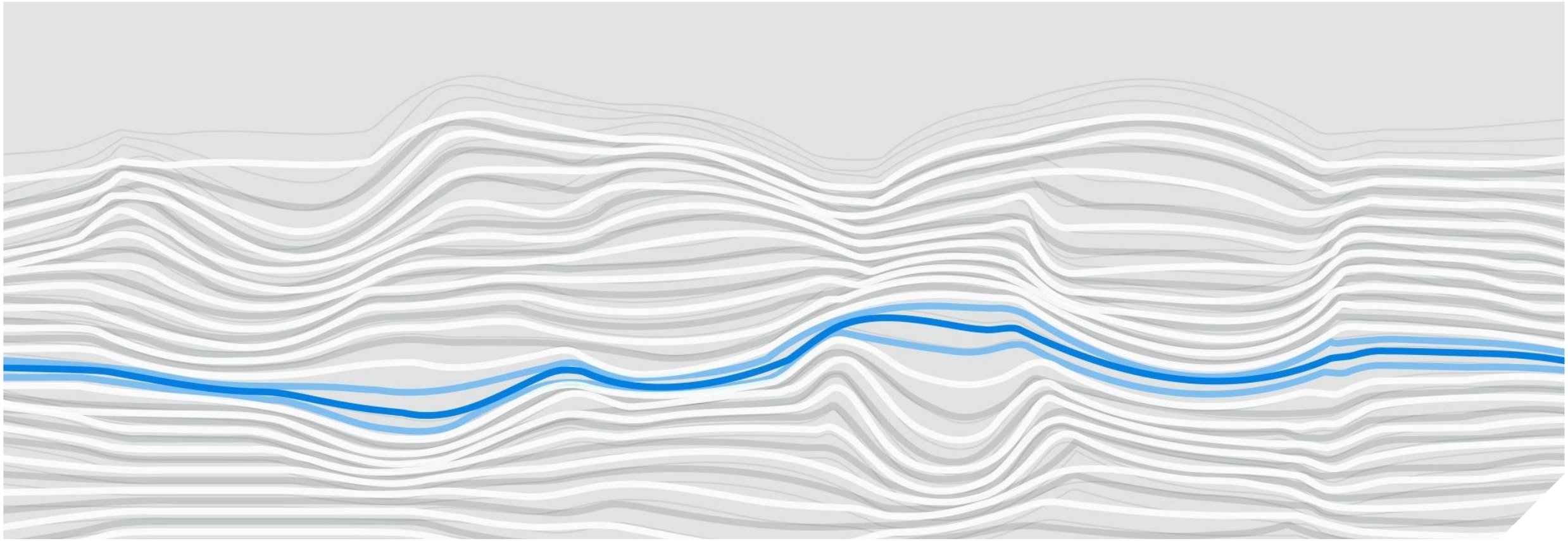
Arizona Health Care Cost Containment System

Preliminary FFY 2024 Hospital Assessment Model

April 6, 2023



Agenda

FFY 2024 Modeling Updates

Preliminary FFY 2024 Hospital Assessment Model Changes

Summary of key model changes since the March 8th Meeting based on AHCCCS direction(1)

1. Modeled **$50M** in AHCCCS' proposed new HEALTHII pay-for-reporting incentive payments (not included in the prior model version)
2. Increased modeled HCIF assessments by **$7M** (from $434M to $441M) to fund the non-federal share of HEALTHII pay-for-reporting incentive payments (prior model version included HCIF assessments for $20M in pay-for-reporting incentive payments)
3. Updated FYE 2021 discharges and net patient revenues for select hospitals based on feedback from provider review
4. Updated assessment unit thresholds based on B1/B2 test results (decreased the inpatient discharge threshold and removed the outpatient threshold)

- These changes resulted in higher modeled inpatient "base" assessments rates and lower modeled outpatient "base" assessments rates compared to the prior model version
- *Modeled discharges and patient revenues used in the assessment calculations are still preliminary and subject to potential changes based on stakeholder feedback*

