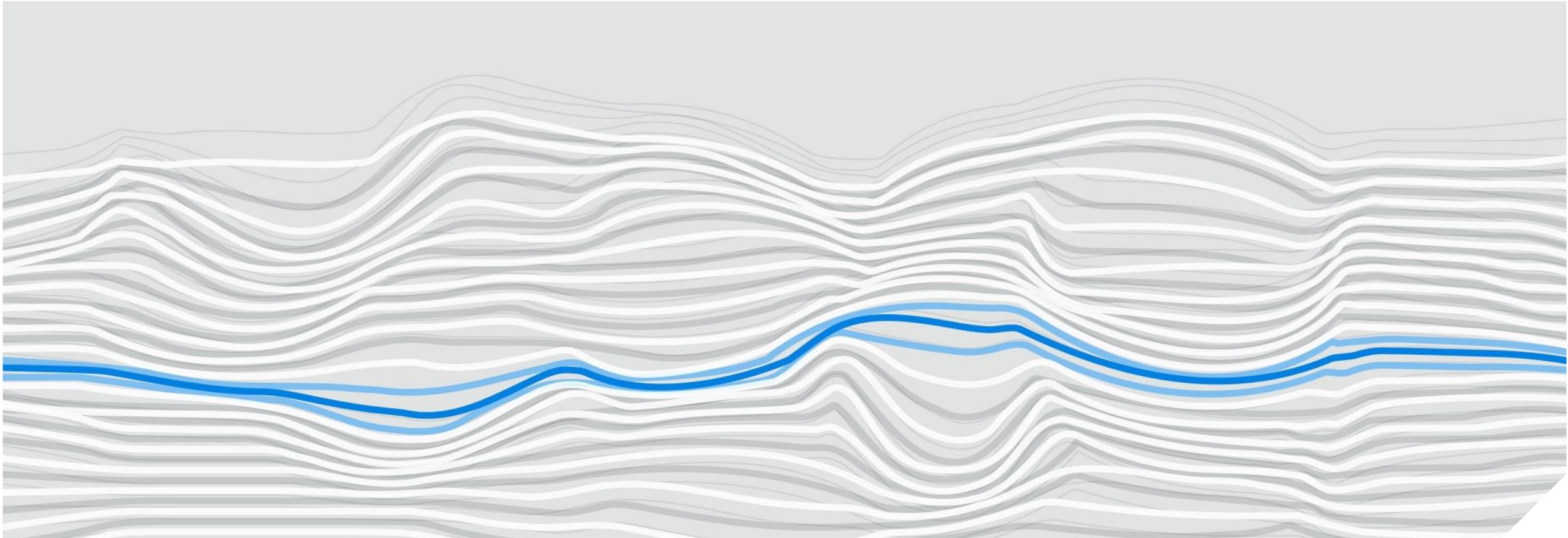


Arizona Health Care Cost Containment System



Preliminary FFY 2023 Hospital Assessment Model
March 17, 2022



Agenda

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FFY 2023 Modeled Assessments

FFY 2023 Preliminary Modeled Assessments

Overview

- The federal fiscal year (FFY) 2023 hospital assessment model presented today is a **preliminary version** for discussion purposes only (*This presentation does not reflect final AHCCCS policy decisions and all values are subject to change*)
- Preliminary modeled assessments use hospital fiscal year ending **(FYE) 2019 inpatient discharges and outpatient net patient revenues** (same basis as the FFY 2022 hospital assessments)
 - *“Hospital Assessment Fund” (HAF) assessments:* finance the non-federal share of Medicaid coverage (“coverage payments” for both hospital and non-hospital services) for the Proposition 204 (Childless Adults) and Newly Eligible Adult Expansion populations (“Impacted Populations”)
 - *“Health Care Investment Fund” (HCIF) assessments:* finance the non-federal share of the HEALTHHII payments, payment increases for physician and dental services, and program administration (consistent with HB 2668 requirements)
- AHCCCS is keeping the FYE 2019 assessment basis data in recognition of the volatility in hospital data for FYE 2020-2021 due to the COVID-19 pandemic

FFY 2023 Preliminary Modeled Assessments (Cont'd)

Modeled Assessment Changes from the FFY 2022 Model (per AHCCCS policy decisions)

