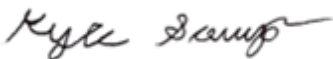
webpage: https://www.azahcccs.gov/shared/Downloads/PublicNotices/GME_FY_26_NOPI.pdf

The **Federal Fiscal Impact** of this SPA has been calculated as:

- FFY 2026: \$TBD
- FFY 2027: \$TBD

If there are any questions about the enclosed SPA, please contact Ryan Melson at Ryan.Melson@azahcccs.gov or 602-417-7309.

Sincerely,



Kyle Sawyer
Assistant Director, Public Policy and Strategic Planning

Arizona Health Care Cost Containment System (AHCCCS)

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

1. TRANSMITTAL NUMBER

2. STATE

3. PROGRAM IDENTIFICATION: TITLE OF THE SOCIAL
SECURITY ACT

XIX

XXI

TO: CENTER DIRECTOR
CENTERS FOR MEDICAID & CHIP SERVICES
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE

5. FEDERAL STATUTE/REGULATION CITATION

6. FEDERAL BUDGET IMPACT (Amounts in WHOLE dollars)

a. FFY _____ \$ TBD

b. FFY _____ \$ TBD

7. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT

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 PAGE NUMBER OF THE SUPERSEDED PLAN SECTION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

9. SUBJECT OF AMENDMENT

10. GOVERNOR'S REVIEW (Check One)

GOVERNOR'S OFFICE REPORTED NO COMMENT
COMMENTS OF GOVERNOR'S OFFICE ENCLOSED
NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL

OTHER, AS SPECIFIED:

11. SIGNATURE OF STATE AGENCY OFFICIAL

Kyle Samp

12. TYPED NAME

13. TITLE

14. DATE SUBMITTED

15. RETURN TO

FOR CMS USE ONLY

16. DATE RECEIVED

17. DATE APPROVED

PLAN APPROVED - ONE COPY ATTACHED

18. EFFECTIVE DATE OF APPROVED MATERIAL

19. SIGNATURE OF APPROVING OFFICIAL

20. TYPED NAME OF APPROVING OFFICIAL

21. TITLE OF APPROVING OFFICIAL

22. REMARKS

August 29, 2025

Re: AHCCCS State Plan Amendments (SPAs) Tribal Notice

Dear Tribal Leader and Urban Indian Organization Leader:

The Arizona Health Care Cost Containment System (AHCCCS), Arizona's State Medicaid Agency, has prepared this letter to inform tribal stakeholders of four upcoming State Plan Amendments (SPAs) and to meet the tribal consultation requirement established in Arizona's Medicaid State Plan. Ideally, AHCCCS strives for a tribal consultation meeting, which provides an opportunity for discussion and verbal comments to be made regarding a proposed change 45 days prior to the submission of the policy change to CMS.

For the Disproportionate Share Hospital (DSH) 2026, there will be three SPAs submitted to describe the payment methodology and amounts specific to the DSH programs funded through the AZ State General Funds and through intergovernmental transfer agreements (IGAs). For Graduate Medical Education (GME) 2026, there will be two SPAs submitted to describe the payment methodology and amounts specific to the GME programs funded through the AZ State General Fund and through IGAs.

If any tribal stakeholders are interested in discussing these SPAs further, AHCCCS would be happy to schedule individual meetings. In addition, Tribal stakeholders are welcome to provide verbal comments on this SPA via email or telephone by contacting the AHCCCS State Plan Manager, Ryan Melson, at the email ryan.melson@azahcccs.gov or by phone at 602-417-7309 and we can set up a meeting time.

Background

Arizona's Medicaid and CHIP programs operate under the federal authorities of a State Plan and an 1115 Research and Demonstration Waiver. The Medicaid and CHIP (KidsCare) State Plans are federally mandated contracts between the State and the federal government, describing how Arizona's Medicaid and CHIP (KidsCare) programs are administered, and serving as the basis for Federal Financial Participation (FFP). In alignment with established federal regulations, the State Plan covers topics such as eligibility standards, provider requirements, payment methods, health benefit packages, and other topics. Changes to the State Plan regularly occur through State Plan Amendments (SPAs), which undergo rigorous negotiations with the Centers for Medicare and Medicaid Services (CMS). Once a SPA is approved, it becomes a permanent part of Arizona's Medicaid program and is filed in the State Plan.

Five State Plan Amendment Details

SPA Title: Disproportionate Share Hospital (DSH) Budget

SPA Purpose: This SPA updates the Disproportionate Share Hospital (DSH) Budget in the State Plan. This SPA will be effective October 1, 2025.

