

Preliminary Federal Fiscal Year 2025 Hospital Assessment Model

Prepared for the Arizona Health Care Cost Containment System (AHCCCS)

FEBRUARY 15, 2024



Agenda

- FFY 2025 Preliminary Assessments
- HEALTHII Payment Methodology
- Preliminary Model Results
- Limitations
- Close/Thank You

FFY 2025 Preliminary Assessments

FFY 2025 Preliminary Assessments

Overview

- The FFY 2025 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 assessment utilizes hospital fiscal year ending **(FYE) 2021 inpatient discharges and outpatient net patient revenues**, which is the same time period and data used in the FFY 2024 model
 - *“Hospital Assessment Fund” (HAF) assessments*: finances the non-federal share of Medicaid coverage (“coverage payments for both hospital and non-hospital services) for the Proposition 204 (Childless Adult) and Newly Eligible Adult Expansion populations (Impacted Populations)
 - *“Health Care Investment Fund” (HCIF) assessments*: finances 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 2025 Preliminary Assessment (Cont'd)

Modeled Assessment Changes from FFY 2024 Model

Changes From FFY 2024 Model

- At AHCCCS' direction, hospital assessments were modeled to result in 5.75% of net patient revenues in aggregate statewide (below CMS "Hold Harmless" limit of 6.0%), separately for inpatient and outpatient
- **Total Assessments: \$1,208.2M** modeled assessments (increase from \$1,151.2M in FFY 2024)
- **HAF: \$597.1M** modeled assessments (decrease from \$641.8M in FFY 2024) based on AHCCCS projections
- **HCIF: \$611.1M** modeled assessments (increase from \$509.4M in FFY 2024), based on changes in the AHCCCS' target total assessments, prior period surplus applied, physician/dental payment portion, and effective federal match rate
 - \$70M prior period surplus applied (decreased from \$100M in FFY 2024)
 - Updated HCIF inpatient and outpatient allocation to **37% / 63%** (from 25% / 75% in FFY 2024) to result in AHCCCS' target of 5.75% of net patient revenues, separately for inpatient and outpatient
- 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 **22,800** (decrease from 23,000 in FFY 2024)

Same As FFY 2024 Model

- FYE 2021 discharges and outpatient net patient revenues, with self reported data for new hospitals
- 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 HAF inpatient and outpatient allocation (75% / 25%)

FFY 2025 Inpatient Assessments

Discharge basis

FYE 2021 discharges used to model preliminary FFY 2025 inpatient assessments are based on amounts reported by hospitals under the same source hierarchy used for the FFY 2024 model

1. FYE 2021 Medicare Cost Reports

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

2. FYE 2021 Uniform Accounting Reports (UAR)

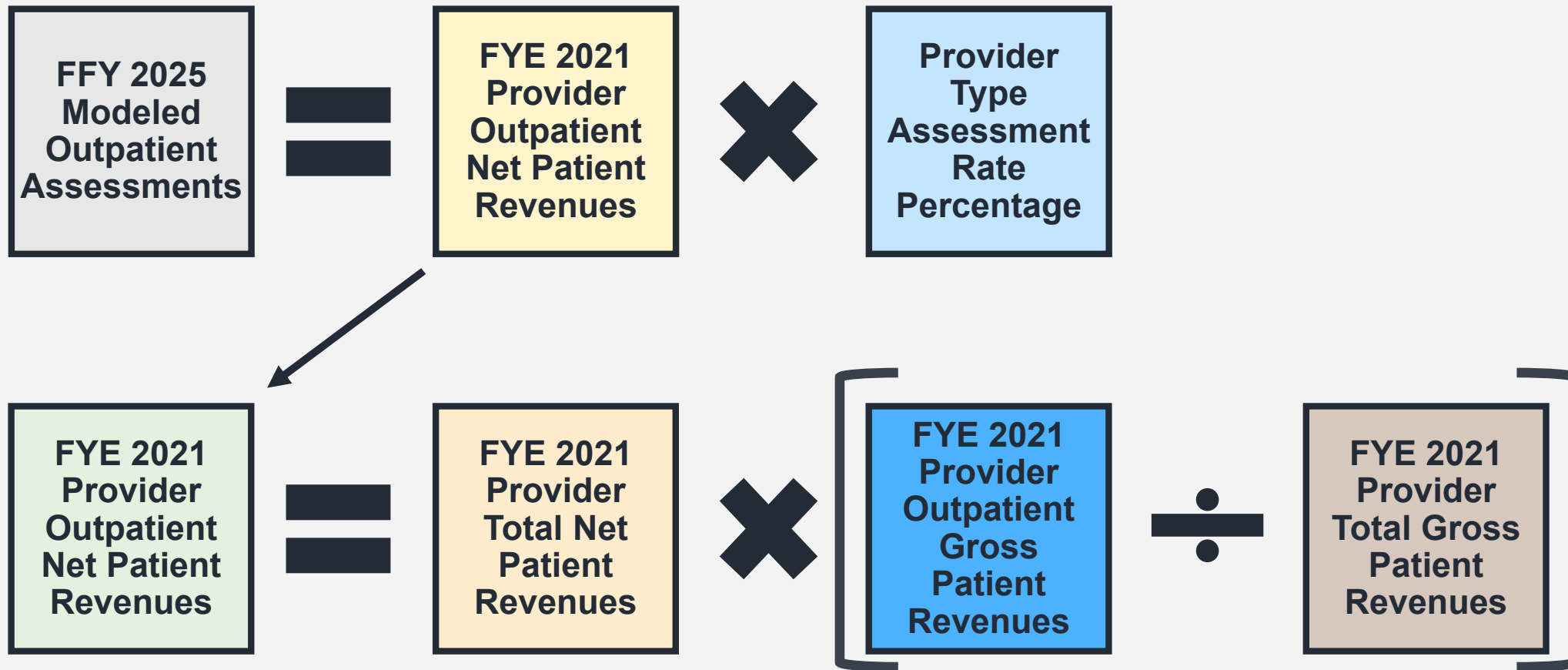
UAR data published by the Arizona Department of Health Services (used only if HCRIS data is not available)

