



# ARIZONA

## HEALTH CARE COST CONTAINMENT SYSTEM

### Hospital Assessment/HEALTHII Workgroup Base FFY 2027 Model

March 12, 2026

# Hospital Assessment Fund (HAF) Assessment

- **Background:** Established under Laws 2013, Chapter 10, expanded/restored Medicaid coverage
  - Newly Eligible Adults (NEA) up to 133% FPL
  - Prop 204 Expansion State Adults (ESA) up to 100% FPL
  - Prop 204 TANF Parents up to 100% FPL
- Funds state share of physical health costs of these populations, not otherwise paid for by tobacco funding

- **2027 HAF Estimate:**

<u>FFY 2027 HAF Payment Summary Estimate</u>	
Coverage Payments to Hospitals	+ \$1.17 Billion
HAF Assessments Paid	- <u>\$618.7 Million</u>
Net Coverage Payments	= \$554.5 Million

- Does not include the \$100 M specific to behavioral health services

# Health Care Investment Fund (HCIF) Assessment

- **Background:** Laws 2020, Chapter 46, established a second hospital assessment beginning 10/1/2020. The assessment is used to:
  - Make directed payments to hospitals that supplement the base reimbursement for hospital services to AHCCCS recipients
  - Increase base reimbursement rates for the dental and physician fee schedules to rates in effect before Great Recession
    - HCIF for provider rates must be the lesser of \$70.5 million or 20% of total assessment
  - Fund non-federal share of the costs for administrative expenses incurred by the administration or its agents

# Assessments Implementation

- **Background:** Based on Arizona Inpatient discharges and Outpatient net patient revenues
  - Exempts certain types of hospitals or assesses some at lower rates
  - Per Arizona Revised Statute (A.R.S.), failure to comply may ultimately result in loss of the hospital's AHCCCS provider agreement and ADHS license
    - Late payments have become more frequent which can lead to delayed HEALTHII payments to hospitals
    - AHCCCS will begin the termination process for non-compliance
- **Assessment Timeline Information:**

Assessment Payment Information					
<u>Assessment</u>	<u>Payment Cadence to AHCCCS</u>	<u>Q1 Due</u>	<u>Q2 Due</u>	<u>Q3 Due</u>	<u>Q4 Due</u>
HCIF	Due on the 10th of the second month of each quarter	10-Feb	10-May	10-Aug	10-Nov
HAF	Due on the 15th of the second month of each quarter	15-Feb	15-May	15-Aug	15-Nov

