

Preliminary Federal Fiscal Year 2027 Hospital Assessment Model

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

MAY 7, 2026



Agenda

- Model Updates
- FFY 2027 Preliminary Model Results
- Next Steps
- Close/Thank You

Model Updates

Preliminary FFY 2027 Hospital Assessment Model Updates

Summary of key model changes since the March 12th meeting based on AHCCCS' direction



Net Patient Revenues

- Updated net patient revenues for two hospitals that submitted a new Uniform Account Report (UAR)
- Updated the CMS Market Basket trending in the hold harmless percentage calculation, resulting in higher trend factors applied to net patient revenues

Assessments

- Target HAF assessments were reduced by \$44.6M
- Target HCIF assessments were increased by \$99.0M
- Applied a \$25.0M surplus from HCIF resulting in additional available payments to HEALTHII

HEALTHII Payments

- Increased the HEALTHII payment pool by \$479.6M
- Increased the Quality Incentive payment pool portion by \$71.9M
- Estimated net revenue gain from HEALTHII increased by \$380.6M
- Updated Uniform Percentage Increases (UPIs) to achieve AHCCCS' target HEALTHII directed payment pool

Preliminary Model Results

Preliminary FFY 2027 Model Totals Compared To March Stakeholder meeting

Preliminary Model Totals (\$ Millions)	Ref.	FFY 2027 Updated Model	FFY 2027 March Model
Modeled Assessments			
Hospital Assessment Fund (HAF)			
Modeled baseline HAF assessments	A	\$ 574.1	\$ 618.7
Health Care Investment Fund (HCIF)			
Modeled HCIF assessments for HEALTHII payments (includes quality pool and managed care premium tax)	B	994.5	\$ 896.5
Modeled HCIF assessments for physician/dental payments	C	70.5	70.5
Program Administration	D	10.8	9.8
Total modeled FFY HCIF assessments	E = B+C+D	\$ 1,075.7	\$ 976.8
Applied HCIF surplus balance from prior periods	F	25.0	0.0
Total HCIF costs including surplus from prior periods	G = E+F	\$ 1,100.7	\$ 976.8
Total Modeled FFY Assessments	H = A+E	\$ 1,649.9	\$ 1,595.5
Estimated Coverage Payment Net Revenue Gain (Relates to HAF Assessment)			
Total modeled Coverage Payments	I	\$ 1,173.2	\$ 1,173.2
Less: Total modeled HAF assessments	J	(574.1)	(618.7)
Total Estimated FFY Coverage Payment Net Revenue Gain	K = I+J	\$ 599.1	\$ 554.5
Estimated HEALTHII Net Revenue Gain (Relates to HCIF Assessment)			
Total modeled HEALTHII directed payments (net of premium tax) ⁽¹⁾	L	\$ 3,975.7	\$ 3,496.1
Less: Total modeled HCIF assessments	M	(1,075.7)	(976.8)
Total Estimated FFY HEALTHII Net Revenue Gain	N = L+M	\$ 2,900.0	\$ 2,519.4
Total Estimated FFY Hospital Net Revenue Gain	O = K+N	\$ 3,499.0	\$ 3,073.8

Note: 1. Total modeled FFY 2027 HEALTHII payments net of the 2% Medicaid Managed Care premium tax are calculated as follows:
 $[(\text{HCIF assessments for HEALTHII payments}) / (1 - \text{Blended FMAP})] * 98\%$, where blended FMAP = 74.87%. HCIF assessments in calculation include \$25.0M surplus but exclude \$70.5M physician/dental portion and \$10.8M program administration.

Preliminary Modeled FFY 2027 Assessment Rates

Combined HAF and HCIF assessment rates

Hospital Assessment Peer Group	Inpatient		Outpatient	
	Percentage of Base Assessment	Modeled FFY 2027 Assessment Rate	Percentage of Base Assessment	Modeled FFY 2027 Assessment Rate
Rates Applicable to Each Hospital Type:				
Critical Access Hospitals	100%	\$ 1,835.00	25%	2.6084%
Freestanding Children's Hospitals	20%	\$ 367.25	20%	2.0868%
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%	\$ 459.00	25%	2.6084%
LTAC Hospitals	25%	\$ 459.00	25%	2.6084%
Medium Pediatric Intensive General Acute Hospitals	90%	\$ 1,651.50	75%	7.8253%
Non-CAH Rural Acute Hospitals	100%	\$ 1,835.00	60%	6.2603%
Pediatric-Intensive General Acute Hospitals	80%	\$ 1,468.25	65%	6.7819%
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%	\$ 1,835.00	100%	10.4338%
Rates Applicable to All Non-Exempted Hospital Types:				
Rate Applied to Non-Exempted Psychiatric Sub-Provider Units	25%	\$ 459.00	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%	\$ 183.75	10% of group rate	0.2087%-1.0434%

(1) The modeled inpatient assessment unit threshold is 22,800 and the modeled outpatient assessment unit threshold is \$375M. The inpatient threshold is not applicable to discharges for Psychiatric and Rehabilitation sub-providers.

