



December 27, 2024

Carmen Heredia
Director
Arizona Health Care Cost Containment System
801 East Jefferson Street
Phoenix, AZ 850934

Dear Director Heredia:

The Centers for Medicare & Medicaid Services (CMS) is approving Arizona's (the "state") request to amend its Medicaid section 1115(a) demonstration entitled, "Arizona Health Care Cost Containment System (AHCCCS)" (Project Numbers 11-W-00275/9 and 21-W-00074/9) (the "demonstration"), which is effective from the date of approval and will remain in effect through the demonstration approval period, which is set to expire September 30, 2027. Approval of this demonstration amendment provides expenditure authority for limited coverage for certain services furnished to certain incarcerated individuals for up to 90 days immediately prior to the individual's expected date of release. This approval also provides expenditure authority to the state to provide non-medical transportation (NMT) to and from health-related social needs (HRSN) services and home and community-based services (HCBS) for Arizona Long Term Care System (ALTCS) eligible beneficiaries.

Pre-Release Services under the Reentry Demonstration Initiative

Expenditure authority is being provided to Arizona to provide limited coverage for a targeted set of services furnished to certain incarcerated individuals for 90 days immediately prior to the individual's expected date of release. The state's proposed approach closely aligns with CMS' "Reentry Demonstration Opportunity" as described in the State Medicaid Director Letter (SMDL) released on April 17, 2023.

Eligible Individuals

Arizona will cover a set of pre-release benefits for certain individuals who are inmates residing in a prison, jail, youth correctional facility, or tribal correctional facility (herein after referred to as "correctional facilities"). To qualify for services covered under this demonstration approval, individuals residing in a correctional facility must have been determined eligible for Medicaid or the Children's Health Insurance Program (CHIP) (or be eligible for CHIP except for their incarceration status) pursuant to an application filed before or during incarceration, and have an expected release date within 90 days.

Medicaid and CHIP Eligibility and Enrollment

CMS is requiring, as a condition of approval of this demonstration amendment, that Arizona make pre-release outreach, along with eligibility and enrollment support, available to all

individuals incarcerated in the correctional facilities listed above and outlined in the special terms and conditions (STCs).

For a Medicaid covered individual entering a correctional facility, Arizona will not terminate Medicaid coverage, but will suspend the individual's coverage. For a CHIP-covered individual who is incarcerated, the state must terminate coverage if the individual remains incarcerated at the end of their continuous eligibility period.¹ For individuals not enrolled in Medicaid or CHIP upon entering a correctional facility, Arizona will ensure the individual receives assistance with completing and submitting a Medicaid or CHIP application sufficiently prior to their anticipated release date such that the individual can receive the full duration of pre-release services, unless the individual voluntarily refuses such assistance or chooses to decline enrollment.

Scope of Pre-Release Benefit Package

The pre-release benefit package is designed to improve care transitions of such eligible individuals back to the community, including by promoting continuity of coverage, service receipt, and quality of care, as well as the proactive identification of both physical and behavioral health needs, and HRSNs. It is designed to address these overarching demonstration goals, while aiming to ensure that participating correctional facilities can feasibly provide all pre-release benefits to qualifying incarcerated individuals.

CMS is authorizing Arizona to provide coverage for the following services to be detailed in an attachment to the demonstration's STCs:

- Case management to assess and address physical and behavioral health needs and health-related social needs;
- Medication assisted treatment (MAT) for all types of substance use disorders (SUDs) as clinically appropriate, including coverage for medications in combination with counseling/behavioral therapies;
- A 30-day supply of all prescription medications provided to the individual immediately upon release from the correctional facility, consistent with approved Medicaid and CHIP state plan coverage authority and policy;
- Practitioner office visit (e.g., physical exam; wellness exam; evaluation and management visit; mental health or substance use disorder treatment, therapy, or counseling; or other);
- Peer support services.

