

Preliminary Federal Fiscal Year 2025 Hospital Assessment Model Update

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

JUNE 27, 2024



Agenda

- FFY 2025 Modeling Updates
- Modeled Assessments
- Model Results
- Next Steps

FFY 2025 Modeling Updates

FFY 2025 Hospital Assessment Model Updates

Summary of key model changes since the March 26th meeting based on AHCCCS direction

Modeled Assessments

- Rebased assessment units for inpatient discharges and outpatient net patient revenues with FYE 2022 data (previously based on FYE 2021 data)
- Increased surplus applied to HCIF to \$85 million (previously \$70 million)
- Increased assessments to target 5.999% of net patient revenues trended to FFY 2025 (below CMS “Hold Harmless” limit of 6.0%), separately for inpatient and outpatient (previously 5.85%)
- Increased total HAF assessments to \$682.1 million (previously \$597.1 million)
- Increased total HCIF assessments to \$741.0 million (previously \$631.1 million)

Modeled HEALTHII payments

- Increased HEALTHII payment pool to \$3,031.2 million reflecting increased HCIF (previously \$2,526.8 million)
- Increased HEALTHII base payment pool to \$2,576.5 million, 85% of total (previously \$2,147.8 million)
- Increased HEALTHII quality incentive payment pool to \$454.7 million, 15% of total (previously \$379.0 million)
- Quality incentive payment pool based on pay-for-reporting only (previously included pay-for-performance portion)
- Removed shift in Medicaid utilization to PCH from partnering hospitals (previously included)

Modeled Assessment

FFY 2025 Assessments

Overview

- Modeled FFY 2025 hospital assessments “rebased” using hospital fiscal year ending **(FYE) 2022 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)



FFY 2025 Inpatient Assessments

Discharge basis

FYE 2022 discharges used to model preliminary FFY 2025 inpatient assessments are based on amounts reported by hospitals under the same source hierarchy used for the FFY 2024 model

1. FYE 2022 Medicare Cost Reports

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

2. FYE 2022 Uniform Accounting Reports (UAR)

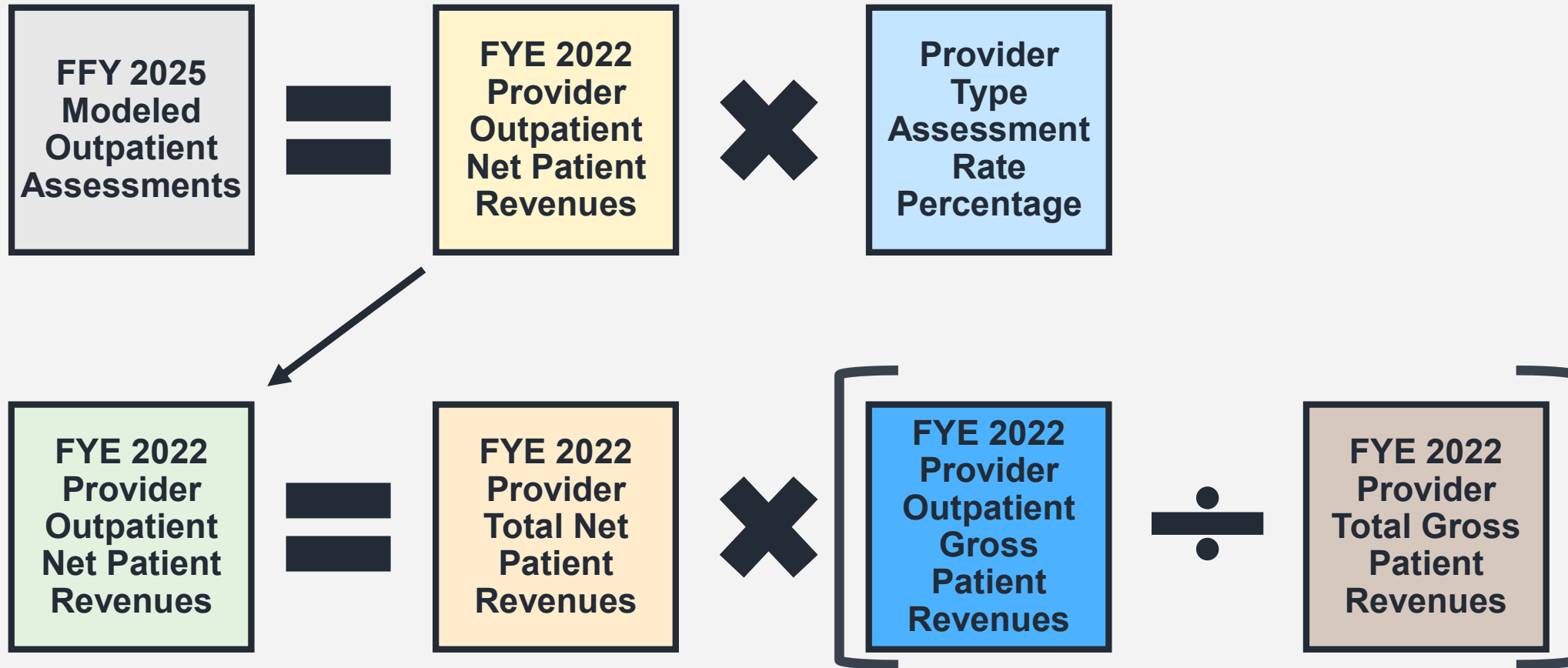
UAR data published by the Arizona Department of Health Services (used only if HCRIS data is not available)