Changes From FFY 2022 Model

- *HAF*: **\$588M** target assessments (increase from approximately \$534M in FFY 2022) based on AHCCCS' projections
- *HCIF*: A prior-period assessment surplus of **\$59.9M** has been applied to fund HEALTHHII payments
- *Both HAF and HCIF*:
 - Preliminary modeled inpatient acute discharge threshold (subject to lower assessment rate) of **24,000** (increased from 23,000 in FFY 2022)
 - New public acute hospital exemption

Same As FFY 2022 Model

- **FYE 2019** discharges and outpatient net patient revenues used for the assessments (except for new hospital data)
- *HCIF*: Same **\$438M** target assessments as FFY 2022; AHCCCS FFY 2023 projections are in process and may change in future model versions
- Same inpatient and outpatient allocation:
 - *HAF*: 75% / 25% between inpatient and outpatient
 - *HCIF*: 25% / 75% between inpatient and outpatient

FFY 2023 Modeled Inpatient Assessments

Discharge basis

- FYE 2019 discharges used to model preliminary FFY 2023 inpatient assessments are based on amounts reported by hospitals under the same source hierarchy used for current assessments
- Changes to assessed discharges are limited to **new hospitals**

1

FYE 2019 Medicare Cost Reports:

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

2

FYE 2019 Uniform Accounting Reports (UAR):

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

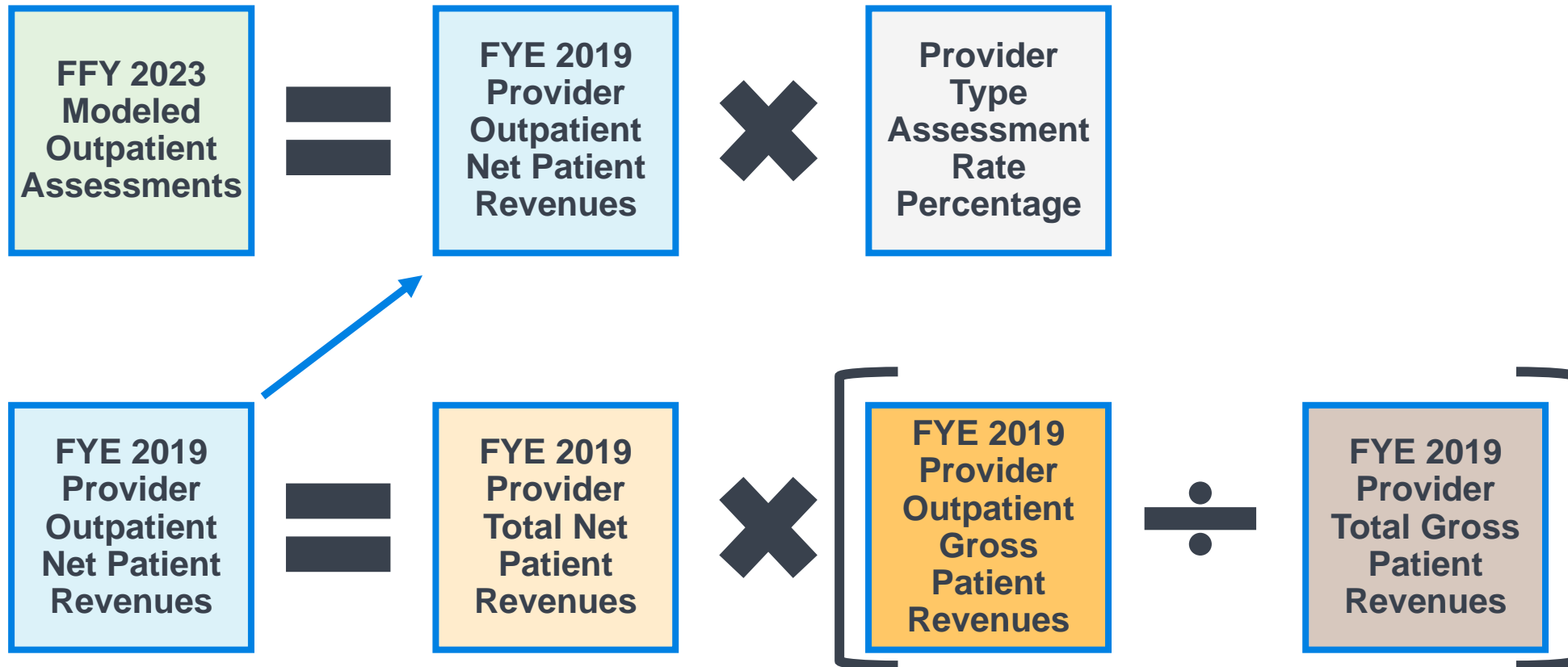
3

Provider Self-Reported Data:

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

FFY 2023 Modeled Outpatient Assessments

Outpatient assessment calculation



FFY 2023 Modeled Outpatient Assessments (Cont'd)

Outpatient revenues basis

- The FYE 2019 outpatient revenues used to calculate FFY 2023 outpatient assessments are based on amounts reported by hospitals under the same source hierarchy used for current assessments.
- Changes in the baseline revenues are limited to new hospitals.

1	FYE 2019 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 2019 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 2019 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)
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

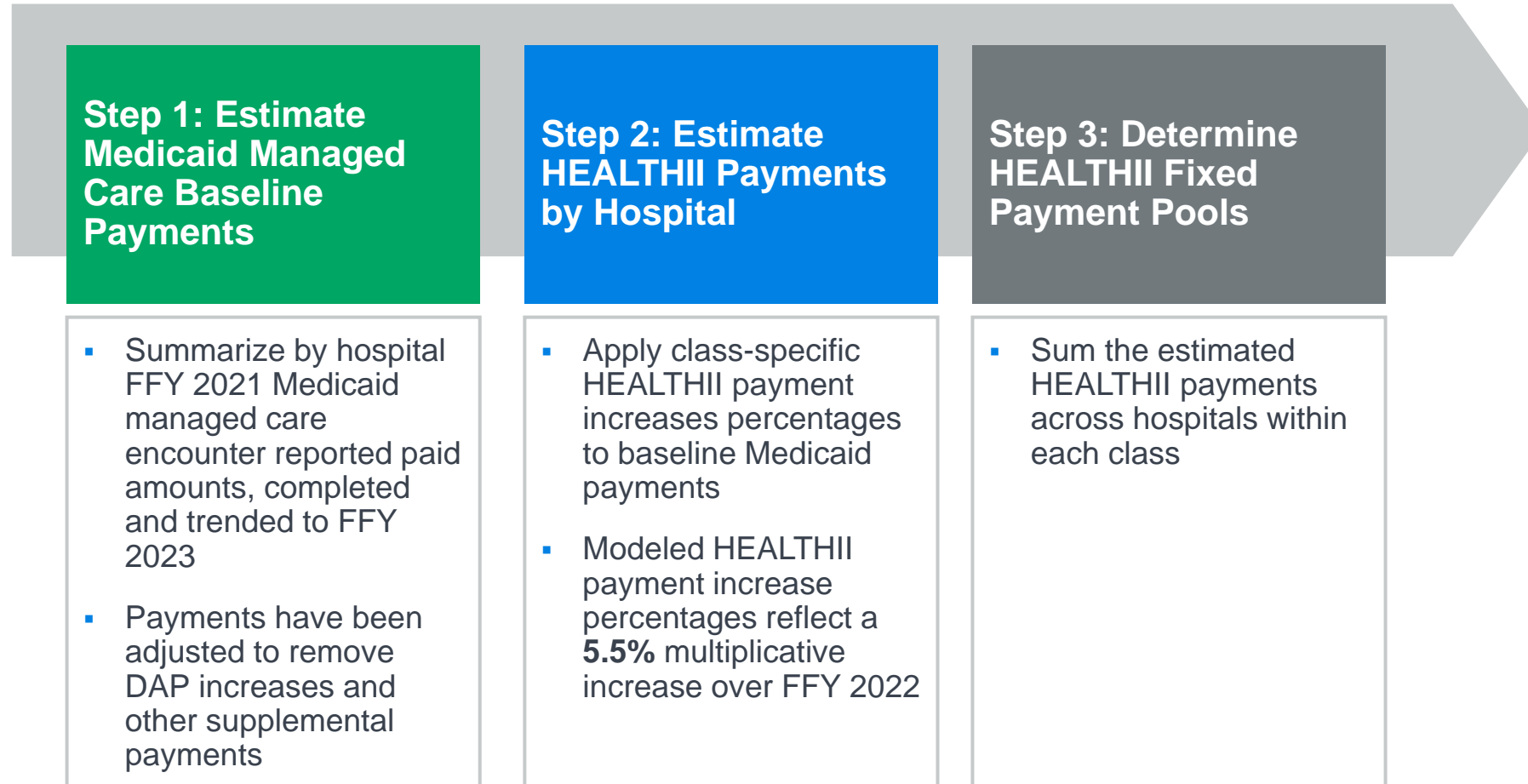
- **Assessments must be generally redistributive** – 42 CFR § 433.68(e):
 - Hospital assessments with tiered rates and rate exemptions must pass the “B1/B2” test to gain a waiver from CMS’ broad-based and uniform requirement
 - B1/B2 compares the relationship between each provider’s Medicaid assessable 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 percent** 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 percent of inpatient net patient revenues**
 - Aggregate outpatient revenues-based assessments must not exceed **6 percent of outpatient net patient revenues**