CMS recognizes that many individuals exiting correctional facilities may not have received sufficient health care to address all of their physical or behavioral health care needs while incarcerated. This demonstration initiative will provide individuals leaving correctional facilities the opportunity to receive short-term Medicaid and CHIP pre-release coverage for certain services to facilitate successful care transitions, as well as improve the identification and treatment of certain chronic and other serious conditions to reduce acute care utilization in the period soon after release, while providing the state the opportunity to test whether these pre-release services improve uptake and continuity of MAT, as appropriate for the individual, to

¹ In accordance with the CAA, 2023, after January 1, 2025, states may no longer terminate CHIP coverage due to incarceration, and they will have the option to suspend coverage.

reduce decompensation, suicide-related death, overdose, and overdose-related death. Therefore, CMS is approving a demonstration benefit package in Arizona that is designed to improve identification of physical and behavioral health needs and HRSNs to facilitate connections to providers with the capacity to meet those needs in the community during the period immediately before an individual's expected release from a correctional facility. Once an individual is released, the coverage for which the individual is otherwise eligible must be provided consistent with all requirements applicable to such coverage.

Eligible Juveniles and Targeted Low-Income Children and This Reentry Demonstration Initiative

Section 5121 of the Consolidated Appropriations Act, 2023 (CAA, 2023; P.L. 117-328) amends the Social Security Act (the Act) and describes a mandatory population (eligible juveniles and targeted low-income children) and set of pre-release and post-release services, while section 5122 of the CAA, 2023 amends the Act and gives a state the option to receive federal financial participation for the full range of coverable services for eligible juveniles and targeted low-income children while pending disposition of charges. Every state is required to submit Medicaid and CHIP State Plan Amendments (SPAs) attesting to meeting the requirements in section 5121 beginning January 1, 2025.²

To the extent there is overlap between the services required to be covered under sections 1902(a)(84)(D) and 2102(d)(2) of the Act and coverage under this demonstration, we understand that it would be administratively burdensome for states to identify whether each individual service is furnished to a beneficiary under the state plan or demonstration authority. Accordingly, to eliminate unnecessary administrative burden and ease implementation of statutorily required coverage and this demonstration, we are approving waivers of the otherwise mandatory state plan coverage requirements to permit the state instead to cover at least the same services for the same beneficiaries under this demonstration. This approach will ease implementation, administration, and claiming, and provide a more coherent approach to monitoring, and evaluation of the state's reentry coverage under the demonstration. The state will provide coverage under the reentry demonstration initiative to eligible juveniles described in section 1902(nn)(2) in alignment with sections 1902(a)(84)(D) and 2102(d)(2) of the Act, at a level equal to or greater than otherwise would be covered under the state plan. Compliance and state plan submission requirements under section 5121 of the CAA, 2023 will remain unchanged. Coverage of the population and benefits identified in sections 1902(a)(84)(D) and 2102(d)(2) of the Act, as applicable, will automatically revert to state plan coverage in the event that this demonstration ends or eliminates coverage of beneficiaries or services specified in those provisions.

Implementation and Reinvestment Plans

As described in the demonstration STCs, Arizona will be required to submit to CMS a Reentry Initiative Implementation Plan (Implementation Plan) and Reinvestment Plan documenting how the state will operationalize coverage and provision of pre-release services and how existing

² SHO# 24-004, RE: Provision of Medicaid and CHIP Services to Incarcerated Youth.
<https://www.medicaid.gov/federal-policy-guidance/downloads/sho24004.pdf>

funding for correctional facility health services will continue to support access to necessary care and achievement of positive health outcomes for the justice-involved population.

The Implementation Plan must be submitted to CMS consistent with the STCs, and must describe the milestones and associated actions being addressed under this demonstration amendment and provide operational details not captured in the STCs regarding implementation of those demonstration policies. At a minimum, the Implementation Plan will include definitions and parameters related to the implementation of the reentry authorities, and describe the state's strategic approach for making significant improvements on the milestones and actions, as well as associated timelines for meeting them, for both program policy implementation and investments in transitional nonservice elements, as applicable. The Implementation Plan will also outline any potential operational challenges that the state anticipates and the state's intended approach to resolving these and other challenges the state may encounter in implementing the reentry demonstration initiative. The operational plan requirement in sections 1902(a)(84)(D) or 2102(d)(2) of the Act is satisfied by the state's Implementation Plan. The state is still required to provide coverage and otherwise meet state plan requirements with respect to any population or service specified in sections 1902(a)(84)(D) or 2102(d)(2) of the Act that is not covered under this demonstration.