3. Provider Self-Report Data

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

FFY 2025 Outpatient Assessments

Outpatient assessment calculation



FFY 2025 Outpatient Assessments (Cont'd)

Outpatient revenues basis

The FYE 2022 outpatient revenues used to calculate FFY 2025 outpatient assessments are based on amounts reported by hospitals under the same source hierarchy used for FFY 2024 model:

1

FYE 2022 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 2022 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 2022 Medicare Cost Reports:

Worksheets G-2, columns 1 and 2, line 28 and G-3 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)

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 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 **6.0% of total statewide inpatient net patient revenues**
 - Aggregate outpatient net patient revenues-based assessments must not exceed **6.0% percent of total statewide outpatient net patient revenues**

Model Results

Preliminary FFY 2025 Model Totals Compared To FFY 2024

Preliminary Model Totals (\$ Millions)		FFY 2025 (Current version)	FFY 2025 (March 26 meeting version)	FFY 2024 (Final version)
Modeled Assessments				
Hospital Assessment Fund (HAF)				
Modeled baseline HAF assessments	A	\$ 682.1	\$ 597.1	\$ 641.8
Health Care Investment Fund (HCIF)				
Modeled HCIF assessments for HEALTHII payments (includes administration and quality pool)	B	\$ 670.5	\$ 560.6	\$ 438.9
Modeled HCIF assessments for physician/dental payments	C	70.5	70.5	70.5
Total modeled FFY HCIF assessments	D = B+C	\$ 741.0	\$ 631.1	\$ 509.4
Applied HCIF surplus balance from prior periods	E	\$ 85.0	\$ 70.0	\$ 100.0
Total HCIF costs including surplus from prior periods	F = D+E	\$ 826.0	\$ 701.1	\$ 609.4
Total Modeled FFY Assessments	G = A+D	\$ 1,423.1	\$ 1,228.2	\$ 1,151.2
Estimated Coverage Payment Net Revenue Gain (Relates to HAF Assessment)				
Total modeled Coverage Payments	H	\$ 1,446.8	\$ 1,446.8	\$ 1,535.2
Less: Total modeled HAF assessments	I	(682.1)	(597.1)	(641.8)
Total Estimated FFY Coverage Payment Net Revenue Gain	J = H+I	\$ 764.7	\$ 849.7	\$ 893.4
Estimated HEALTHII Net Revenue Gain (Relates to HCIF Assessment)				
Total modeled HEALTHII directed payments (net of premium tax) ⁽¹⁾	K	\$ 3,031.2	\$ 2,526.8	\$ 2,213.8
Less: Total modeled HCIF assessments	L	(741.0)	(631.1)	(509.4)
Total Estimated FFY HEALTHII Net Revenue Gain	M = K+L	\$ 2,290.3	\$ 1,895.7	\$ 1,704.4
Total Estimated FFY Hospital Net Revenue Gain	N = J+M	\$ 3,055.0	\$ 2,745.4	\$ 2,597.8

Note: 1. Includes HEALTHII base directed payments and quality incentive pay-for-reporting payments

Preliminary Modeled FFY 2025 Assessment Rates

Combined HAF and HCIF Assessment Rates

Hospital Assessment Peer Group	Inpatient		Outpatient	
	Percent of Base Assessment	Modeled FFY 2025 Assessment Rate	Percent of Base Assessment	Modeled FFY 2025 Assessment Rate
Rates Applicable to Each Hospital Type:				
Critical Access Hospitals	100%	\$ 1,503.75	25%	2.3574%
Freestanding Children's Hospitals	20%	\$ 301.00	20%	1.8859%
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%	\$ 376.25	25%	2.3574%
LTAC Hospitals	25%	\$ 376.25	25%	2.3574%
Medium Pediatric Intensive General Acute Hospitals	90%	\$ 1,353.25	75%	7.0721%
Non-CAH Rural Acute Hospitals	100%	\$ 1,503.75	60%	5.6578%
Pediatric-Intensive General Acute Hospitals	80%	\$ 1,203.00	65%	6.1292%
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%	\$ 1,503.75	100%	9.4296%
Rates Applicable to All Non-Exempted Hospital Types:				
Rate Applied to Non-Exempted Psychiatric Sub-Provider Units	25%	\$ 376.25	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%	\$ 150.75	N/A	N/A

(1) The modeled inpatient assessment unit threshold is 22,800 and there is no modeled outpatient assessment unit threshold. The inpatient threshold is not applicable to discharges for Psychiatric and Rehabilitation sub-providers.