HEALTHII Payment Methodology

FFY 2023 HEALTHII Payment Methodology

Overview

- Preliminary FFY 2023 HEALTHII payments were modeled using the following steps:



Note: (1) “DAP increases” are related to the Differential Adjusted Payment (DAP) program, which is a separate directed payment arrangement that is funded separately from the HCIF.

AHCCCS Proposed HEALTHII Payment Process

Based on the FFY 2022 approach approved by CMS

Parameter	Note
Hospital Classes	<ul style="list-style-type: none"> The aggregate HEALTHII payment pool is allocated to six hospital class fixed payment pools 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 payment increase percentage = Class HEALTHII payment pool / Class FFY 2023 managed care encounter paid amounts (with DAP removed) Final hospital HEALTHII payment = Class final HEALTHII payment increase percentage * FFY 2023 managed care encounter paid amounts (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 Example: FFY 2022 HEALTHII payment reconciliation will occur no later than Q4 FFY 2024

AHCCCS Proposed HEALTHII Payment Process (Cont'd)

Quarterly Payment Schedule

FFY 2022 Quarterly HEALTHII Payments

Quarter 1 Year 2	Interim Payment for Year 2, Quarter 1 (10/1/2021 – 12/31/2021)
Quarter 2 Year 2	Interim Payment for Year 2, Quarter 2 (1/1/2022 – 3/30/2022)
Quarter 3 Year 2	Interim Payment for Year 2, Quarter 3 (4/1/2022 – 6/30/2022)
Quarter 4 Year 2	Interim Payment for Year 2, Quarter 4 (7/1/2022 – 9/30/2022)



FFY 2024 Quarterly HEALTHII Payments

Quarter 1 Year 4	Interim Payment for Year 4, Quarter 1 (10/1/2023 – 12/31/2023)
Quarter 2 Year 4	Interim Payment for Year 4, Quarter 2 (1/1/2024 – 3/30/2024)
Quarter 3 Year 4	Interim Payment for Year 4, Quarter 3 (4/1/2024 – 6/30/2024)
Quarter 4 Year 4	Interim Payment for Year 4, Quarter 4 (7/1/2024 – 9/30/2024)

The FFY 2022 HEALTHII payment reconciliation will be directed as an adjustment to a FFY 2024 quarterly interim HEALTHII payment (no later than Q4)