3. Provider Self-Report Data

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

FFY 2025 Outpatient Assessments

Outpatient assessment calculation



FFY 2025 Outpatient Assessments (Cont'd)

Outpatient revenues basis

The FYE 2021 outpatient revenues used to calculate FFY 2025 outpatient assessments are based on amounts reported by hospitals under the same source hierarchy used for current assessments:

1

FYE 2021 Uniform Accounting Reports (UAR):

UAR data published by the Arizona Department of Health Services (used if the UAR data reconciles to the audited financial statements)

2

FYE 2021 Audited Financial Statements (AFS):

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

FYE 2021 Medicare Cost Reports:

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

Provider Self-Reported Data:

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 2025 HEALTHII Payment Methodology

Overview of steps used to model payments



Step 1: Estimate Medicaid Managed Care Baseline Payments

- Summarized by hospital FFY 2023 Medicaid managed care baseline payments and applied completion factors
- Excluded non-contracted services and removed Differential Adjusted Payment (DAP) increases from baseline payments



Step 2: Estimate HEALTHII Base Directed Payments by Hospital

- Applied class-specific HEALTHII base directed payment increase percentages to Medicaid managed care baseline payments
- Increased the Specialty Hospital class base directed payment increase percentage to match the Public Acute Hospital class, per AHCCCS direction
- Adjusted base directed payment increase percentages for each class by a factor of **1.057** (relative to FFY 2024) to achieve AHCCCS' target HEALTHII base directed payment pool of **\$2,079.0M** (85% of total HEALTHII payments)



Step 3: Calculated HEALTHII Base Directed Payment Pools

- Summed the estimated HEALTHII base directed payments for the hospitals within each class
- Compared to FFY 2024, HEALTHII base directed payments increased by **\$194.5M** in aggregate, with each class having a modeled aggregate payment increase
- **Note:** AHCCCS' proposed new \$366.9M quality payment pool (15% of total HEALTHII payments) is not yet included in the modeled hospital payments and estimated hospital net revenue gain

FFY 2025 HEALTHII Payment Benchmarking

CMS limits

- State Directed Payments such as HEALTHII are subject to an annual approval process by CMS, which involves submission of a “Section 438.6(c) Preprint” application that includes a requirement for a “Provider Payment Analysis” with the following instructions:
 - *“This should include an estimate of the base reimbursement rate the managed care plans pay to these providers as a percent of Medicare, or **some other standardized measure**, and the effect the increase from the state directed payment will have on total payment”⁽¹⁾*
- CMS has allowed estimated payments under Average Commercial Rates (ACR) as the basis for the payment benchmarking, where total Medicaid managed care payments (including HEALTHII) cannot exceed 100% of payments under ACR **for the provider class in aggregate**, separately for inpatient and outpatient
- ACR payment benchmarking is **in process** and must include all applicable State Directed Payments (not limited to the HEALTHII program)
- With AHCCCS’ proposed increase in FFY 2025 HEALTHII payments, the class-specific payment increase percentages may need to be adjusted if resulting payments are found to exceed CMS’ ACR limit

Source: 1. CMS, “Section 438.6(c) Preprint”, January 2021, Question 23, Table 2, pages 9-10.