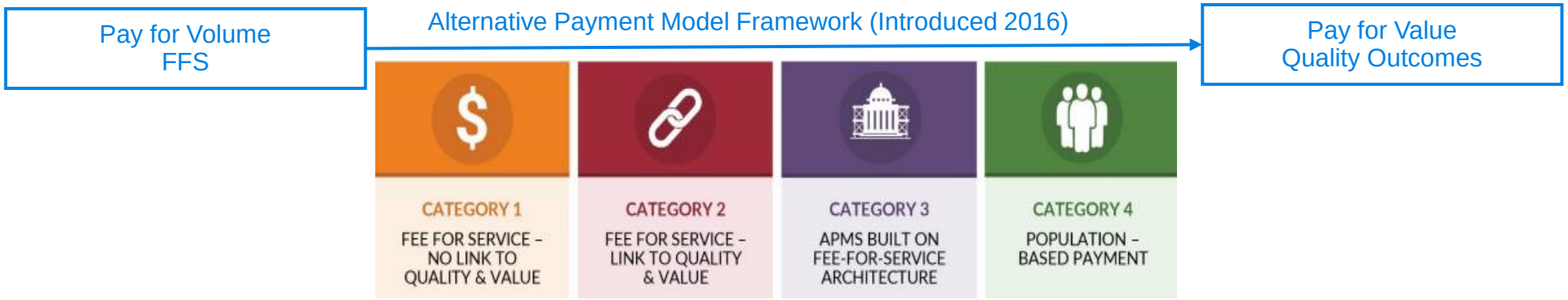
Note: (1) For more information on the current model version, see the Milliman report "Updated Preliminary FFY 2024 Hospital Assessment Model" dated April 5, 2023. For more information on the prior model version, see the Milliman report "Preliminary FFY 2024 Hospital Assessment Model" dated March 7, 2023.

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-lan.org/workproducts/apm-refresh-whitepaper-final.pdf

Pay-for-Reporting Quality Measures

Summary of Quality Measures Considered in the Pay-for-Reporting Incentive Payment Calculation(1)

National Quality Forum (NQF) Measure	Steward	NQF Measure Type	Estimated Reporting Effort	Estimated Reporting Effort Scale	Estimated Measure Value	Estimated Value Scale	Quality Measure Description
NQF #0431	CDC	Process	medium	2	high	3	Influenza Vaccination Coverage among Healthcare Personnel NQF# 0431
NQF # 0640	TJC	Process	medium	2	medium	2	Hospital Based Inpatient Psychiatric Services (HBIPS)-2 Hours of physical restraint use NQF# 0640
NQF # 0641	TJC	Process	medium	2	medium	2	HBIPS-3 Hours of seclusion use NQF# 0641
NQF #0674	CMS	Outcome	low	1	high	3	Application of Percent of Residents Experiencing One or More Falls with Major Injury (Long Stay) NQF# 0674
NQF #1717	CDC	Outcome	low	1	medium	2	National Healthcare Safety Network (NHSN) Facility-wide Inpatient Hospital-onset Clostridium difficile Infection (CDI) Outcome Measure NQF# 1717
NQF #2631	CMS	Process	high	3	medium	2	Percent of Long-Term Care Hospital (LTCH) Patients with an Admission and Discharge Functional Assessment and a Care Plan That Addresses Function NQF# 2631
Antibiotics	CDC	Process	high	3	high	3	Successful Implementation of Antibiotic Stewardship Program
NQF #0496	CMS	Process	low	1	medium	2	OP-18 Median Time from ED Arrival to ED Departure for Discharged ED Patients NQF# 0496

Note: (1) Does not include four of AHCCCS' claims-based quality measures, which do not require additional reporting effort from hospitals. AHCCCS proposes to consider these measures under a future pay-for-performance payment methodology.

