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State/Territory Name: Arizona

State Plan Amendment (SPA) #: AZ-24-0007

This file contains the following documents in the order listed:

- 1) Approval Letter
- 2) CMS 179 Form/Summary Form (with 179-like data)
- 3) Approved SPA Pages

DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S2-26-12
Baltimore, Maryland 21244-1850



Financial Management Group

June 11, 2026

Virginia Rountree, Director
Arizona Health Care Cost Containment System
801 E. Jefferson
Phoenix, AZ 85034

RE: Arizona State Plan Amendment Transmittal Number 24-0007

Dear State Medicaid Director Rountree:

The Centers for Medicare & Medicaid Services (CMS) has reviewed the proposed Arizona state plan amendment (SPA) to Attachment 4.19-A AZ-24-0007, which was submitted to CMS on September 20, 2024. This amendment updates Graduate Medical Education (GME) and Indirect Medical Education (IME) payment pools and the qualifying hospital list for each payment pool for the fiscal period ending June 30, 2024.

We reviewed your SPA submission for compliance with statutory requirements, including in sections 1902(a)(2), 1902(a)(13), 1902(a)(30), 1903 as it relates to the identification of an adequate source for the non-federal share of expenditures under the plan, as required by 1902(a)(2), and 1923 of the Social Security Act and the applicable implementing Federal regulations.

Based upon the information provided by the state, we have approved the amendment with an effective date of September 30, 2024. We are enclosing the approved CMS-179 and a copy of the new state plan pages.

If you have any additional questions or need further assistance, please contact Novena James-Hailey at 617-565-1291 or via email at novena.jameshailey@cms.hhs.gov.

Sincerely,

A handwritten signature in cursive script that reads "Rory Howe".

Rory Howe
Director

Enclosures

**TRANSMITTAL AND NOTICE OF APPROVAL OF
STATE PLAN MATERIAL
FOR: CENTERS FOR MEDICARE & MEDICAID SERVICES**

1. TRANSMITTAL NUMBER 24 — 0007	2. STATE AZ
3. PROGRAM IDENTIFICATION: TITLE 19 OF THE SOCIAL SECURITY ACT	

TO: CENTER DIRECTOR
CENTERS FOR MEDICAID & CHIP SERVICES
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE
September 30, 2024

5. FEDERAL STATUTE/REGULATION CITATION
42 CFR Part 447

6. FEDERAL BUDGET IMPACT (Amounts in WHOLE dollars)
a. FFY: **2024** \$ **87,331,112.37**
b. FFY: **2025** \$ **253,199,802.42**

7. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT
Attachment 4.19-A Pages 8, 9(b), 9(c), 9(d), 9(e), 9(f), 9(g)(i)

8. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT (If Applicable)
Attachment 4.19-A Pages 8, 9(b), 9(c), 9(d), 9(e), 9(f), 9(g)(i)

9. SUBJECT OF AMENDMENT
Updates the State Plan to detail amounts and methodology related to the Intergovernmental Agreement (IGA) GME Program.

10. GOVERNOR'S REVIEW (Check One)

- GOVERNOR'S OFFICE REPORTED NO COMMENT
- COMMENTS OF GOVERNOR'S OFFICE ENCLOSED
- NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL

OTHER, AS SPECIFIED:

11. SIGNATURE OF STATE AGENCY OFFICIAL


15. RETURN TO
Kyle Sawyer
801 E. Jefferson St., MD #4200
Phoenix, AZ 85034

12. TYPED NAME
Kyle Sawyer

13. TITLE
Assistant Director, Public Policy and Strategic Planning

14. DATE SUBMITTED: September 20, 2024

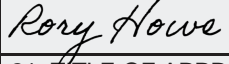
FOR CMS USE ONLY

16. DATE RECEIVED
September 20, 2024

17. DATE APPROVED
June 11, 2026

PLAN APPROVED - ONE COPY ATTACHED

18. EFFECTIVE DATE OF APPROVED MATERIAL
September 30, 2024

19. SIGNATURE OF APPROVING OFFICIAL


20. TYPED NAME OF APPROVING OFFICIAL
Rory Howe

21. TITLE OF APPROVING OFFICIAL
Director, Financial Management Group

22. REMARKS

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inflation factor. Accommodation costs were derived by multiplying the covered days on the claim/encounter times the accommodation cost per diems from the cost report.

e. Costed claims/encounters were then assigned to tiers using the logic specified above. For claims assigned to more than one tier, ancillary costs were allocated to the tiers in the same proportion as the accommodation costs.

f. All costs were reduced by an audit adjustment factor equal to four percent since cost reports were not audited.

- 2) **Inflation Factor:** For rates effective on and after October 1, 1999, AHCCCS shall inflate the operating component of the tiered per diem rates to the mid-point of the prospective rate year, using the DRI inflation factor. For rates effective on and after October 1, 2010, no inflation factor will be applied.

Length of Stay (LOS) Adjustment: For rates effective October 1, 1999 through September 30, 2000, the operating component of the Maternity and Nursery tiers shall be adjusted to reflect changes in LOS as required by the federal mandate that allows women at least 48 hours of inpatient care for a normal vaginal delivery, and at least 96 hours of inpatient care for a cesarean section delivery, effective for dates of service on and after January 1, 1998. There shall be no LOS updates for any tiers for rates effective on or after October 1, 2000.

B. Direct Medical Education Component

Direct medical education includes nursing school education, intern and resident salaries, fringes and program costs and paramedical education. For the service period of July 1, 2024 – June 30, 2025, nursing school education and paramedical education costs are not included within the GME cost base, statewide per-resident cost calculation, or payment pool.