SPA Public Notice: The public notice posting for this SPA can be found at the following link:
<https://www.azahcccs.gov/shared/Downloads/PublicNotices/DSHFY26NOPI.pdf>

SPA Title: DSH Pool 5

SPA Purpose: This SPA updates the DSH Pool 5 funding and participating hospitals in the State Plan. This SPA will be effective October 1, 2025.

SPA Public Notice: The public notice posting for this SPA can be found at the following link:
<https://www.azahcccs.gov/shared/Downloads/PublicNotices/DSHFY26NOPI.pdf>

SPA Title: DSH Pool 4 Reallocation

SPA Purpose: This SPA updates the State Plan to detail the reallocation of excess Pool 4 funding. This SPA will be effective September 30, 2025.

SPA Public Notice: The public notice posting for this SPA can be found at the following link:
<https://www.azahcccs.gov/shared/Downloads/PublicNotices/DSHFY26NOPI.pdf>

SPA Title: General Fund (GF) GME

SPA Purpose: This SPA details amounts and methodology related to the General Fund GME Program. This SPA will be effective September 30, 2025.

SPA Public Notice: The public notice posting for this SPA can be found at the following link:
https://www.azahcccs.gov/shared/Downloads/PublicNotices/GME_FY_26_NOPI.pdf

SPA Title: Intergovernmental Agreement (IGA) GME Program

SPA Purpose: This SPA details amounts and methodology related to the Intergovernmental Agreement (IGA) GME Program. This SPA will be effective September 30, 2025.

SPA Public Notice: The public notice posting for this SPA can be found at the following link:
https://www.azahcccs.gov/shared/Downloads/PublicNotices/GME_FY_26_NOPI.pdf

Public Comments: These SPAs will be submitted by the end of September, but AHCCCS will continue to take public comments for 45 days from Tribal stakeholders. Public comments can be submitted through the following mediums:

- Email: publicinput@azahcccs.gov
- Postal Mail:
Attn: Division of Public Policy and Strategic Planning
150 N. 18th Avenue
Phoenix, AZ 85007
- Telephone: Contact Ryan Melson, State Plan Manager, at (602) 417-7309

Public Comment Considerations: AHCCCS welcomes any public comments that Tribal leaders may have on this SPA. Key questions that may be helpful in organizing feedback include:

- What questions do you have about this SPA?
- What impact will this SPA have on AHCCCS members in your community?
- What impact will this SPA have on AHCCCS-enrolled providers in your community?
- What concerns or suggestions should AHCCCS consider in implementing this SPA?

Please feel free to contact Ryan Melson, the AHCCCS State Plan Manager with any questions about this SPA. He may be reached at (email) ryan.melson@azahcccs.gov or (phone) 602-417-7309.

Thank You,

Christine Holden
AHCCCS Tribal Liaison

Max Seifer
AHCCCS Federal Relations Section Lead

STATE OF ARIZONA
METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES
INPATIENT HOSPITAL CARE

inflation factor. Accommodation costs were derived by multiplying the covered days on the claim/encounter times the accommodation cost per diems from the cost report.

e. Costed claims/encounters were then assigned to tiers using the logic specified above. For claims assigned to more than one tier, ancillary costs were allocated to the tiers in the same proportion as the accommodation costs.

f. All costs were reduced by an audit adjustment factor equal to four percent since cost reports were not audited.

2) **Inflation Factor:** For rates effective on and after October 1, 1999, AHCCCS shall inflate the operating component of the tiered per diem rates to the mid-point of the prospective rate year, using the DRI inflation factor. For rates effective on and after October 1, 2010, no inflation factor will be applied.

Length of Stay (LOS) Adjustment: For rates effective October 1, 1999 through September 30, 2000, the operating component of the Maternity and Nursery tiers shall be adjusted to reflect changes in LOS as required by the federal mandate that allows women at least 48 hours of inpatient care for a normal vaginal delivery, and at least 96 hours of inpatient care for a cesarean section delivery, effective for dates of service on and after January 1, 1998. There shall be no LOS updates for any tiers for rates effective on or after October 1, 2000.

B. Direct Medical Education Component

Direct medical education includes nursing school education, intern and resident salaries, fringes and program costs and paramedical education.

