

Preliminary Federal Fiscal Year 2026 Hospital Assessment Model

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

APRIL 24, 2025



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Modeling Updates

Preliminary FFY 2026 Hospital Assessment Model Updates

Summary of key model changes since the March 6th meeting based on AHCCCS direction

1

- Target HAF assessments were reduced by \$100M
- Target HCIF assessments were increased by \$100M
- Modeled HEALTHII payments (inclusive of quality payments) were increased by \$396M

2

- Incorporated final quality score reporting results from HealthTech Solutions
- Implemented new quality “stage-gate” approach where hospitals receive either 100% or 0% of their quality incentive payments based on their quality reporting score percentage

3

- Updated Medicaid base payment data to exclude crossover claims and the CHP population
- Incorporated self-reported Medicaid payment data for two new hospitals

- *Average Commercial Rate (ACR) payment benchmarking analysis is on-going and modeling subject to change based on 100% ACR limits at setting/class/program level*

Quality Incentive Payment “Stage-Gate” Approach

Combined with \$59.4M increase quality incentive pool funding compared to March meeting

Beginning in FFY 2026, AHCCCS is proposing a “stage-gate” approach to simplify the quality incentive payment calculations and streamline the CMS approval process

1. Set quality incentive payment increases for each hospital to either 100% or 0%, based on their quality reporting score percentage

This change would replace the legacy “graduated” approach, where some hospitals receive a partial incentive payment increase (depending on how many quality metrics were reported).

Results in modeled quality incentive payment decrease for **one** specialty hospital.

Unique quality incentive payment percentages would be reduced from **six** (as shown in the March stakeholder meeting) down to **two**.

2. Decrease the number of potential provider class cohorts in the preprint ACR demonstration

CMS has requested that each unique quality incentive payment increase percentage be listed as a separate provider class cohort in the preprint ACR demonstration.

The legacy approach resulted in multiple payment increase percentages within certain provider classes (particularly for the specialty hospital class), which would result in very low volume cohorts at the setting/class/program level for the ACR demonstration (with greater risk of exceeding 100% of ACR).

3. Treat hospitals with the same quality incentive payment increase percentages within a provider class as a separate cohort in the ACR demonstration

Having greater utilization volume at the service type/provider class/managed care program cohort level will reduce variability that could cause cohorts to exceed ACR in the benchmarking results.

Quality Stage Gate continued...

New requirement in order to receive quality incentive payments

- Hospitals must have a quality reporting score percentage greater than or equal to 50% in order to receive quality pool incentive payments.
- Hospitals meeting quality stage gate requirements receive the total incentive amount available based on modeled HEALTHII payments.

Hospital	Statewide Available Quality Payment Increase Percentage	Hospital-Specific Quality Reporting Score Percentage	Meet Hospital-Specific Quality Gate Criteria?	Modeled HEALTHII Base Directed Payments	Modeled HEALTHII Quality Incentive Payments <u>with</u> quality stage gate	HEALTHII Quality Incentive Payments <u>without</u> quality stage gate	Illustrative Quality Incentive Payment Gain / (Loss)
	A	B	C	D	$E = A \times C \times D$	$F = A * B * D$	$G = E - F$
Hospital A	17.6667%	100%	Yes (100%)	\$1,000,000	\$176,667	\$176,667	\$0
Hospital B	17.6667%	75%	Yes (100%)	\$500,000	\$88,334	\$66,251	\$22,083
Hospital C	17.6667%	25%	No (0%)	\$100,000	\$0	\$4,417	(\$4,417)

Quality Stage Gate results compared to March Stakeholder meeting

Number of hospitals impacted by the change in policy and quality payment pool size

Earned FFY 2026 Quality Incentive Payment	March Meeting Version (<i>without</i> quality stage-gate)		FFY 2026 Quality Modeling Update (<i>with</i> quality stage-gate)	
	Number of Hospitals	Modeled FFY 2026 HEALTHII Quality Incentive Payments	Number of Hospitals	Modeled FFY 2026 HEALTHII Quality Incentive Payments
Full Increase	101	\$ 484.8 M	103	\$ 545.3 M
Partial Increase	3	\$ 1.1 M	0	\$ 0.0 M
No Increase	12	\$ 0.0 M	13	\$ 0.0 M
Total	116	\$ 485.9 M	116	\$ 545.3 M

- Modeled quality incentive payment pool increased by \$59.4M due to overall HEALTHII payment pool increase
- Of the three hospitals with partial increases in the March meeting model version, two hospitals now receive full increases and one hospital receives no increase

Pay-for-Reporting Payment Calculation

Overview of calculation methodology

Step 1: Identify Quality Reporting Across Measures for Each Hospital

- Each hospital is considered to meet the reporting requirement if the measure is reported for the performance period.