Pay-for-Reporting Quality Measures Weights

Summary of Proposed Weights per Quality Measure

Pay-for-Reporting Hospital Type	NQF #0431	NQF #0640	NQF #0641	NQF #0674	NQF #1717	NQF #2631	Antibiotics	NQF #0496	Total
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%

- The proposed weights for each measure are based on a high-level qualitative assessment of the relative effort and value of each measure
  - Effort: The relative resource requirements for hospitals to report the measure
  - Value: The relative scope of the measure with respect to improving patient outcomes and containing cost
- 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
- The weight for the influenza vaccination measure (NQF 0431) is capped at 25% for all hospital types except short stay hospitals (as it is the only self reported measure for the hospital type)

Pay-for-Reporting Incentive 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 only if the measure is reported for **both** the baseline and performance periods
- New hospitals without a full year of baseline or performance period data are considered to meet the reporting requirements

Step 2: Determine Overall Entity Quality Reporting Score Percentage

- Each reporting hospital's overall pay-for-reporting score is calculated by summing the weights for all measures that were fully reported
- For hospitals with multiple facilities or units reporting under one entity, the overall hospital score is calculated as the straight average final score for each reporting facility or unit

Step 3: Model HEALTHII Pay-for-Reporting Incentive Payments

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

  (Statewide available pay-for-reporting incentive payment increase percentage) X

  (Hospital-specific quality reporting score percentage) X

  (Modeled FFY 2024 HEALTHII base directed payments)

- Statewide pay-for-reporting incentive payment increase percentage of **2.7133%** solved for to each AHCCCS' target of $50 million

Pay-for-Reporting Incentive Payment Calculation

Example Payment Calculation

- Step 2: Determine the Quality Reporting Score Percentage for Each Reporting Facility or Unit

Hospital	Measure 1 Weight	Measure 2 Weight	Measure 1 Fully Reported?	Measure 2 Fully Reported?	Hospital Quality Reporting Score Percentage
	A	B	C	D	E = (A*C) +(B*D)
A	25%	75%	Yes	Yes	100%
B	25%	75%	No	Yes	75%

- Step 3: Model HEALTHII Pay-for-Reporting Incentive Payments

Hospital	Statewide Available Pay-for-Reporting Incentive Payment Increase Percentage	Hospital-Specific Quality Reporting Score Percentage	Modeled HEALTHII Base Directed Payments	Modeled HEALTHII Pay-for-Reporting Incentive Payments
	A	B	C	D =A *B * C
A	2.7133%	100%	$1,000,000	$ 27,139
B	2.7133%	75%	$ 500,000	$ 10,175

Preliminary Modeled Pay-for-Reporting Incentive Payments

Combined Inpatient and Outpatient (In Millions)

Pay-for-Reporting Hospital Types	Number of Hospitals	Modeled HEALTHII Base Directed Payments	Available HEALTHII Pay-for-Reporting Incentive Payments	Earned HEALTHII Pay-for-Reporting Incentive Payments	Percent of Available Pay-for-Reporting Payments Earned (1)
	A	B	C	D	E = D / C
Critical Access Hospitals	12	$ 68.53	$ 1.86	$ 1.79	96.0%
Freestanding Children's Hospitals	1	$ 70.49	$ 1.91	$ 1.91	100.0%
Freestanding Rehabilitation Hospitals	13	$ 5.26	$ 0.14	$ 0.14	96.8%
General Acute	49	$ 1,699.08	$ 46.10	$ 45.21	98.1%
Long Term Acute Care Hospitals	5	$ 1.60	$ 0.04	$ 0.03	75.6%
Psychiatric Hospitals	22	$ 37.52	$ 1.02	$ 0.86	84.6%
Short Stay Hospitals	11	$ 2.06	$ 0.06	$ 0.06	100.0%
Total	**113**	**$ 1,884.55**	**$ 51.13**	**$ 50.00**	**97.8%**

Note: (1) Based on "earned" pay-for-reporting incentive payments divided by total available pay-for-reporting incentive payments (under the statewide available pay-for-reporting incentive payment increase percentage)