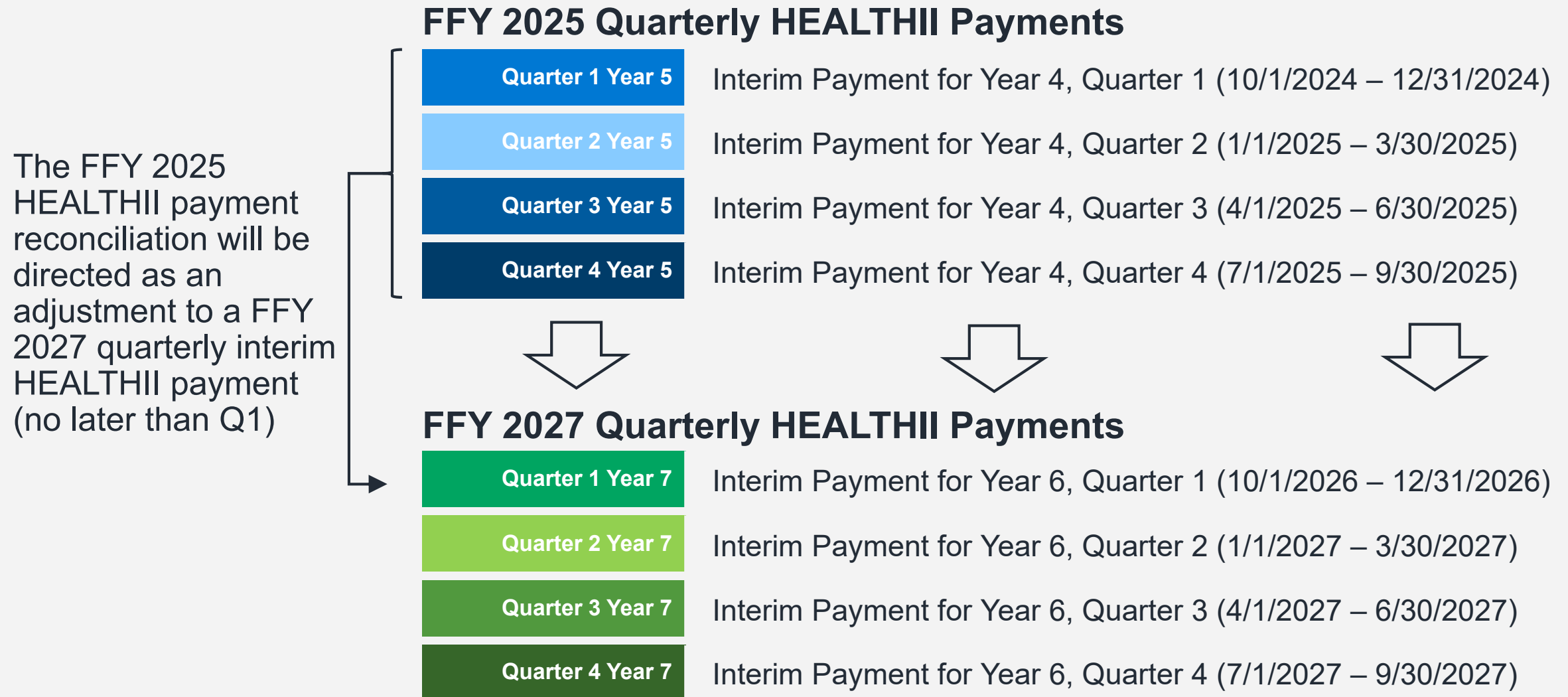
AHCCCS Proposed HEALTHII Payment Process