The reentry demonstration initiative is not intended to shift current correctional facility health care costs to the Medicaid and CHIP program(s). Section 5032(b) of the Substance Use-Disorder Prevention that Promotes Opioid Recovery and Treatment for Patients and Communities Act (SUPPORT Act) (P.L. 115-271) makes clear that the purpose of the demonstration opportunity contemplated under that statute is "to improve care transitions for certain individuals who are soon-to-be former inmates of a public institution and who are otherwise eligible to receive medical assistance under title XIX." Furthermore, demonstration projects under section 1115 of the Act must be likely to promote the objectives of titles XIX and XXI, which includes the inmate payment exclusion and inmate eligibility exclusion, respectively, in recognition that the correctional authority bears the costs for health care furnished to incarcerated individuals. This demonstration does not absolve correctional authorities in Arizona of their Constitutional obligation to ensure needed health care is furnished to inmates in their custody and is not intended as a means to transfer the financial burden of that obligation from a tribal, state, or local correctional authority to the Medicaid or CHIP programs.

Arizona agrees to reinvest the total amount of new federal matching funds for the reentry demonstration initiative received under this demonstration amendment into activities and/or initiatives that increase access to or improve the quality of health care services for individuals who are incarcerated (including individuals who are soon-to-be released) or were recently released from incarceration, or for physical and behavioral health needs that may help prevent or reduce the likelihood of criminal justice system involvement. Consistent with this requirement, Arizona will develop and submit a Reinvestment Plan to CMS outlining how the federal matching funds under the demonstration will be reinvested. The Reinvestment Plan should align with the goals of the state's reentry demonstration initiative. It should detail the state's plans to increase access to or improve the quality of health care services for those who have recently been released, and those who may be at higher risk of future criminal justice system involvement, particularly due to untreated behavioral health conditions. The Reinvestment Plan should describe the activities or initiatives selected by Arizona for investment and a timeline for

implementation. Any investment in carceral health care must add to or improve the quality of health care services and resources for individuals who are incarcerated and those who are soon to be released from carceral settings, and not supplant existing state or local spending on such services and resources. The reinvestment plan may include the services provided to eligible juveniles and targeted low-income children under sections 1902(nn)(2) and 2102(d)(2) of the Act, respectively, who are covered under this demonstration.

Non-Medical Transportation

CMS is approving expenditure authority for Arizona to cover and claim federal financial participation (FFP) for NMT services not otherwise covered under title XIX of the Act for qualifying individuals. As further specified in the STCs, Arizona may provide NMT services to and from HRSN services and to and from HCBS for ALTCS eligible beneficiaries.

Budget Neutrality³

CMS has long required, as a condition of demonstration approval, that demonstrations be “budget neutral,” meaning the federal costs of the state’s Medicaid program with the demonstration cannot exceed what the federal government’s Medicaid costs likely would have been in that state absent the demonstration. The demonstration amendment is projected to be budget neutral to the federal government, meaning the federal costs of the state’s Medicaid program with the demonstration cannot exceed what the federal government’s Medicaid costs in that state likely would have been without the demonstration. In requiring demonstrations to be budget neutral, CMS is constantly striving to achieve a balance between its interest in preserving the fiscal integrity of the Medicaid program and its interest in facilitating state innovation through section 1115 approvals. In practice, budget neutrality generally means that the total computable (i.e., both state and federal) costs for approved demonstration expenditures are limited to a certain amount for the demonstration approval period. This limit is called the budget neutrality expenditure limit and is based on a projection of the Medicaid expenditures that could have occurred absent the demonstration (the “without waiver” [WOW] costs). The state will be held to the budget neutrality monitoring and reporting requirements as outlined in the STCs.

Under this approval, CMS calculated the “without waiver” (WOW) baseline (which refers to the projected expenditures that could have occurred absent the demonstration and which is the basis for the budget neutrality expenditure limit for each approval period). The projected demonstration expenditures associated with each Medicaid Expenditure Group (MEG) in the WOW baseline have been trended forward using the President’s Budget trend rate to determine the maximum expenditure authority for the new approval period. Using the President’s Budget trend rate aligns the demonstration trend rate with federal budgeting principles and assumptions.