Step 2: Determine Overall Entity Quality Reporting Score Percentage and Quality Gate Criteria

- Each reporting hospital's overall quality reporting score is calculated as the sum of measure weights for measures that were reported, divided by the sum of total measure weights.
- For hospitals with multiple facilities or units reporting under one HEALTHII model entity, the overall score is calculated as the straight average across all reporting facilities or units.
- Each hospital's quality reporting score is compared to quality stage gate requirements for eligibility for quality pool incentive payments.

Step 3: Model HEALTHII Pay-for-Reporting Payments¹

- Modeled for each hospital via an iterative process using the following formula:
(Statewide available pay-for-reporting payment increase percentage) ×
(Hospital-specific eligibility percentage) ×
(Modeled FFY 2026 HEALTHII base directed payments)
- Modeled statewide available pay-for-reporting payment increase percentage is **17.6667%** (hospital-specific percentages will no longer vary and will be 17.6667% if the quality stage gate requirement is met).

Note: Modeled increase percentage (17.6667%) is set to achieve AHCCCS' \$545.3 million pay for reporting payment pool target. This percentage would change based on the number of qualifying hospitals and modeled HEALTHII base directed payments.

Preliminary Modeled Pay-for-Reporting Payments

Combined inpatient and outpatient (\$ in millions)

Quality Reporting Hospital Type	Number of Hospitals	Modeled HEALTHII Base Directed Payments	Earned HEALTHII Pay-for-Reporting Payments	Percentage of Total Pay-for-Reporting Incentive Payments	Effective Percentage Increase Relative to Base HEALTHII Payments
	A	B	C	D = C / 545.3	E = C / B
Critical Access Hospitals	12	\$ 105.4	\$ 18.6	3.4%	17.6667%
Freestanding Children's Hospitals	1	\$ 130.6	\$ 23.1	4.2%	17.6667%
Freestanding Rehabilitation Hospitals	17	\$ 6.3	\$ 1.0	0.2%	15.6733%
General Acute	49	\$ 2,752.8	\$ 486.3	89.2%	17.6667%
Long Term Acute Care Hospitals	5	\$ 2.5	\$ 0.4	0.1%	14.4116%
Psychiatric Hospitals	21	\$ 88.0	\$ 15.2	2.8%	17.2858%
Short Stay Hospitals	11	\$ 4.7	\$ 0.8	0.1%	16.3151%
Total	116	\$ 3,090.3	\$ 545.3	100.0%	17.6471%

- 103 hospitals are receiving 100% of eligible quality incentive payments.
- 13 hospitals are receiving 0% of eligible quality incentive payments.

Preliminary Model Results

Preliminary FFY 2026 Model Totals Compared To March Stakeholder meeting

Preliminary Model Totals (\$ Millions)	Ref.	FFY 2026	March Stakeholder meeting
Modeled Assessments			
Hospital Assessment Fund (HAF)			
Modeled baseline HAF assessments	A	\$ 529.0	\$ 629.0
Health Care Investment Fund (HCIF)			
Modeled HCIF assessments for HEALTHII payments (includes administration and quality pool)	B	\$ 918.0	\$ 818.0
Modeled HCIF assessments for physician/dental payments	C	70.5	70.5
Total modeled FFY HCIF assessments	D = B+C	\$ 988.5	\$ 888.5
Applied HCIF surplus balance from prior periods	E	0.0	0.0
Total HCIF costs including surplus from prior periods	F = D+E	\$ 988.5	\$ 888.5
Total Modeled FFY Assessments	G = A+D	\$ 1,517.6	\$ 1,517.6
Estimated Coverage Payment Net Revenue Gain (Relates to HAF Assessment)			
Total modeled Coverage Payments	H	\$ 1,356.0	\$ 1,449.5
Less: Total modeled HAF assessments	I	(529.0)	(629.0)
Total Estimated FFY Coverage Payment Net Revenue Gain	J = H+I	\$ 827.0	\$ 820.5
Estimated HEALTHII Net Revenue Gain (Relates to HCIF Assessment)			
Total modeled HEALTHII directed payments (net of premium tax)	K	\$ 3,635.6	\$ 3,239.2
Less: Total modeled HCIF assessments	L	(988.5)	(888.5)
Total Estimated FFY HEALTHII Net Revenue Gain	M = K+L	\$ 2,647.1	\$ 2,350.6
Total Estimated FFY Hospital Net Revenue Gain	N = J+M	\$ 3,474.0	\$ 3,171.1

Note: For FFY 2026, AHCCCS' proposed \$545.3M quality payment pool is included in modeled HCIF assessments and HEALTHII payments.