Based on the FFY 2024 approach approved by CMS

| Parameter | Note |
|---------------------------|---|
| Hospital Classes | <ul style="list-style-type: none"> The aggregate HEALTHII base directed payment pool is allocated to six hospital class fixed payment pools The new proposed \$366.9M quality payment pool would be allocated to eligible hospitals in addition to the base directed payment pools (not yet reflected in the modeling) Actual HEALTHII directed payments will be based on each hospitals' actual MCO utilization during the contract year |
| Interim Payments | <ul style="list-style-type: none"> Each hospital will have a quarterly interim payment based on modeled HEALTHII payments divided by four |
| Payment Reconciliation | <ul style="list-style-type: none"> After the completion of the contract year and when there is sufficient claim runout, interim payments will be reconciled based on actual contract year utilization Class final HEALTHII base directed payment increase percentage = Class HEALTHII base directed payment pool / Class FFY 2025 managed care baseline payments (with DAP removed) Final hospital HEALTHII base directed payment = Class final HEALTHII base directed payment increase percentage X FFY 2025 managed care baseline payments (with DAP removed) |
| Reconciliation Adjustment | <ul style="list-style-type: none"> Hospital payment reconciliation adjustment = Final HEALTHII payment – Interim HEALTHII payment AHCCCS will direct hospital payment reconciliation adjustments as either increases to or offsets against interim HEALTHII payments in a future quarter FFY 2025 HEALTHII payment reconciliation will occur no later than Q1 FFY 2027 |

AHCCCS Proposed HEALTHII Payment Process (Cont'd)

Quarterly Payment Schedule

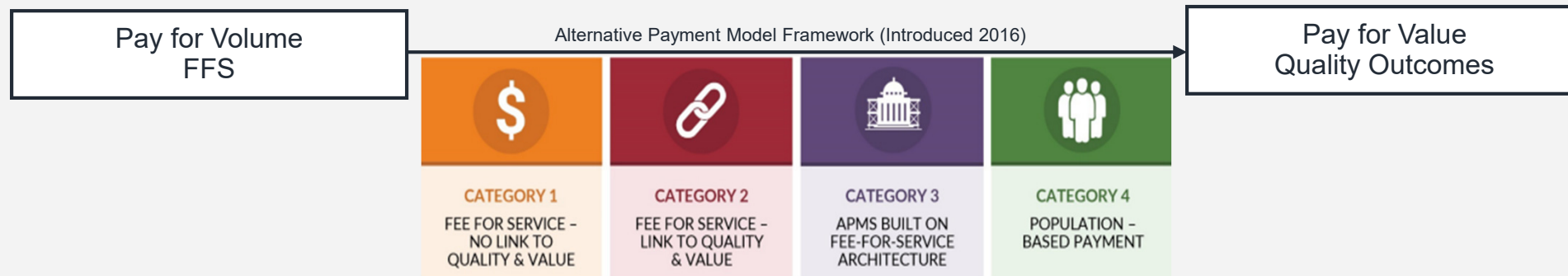


National Landscape

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-ian.org/workproducts/apm-refresh-whitepaper-final.pdf>

Preliminary Model Results

Preliminary FFY 2025 Model Totals Compared To FFY 2024

| Preliminary Model Totals (\$ Millions) | | FFY 2025 (before Quality Pool Payments) | FFY 2024 (with Quality Pool Payments) |
|---|----------------|---|---|
| Modeled Assessments | | | |
| Hospital Assessment Fund (HAF) | | | |
| Modeled baseline HAF assessments | A | \$ 597.1 | \$ 641.8 |
| Health Care Investment Fund (HCIF) | | | |
| Modeled HCIF assessments for HEALTHII payments (includes administration and quality pool) | B | \$ 540.6 | \$ 438.9 |
| Modeled HCIF assessments for physician/dental payments | C | 70.5 | 70.5 |
| Total modeled FFY HCIF assessments | D = B+C | \$ 611.1 | \$ 509.4 |
| Applied HCIF surplus balance from prior periods | E | \$ 70.0 | \$ 100.0 |
| Total HCIF costs including surplus from prior periods | F = D+E | \$ 681.1 | \$ 609.4 |
| Total Modeled FFY Assessments | G = A+D | \$ 1,208.2 | \$ 1,151.2 |
| Estimated Coverage Payment Net Revenue Gain (Relates to HAF Assessment) | | | |
| Total modeled Coverage Payments | H | \$ 1,446.8 | \$ 1,535.2 |
| Less: Total modeled HAF assessments | I | (597.1) | (641.8) |
| Total Estimated FFY Coverage Payment Net Revenue Gain | J = H+I | \$ 849.7 | \$ 893.4 |
| Estimated HEALTHII Net Revenue Gain (Relates to HCIF Assessment) | | | |
| Total modeled HEALTHII base directed payments (net of premium tax) | K | \$ 2,079.0 | \$ 2,213.8 |
| Less: Total modeled HCIF assessments | L | (611.1) | (509.4) |
| Total Estimated FFY HEALTHII Net Revenue Gain | M = K+L | \$ 1,467.9 | \$ 1,704.4 |
| Total Estimated FFY Hospital Net Revenue Gain | N = J+M | \$ 2,317.7 | \$ 2,597.8 |

Note: For FFY 2025, non-federal share of AHCCCS' proposed \$366.9M quality payment pool is included in modeled HCIF assessments but is not modeled HEALTHII payments. For FFY 2024, the quality payment pool is included in both HCIF and modeled HEALTHII payments.