FFY 2024 Preliminary Model Results

Preliminary FFY 2024 Model Totals

Combined Inpatient and Outpatient

FFY 2024 Preliminary Model Totals		Total Amount ($ Millions)
Modeled Assessments		
Hospital Assessment Fund (HAF)		
Modeled baseline HAF assessments	A	$ 641.8
Health Care Investment Fund (HCIF)		
Modeled HCIF assessments for HEALTHII payments (includes administration)	B	$ 370.9
Modeled HCIF assessments for physician/dental payments	C	70.5
Total modeled FFY 2024 HCIF assessments	D = B+C	$ 441.4
Applied HCIF surplus balance from prior periods	E	$ 100.0
Total HCIF costs including surplus from prior periods	F = D+E	$ 541.4
Total Modeled FFY 2024 Assessments	**G = A+D**	**$ 1,083.3**
Estimated Coverage Payment Net Revenue Gain (Relates to HAF Assessment)		
Total modeled Coverage Payments	H	$ 1,535.2
Less: Total modeled HAF assessments	I	(641.8)
Total Estimated FFY 2024 Coverage Payment Net Revenue Gain	**J = H+I**	**$ 893.4**
Estimated HEALTHII Net Revenue Gain (Relates to HCIF Assessment)		
Total modeled HEALTHII directed payments with pay-for reporting (net of premium tax)	K	$ 1,934.5
Less: Total modeled HCIF assessments	L	(441.4)
Total Estimated FFY 2024 HEALTHII Net Revenue Gain	**M = K+L**	**$ 1,493.2**
Total Estimated FFY 2024 Hospital Net Revenue Gain	**N = J+M**	**$ 2,386.6**

Includes $50M in AHCCCS' proposed new pay-for-reporting incentive payments

Preliminary Modeled Assessment Rates

Combined Baseline HAF and HCIF Assessment Rates

Hospital Assessment Peer Group	Inpatient		Outpatient	
	Percent of Base Assessment	Modeled FFY 2024 Assessment Rate	Percent of Base Assessment	Modeled FFY 2024 Assessment Rate
Rates Applicable to Each Hospital Type:				
Critical Access Hospitals	100%	$ 1,140.50	25%	1.8912%
Freestanding Children's Hospitals	20%	$ 228.50	20%	1.5129%
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%	$ 285.25	25%	1.8912%
LTAC Hospitals	25%	$ 285.25	25%	1.8912%
Medium Pediatric Intensive General Acute Hospitals	90%	$ 1,026.50	75%	5.6735%
Non-CAH Rural Acute Hospitals	100%	$ 1,140.50	60%	4.5388%
Pediatric-Intensive General Acute Hospitals	80%	$ 912.50	65%	4.9171%
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%	$ 1,140.50	100%	7.5647%
Rates Applicable to All Non-Exempted Hospital Types:				
Rate Applied to Non-Exempted Psychiatric Sub-Provider Units	25%	$ 285.25	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%	$ 114.50	N/A	N/A

Note: (1) The modeled inpatient assessment unit threshold is 23,000 (no outpatient threshold). The inpatient threshold is not applicable to inpatient discharges for Psychiatric Sub-Providers, Rehabilitation Sub-Providers.

Preliminary Modeled HEALTHII Payment Impact

Combined Inpatient and Outpatient (In Millions)

HEALTHII Reimbursement Class	Class HEALTHII Payment Increase Percentage[(1)]	Modeled HEALTHII Base Directed Payments	Modeled HEALTHII Pay-for-Reporting Incentive Payments	Modeled Total HEALTHII Payments	Modeled HCIF Assessments	Estimated Net Revenue Gain / (Loss) From Assessments [(2)]
A	B	C	D	E = C + D	F	G = E – F
Freestanding Children's Provider	22.42%	$70.5	$1.9	$ 72.4	$ 4.7	$ 67.7
Private Urban Acute Hospital	90.99%	$1,365.5	$36.4	$ 1,401.8	$ 353.9	$ 1,048.0
Public Acute Hospital	21.85%	$32.8	$0.9	$ 33.7	$ 0.0	$ 33.7
Rural Hospital	95.27%	$266.5	$7.2	$ 273.7	$ 61.5	$ 212.3
Rural Reservation-Adjacent Hospitals	127.24%	$102.8	$2.5	$ 105.4	$ 18.3	$ 87.1
Specialty Hospital	19.66%	$46.4	$1.1	$ 47.5	$ 3.1	$ 44.4
Total		**$1,884.5**	**$ 50.0**	**$ 1,934.5**	**$ 441.4**	**$ 1,493.2**

Note: (1) The payment increase percentages apply only to the modeled base HEATHII payments.
Note: (2) Does not include costs incurred by hospitals for performing Medicaid services or baseline HAH / coverage payments.