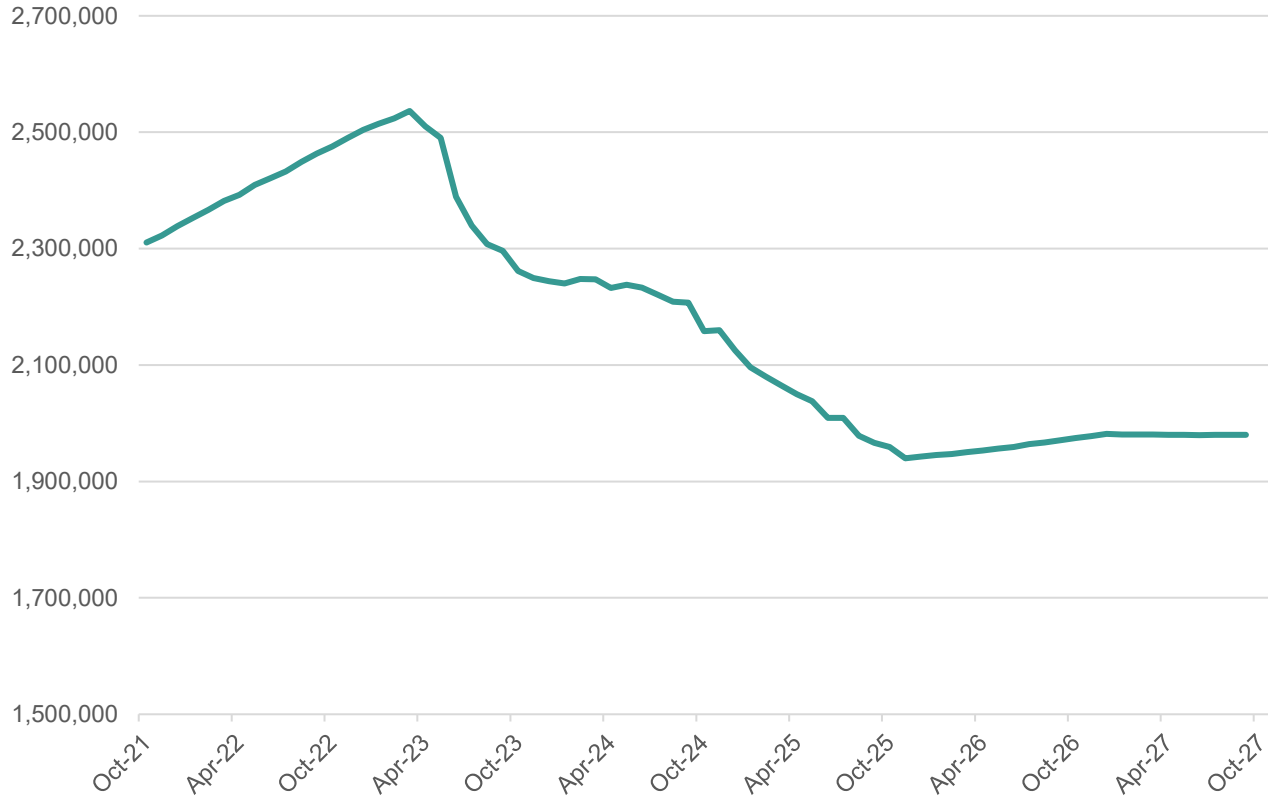
# HEALTHII State Directed Payment

- Hospital Enhanced Access Leading To Health Improvements Initiative (HEALTHII) is a 42 CFR 438.6(c) state directed payment initiative subject to the following requirements:
  - Payments made directly to MCOs and MCOs make payments to hospitals
  - Must include quality metrics to advance the agency's quality strategy
  - Must receive annual CMS approval through the State Directed Payment preprint
  - Base TXIX + Directed Payment rates cannot exceed 100% of Average Commercial Rates (ACR)
  - As a result of H.R. 1, HEALTHII payments cannot exceed the FFY 2026 grandfathered amount of \$ 4.02 Billion