Preliminary Modeled Assessment Rates

Combined HAF and HCIF Assessment Rates

| Hospital Assessment Peer Group | Inpatient | | Outpatient | |
|--|----------------------------|----------------------------------|----------------------------|----------------------------------|
| | Percent of Base Assessment | Modeled FFY 2025 Assessment Rate | Percent of Base Assessment | Modeled FFY 2025 Assessment Rate |
| Rates Applicable to Each Hospital Type: | | | | |
| Critical Access Hospitals | 100% | \$ 1,301.25 | 25% | 2.0382% |
| Freestanding Children's Hospitals | 20% | \$ 260.50 | 20% | 1.6305% |
| 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% | \$ 325.50 | 25% | 2.0382% |
| LTAC Hospitals | 25% | \$ 325.50 | 25% | 2.0382% |
| Medium Pediatric Intensive General Acute Hospitals | 90% | \$ 1,171.00 | 75% | 6.1146% |
| Non-CAH Rural Acute Hospitals | 100% | \$ 1,301.25 | 60% | 4.8916% |
| Pediatric-Intensive General Acute Hospitals | 80% | \$ 1,041.00 | 65% | 5.2992% |
| 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% | \$ 1,301.25 | 100% | 8.1527% |
| Rates Applicable to All Non-Exempted Hospital Types: | | | | |
| Rate Applied to Non-Exempted Psychiatric Sub-Provider Units | 25% | \$ 325.50 | 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 ⁽¹⁾ | 10% | \$ 130.25 | N/A | N/A |

(1) The modeled inpatient assessment unit threshold is 22,800 and there is no modeled outpatient assessment unit threshold. The inpatient threshold is not applicable to discharges for Psychiatric and Rehabilitation sub-providers.

Preliminary Modeled HEALTHII Base Payments

Combined Inpatient and Outpatient, Before Quality Pool Payments (\$ in millions)

| HEALTHII Reimbursement Class | Class HEALTHII Base Directed Payment Increase Percentage | Modeled HEALTHII Base Directed Payment Pool | Modeled HCIF Assessments including Quality Pool Funding | Estimated Net Revenue Gain / (Loss) From Assessments |
|---|--|---|---|--|
| A | B | C | D | E = C - D |
| Freestanding Children's Provider | 23.70% | \$ 77.3 | \$ 5.9 | \$ 71.4 |
| Private Urban Acute Hospital | 96.21% | \$ 1,491.6 | \$ 489.0 | \$ 1,002.7 |
| Public Acute Hospital | 23.10% | \$ 37.2 | \$ 0.0 | \$ 37.2 |
| Rural Hospital | 100.74% | \$ 295.0 | \$ 84.7 | \$ 210.3 |
| Rural Reservation-Adjacent Hospitals | 134.54% | \$ 108.1 | \$ 25.3 | \$ 82.8 |
| Specialty Hospital | 23.10% | \$ 69.7 | \$ 6.1 | \$ 63.6 |
| Total Before Quality Pool Payments | | \$ 2,079.0 | \$ 611.1 | \$ 1,467.9 |

Note: For FFY 2025, non-federal share of AHCCCS' proposed new \$366.9M quality payment pool is included in modeled HCIF assessments but not modeled HEALTHII payments. HEALTHII payments are subject to CMS' provider class level commercial payment benchmark limitations which have not yet been determined.

