Preliminary Federal Fiscal Year 2026 Hospital Assessment Model

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

MARCH 6, 2025

Agenda

- FFY 2026 Preliminary Assessments
- HEALTHII Payment Methodology
- Quality Metrics and Scoring
- Preliminary Model Results
- Close/Thank You

FFY 2026 Preliminary Assessments

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FFY 2026 Preliminary Assessment

Overview

- The FFY 2026 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) 2023 inpatient discharges and outpatient net patient revenues
  - *"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 discharge and revenues data that is subject to change based on review and feedback from hospital representatives and AHCCCS

FFY 2026 Preliminary Assessment (Cont'd)

Modeled assessment changes from FFY 2025 model

Changes From FFY 2025 Model

- *Total Assessments:* **$1,517.6M** modeled assessments (increase from $1,4231M in FFY 2025)
- *HAF:* **$629.0M** modeled assessments (decrease from $682.1M in FFY 2025) based on AHCCCS projections for financing non-federal share of Childless Adult and Impacted Populations *HCIF:* **$888.5M** modeled assessments (increase from $741.0M in FFY 2025), based on changes in the AHCCCS' target total assessments, physician/dental payment portion, and effective federal match rate
- **No** prior period surplus applied (applied $85M in FFY 2025)
- New outpatient net patient revenues threshold of **$375M** (revenues above which subject to lower assessment rates) to pass CMS B1/B2 tests (no outpatient threshold applied in FFY 2025 model)
- Updated HCIF inpatient and outpatient assessment allocation to **48% / 52%** (from 35% / 65% in FFY 2025) to result in AHCCCS' target of 5.999% of net patient revenues, separately for inpatient and outpatient

Same As FFY 2025 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 HAF inpatient and outpatient allocation (75% / 25%); HAF target includes $100M for behavioral health services
- Inpatient acute discharge threshold of 22,800 (discharges above which assessed at lower rates)

FFY 2026 Inpatient Assessments

Inpatient discharge basis

FYE 2023 discharges used to model preliminary FFY 2026 inpatient assessments are based on amounts reported by hospitals under the same source hierarchy used for the FFY 2025 model

1. FYE 2023 Medicare Cost Reports

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

2. FYE 2023 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 2026 Outpatient Assessments

Outpatient revenues basis

The FYE 2023 outpatient revenues used to calculate FFY 2026 outpatient assessments are based on amounts reported by hospitals under the same source hierarchy used for current assessments:[(1)]

1 **FYE 2023 Updated Uniform Accounting Reports (New UAR format):**
UAR data published by the Arizona Department of Health Services (used if total net patient revenues reconcile to the audited financial statement); outpatient net patient revenues reported separately by hospitals in UAR and exclude non-facility revenues[(2)]

2 **FYE 2023 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 2023 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)

Notes:

1. We relied upon outpatient net patient revenues data reported separately by hospitals in the UAR for approximately 76% of hospitals. For all other hospitals, we allocated total net patient revenues to outpatient based on the proportion of outpatient gross patient revenues to total gross patient revenues.

2. UAR instructions for facility net patient revenues require hospitals to report separately for inpatient and outpatient: gross facility patient revenue plus facility inpatient capitation payments minus facility discounts/contractual adjustments, facility charity care and facility Provision for Bad Debts.

Current 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 total statewide net patient revenue attributable to the permissible class of health care services (separately for inpatient and outpatient)
- Preliminary assessment modeling will need to change in the event there are changes to federal regulations impacting this limit

HEALTHII Payment Methodology

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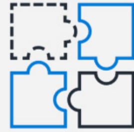
FFY 2026 HEALTHII Payment Methodology

Overview of steps used to model payments



Step 1: Estimate Medicaid Managed Care Baseline Payments

- Summarized by hospital FFY 2024 Medicaid managed care baseline payments and applied completion factors for claims incurred but not paid
- 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
- Adjusted base directed payment increase percentages for each class by a factor of **1.1576** (relative to FFY 2025) to achieve AHCCCS' target HEALTHII base directed payment pool of **$2,753.3M** (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 2025, HEALTHII base directed payments increased by **$176.8M** in aggregate, with each class having a modeled aggregate payment increase