# FFY 2026 Model Development History



# AHCCCS Enrollment: All Populations

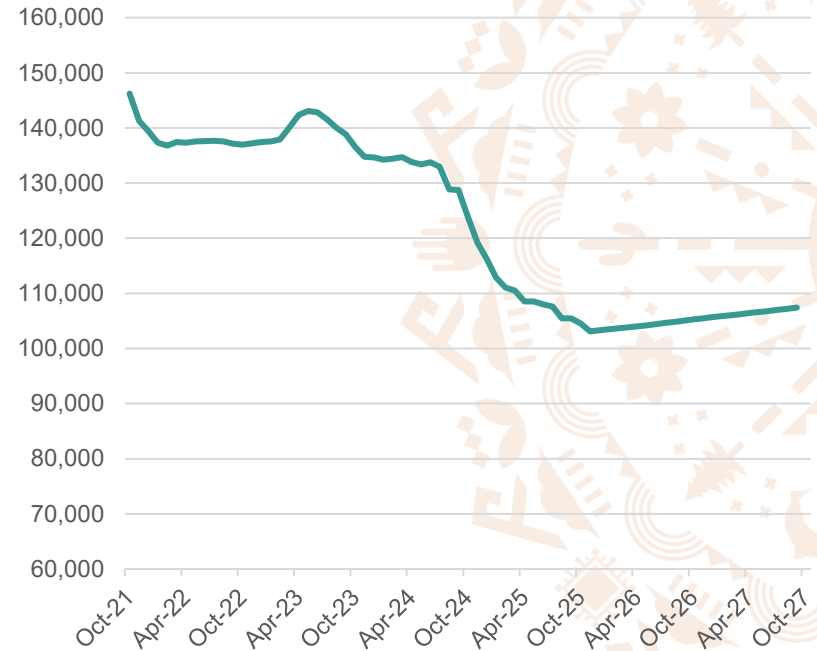


# AHCCCS Enrollment: HAF-Funded Populations

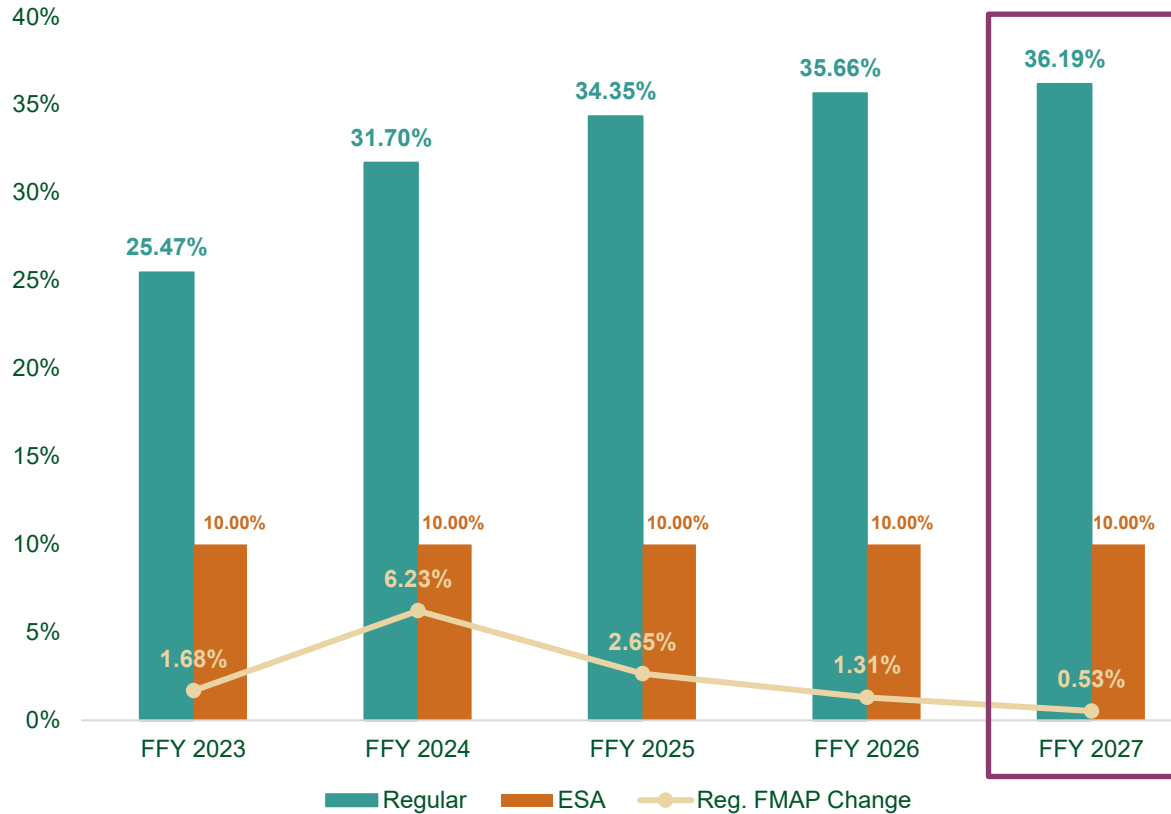
## Adult Expansion + Expansion State Adults



## Proposition 204 Parents



# State Medical Assistance Percentage



# HAF/HCIF Balance and FFY 2027 Assessments

HAF Balance (\$ in Millions)				
	FFY 2026		FFY 2027	
Starting Balance	\$	188.8	\$	109.1
Assessments	\$	529.0	\$	618.7
Expenditures	\$	608.7	\$	618.7
Surplus/(Deficit)	\$	(79.7)	\$	-
Ending Balance	\$	109.1	\$	109.1

- **HAF: \$109.1 Million** projected ending balance in FFY 2026 and FFY 2027
  - AHCCCS targets 2 months of expenses in HAF balance