Preliminary Modeled Impact from Total Assessments

Combined Coverage Payments and HEALTHII Payments, Inpatient and Outpatient (\$ in millions)

| Hospital Assessment Peer Group | Total Modeled FFY 2025 HAF Assessments | Total Modeled FFY 2025 HCIF Assessments | Total Modeled FFY 2025 Coverage Payments | Total Modeled FFY 2025 HEALTHII Base Directed Payments | Estimated Hospital Net Revenue Gain / (Loss) from Total Assessments ⁽¹⁾ | Number of Hospitals with Estimated Gain | Number of Hospitals with Estimated \$0 Gain | Number of Hospitals with Estimated Loss |
|---|--|---|--|--|--|---|---|---|
| CAH | \$ 9.8 | \$ 9.5 | \$ 39.6 | \$ 75.0 | \$ 95.2 | 12 | 0 | 0 |
| Freestanding Children's Hospitals | \$ 4.2 | \$ 5.9 | \$ 7.7 | \$ 77.3 | \$ 74.9 | 1 | 0 | 0 |
| Freestanding Rehabilitation Hospitals | \$ 0.0 | \$ 0.0 | \$ 18.3 | \$ 5.7 | \$ 24.0 | 14 | 2 | 0 |
| High Medicare/Out-of-State Patient Utilization Hospital | \$ 0.0 | \$ 0.0 | \$ 13.7 | \$ 3.7 | \$ 17.4 | 1 | 0 | 0 |
| Large Psychiatric Hospitals | \$ 11.0 | \$ 5.9 | \$ 113.3 | \$ 51.5 | \$ 148.0 | 12 | 0 | 0 |
| LTAC Hospitals | \$ 0.5 | \$ 0.2 | \$ 6.7 | \$ 1.7 | \$ 7.7 | 5 | 0 | 0 |
| Medium Pediatric Intensive General Acute Hospitals | \$ 103.1 | \$ 108.8 | \$ 234.8 | \$ 490.4 | \$ 513.4 | 5 | 0 | 0 |
| Non-CAH Rural Acute Hospitals | \$ 81.8 | \$ 77.9 | \$ 136.0 | \$ 235.9 | \$ 212.2 | 12 | 0 | 0 |
| Pediatric-Intensive General Acute Hospitals | \$ 21.3 | \$ 20.3 | \$ 56.5 | \$ 133.6 | \$ 148.6 | 1 | 0 | 0 |
| Public Acute Hospital | \$ 0.0 | \$ 0.0 | \$ 110.0 | \$ 37.2 | \$ 147.2 | 1 | 0 | 0 |
| Short Term Specialty Hospitals | \$ 0.0 | \$ 0.0 | \$ 10.5 | \$ 3.2 | \$ 13.7 | 9 | 3 | 0 |
| Small Psychiatric Hospitals and AZ State Hospital | \$ 0.0 | \$ 0.0 | \$ 16.3 | \$ 7.7 | \$ 24.0 | 10 | 0 | 0 |
| Urban Acute Hospitals | \$ 365.5 | \$ 382.6 | \$ 651.2 | \$ 956.1 | \$ 859.3 | 28 | 0 | 1 |
| Total Border Hospitals | \$ 0.0 | \$ 0.0 | \$ 28.6 | \$ 0.0 | \$ 28.6 | 0 | 0 | 0 |
| Total Out of State Hospitals | \$ 0.0 | \$ 0.0 | \$ 3.6 | \$ 0.0 | \$ 3.6 | 0 | 0 | 0 |
| Total | \$ 597.1 | \$ 611.1 | \$ 1,446.8 | \$ 2,079.0 | \$ 2,317.7 | 111 | 5 | 1 |

Preliminary Model Feedback

Model Parameters and Hospital Reported Amounts

- AHCCCS is soliciting feedback from the hospital community on the preliminary FFY 2025 HEALTHII assessment model parameters for consideration
 - Please email comments related to model parameters and inputs to AHCCCS at HospitalAssessmentProject@azahcccs.gov by **Wednesday, March 6, 2024**
- Please review and validate your hospital's FYE 2021 discharges and revenues amounts shown in the Milliman report "*Preliminary Federal Fiscal Year 2025 Hospital Assessment Model*" Appendix A
- Please contact AHCCCS if there are any issues or questions

Limitations

This presentation has been prepared for the internal business use of the Arizona Health Care Cost Containment System (AHCCCS) for discussion at an Arizona Medicaid hospital stakeholder work group meeting facilitated by AHCCCS on February 15, 2024. We understand this presentation will be distributed to 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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Milliman has developed certain models to estimate the values included in this presentation. The intent of the models was to project FFY 2025 hospital assessments and to estimate FFY 2025 Medicaid payments. We have reviewed the models, including their inputs, calculations, and outputs for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant standards of practice.

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 presentation 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 final AHCCCS policy decisions, the CMS approval process, and actual contracted MCO utilization during the 2025 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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