Preliminary Modeled FFY 2027 HEALTHII Payments

With quality incentive payments (\$ in millions)

HEALTHII Reimbursement Class	Modeled HEALTHII Base Directed Payment Pool	Modeled HEALTHII Quality Incentive Payment Pool	Total Modeled HEALTHII Payments	Modeled HCIF Assessments	Estimated Net Revenue Gain From Assessments
	A	B	C	D	E = C - D
Freestanding Children's Provider	\$ 155.7	\$ 27.5	\$ 183.2	\$ 9.4	\$ 173.8
Private Urban Acute Hospital	\$ 2,456.4	\$ 433.7	\$ 2,890.1	\$ 852.6	\$ 2,037.5
Public Acute Hospital	\$ 59.6	\$ 10.5	\$ 70.1	\$ 0.0	\$ 70.1
Rural Hospital	\$ 436.7	\$ 77.1	\$ 513.8	\$ 152.4	\$ 361.4
Rural Reservation-Adjacent Hospitals	\$ 153.3	\$ 27.1	\$ 180.4	\$ 46.9	\$ 133.6
Specialty Hospital (inpatient only)	\$ 117.6	\$ 20.5	\$ 138.1	\$ 14.5	\$ 123.6
Total	\$ 3,379.4	\$ 596.4	\$ 3,975.7	\$ 1,075.7	\$ 2,900.0

Note: AHCCCS' proposed FFY 2027 \$596.4M quality payment pool is included in modeled HCIF assessments and modeled HEALTHII payments. HEALTHII payment subject to provider class and managed care program level average commercial payment benchmark limitations which have not yet been finalized.

Preliminary Modeled FFY 2027 Impact from Total Assessments

Combined coverage payments and HEALTHII payments, inpatient and outpatient (\$ in millions)

Hospital Assessment Peer Group	Total Modeled FFY 2027 HAF Assessments	Total Modeled FFY 2027 HCIF Assessments	Total Modeled FFY 2027 Coverage Payments	Total Modeled FFY 2027 HEALTHII Payments	Estimated Hospital Net Revenue Gain from Total Assessments ⁽¹⁾	Number of Hospitals with Estimated Gain	Number of Hospitals with Estimated \$0 Gain	Number of Hospitals with Estimated Loss
Critical Access Hospitals	\$ 8.4	\$ 16.7	\$ 32.0	\$ 121.9	\$ 128.7	12	0	0
Freestanding Children's Hospitals	\$ 4.1	\$ 9.4	\$ 5.0	\$ 183.2	\$ 174.7	1	0	0
Freestanding Rehabilitation Hospitals	\$ 0.0	\$ 0.0	\$ 12.8	\$ 10.6	\$ 23.4	16	1	0
High Medicare/Out-of-State Patient Utilization Hospital	\$ 0.0	\$ 0.0	\$ 10.3	\$ 8.1	\$ 18.4	1	0	0
Large Psychiatric Hospitals	\$ 10.5	\$ 14.1	\$ 99.3	\$ 100.3	\$ 174.9	12	0	0
LTAC Hospitals	\$ 0.3	\$ 0.4	\$ 3.6	\$ 4.6	\$ 7.4	5	0	0
Medium Pediatric Intensive General Acute Hospitals	\$ 103.5	\$ 197.1	\$ 195.0	\$ 944.7	\$ 839.1	5	0	0
Non-CAH Rural Acute Hospitals	\$ 79.0	\$ 147.4	\$ 120.7	\$ 401.3	\$ 295.6	12	0	0
Pediatric-Intensive General Acute Hospitals	\$ 19.3	\$ 33.7	\$ 47.8	\$ 251.7	\$ 246.6	1	0	0
Public Acute Hospital	\$ 0.0	\$ 0.0	\$ 83.2	\$ 70.1	\$ 153.3	1	0	0
Short Term Specialty Hospitals	\$ 0.0	\$ 0.0	\$ 15.6	\$ 1.3	\$ 16.8	9	2	0
Small Psychiatric Hospitals and AZ State Hospital	\$ 0.0	\$ 0.0	\$ 25.1	\$ 21.3	\$ 46.5	8	1	0
Urban Acute Hospitals	\$ 348.9	\$ 657.0	\$ 499.5	\$ 1,856.6	\$ 1,350.2	27	0	2
Border Hospitals	\$ 0.0	\$ 0.0	\$ 21.9	\$ 0.0	\$ 21.9	0	0	0
Out of State Hospitals	\$ 0.0	\$ 0.0	\$ 1.4	\$ 0.0	\$ 1.4	0	0	0
Total	\$ 574.1	\$ 1,075.7	\$ 1,173.2	\$ 3,975.7	\$ 3,499.0	110	4	2

(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 2027 HEALTHII assessment model parameters for consideration
- Please email comments related to preliminary modeling to AHCCCS at HospitalAssessmentProject@azahcccs.gov by **Friday, May 22, 2026**

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 facilitated by AHCCCS on May 7, 2026. Milliman is not advocating for, recommending, or endorsing any particular payment policy, methodology, or amount. All decisions regarding FFY 2027 Arizona hospital assessment and HEALTHII payment modeling are the responsibility of AHCCCS and may be subject to approval by CMS.

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Milliman has developed certain models to estimate the values included in this presentation. The intent of the models was to project FFY 2027 hospital assessments and to estimate FFY 2027 Medicaid payments. We have reviewed the models, including their inputs, calculations, and outputs for consistency, reasonableness, and appropriateness to the intended purpose and in compliance with generally accepted actuarial practice and relevant standards of practice.

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 presentation 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 final AHCCCS policy decisions, the CMS approval process, and actual contracted MCO utilization during the 2027 contract year. Changes in federal regulations may significantly impact the Medicaid payment and assessment limits reflected in these preliminary analyses.**

This work is not complete. Final results may vary significantly from this presentation based on final AHCCCS policy decisions and the CMS approval process.



Thank you

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