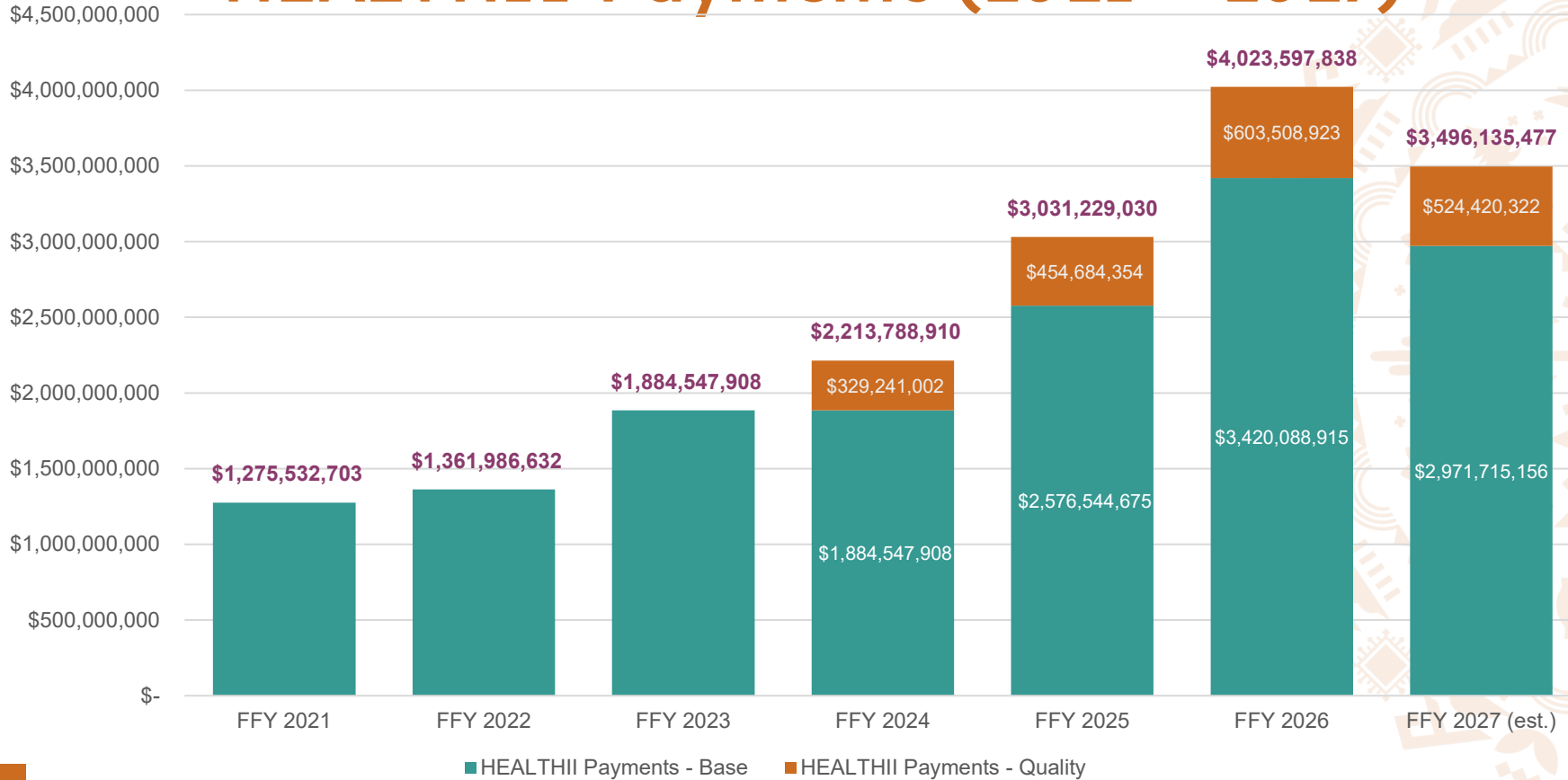
HCIF Balance Estimate (\$ in Millions)				
	FFY 2026		FFY 2027	
Starting Balance	\$	80.9	\$	80.9
Assessments	\$	1,085.5	\$	976.8
Expenditures	\$	1,085.5	\$	976.8
Surplus/(Deficit)	\$	-	\$	-
Ending Balance	\$	80.9	\$	80.9

- **HCIF: \$80.9 Million** projected ending balance in FFY 2026 and FFY 2027
- Currently evaluating ending HCIF balance that potentially could be leveraged in future 2027 modeling