Preliminary Model Results

FFY 2023 Preliminary Model Totals

Combined Inpatient and Outpatient

FFY 2023 Preliminary Model Totals		Total Amount (\$ Millions)
Modeled Assessments		
Hospital Assessment Fund (HAF)		
Modeled baseline HAF assessments	A	\$ 587.9
Health Care Investment Fund (HCIF)		
Modeled HCIF assessments for HEALTHII payments (includes administration)	B	\$ 367.4
Modeled HCIF assessments for physician/dental payments	C	70.5
Total modeled FFY 2023 HCIF assessments	D = B+C	\$ 437.9
Applied HCIF surplus balance from prior periods	E	\$ 59.9
Total HCIF costs including surplus from prior periods	F = D+E	\$ 497.8
Total Modeled FFY 2023 Assessments	G = A+D	\$ 1,025.8
Estimated Coverage Payment Net Revenue Gain (Relates to HAF Assessment)		
Total modeled Coverage Payments	H	\$ 1,575.8
Less: Total modeled HAF assessments	I	(587.9)
Total Estimated FFY 2023 Coverage Payment Net Revenue Gain	J = H+I	\$ 987.8
Estimated HEALTHII Net Revenue Gain (Relates to HCIF Assessment)		
Total modeled HEALTHII directed payments (net of premium tax)	K	\$ 1,587.4
Less: Total modeled HCIF assessments	L	(437.9)
Total Estimated FFY 2023 HEALTHII Net Revenue Gain	M = K+L	\$ 1,149.5
Total Estimated FFY 2023 Hospital Net Revenue Gain	N = J+M	\$ 2,137.4

FFY 2023 Preliminary Modeled Assessment Rates

Combined Baseline HAF and HCIF Assessment Rates

Hospital Assessment Peer Group	Inpatient		Outpatient	
	Percent of Base Assessment	Modeled FFY 2023 Assessment Rate	Percent of Base Assessment	Modeled FFY 2023 Assessment Rate
Rates Applicable to Each Hospital Type:				
Critical Access Hospitals	100%	\$ 1,035.50	25%	2.0638%
Freestanding Children's Hospitals	20%	\$ 207.25	20%	1.6510%
Freestanding Rehabilitation Hospitals	0%	\$ 0.00	0%	0.0000%
High Medicare Utilization Hospital	0%	\$ 0.00	0%	0.0000%
High Medicare/Out-of-State Patient Utilization Hospital	0%	\$ 0.00	0%	0.0000%
Large Psychiatric Hospitals	25%	\$ 259.00	25%	2.0638%
LTAC Hospitals	25%	\$ 259.00	25%	2.0638%
Medium Pediatric Intensive General Acute Hospitals	90%	\$ 932.00	75%	6.1912%
Non-CAH Rural Acute Hospitals	100%	\$ 1,035.50	60%	4.9530%
Pediatric-Intensive General Acute Hospitals	80%	\$ 828.25	65%	5.3658%
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%	\$ 1,035.50	100%	8.2550%
Rates Applicable to All Non-Exempted Hospital Types:				
Rate Applied to Non-Exempted Psychiatric Sub-Provider Units	25%	\$ 259.00	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%	\$ 103.75	10%	0.8255%

Note: (1) The modeled inpatient assessment unit threshold is 24,000, and there is no modeled outpatient assessment unit threshold. The inpatient threshold is not applicable to inpatient discharges for Psychiatric Sub-Providers, Rehabilitation Sub-Providers.

FFY 2023 Preliminary Modeled HEALTHII Payment Impact

Combined Inpatient and Outpatient (In Millions)

HEALTHII Reimbursement Class	Class HEALTHII Payment Increase Percentage	Modeled HEALTHII Class Fixed Payment Pool	Modeled HCIF Assessments	Estimated Net Revenue Gain / (Loss) From Assessments ⁽¹⁾
A	B	C	D	E = C - D
Freestanding Children's Provider	17.93%	\$ 51.5	\$ 5.8	\$ 45.7
Private Urban Acute Hospital	72.77%	\$ 1,166.0	\$ 350.7	\$ 815.3
Public Acute Hospital	17.48%	\$ 26.8	\$ 0.0	\$ 26.8
Rural Hospital	76.20%	\$ 223.0	\$ 60.3	\$ 162.7
Rural Reservation-Adjacent Hospitals	101.76%	\$ 78.9	\$ 18.3	\$ 60.6
Specialty Hospital	15.73%	\$ 41.3	\$ 2.9	\$ 38.4
Total		\$ 1,587.4	\$ 437.9	\$ 1,149.5