FFY 2026 HEALTHII Payment Benchmarking

Current CMS limits

- Under its Medicaid managed care final rule published May 10, 2024, CMS requires that AHCCCS submit a "total payment rate demonstration" with its § 438.6(c) preprint application that compares Medicaid managed care payments to Average Commercial Rates (ACR)
  - Specifically, the demonstration must show that total projected Medicaid managed care payments (including HEALTHII) do not exceed 100% of payments under ACR for each **provider class and managed care program cohort**, separately for inpatient and outpatient
  - FFY 2026 ACR payment benchmarking is **in process** and must include all state directed payments applicable to each provider class (not limited to the HEALTHII program)
- Given AHCCCS' proposed increase in the FFY 2026 HEALTHII payment pool, preliminary modeled directed payment increase percentages may need to be adjusted at the provider class and managed care program level if modeled payments exceed CMS' ACR limit
- Preliminary payment modeling results may change in the event there are changes to federal regulations impacting assessment and/or state directed payment limits and federal match rates

AHCCCS Proposed HEALTHII Payment Process

Based on the approved approach by CMS in prior years

Parameter	Note
Hospital Classes	• The aggregate HEALTHII base directed payment pool is allocated to **six hospital class fixed payment pools** • The new proposed $485.9M pay for reporting quality payment pool would be allocated to eligible hospitals in addition to the base directed payment pools • Actual HEALTHII directed payments will be based on each hospitals' actual MCO utilization during the contract year
Interim Payments	• Each hospital will have a **quarterly interim payment** based on modeled HEALTHII payments **divided by four**
Payment Reconciliation	• 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 2026 managed care baseline payments (with DAP removed) • **Final hospital HEALTHII base directed payment** = Class final HEALTHII base directed payment increase percentage × FFY 2026 managed care baseline payments (with DAP removed)
Reconciliation Adjustment	• 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 2026 HEALTHII payment reconciliation will occur no later than Q1 FFY 2028

AHCCCS Proposed HEALTHII Payment Process (Cont'd)

Illustrative Quarterly Payment Schedule

Payment reconciliation directed as an adjustment to a FFY 2028 Q1 interim HEALTHII payment.

Funding for FFY 2028 HEALTHII payments will need to be included in capitation rates per CMS final rule; future FFY 2028 payment methodology not yet determined by AHCCCS.

FFY 2026 Quarterly HEALTHII Payments (Proposed)

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 – 3/31/2026)
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 – 9/31/2026)

FFY 2026 HEALTHII End – Reconciliation Process

FFY 2028 Quarterly HEALTHII Payments (Illustrative - not Finalized)

Quarter 1 Year 8	Interim Payment for Year 8, Quarter 1 (10/1/2027 – 12/31/2027)
Quarter 2 Year 8	Interim Payment for Year 8, Quarter 2 (1/1/2028 – 3/31/2028)
Quarter 3 Year 8	Interim Payment for Year 8, Quarter 3 (4/1/2028 – 6/30/2028)
Quarter 4 Year 8	Interim Payment for Year 8, Quarter 4 (7/1/2028 – 9/30/2028)

Quality Metrics and Scoring

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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
NQF #0431	1	Influenza Vaccination Coverage among Healthcare Personnel	Varies	Varies	Varies	Varies	Reporting	Self-Reported
NQF #0640	3	Hospital Based Inpatient Psychiatric Services (HBIPS)-2 Hours of physical restraint use	Medium	2	Medium	2	Reporting	Self-Reported
NQF #0641	4	HBIPS-3 Hours of seclusion use	Medium	2	Medium	2	Reporting	Self-Reported
NQF #0674	5	Application of Percent of Residents Experiencing One or More Falls with Major Injury (Long Stay)	Low	1	High	3	Reporting	Self-Reported
NQF #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
NQF #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
NQF #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.