- 1) For the service period July 1, ~~2024–2025~~ through June 30, ~~2025~~2026, the Administration shall distribute \$45,005,192 as described in this paragraph to the following hospitals: Abrazo Central Campus, Banner Boswell Medical Center, Banner University Medical Center - Phoenix, Banner University Medical Center - Tucson, Phoenix Children's Hospital, Scottsdale Healthcare - Osborn, Scottsdale Healthcare - Shea, St. Joseph's Hospital – Phoenix, Tucson Medical Center, and Valleywise Health Medical Center. For dates of service on and after October 1, 1997 (FFY98), GME payment dollars will be separated from the tiered per diem rates to create an AHCCCS GME pool. For FFY98 and each year thereafter, the value of the GME pool will be based on the total GME payments made for claims and encounters in FFY96, inflated by the DRI inflation factor. On an annual basis GME pool funds will be distributed to each hospital with an approved GME program based on the percentage of the total FFY96 GME pool that each hospital's FFY96 GME payment represented. In

STATE OF ARIZONA
METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES
INPATIENT HOSPITAL CARE

resident positions that are eligible for expansion funding. The per-resident allocation to Program X will be based on the 2 resident positions.

Medicaid utilization for each hospital will be determined using the most recent as-filed Medicare Cost Report on file with the Administration and the Administration's inpatient hospital Fee-For-Service claims and managed care encounter data for the time period corresponding to the MCR for each hospital. The Medicaid utilization percent for each hospital will be calculated as its total Medicaid inpatient days divided by total MCR inpatient days, rounded up to the nearest 5%. Total MCR inpatient days will be taken from Form 2552, Worksheet S-3, Part 1, Lines 14 and 16 through 18, Column 8. The Medicaid utilization from the most recent as-filed Medicare cost reporting period is a proxy for the Medicaid utilization for the service period.

The statewide average per-resident cost will be determined using the most recent as-filed MCR on file with the Administration and resident counts reported by hospitals and GME programs. The average will be calculated by totaling all Intern/Resident direct costs for all hospitals reporting such costs on the MCR and dividing by the total number of residents at those hospitals. The direct I/R costs will be taken from Form 2552, Worksheet B, Part 1, Lines 21 & 22, Column 0.

A filled resident position is a GME program position for which a resident is enrolled and receiving a salary. The number of filled resident positions in a program will be derived by hospital and program reporting to the Administration.

A hospital's level of participation is defined by the hospital's share of resident rotations within the program. For example, if residents in Program X spend nine months of the year on rotation at hospital A and three months at hospital B, then hospital A's level of participation in Program X is 75% and hospital B's level of participation is 25%. The program rotation schedules will be derived by program and hospital reporting to the Administration.

For the service period of July 1, ~~2024~~2025, to June 30, ~~2025~~2026, the Administration shall distribute up to \$40,504,046 under this paragraph to the following hospitals: Abrazo Central Campus, Banner Boswell Medical Center, Banner Del Webb Medical Center, Banner University Medical Center - Phoenix, Banner University Medical Center - South, Banner University Medical Center - Tucson, John C. Lincoln Medical Center, HonorHealth Deer Valley Medical Center, Kingman Regional Medical Center, Mayo Hospital, Phoenix Children's Hospital, Scottsdale Healthcare - Osborn, Scottsdale Healthcare - Shea, Scottsdale Healthcare - Thompson Peak, St. Joseph's Hospital - Phoenix, Tucson Medical Center, and Valleywise Health Medical Center. If funds are insufficient to cover all calculated distributions within any priority group described in paragraphs B(3)(a) and (b), the Administration shall adjust the distributions proportionally within that priority group.

- 4) Beginning July 1, 2007 the AHCCCS Administration shall distribute monies appropriated for graduate medical education above the amounts prescribed in paragraphs B(1) and B(3) for the direct costs of graduate medical education programs established or expanded on or after July 1, 2006. These programs must be approved by the Administration.

STATE OF ARIZONA
METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES
INPATIENT HOSPITAL CARE

The Administration will allocate funds to eligible GME programs based on the number of filled resident positions in each program, weighted by Medicaid utilization, and a statewide average per-resident cost according to the methodology described in paragraph B(3).

For the service period of July 1, ~~2024~~2025, to June 30, ~~2025~~2026, the Administration shall distribute up

\$25,800,613 under this paragraph to the following hospitals: Abrazo Arrowhead Campus, Abrazo West Campus, Banner Boswell Medical Center, Banner University Medical Center - Phoenix, Banner University Medical Center - South, Banner University Medical Center - Tucson, Canyon Vista Medical Center, HonorHealth Deer Valley Medical Center, HonorHealth Rehabilitation Hospital, John C. Lincoln Medical Center, Mayo Hospital, Mountain Vista Medical Center, Phoenix Children's Hospital, Scottsdale Healthcare - Osborn, Scottsdale Healthcare - Shea, Scottsdale Healthcare - Thompson Peak, St. Joseph's Hospital – Phoenix, Tucson Medical Center, Valleywise Health Medical Center and Yuma Regional Medical Center. In addition to the above amount, this pool also includes the payment amounts listed on page 9(g)(i) for other teaching hospitals. If funds are insufficient to cover all calculated distributions, the Administration shall adjust the distributions proportionally.