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

FFY 2023 Preliminary Modeled Impact from Total Assessments

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

Hospital Assessment Peer Group	Total Modeled FFY 2023 HAF Assessments	Total Modeled FFY 2023 HCIF Assessments	Total Modeled FFY 2023 Coverage Payments	Total Modeled FFY 2023 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	\$ 9.6	\$ 6.5	\$ 39.1	\$ 48.9	\$ 71.8	12	0	0
Freestanding Children's Hospitals	\$ 4.6	\$ 5.8	\$ 5.9	\$ 51.5	\$ 47.0	1	0	0
Freestanding Rehabilitation Hospitals	\$ 0.0	\$ 0.0	\$ 16.9	\$ 3.6	\$ 20.5	12	0	0
High Medicare Utilization Hospital	\$ 0.0	\$ 0.0	\$ 1.1	\$ 1.3	\$ 2.3	1	0	0
High Medicare/Out-of-State Patient Utilization Hospital	\$ 0.0	\$ 0.0	\$ 10.6	\$ 1.2	\$ 11.8	1	0	0
Large Psychiatric Hospitals	\$ 9.9	\$ 2.8	\$ 125.4	\$ 27.5	\$ 140.2	10	0	0
LTAC Hospitals	\$ 0.4	\$ 0.1	\$ 7.2	\$ 1.5	\$ 8.2	6	0	0
Medium Pediatric Intensive General Acute Hospitals	\$ 101.2	\$ 74.1	\$ 243.0	\$ 355.5	\$ 423.2	5	0	0
Non-CAH Rural Acute Hospitals	\$ 78.1	\$ 56.6	\$ 159.1	\$ 185.2	\$ 209.7	12	0	0
Pediatric-Intensive General Acute Hospitals	\$ 21.4	\$ 14.4	\$ 72.0	\$ 105.8	\$ 142.1	1	0	0
Public Acute Hospitals	\$ 0.0	\$ 0.0	\$ 121.6	\$ 26.8	\$ 148.4	1	0	0
Short Term Specialty Hospitals	\$ 0.0	\$ 0.0	\$ 9.1	\$ 1.9	\$ 11.1	6	2	0
Small Psychiatric Hospitals and AZ State Hospital	\$ 0.0	\$ 0.0	\$ 25.9	\$ 6.8	\$ 32.7	12	0	0
Urban Acute Hospitals	\$ 362.7	\$ 277.7	\$ 706.6	\$ 770.0	\$ 836.2	24	0	5
Total Border Hospitals	\$ 0.0	\$ 0.0	\$ 29.8	\$ 0.0	\$ 29.8	0	0	0
Total Out of State Hospitals	\$ 0.0	\$ 0.0	\$ 2.3	\$ 0.0	\$ 2.3	0	0	0
Total	\$ 587.9	\$ 437.9	\$ 1,575.8	\$ 1,587.4	\$ 2,137.4	104	2	5

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

Preliminary Model Feedback

Model Parameters and Hospital Reported Amounts

- AHCCCS is soliciting feedback from the hospital community on the preliminary FFY 2023 HEALTHII assessment model parameters for consideration
 - Please email comments related to model parameters to AHCCCS at HospitalAssessmentProject@azahcccs.gov by **Wednesday, April 6, 2022**
- Please review and validate your hospital's FYE 2019 discharges and revenues amounts shown in the Milliman report "*Preliminary Federal Fiscal Year 2023 Hospital Assessment Model*" Appendix A
- Please contact AHCCCS if there are any issues or questions

Next Steps

- Share detailed results with hospital stakeholder group
- Collect stakeholder feedback for consideration
- Update other preliminary assessment model inputs and model parameters as needed
- Develop HEALTHII payment benchmarking analysis, comparing modeled directed payments to estimates of payments under Medicare and commercial at the provider class level
 - This is required under CMS' new Preprint guidance for federal approval of 438.6(c) state directed payment arrangements

Limitations

The services provided for this project were performed under the signed Consulting Services Agreement between Milliman and Knowledge Services (KS) dated December 21, 2020.

The information contained in this presentation has been prepared for the Arizona Health Care Cost Containment System (AHCCCS). We understand this presentation will be shared with AHCCCS' hospital stakeholder work group on March 17, 2022. These results may not be distributed to any other party without the prior consent of Milliman. To the extent that the information contained in this correspondence is provided to any approved third parties, the correspondence 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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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 2023 contract year.***

This work is not complete. Final results and recommendations may vary materially from this draft document based on additional findings and information gathering.

This presentation is for discussion purposes only and should not be relied upon without benefit of the discussion that accompanied it or without review of the accompanying Milliman report "Preliminary Federal Fiscal Year 2023 Hospital Assessment Model" dated March 16, 2022.



Thank you

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