Hospital Type	REPORTING MEASURES								Total
	NQF #0431	NQF #0640	NQF #0674	NQF #1717	Antibiotics	NQF #0496	NQF #0641	NQF #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%**

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

- Each reporting hospital's overall pay-for-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

Step 3: Model HEALTHII Pay-for-Reporting Payments[1]

- Modeled for each hospital via an iterative process using the following formula:

  (Statewide available pay-for-reporting payment increase percentage) ×

  (Hospital-specific quality reporting score percentage) ×

  (Modeled FFY 2025 HEALTHII base directed payments)

- Preliminary modeled statewide available pay-for-reporting payment increase percentage is **17.7047%** (hospital-specific percentages will range from a minimum of 0% to a maximum of 17.7047%) based on preliminary quality data

Note: Preliminary modeled increase percentage (17.7047%) is set to achieve AHCCCS' $485.9 million pay for reporting payment pool target. This percentage will change based on final quality data, the number of qualifying hospitals, modeled HEALTHII base directed payments, and the CMS approval process.

Preliminary Modeled Pay-for-Reporting Payments

Combined inpatient and outpatient (In Millions)

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 / 485.9	E = C / B
Critical Access Hospitals	12	$ 95.3	$ 16.9	3.5%	17.7047%
Freestanding Children's Hospitals	1	$ 114.3	$ 20.2	4.2%	17.7047%
Freestanding Rehabilitation Hospitals	17	$ 5.5	$ 0.9	0.2%	16.2038%
General Acute	49	$ 2,448.8	$ 432.6	89.0%	17.6643%
Long Term Acute Care Hospitals	5	$ 2.3	$ 0.3	0.1%	14.3903%
Psychiatric Hospitals	21	$ 82.9	$ 14.3	2.9%	17.2409%
Short Stay Hospitals	11	$ 4.2	$ 0.7	0.1%	16.3715%
Total	**116**	**$ 2,753.3**	**$ 485.9**	**100.0%**	**17.6471%**

Note: Will be updated with final quality data.

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Preliminary Model Results

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Preliminary FFY 2026 Model Totals Compared To FFY 2025

Preliminary Model Totals ($ Millions)	Ref.	FFY 2026	FFY 2025
Modeled Assessments			
Hospital Assessment Fund (HAF)			
Modeled baseline HAF assessments	A	$ 629.0	$ 682.1
Health Care Investment Fund (HCIF)			
Modeled HCIF assessments for HEALTHII payments (includes administration and quality pool)	B	$ 818.0	$ 670.5
Modeled HCIF assessments for physician/dental payments	C	70.5	70.5
Total modeled FFY HCIF assessments	D = B+C	$ 888.5	$ 741.0
Applied HCIF surplus balance from prior periods	E	0.0	85.0
Total HCIF costs including surplus from prior periods	F = D+E	$ 888.5	$ 826.0
Total Modeled FFY Assessments	**G = A+D**	**$ 1,517.6**	**$ 1,423.1**
Estimated Coverage Payment Net Revenue Gain (Relates to HAF Assessment)			
Total modeled Coverage Payments	H	$ 1,449.5	$ 1,446.8
Less: Total modeled HAF assessments	I	(629.0)	(682.1)
Total Estimated FFY Coverage Payment Net Revenue Gain	**J = H+I**	**$ 820.5**	**$ 764.7**
Estimated HEALTHII Net Revenue Gain (Relates to HCIF Assessment)			
Total modeled HEALTHII base directed payments (net of premium tax)	K	$ 3,239.2	$ 3,031.2
Less: Total modeled HCIF assessments	L	(888.5)	(741.0)
Total Estimated FFY HEALTHII Net Revenue Gain	**M = K+L**	**$ 2,350.6**	**$ 2,290.3**
Total Estimated FFY Hospital Net Revenue Gain	**N = J+M**	**$ 3,171.1**	**$ 3,055.0**