Preliminary Modeled Impact from Total Assessments

Combined Coverage Payments and HEALTHII Payments (Inpatient and Outpatient in Millions)

Hospital Assessment Peer Group	Total Modeled FFY 2024 HAF Assessments	Total Modeled FFY 2024 HCIF Assessments	Total Modeled FFY 2024 Coverage Payments	Total Modeled FFY 2024 HEALTHII 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	$ 10.5	$ 6.7	$ 41.2	$ 70.3	$ 94.3	12	0	0
Freestanding Children's Hospitals	$ 4.5	$ 4.7	$ 5.9	$ 72.4	$ 69.1	1	0	0
Freestanding Rehabilitation Hospitals	$ 0.0	$ 0.0	$ 18.0	$ 5.4	$ 23.4	13	0	0
High Medicare/Out-of-State Patient Utilization Hospital	$ 0.0	$ 0.0	$ 10.7	$ 6.0	$ 16.7	1	0	0
Large Psychiatric Hospitals	$ 11.8	$ 3.0	$ 121.4	$ 34.9	$ 141.5	12	0	0
LTAC Hospitals	$ 0.5	$ 0.1	$ 7.4	$ 1.6	$ 8.4	5	0	0
Medium Pediatric Intensive General Acute Hospitals	$ 111.4	$ 79.9	$ 244.5	$ 428.4	$ 481.6	5	0	0
Non-CAH Rural Acute Hospitals	$ 88.0	$ 55.3	$ 152.2	$ 228.2	$ 237.2	12	0	0
Pediatric-Intensive General Acute Hospitals	$ 23.1	$ 14.4	$ 68.3	$ 121.1	$ 151.9	1	0	0
Public Acute Hospital	$ 0.0	$ 0.0	$ 108.7	$ 33.7	$ 142.3	1	0	0
Short Term Specialty Hospitals	$ 0.0	$ 0.0	$ 8.8	$ 2.1	$ 10.9	8	3	0
Small Psychiatric Hospitals and AZ State Hospital	$ 0.0	$ 0.0	$ 12.7	$ 3.5	$ 16.1	10	0	0
Urban Acute Hospitals	$ 392.1	$ 277.3	$ 702.9	$ 926.9	$ 960.4	28	0	1
Total Border Hospitals	$ 0.0	$ 0.0	$ 29.6	$ 0.0	$ 29.6	0	0	0
Total Out of State Hospitals	$ 0.0	$ 0.0	$ 2.9	$ 0.0	$ 2.9	0	0	0
Total	**$ 641.8**	**$ 441.4**	**$ 1,535.2**	**$ 1,934.5**	**$ 2,386.6**	**109**	**3**	**1**

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

Next Steps

Preliminary Model Feedback

Model Parameters and Hospital Reported Amounts

- AHCCCS is soliciting feedback from the hospital community on the preliminary FFY 2024 HEALTHII assessment model parameters for consideration
  - Please email comments related to model parameters and inputs to AHCCCS at **HospitalAssessmentProject@azahcccs.gov** by **Thursday, April 19, 2023**
- Please contact AHCCCS if there are any issues or questions

Next Modeling Steps

- Collect stakeholder feedback for consideration
- Update other preliminary assessment model inputs and model parameters as needed and based on direction from AHCCCS
- Share updated results with hospital stakeholder group

Limitations

The services provided for this project were performed under the signed Consulting Services Agreement between Milliman and Acro Service Corp dated December 22, 2022.

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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 report 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 actual contracted MCO utilization during the 2024 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.

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Thank you

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