



ARIZONA
HEALTH CARE COST
CONTAINMENT SYSTEM

Hospital Assessment/HEALTHII
Workgroup #2 - FFY 2027 Model

May 7th, 2026

AHCCCS Workgroup #2 Agenda

- Model Updates for HAF Target and HEALTHII Payments
- Discuss Feedback from HEALTHII Workgroup #1
- Status Updates
 - FFY 2025 HEALTHII Reconciliation
 - FFY 2026 HEALTHII Payments

HAF Target and HEALTHII Payment Update



Hospital Assessment Fund (HAF) Update

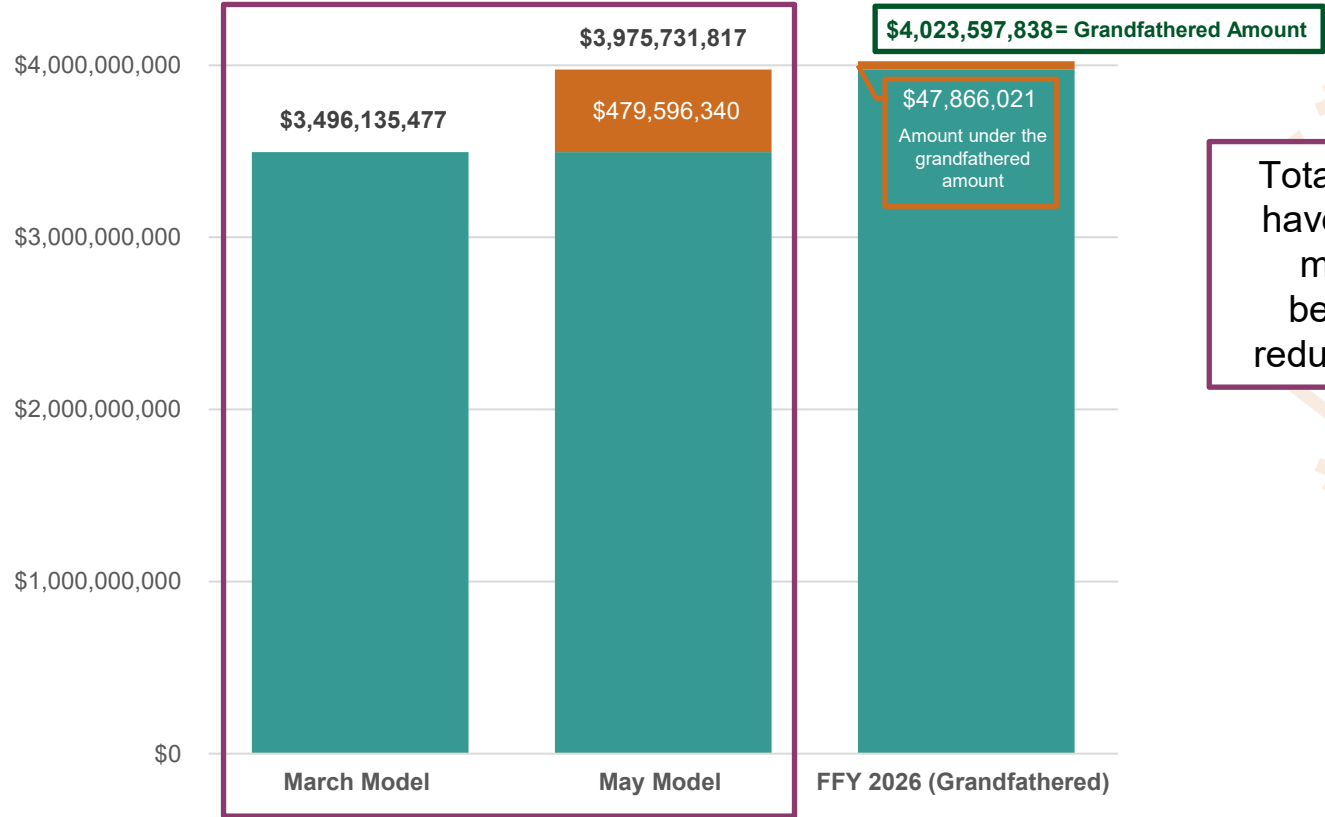
HEALTHII 2027 HAF Target Update (\$ In Millions)



HAF target has been revised to \$574.1 million resulting in increased HEALTHII payments

HEALTHII 2027 Payment Update

HEALTHII 2027 Total Payments



Total HEALTHII payments have increased by \$479.5 million to **\$3.9 billion** because of HAF target reduction and other factors



FFY 2027 HEALTHII Workgroup #1 Feedback



Feedback/Response

Feedback	Response
<p><u>Enrollment Projections</u></p> <p>AHCCCS to use more current updated enrollment projections to calculate the Hospital Assessment Fund (HAF) need. <i>[AzHHA]</i></p>	<ul style="list-style-type: none">• AHCCCS has refreshed enrollment data within the latest HEALTHII model which has revised enrollment forecasts.• Depending on the timing of the final model, an additional enrollment data refresh will be unlikely. However, AHCCCS will continue to monitor the enrollment.
<p><u>Acuity</u></p> <p>Question raised to understand the medical acuity of the adult population that is driving the additional HAF costs and how AHCCCS developed its actuarial assumptions for HAF. <i>[PCH]</i></p>	<ul style="list-style-type: none">• The acuity of nearly all populations has increased based on utilization in both average risk and health status. AHCCCS made significant upward acuity adjustments from 27.15% to 46.95% for childless and expansion adults, which increases HAF need.• Additional acuity information can be located in the Actuarial Certifications (section 1.7 and Appendix 4 of original and revised certifications).