Note: AHCCCS' proposed FFY 2026 $485.9M 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%	2.5457%
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%	$ 434.75	25%	2.5457%
LTAC Hospitals	25%	$ 434.75	25%	2.5457%
Medium Pediatric Intensive General Acute Hospitals	90%	$ 1,565.00	75%	7.6372%
Non-CAH Rural Acute Hospitals	100%	$ 1,738.75	60%	6.1097%
Pediatric-Intensive General Acute Hospitals	80%	$ 1,391.00	65%	6.6189%
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%	$ 434.75	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[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	Estimated Net Revenue Gain From Assessments
A	B	C	D	E	F = C + D - E
Freestanding Children's Provider	34.01%	$ 114.3	$ 20.2	$ 8.3	$ 126.2
Private Urban Acute Hospital	138.04%	$ 1,970.5	$ 347.9	$ 707.1	$ 1,611.2
Public Acute Hospital	33.15%	$ 49.4	$ 8.7	$ 0.0	$ 58.2
Rural Hospital	144.54%	$ 383.7	$ 67.9	$ 125.3	$ 326.3
Rural Reservation-Adjacent Hospitals	193.03%	$ 140.6	$ 24.9	$ 36.7	$ 128.8
Specialty Hospital	33.15%	$ 94.9	$ 16.2	$ 11.1	$ 100.0
Total w/ Quality Pool Payments		**$ 2,753.3**	**$ 485.9**	**$ 888.5**	**$ 2,350.6**

Note: *Non-federal share of AHCCCS' proposed FFY 2026 $485.9M 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	Estimated Hospital Net Revenue Gain 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	$ 9.6	$ 14.3	$ 36.6	$ 112.2	$ 125.0	12	0	0
Freestanding Children's Hospitals	$ 4.7	$ 8.3	$ 10.0	$ 134.5	$ 131.5	1	0	0
Freestanding Rehabilitation Hospitals	$ 0.0	$ 0.0	$ 15.6	$ 6.4	$ 22.0	16	1	0
High Medicare/Out-of-State Patient Utilization Hospital	$ 0.0	$ 0.0	$ 11.7	$ 5.1	$ 16.8	1	0	0
Large Psychiatric Hospitals	$ 11.5	$ 10.7	$ 123.8	$ 84.6	$ 186.3	12	0	0
LTAC Hospitals	$ 0.4	$ 0.4	$ 7.2	$ 2.6	$ 8.9	5	0	0
Medium Pediatric Intensive General Acute Hospitals	$ 114.0	$ 162.3	$ 233.2	$ 767.3	$ 724.3	5	0	0
Non-CAH Rural Acute Hospitals	$ 83.3	$ 117.2	$ 131.5	$ 351.3	$ 282.2	12	0	0
Pediatric-Intensive General Acute Hospitals	$ 21.7	$ 28.1	$ 63.5	$ 202.8	$ 216.5	1	0	0
Public Acute Hospital	$ 0.0	$ 0.0	$ 116.5	$ 58.2	$ 174.6	1	0	0
Short Term Specialty Hospitals	$ 0.0	$ 0.0	$ 12.7	$ 4.8	$ 17.6	8	3	0
Small Psychiatric Hospitals and AZ State Hospital	$ 0.0	$ 0.0	$ 20.6	$ 12.6	$ 33.2	8	1	0
Urban Acute Hospitals	$ 383.9	$ 547.3	$ 640.0	$ 1,496.8	$ 1,205.6	27	0	2
Border Hospitals	$ 0.0	$ 0.0	$ 24.6	$ 0.0	$ 24.6	0	0	0
Out of State Hospitals	$ 0.0	$ 0.0	$ 2.0	$ 0.0	$ 2.0	0	0	0
Total	**$ 629.0**	**$ 888.5**	**$ 1,449.5**	**$ 3,239.2**	**$ 3,171.1**	**109**	**5**	**2**

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

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Preliminary Model Feedback

Model Parameters and Hospital Reported Amounts

- AHCCCS is soliciting feedback from the hospital community on the preliminary FFY 2026 HEALTHII assessment model parameters for consideration
  - Please email comments related to model parameters and inputs to AHCCCS at HospitalAssessmentProject@azahcccs.gov by **Thursday, March 27, 2025**
- Please review and validate your hospital's FYE 2023 discharges and revenues amounts shown in the Milliman report *"Preliminary Federal Fiscal Year 2026 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 March 6, 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, 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.

Thank you

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