The Medicaid expenditures for pre-release services furnished to incarcerated beneficiaries under the reentry demonstration initiative include coverage of services that states can and do cover through Medicaid state plan or other title XIX authority, for beneficiaries who are not subject to

³<https://www.medicaid.gov/medicaid/section-1115-demonstrations/budget-neutrality/index.html>

the inmate payment exclusion. CMS considers these expenditures to be “hypothetical” because the pre-release services would be coverable under the Medicaid state plan or other title XIX authority if furnished to a beneficiary outside a carceral setting, similar to how CMS treats expenditures for services furnished to certain beneficiaries who are short-term residents in an institution for mental diseases primarily to receive treatment for SUD, or SMI or SED, under the SUD and SMI/SED section 1115 demonstration opportunities. Any population identified in section 1902(a)(84)(D) of the Act and covered instead under this demonstration will be included in the reentry MEG.

The projected demonstration expenditures associated with the new NMT services will be treated as hypothetical for the purposes of budget neutrality, and the WOW costs have been trended forward for the approval period.

CHIP Allotment Neutrality

Under this amendment, the state is eligible to receive title XXI funds for allowable title XXI demonstration expenditures, up to the amount of its title XXI allotment. Title XXI funds must be first used to fully fund costs associated with CHIP state plan populations. The demonstration expenditures are limited to remaining funds.

Monitoring and Evaluation

The state is required to conduct systematic monitoring and robust evaluation of the demonstration amendment in accordance with the STCs. The state must update its demonstration Monitoring Protocol to incorporate how it will monitor the demonstration amendment components, including relevant metrics data as well as narrative details describing progress with implementing the demonstration amendment. In addition, the state is also required to conduct an independent Mid-Point Assessment of the reentry demonstration initiative, as provided in the STCs, to support identifying risks and vulnerabilities and subsequent mitigation strategies.

The state is required to incorporate the demonstration amendment into its evaluation activities to support a comprehensive assessment of whether the initiatives approved under the demonstration are effective in producing the desired outcomes for the individuals and the state’s overall Medicaid and CHIP program(s). Evaluation of the reentry demonstration initiative must align with the requirements detailed in the STCs, including examining impacts on Medicaid and CHIP coverage, continuity of care, access to and quality and efficiency of care, utilization of services, health outcomes, and carceral and community coordination in service provision, among others. The state’s monitoring and evaluation efforts must facilitate understanding the extent to which the demonstration amendment might support reducing existing disparities in access to and quality of care and health outcomes.

Eligible juveniles and targeted low-income children eligible under sections 1902(a)(84)(D) and 2102(d)(2) of the Act, respectively, are included under this reentry demonstration initiative and must be included in applicable monitoring and evaluation activities.

Consideration of Public Comments

The federal comment period was open from June 7, 2021, through July 7, 2021, for the demonstration amendment request submitted on May 27, 2021, and CMS received 70 comments, 11 of which were relevant to the reentry demonstration request. These comments came from a variety of advocacy organizations and health care providers. CMS did not receive comments on the NMT request.

All 11 comments supported the state's request to provide services prior to release from a correctional setting to ensure continuity of care and improve health outcomes. Two commenters explained that an essential part of a comprehensive reentry plan includes providing in-reach services, such as health care and housing support, prior to release. Another commenter mentioned this demonstration allows individuals to live in their communities rather than cycle through institutions and releases.

After carefully reviewing the proposal and the public comments received during the federal comment period, and all other relevant materials provided by the state, CMS has concluded that the approval of this amendment is likely to assist in promoting the objectives of Medicaid.

Other Information

CMS' approval of this demonstration amendment is conditioned upon compliance with the enclosed amended set of waiver and expenditure authorities and the STCs defining the nature, character, and extent of anticipated federal involvement in the demonstration. The award is subject to our receiving your acknowledgement of the award and acceptance of these STCs within 30 days of the date of this letter. Your project officer, Kate Friedman, is available to answer any questions concerning this demonstration amendment, and her contact information is as follows:

Centers for Medicare & Medicaid Services
Center for Medicaid and CHIP Services
Mail Stop S2-25-26
7500 Security Boulevard
Baltimore, Maryland 21244-1850
Email: Katherine.Friedman@cms.hhs.gov

If you have any questions regarding this approval, please contact Ms. Jacey Cooper, Director, State Demonstrations Group, Center for Medicaid and CHIP Services, at (410) 786-9686.

Sincerely,

A black rectangular redaction box covering the signature of Chiquita Brooks-LaSure.

Chiquita Brooks-LaSure

Enclosure

cc: Brian Zolynas, State Monitoring Lead, Medicaid and CHIP Operations Group