C. New Hospitals

Payments made to new hospitals with GME programs will be calculated using a statewide average where necessary until hospital-specific data can be obtained.

D. Indirect Medical Education Component

Beginning July 1, 2007, the AHCCCS Administration shall distribute monies appropriated for graduate medical education above the amounts prescribed in paragraphs B(1), B(3), and B(4) for a portion of additional indirect medical education costs at hospitals with GME programs with residency positions

STATE OF ARIZONA
METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES
INPATIENT HOSPITAL CARE

The Medicaid-specific statewide average per-resident-per-month cost will be calculated by totaling the Medicaid IME costs for all hospitals that have such costs, dividing the result by the total number of residents at those hospitals, and dividing that result by 12. The Medicaid IME cost for each hospital is to be calculated as follows:

1. Calculate each hospital's Medicare share by dividing the Medicare inpatient discharges on the Medicare Cost Report (Worksheet S-3 Part I, Column 13, Line 14 plus Line 2) by the total inpatient hospital discharges on the Medicare Cost Report (Worksheet S-3 Part I, Column 15, Line 14).
2. Calculate the ratio of the residents to beds by dividing the number of filled resident positions for each hospital derived from reporting by the GME programs to the Administration as described in paragraph B(2) by the bed days available divided by the number of days in the cost reporting period from the Medicare Cost Report (Worksheet E Part A, Line 4, Column 1).
3. Calculate the indirect medical education adjustment factor by using the following formula: $1.35 \times \{[(1+r)^{.405}]-1\}$ where r is the ratio of residents to beds calculated above.
4. Calculate each hospital's total indirect medical education cost by adding the DRG amounts other than outlier payments from the Medicare cost report and the managed care simulated payments from the Medicare Cost Report (Worksheet E Part A, Lines 1, 1.01, 1.02, 1.03, 1.04 and 3, Column 1), multiplying the total by the indirect medical education adjustment factor and dividing the result by the Medicare share.
5. Calculate each hospital's Medicaid indirect medical education cost by multiplying the hospital's total indirect medical education by the Medicaid Utilization Percent used to determine the direct GME component.

The amount allocated to each program will be distributed to the program's sponsoring hospital or the program's base hospital if the sponsoring institution is not a hospital.

The total amount computed for a teaching hospital under this paragraph shall not exceed the greatest among the amounts described in paragraph F(1) through F(3).

A hospital that does not have any IME amount reported on the Medicare cost report, other than a children's hospital or a new teaching hospital whose latest available Medicare cost report used does not include the hospital's Medicare IME amount as a teaching hospital, will be ineligible for IME payment under this paragraph D.

For the service period of July 1, ~~2024~~2025, to June 30, ~~2025~~2026 the Administration shall distribute up to

\$8,910,986 under this paragraph to the following hospitals: Banner University Medical Center - South, Banner University Medical Center - Tucson, Canyon Vista Medical Center, Kingman Regional Medical Center, and Yuma Regional Medical Center. If funds are insufficient to cover all calculated distributions, the Administration shall adjust the distributions proportionally.

STATE OF ARIZONA
METHODS AND STANDARDS FOR ESTABLISHING PAYMENT RATES
INPATIENT HOSPITAL CARE

A hospital that does not have any IME amount reported on the Medicare cost report, other than a children's hospital or a new teaching hospital described above, will be ineligible for IME payment under paragraphs D and F.

For the service period of July 1, ~~2024-2025~~ to June 30, ~~2025-2026~~, the Administration shall distribute up to \$261,052,734 in total funds under this paragraph to the following hospitals: Abrazo Central Campus, Abrazo Arrowhead Campus, Abrazo West Campus, Banner Boswell Medical Center, Banner Del Webb Medical Center, Banner University Medical Center - Phoenix, Banner University Medical Center - South, Banner University Medical Center - Tucson, Canyon Vista Medical Center, HonorHealth Deer Valley Medical Center, HonorHealth Rehabilitation Hospital, John C. Lincoln Medical Center, Kingman Regional Medical Center, Mayo Hospital, Mountain Vista Medical Center, Phoenix Children's Hospital, Scottsdale Healthcare - Osborn, Scottsdale Healthcare - Shea, Scottsdale Healthcare - Thompson Peak, St. Joseph's Hospital - Phoenix, Tucson Medical Center, and Valleywise Health Medical Center. Any unallocated authority remaining from paragraphs B(3), B(4) or D after any necessary redistribution under paragraph E may be distributed under this paragraph. If funds are insufficient to cover all calculated distributions, the Administration shall adjust the distributions proportionally.

All payments for GME and IME provided for in paragraphs B-F are payable annually at the end of the year.