Overview

State Directed Payments (SDPs), authorized under federal Medicaid managed care regulations (42 CFR 438.6(c)), are tools used by states to direct Managed Care Organizations (MCOs) to make specific payments to providers to support policy goals such as access, quality, and delivery system reform.

Historically, several ALTCS E/PD SDPs have been administered outside of capitation rates as separate, lump sum payments. The 2024 CMS Medicaid Managed Care Final Rule requires states to stop using separate lump sum payments for SDPs for rating periods beginning on or after July 9, 2027, and to incorporate those costs into prospective capitation rates. Separately, HR1, Public Law 119-21, signed into law July 4, 2025, implemented specific limits on SDPs, with some "grandfathering" and phase down provisions. Because the 2024 Final Rule and HR1 are in conflict, there is a current notice of proposed rulemaking (NPRM) from CMS that may change how SDPs are handled moving forward, particularly those that are "grandfathered". As SDPs transition from their current state, AHCCCS intends to work with MCOs and providers to manage the transition, including evaluation of various risk mitigation options and determining how MCOs will need to adjust their systems to ensure appropriate provider payments.

Current SDPs in the EPD program

Incorporated into Capitation Rates

There are two SDPs in the ALTCS E/PD program that are incorporated into the capitation rates paid to the Contractors. Those are Differential Adjusted Payments (DAP) and Vaccines for Children (VFC). The DAP SDP includes several uniform percentage increases to fee schedules for various qualifying providers. Additional information on current and prior year DAP SDPs can be found on the Differential Adjusted Payments page on the AHCCCS website. The VFC SDP is a minimum fee schedule using state plan approved rates for the administration of vaccines under the VFC program. The Arizona State Plan-approved rates are set at the regional maximum for the program, and Contractors are not allowed to discount the rate under the SDP minimum fee schedule requirement. Additional information can be found in the ALTCS E/PD actuarial certifications and contracts.

Separate Lump Sum Payment Terms

There are several SDPs in the ALTCS E/PD program that are currently paid through separate payment terms as lump sum payments. In alphabetical order, these are the Access to Professional Services Initiative (APSI), Hospital Enhanced Access Leading to Health Improvements Initiative (HEALTHII), Nursing Facility Supplemental Payments (NF-SP), Pediatric Services Initiative (PSI), and Safety Net Services Initiative (SNSI). Each of these SDPs is at least partially "grandfathered" under HR1, and thus the status of their future payment structure will not be known until the finalization of the NPRM, timing of which is uncertain. Additional information on each of these SDPs can be found in the ALTCS E/PD actuarial certifications and contracts.