Preliminary Modeled FFY 2026 Assessment Rates

Combined HAF and HCIF assessment rates

Hospital Assessment Peer Group	Inpatient		Outpatient	
	Percentage of Base Assessment	Modeled FFY 2026 Assessment Rate	Percentage of Base Assessment	Modeled FFY 2026 Assessment Rate
Rates Applicable to Each Hospital Type:				
Critical Access Hospitals	100%	\$ 1,738.75	25%	2.5458%
Freestanding Children's Hospitals	20%	\$ 348.00	20%	2.0366%
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%	\$ 435.00	25%	2.5458%
LTAC Hospitals	25%	\$ 435.00	25%	2.5458%
Medium Pediatric Intensive General Acute Hospitals	90%	\$ 1,565.00	75%	7.6372%
Non-CAH Rural Acute Hospitals	100%	\$ 1,738.75	60%	6.1098%
Pediatric-Intensive General Acute Hospitals	80%	\$ 1,391.25	65%	6.6188%
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%	\$ 1,738.75	100%	10.1829%
Rates Applicable to All Non-Exempted Hospital Types:				
Rate Applied to Non-Exempted Psychiatric Sub-Provider Units	25%	\$ 435.00	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%	\$ 174.00	10% of group rate	N/A

(1) The modeled inpatient assessment unit threshold is 22,800 and the modeled outpatient assessment unit threshold is \$375M. The inpatient threshold is not applicable to discharges for Psychiatric and Rehabilitation sub-providers.

Preliminary Modeled FFY 2026 HEALTHII Payments

With quality incentive payments (\$ in millions)

HEALTHII Reimbursement Class	Class HEALTHII Payment Increase Percentage	Modeled HEALTHII Base Directed Payment Pool	Modeled HEALTHII Quality Incentive Payment Pool	Modeled HCIF Assessments including Quality Pool Funding	Estimated Net Revenue Gain / (Loss) From Assessments
A	B	C	D	E	F = C + D - E
Freestanding Children's Provider	39.51%	\$ 130.6	\$ 23.1	\$ 9.0	\$ 144.6
Private Urban Acute Hospital	160.35%	\$ 2,217.3	\$ 391.7	\$ 787.1	\$ 1,821.9
Public Acute Hospital	38.51%	\$ 55.5	\$ 9.8	\$ 0.0	\$ 65.3
Rural Hospital	167.90%	\$ 427.0	\$ 75.4	\$ 138.6	\$ 363.8
Rural Reservation-Adjacent Hospitals	224.23%	\$ 158.5	\$ 28.0	\$ 40.8	\$ 145.7
Specialty Hospital	38.51%	\$ 101.5	\$ 17.3	\$ 13.0	\$ 105.8
Total w/ Quality Pool Payments		\$ 3,090.3	\$ 545.3	\$ 988.5	\$ 2,647.1

Note: For FFY 2026, the non-federal share of AHCCCS' proposed \$545.3M quality payment pool is included in modeled HCIF assessments and modeled HEALTHII payments. HEALTHII payment subject to provider class level commercial payment benchmark limitations which have not yet been finalized.

Preliminary Modeled FFY 2026 Impact from Total Assessments

Combined coverage payments and HEALTHII payments, inpatient and outpatient (\$ in millions)

Hospital Assessment Peer Group	Total Modeled FFY 2026 HAF Assessments	Total Modeled FFY 2026 HCIF Assessments	Total Modeled FFY 2026 Coverage Payments	Total Modeled FFY 2026 HEALTHII Payments (incl. Quality)	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
Critical Access Hospitals	\$ 8.0	\$ 15.8	\$ 34.2	\$ 124.0	\$ 134.4	12	0	0
Freestanding Children's Hospitals	\$ 3.9	\$ 9.0	\$ 9.3	\$ 153.6	\$ 150.0	1	0	0
Freestanding Rehabilitation Hospitals	\$ 0.0	\$ 0.0	\$ 14.6	\$ 7.3	\$ 21.9	16	1	0
High Medicare/Out-of-State Patient Utilization Hospital	\$ 0.0	\$ 0.0	\$ 11.0	\$ 5.8	\$ 16.8	1	0	0
Large Psychiatric Hospitals	\$ 9.7	\$ 12.5	\$ 115.7	\$ 89.1	\$ 182.7	12	0	0
LTAC Hospitals	\$ 0.4	\$ 0.5	\$ 6.7	\$ 2.9	\$ 8.8	5	0	0
Medium Pediatric Intensive General Acute Hospitals	\$ 95.9	\$ 180.4	\$ 218.1	\$ 865.2	\$ 807.1	5	0	0
Non-CAH Rural Acute Hospitals	\$ 70.1	\$ 130.5	\$ 123.0	\$ 393.5	\$ 315.9	12	0	0
Pediatric-Intensive General Acute Hospitals	\$ 18.3	\$ 31.6	\$ 59.4	\$ 227.0	\$ 236.6	1	0	0
Public Acute Hospital	\$ 0.0	\$ 0.0	\$ 109.0	\$ 65.3	\$ 174.3	1	0	0
Short Term Specialty Hospitals	\$ 0.0	\$ 0.0	\$ 11.9	\$ 5.4	\$ 17.3	8	3	0
Small Psychiatric Hospitals and AZ State Hospital	\$ 0.0	\$ 0.0	\$ 19.2	\$ 14.0	\$ 33.3	9	0	0
Urban Acute Hospitals	\$ 322.8	\$ 608.3	\$ 598.8	\$ 1,682.4	\$ 1,350.1	27	0	2
Border Hospitals	\$ 0.0	\$ 0.0	\$ 23.0	\$ 0.0	\$ 23.0	0	0	0
Out of State Hospitals	\$ 0.0	\$ 0.0	\$ 1.9	\$ 0.0	\$ 1.9	0	0	0
Total	\$ 529.0	\$ 988.5	\$ 1,356.0	\$ 3,635.6	\$ 3,474.0	110	4	2