Preliminary Modeled FFY 2025 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 including Quality Pool Funding	Estimated Net Revenue Gain / (Loss) From Assessments
A	B	C	D	E	F = C + D - E
Freestanding Children's Provider	29.38%	\$ 95.8	\$ 16.9	\$ 7.1	\$ 105.7
Private Urban Acute Hospital	119.24%	\$ 1,848.7	\$ 326.5	\$ 597.6	\$ 1,577.7
Public Acute Hospital	28.64%	\$ 46.1	\$ 8.1	\$ 0.0	\$ 54.2
Rural Hospital	124.85%	\$ 365.6	\$ 64.6	\$ 102.8	\$ 327.4
Rural Reservation-Adjacent Hospitals	166.75%	\$ 134.0	\$ 23.7	\$ 26.6	\$ 131.1
Specialty Hospital	28.64%	\$ 86.2	\$ 14.8	\$ 6.9	\$ 94.2
Total w/ Quality Pool Payments		\$ 2,576.5	\$ 454.7	\$ 741.0	\$ 2,290.3

Note: For FFY 2025, the non-federal share of AHCCCS' proposed \$454.7M quality payment pool is included in modeled HCIF assessments and modeled HEALTHII payments.

Preliminary Modeled Impact from Total Assessments

Combined Coverage Payments and HEALTHII Payments (\$ in millions)

Hospital Assessment Peer Group	Total Modeled FFY 2025 HAF Assessments	Total Modeled FFY 2025 HCIF Assessments	Total Modeled FFY 2025 Coverage Payments	Total Modeled FFY 2025 HEALTHII Payments (incl. Quality)	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	\$ 10.1	\$ 10.7	\$ 39.6	\$ 109.3	\$ 128.1	12	0	0
Freestanding Children's Hospitals	\$ 5.0	\$ 7.1	\$ 7.7	\$ 112.8	\$ 108.3	1	0	0
Freestanding Rehabilitation Hospitals	\$ 0.0	\$ 0.0	\$ 18.3	\$ 8.3	\$ 26.6	14	2	0
High Medicare/Out-of-State Patient Utilization Hospital	\$ 0.0	\$ 0.0	\$ 13.7	\$ 5.5	\$ 19.1	1	0	0
Large Psychiatric Hospitals	\$ 12.1	\$ 6.6	\$ 113.3	\$ 75.1	\$ 169.8	12	0	0
LTAC Hospitals	\$ 0.6	\$ 0.3	\$ 6.7	\$ 3.1	\$ 9.0	5	0	0
Medium Pediatric Intensive General Acute Hospitals	\$ 122.8	\$ 134.8	\$ 234.8	\$ 715.1	\$ 692.3	5	0	0
Non-CAH Rural Acute Hospitals	\$ 89.9	\$ 90.4	\$ 136.0	\$ 344.1	\$ 299.8	12	0	0
Pediatric-Intensive General Acute Hospitals	\$ 23.7	\$ 23.4	\$ 56.5	\$ 194.9	\$ 204.3	1	0	0
Public Acute Hospital	\$ 0.0	\$ 0.0	\$ 110.0	\$ 54.2	\$ 164.2	1	0	0
Short Term Specialty Hospitals	\$ 0.0	\$ 0.0	\$ 10.5	\$ 4.6	\$ 15.1	9	3	0
Small Psychiatric Hospitals and AZ State Hospital	\$ 0.0	\$ 0.0	\$ 16.3	\$ 10.0	\$ 26.3	10	0	0
Urban Acute Hospitals	\$ 417.9	\$ 467.8	\$ 651.2	\$ 1,394.4	\$ 1,159.9	27	0	2
Total Border Hospitals	\$ 0.0	\$ 0.0	\$ 28.6	\$ 0.0	\$ 28.6	0	0	0
Total Out of State Hospitals	\$ 0.0	\$ 0.0	\$ 3.6	\$ 0.0	\$ 3.6	0	0	0
Total	\$ 682.1	\$ 741.0	\$ 1,446.8	\$ 3,031.2	\$ 3,055.0	110	5	2

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

Next Steps

Next Steps

- AHCCCS to submit proposed Assessment Rule change
- AHCCCS to submit HEALTHII preprint and tax waiver demonstration for CMS approval
- AHCCCS to post model report to website

Limitations

This presentation has been prepared for the internal business use of the Arizona Health Care Cost Containment System (AHCCCS) in preparation for an Arizona Medicaid hospital stakeholder work group meeting on June 27, 2024, and is not complete without the oral commentary accompanying this presentation.

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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 2025 contract year and final quality data to be provided by AHCCCS.**



Thank you

Ben Mori
Principal and Senior Healthcare Consultant
+1 206 613 8204
Ben.Mori@Milliman.com