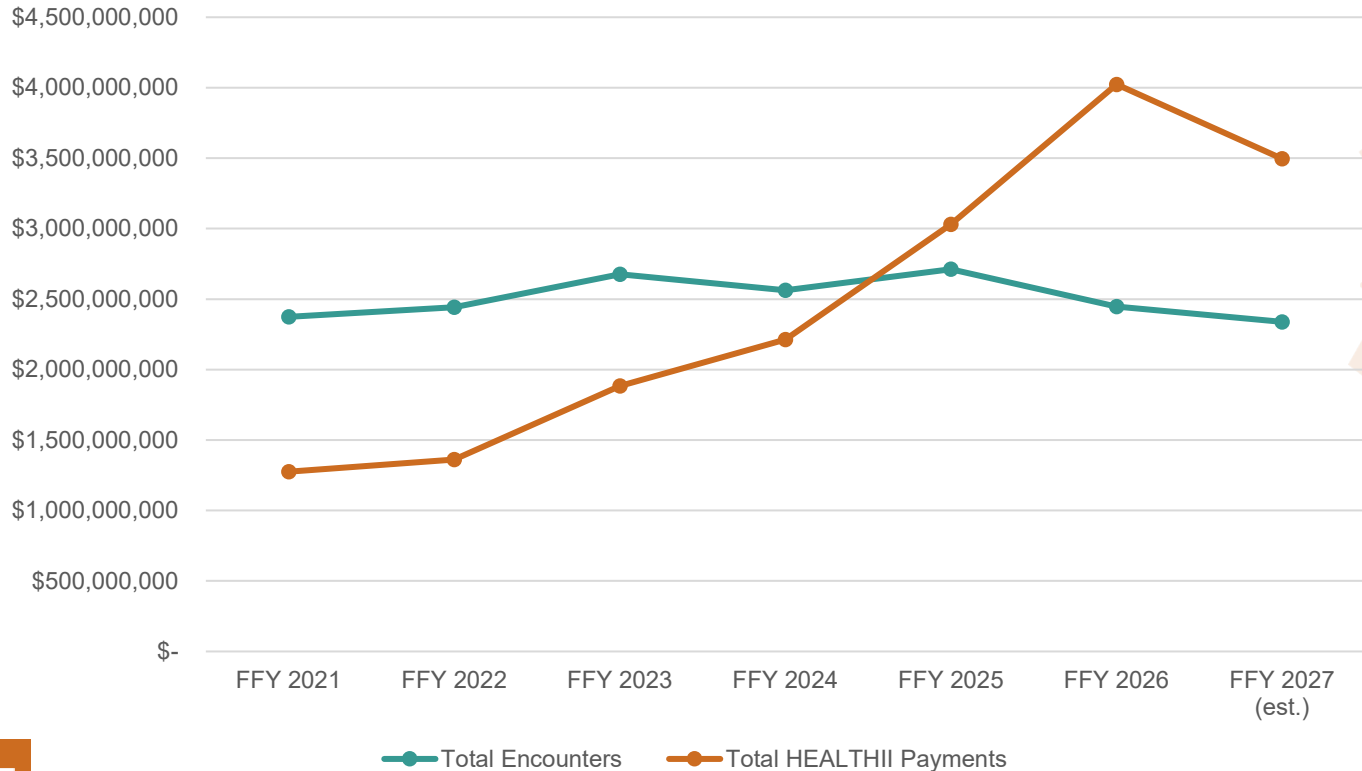
# Impacts to HAF Expenditure/Balances

1. FMAP decrease - Going from 64.34% in FFY 2026 to 63.81% in FFY 2027.
2. Tobacco Tax and Tobacco Settlement Decrease - Revenues have been declining in recent years.
3. Mid-Year Capitation Rate Increase - Lower membership is due to primarily healthier members leaving the program. The remaining higher acuity members lead to higher capitation rates.
4. FES FMAP Change - HR1 changed the FMAP rate for Federal Emergency Services (FES) members within the adult expansion group from 90% to the regular FMAP (63.81%) in FFY 2027.

# HEALTHII Payments (2021 - 2027)



# Base MCO Encounters vs. HEALTHII Payments



**\$17.2 Billion**  
Total HEALTHII Payments  
(2021-2027)



# HEALTHII Payments FFY 2027

## Adjustments to how HEALTHII payments are paid will be necessary for FFY 2027

- Due to new CMS rules, retroactive changes to the CMS preprint will no longer be allowed, including changes to the UPI percentages.
- Historically, HEALTHII quarterly interim payments were calculated using projected Medicaid managed care claims and then reconciled by AHCCCS to current year Medicaid managed care claims.
  - This reconciliation process ensured the total HEALTHII approved amount was paid out by adjusting the Uniform Percent Increase (UPI) after the rating period for which the SDP was approved.
- To ensure that the UPI percentage is unchanged, AHCCCS will move to five HEALTHII payments. The first four payments will follow the historical process except that 80% will be paid out during the first four quarters while 20% will be paid out 6-12 months after year end.
  - The fifth payment/recoupment will be based on actual contract year utilization with no change in the UPI percentage at the hospital class level.