(1) Does not include costs incurred by hospitals for performing Medicaid services.

Next Steps

Next Steps

- ***ACR payment benchmarking analysis is on-going and modeling subject to change based on 100% ACR limits at setting/class/program level***
- AHCCCS to submit proposed Assessment Rule change
- AHCCCS to submit HEALTHII preprint and tax waiver demonstration for CMS approval

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 April 24, 2025. We understand this presentation will be shared by AHCCCS with Arizona Medicaid hospital stakeholders. This presentation must 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 2026 hospital assessments and to estimate FFY 2026 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, HealthTech Solutions, 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 2026 contract year. Changes in federal regulations may significantly impact the Medicaid payment and assessment limits reflected in these preliminary analyses.**

This work is not complete. Final results and recommendations may vary significantly from this draft document based on additional findings and information gathering. **AHCCCS must demonstrate to CMS that payments do not exceed 100% of ACR. The ACR payment benchmarking analysis is on-going and the modeling subject to change based on 100% ACR limits at setting/class/program level.**



Thank you

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Appendix

Quality Measures Used For Incentive Payments

Summary of quality measures considered in the quality incentive payment calculations

Quality Measure Indicator	AHCCCS Measure Number	Quality Measure Description	Estimated Reporting Effort	Estimated Reporting Effort Scale	Estimated Measure Value	Estimated Value Scale	Mechanism to Qualify	Data Source
CBE #0431	1	Influenza Vaccination Coverage among Healthcare Personnel	Varies	Varies	Varies	Varies	Reporting	Self-Reported
CBE #0640	3	Hospital Based Inpatient Psychiatric Services (HBIPS)-2 Hours of physical restraint use	Medium	2	Medium	2	Reporting	Self-Reported
CBE #0641	4	HBIPS-3 Hours of seclusion use	Medium	2	Medium	2	Reporting	Self-Reported
CBE #0674	5	Application of Percent of Residents Experiencing One or More Falls with Major Injury (Long Stay)	Low	1	High	3	Reporting	Self-Reported
CBE #1717	6	National Healthcare Safety Network (NHSN) Facility-wide Inpatient Hospital-onset Clostridium difficile Infection (CDI) Outcome Measure	Low	1	Medium	2	Reporting	Self-Reported
CBE #2631	9	Percent of Long-Term Care Hospital (LTCH) Patients with an Admission and Discharge Functional Assessment and a Care Plan That Addresses Function	High	3	Medium	2	Reporting	Self-Reported
Antibiotics	11	Successful Implementation of Antibiotic Stewardship Program	High	3	High	3	Reporting	Self-Reported
CBE #0496	12	OP-18 Median Time from ED Arrival to ED Departure for Discharged ED Patients	Low	1	Medium	2	Reporting	Self-Reported

Quality Measure Weights

Summary of proposed weights for quality incentive payment measures

- For each hospital type, **each measure is weighted** based on the measure’s combined relative effort and value compared to the other measures for the hospital type
- Reporting measures which meet self-reporting standards contribute to each hospital’s **quality reporting score percentage** which equals the sum of each weighted measure that is met

Hospital Type	REPORTING MEASURES								Total
	CBE #0431	CBE #0640	CBE #0674	CBE #1717	Antibiotics	CBE #0496	CBE #0641	CBE #2631	
Critical Access Hospitals	25%				50%	25%			100%
Freestanding Children's Hospitals	25%			75%					100%
Freestanding Rehabilitation Hospitals	25%		75%						100%
General Acute	25%			75%					100%
Long Term Acute Care Hospitals	25%		33%					42%	100%
Psychiatric Hospitals	25%	38%					38%		100%
Short Stay Hospital	100%								100%