Feedback/Response

Feedback

Specialty Hospital Methodology

AHCCCS should consider reverting to the prior specialty hospital methodology to account for outpatient predominant providers if possible or pursuing alternative approaches to achieve parity, such as adjustments to the outpatient fee schedule.

[AzHHA/The Core Institute]

Response

- AHCCCS shifted specialty hospitals to an inpatient-only methodology to comply with Average Commercial Rate (ACR) requirements, supporting increased HEALTHII payments in FFY 2026. Although reverting to the prior class and service specific approach could allow outpatient HEALTHII payments for certain Specialty Hospitals, it would also materially reduce the overall ACR ceiling for the Specialty Hospital class and result in a significant decrease in total HEALTHII payments across the class.
- Any outpatient fee schedule adjustments would require budget neutrality unless hospitals request the legislature to grant additional appropriation for an outpatient fee schedule increase.

Feedback/Response

Feedback	Response
<p data-bbox="382 233 730 270"><u>Pediatric Utilization</u></p> <p data-bbox="150 288 923 478">AHCCCS should discuss how pediatric utilization is considered in developing the payment assumptions relative to the freestanding children's hospital pool. <i>[PCH]</i></p>	<ul data-bbox="989 233 1715 428" style="list-style-type: none"><li data-bbox="989 233 1715 428">• AHCCCS and Milliman do not apply a separate methodology to the pediatric utilization for the freestanding children's hospital pool.
<p data-bbox="253 632 861 713"><u>Negative Trends to Encounter and Membership Data</u></p> <p data-bbox="150 721 958 940">AHCCCS should adjust the encounter base data downward due to membership declines to ensure the Uniform Percentage Increases (UPIs) are not understated and unnecessarily forfeit HEALTHII funding. <i>[Alliance]</i></p>	<ul data-bbox="989 632 1750 848" style="list-style-type: none"><li data-bbox="989 632 1750 848">• Milliman and AHCCCS actuaries have identified challenges for implementing this requested methodology, but AHCCCS is continuing to evaluate different options to explore this further.

Feedback/Response

Feedback	Response
<p><u>Sources of State Match to Achieve Grandfathered Amount</u></p> <p>AHCCCS should consider all potential sources of state match to ensure that Arizona is able to preserve the funding under these grandfathered levels until the phase-down begins in 2028. <i>[PCH]</i></p>	<ul style="list-style-type: none">• Additional State Match Funding Opportunities: AHCCCS can entertain adding IGT funding for any state match amounts needed to maximize HEALTHII grandfathered amounts. Funding partners would need to be limited to 1-2 partners and IGT funding would need to benefit all hospitals and hospital classes. AHCCCS would need IGT information by 5/22/26.
<p><u>Net Patient Revenue Trend</u></p> <p>AHCCCS should move away from trending net patient revenues using CMS Market Basket factors to a more Arizona specific trend factor that will result in higher revenues in the modeling. <i>[Alliance]</i></p>	<ul style="list-style-type: none">• AHCCCS and Milliman feel there is risk in using Arizona specific adjustments to Net Patient Revenue (NPR) (e.g., adding HEALTHII revenue growth since the rebase year) in the FFY 2027 assessment model as this methodology was not used with the model that CMS used for grandfathering.

Feedback/Response

Feedback

Five HEALTHII Payment Arrangement with Four-Assessment Payments

AHCCCS should not move to a five-payment structure for 2027 HEALTHII.

[Alliance/AzHHA]

Response

- Due to CMS limitations on retroactive preprint changes and the need to minimize recoupment risk while maintaining prospective established Uniform Percentage Increases (UPIs), AHCCCS continues to recommend transitioning to a five-payment structure for FFY 2027.
- To address cash-flow concerns, AHCCCS supports **revising the interim payment percentage to 90% vs. 80%** across the first four payments, with the remaining 10% paid 6–12 months after year-end. AHCCCS will continue to engage with CMS as appropriate but does not anticipate maintaining the historical four-payment model for FFY 2027.
- Assessment collections need to remain at four payments for FFY 2027 and going forward once HEALTHII is transitioned to the MCO capitation in FFY 2028.

Feedback/Response

Feedback	Response
<p><u>Transition from SPT to Capitation Rate</u> AHCCCS should collaborate with stakeholders regarding the transition from Separate Payment Terms (SPT) into the capitation rates and other Medicaid Managed Care Rule (MMCR) impacts to HEALTHII. <i>[Alliance/AzHHA]</i></p>	<ul style="list-style-type: none">AHCCCS is committed to engaging with stakeholders in the summer regarding the transition from SPT into capitation rates and other Medicaid Managed Care Rules impacting HEALTHII starting in FFY 2028.
<p><u>H.R. 1</u> AHCCCS should work jointly and engage with stakeholders regarding House Resolution 1 (H.R. 1) and its impact on future HEALTHII modeling. <i>[Alliance/AzHHA/PCH]</i></p>	<ul style="list-style-type: none">AHCCCS is committed to engaging with stakeholders in the summer regarding H.R. 1 and its impact on Medicaid in Arizona.

HEALTHII 2025 & 2026 Status Updates



Status Updates

FFY 2025 HEALTHII Reconciliation

- Preliminary results to be sent by May 15th
- Requests for encounter detail are due by May 22nd
- AHCCCS will pull final encounter data in late August to complete the reconciliation
- Payments/(Recoupments) targeted for December 2026

FFY 2026 HEALTHII Payments

Q1 and Q2 Payments

- Quarter 1 payments have been made by health plans
- Quarter 2 payments recently paid by April 30th by health plans

Q3 Reminders

- Assessment Invoices (HCIF due May 11th; HAF due May 15th)
- HEALTHII payments from MCOs by June 30th

Model Feedback

- Please email comments related to the model to AHCCCS at HospitalAssessmentProject@azahcccs.gov by May 22, 2026.

Thank You