# HEALTHII Illustrative Payments Example

FFY 2024	Current Payment Method		New Payment Method	
	Total Payments	Payment Date	Total Payments	Payment Date
Payment 1	\$564,742,069	Nov-23	\$451,793,655	Nov-23
Payment 2	\$564,742,069	Feb-24	\$451,793,655	Feb-24
Payment 3	\$564,742,069	May-24	\$451,793,655	May-24
Payment 4	\$564,742,069	Aug-24	\$451,793,655	Aug-24
Payment 5	\$0	Apr-26	\$230,468,323	Apr-26
<b>Grand Total</b>	<b>\$2,258,968,275</b>		<b>\$2,037,642,943</b>	
<b>Different from Current</b>			<b>(\$221,325,332)</b>	

# HEALTHII Illustrative Payments Example

FFY 2024	Current Payment Method	New Payment Method
<i>Original Uniform % Increase (UPI)</i>		
Freestanding Children's Provider	22.42%	22.42%
Private Urban Acute Hospital	90.99%	90.99%
Public Acute Hospital	21.85%	21.85%
Rural Hospital	95.27%	95.27%
Rural Reservation-Adjacent Hospitals	127.24%	127.24%
Specialty Hospital	19.66%	19.66%
<i>Revised Uniform % Increase (UPI) through the Reconciliation</i>		
Freestanding Children's Provider	19.65%	22.42%
Private Urban Acute Hospital	100.26%	90.99%
Public Acute Hospital	22.73%	21.85%
Rural Hospital	105.05%	95.27%
Rural Reservation-Adjacent Hospitals	142.88%	127.24%
Specialty Hospital	20.59%	19.66%

# Tentative Timeline – FFY 2027 Model

- March 12, 2026 1st Workgroup meeting
- April 3, 2026 Feedback due
- April 2026 2nd Workgroup meeting
- May 2026 Model finalized (pending finalized Arizona budget) ;  
post proposed rule
- July 1, 2026 438.6(c) preprint due to CMS
- September 2026 Post final rule
- Please email comments related to the model to AHCCCS at [HospitalAssessmentProject@azahcccs.gov](mailto:HospitalAssessmentProject@azahcccs.gov) by April 3<sup>rd</sup>.

# FFY 2024 HEALTHII Reconciliation Update

- **Dates:**

<u>FFY 2024 HEALTHII Reconciliation Dates</u>	
Notification of Preliminary Amounts	11/05/2025
Final Reconciliation Expected (HEALTHII Q2 Payment)	04/30/2026

- **Bankruptcy:** Historically, if a hospital closed prior to completion of the HEALTHII reconciliation, AHCCCS would reduce the HCIF fund balance for any amounts owed by the closed hospital.
  - The bankruptcy of a hospital system in 2024 resulted in a recoupment amount that cannot be covered by the HCIF fund balance due to the size of the amount owed.
- **FFY 2024 reconciliation and forward:** AHCCCS will uniformly adjust the reconciliation amounts for hospitals in the class where the closed hospitals resided by the amount of the recoupment owed by the closed hospital.
  - As a result, the FFY 2024 reconciliations for the private urban acute hospital class will be adjusted for these bankrupt hospitals.

# FFY 2025 HEALTHII Reconciliation Process

- Quarterly interim FFY 2025 HEALTHII payments were calculated using projected Medicaid managed care claims.
- Final payments will be calculated within 12 months from the contract period ending, using actual contracted Medicaid managed care claims for FFY 2025
  - Base Final HEALTHII payments will be calculated by multiplying the Final HEALTHII Uniform Percentage Increase (UPI) at the reimbursement class level by each Hospital's contracted Medicaid managed care payments.
  - A final HEALTHII Payment Increase Percentage will be calculated for each hospital's pay for reporting results
- Any differences in final vs. interim HEALTHII payments will be settled as part of the reconciliation process.

# FFY 2025 HEALTHII Reconciliation Process Timeline

March 2026

AHCCCS provides hospitals a list of MCO reported contracts

April 2026

AHCCCS provides preliminary FFY 25 reconciliation summary

May 2026

AHCCCS provides hospitals preliminary FFY 25 encounter data, upon request

- **Hospitals must request the detail file no later than the end of April.**
- Hospitals work with MCOs to submit any missing encounters
- Shared data will include claim header level fields (provider, member, plan, service dates, \$ reimbursement).

Early August 2026

MCOs will need to finish FFY 25 encounter submissions

Late August 2026

AHCCCS pulls final FFY 25 encounter data

Late Sept. 2026

AHCCCS communicates final FFY 25 reconciliation results to hospitals

Oct./Nov. 2026

AHCCCS gives hospitals files of payment/(recoupment) by MCO

Late December 2026

MCOs pay/(recoup) FFY 25 reconciliation amounts

# Thank you