All Graduate Medical Education (GME) payments described in this section are made as fee-for-service and 438.60 supplemental payments directly by the state to eligible providers. These payments are not made through managed care organizations, are not included in capitation rates, and are not directed payments under 42 CFR 438.6c. Managed care encounter data are used solely for purposes of calculating Medicaid utilization and determining payment amounts. The use of managed care data does not establish fee-for-service payment authority and does not, by itself, constitute payment through managed care capitation rate.

- 1) For the service period July 1, 2024 through June 30, 2025, the Administration shall distribute \$ 57,166,200.78 as described in this paragraph to the following hospitals: Abrazo Central Campus, Banner Boswell Medical Center, Banner University Medical Center - Phoenix, Banner University Medical Center - Tucson, Phoenix Children's Hospital, HonorHealth - Osborn, HonorHealth - Shea, Dignity St. Joseph's Hospital – Phoenix, Tucson Medical Center, and Valleywise Health Medical Center. For dates of service on and after October 1, 1997 (FFY98), GME payment dollars will be separated from the tiered per diem rates to create an AHCCCS GME pool. For FFY98 and each year thereafter, the value of the GME pool will be based on the total GME payments made for claims and encounters in FFY96, inflated by the DRI inflation factor. On an annual basis GME pool funds will be distributed to each hospital with an approved GME program based on the percentage of the total FFY96 GME pool that each hospital's FFY96 GME payment represented. In

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3) Beginning July 1, 2007, the AHCCCS Administration shall distribute monies for graduate medical education as prescribed in paragraph B(1) in the following order of priority:

- a) For the direct costs to support the expansion of GME programs established before July 1, 2006, at hospitals that do not receive payments pursuant to paragraph B(1). These programs must be approved by the AHCCCS Administration.
- b) For the direct costs to support the expansion of GME programs established before July 1, 2006, at hospitals that receive payments pursuant to paragraph B(1). These programs must be approved by the AHCCCS Administration.

The Administration will allocate funds to eligible GME programs based on the number of filled resident positions in each program, weighted by Medicaid utilization, and a statewide average per-resident cost. The amount allocated to each program will be distributed to the eligible hospitals participating in that program based on each hospital's level of program participation.

For example:

IF: Program X Total Residents =10; and
Participating Hospital A Rotation Share =50%; and
Participating Hospital B Rotation Share =30%; and
Participating Hospital C Rotation Share =20 %; and
Participating Hospital A Medicaid Load =30%; and
Participating Hospital B Medicaid Load =35 %; and
Participating Hospital C Medicaid Load =40 %; and
Statewide Average Per Resident Amount =\$95,000

THEN: Program X Medicaid-Weighted Residents =(10 x .50 x .30) +(10 x .30 x .35) +(10 x .20 x .40) =3.35; Program X Allocation =3.35 x \$95,000 =\$318,250; and

Participating Hospital A Distribution =[$(10 \times .50 \times .30) / 3.35$] x \$318,250 =\$142,500

Participating Hospital B Distribution =[$(10 \times .30 \times .35) / 3.35$] x \$318,250 =\$ 99,750

Participating Hospital C Distribution =[$(10 \times .20 \times .40) / 3.35$] x \$318,250 =\$ 76,000

For purposes of the allocation described above, resident positions that are funded under paragraph B(1) will be excluded. For example, Program X existed on October 1, 1999 with 5 filled resident positions as of October 1, 1999. On July 1, 2006 (the effective date of the statutory authority for expansion funding), Program X had 7 filled resident positions. It follows that program X has 5 resident positions that are funded by existing GME payments, and 2

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resident positions that are eligible for expansion funding. The per-resident allocation to Program X will be based on the 2 resident positions.

Medicaid utilization for each hospital will be determined using the most recent as-filed Medicare Cost Report on file with the Administration and the Administration's inpatient hospital Fee-For-Service claims and managed care encounter data for the time period corresponding to the MCR for each hospital. The Medicaid utilization percent for each hospital will be calculated as its total Medicaid inpatient days divided by total MCR inpatient days, rounded up to the nearest 5%. Total MCR inpatient days will be taken from Form 2552, Worksheet S-3, Part 1, Lines 14 and 16 through 18, Column 8. The Medicaid utilization from the most recent as-filed Medicare cost reporting period is a proxy for the Medicaid utilization for the service period.

The state calculates GME payment amounts separately for fee-for-service and managed care populations. To accomplish this, and to ensure separate and accurate claims and encounters are properly calculated, as a final step the calculated GME amount is then multiplied by the respective MCO and FFS utilization percentages for the given payment year. Payments associated with each population are authorized under their respective payment authorities in the state plan.

The statewide average per-resident cost will be determined using the most recent as-filed MCR on file with the Administration and resident counts reported by hospitals and GME programs. The average will be calculated by totaling all Intern/Resident direct costs for all hospitals reporting such costs on the MCR and dividing by the total number of residents at those hospitals. The direct I/R costs will be taken from Form 2552, Worksheet B, Part 1, Lines 21 & 22, Column 0.

A filled resident position is a GME program position for which a resident is enrolled and receiving a salary. The number of filled resident positions in a program will be derived by hospital and program reporting to the Administration.

A hospital's level of participation is defined by the hospital's share of resident rotations within the program. For example, if residents in Program X spend nine months of the year on rotation at hospital A and three months at hospital B, then hospital A's level of participation in Program X is 75% and hospital B's level of participation is 25%. The program rotation schedules will be derived by program and hospital reporting to the Administration.

Medicaid utilization is calculated in alignment with paragraph B(3) found on page 9(b) of this section.

For the service period of July 1, 2024, to June 30, 2025, the Administration shall distribute up to \$ 51,505,458.50 under this paragraph to the following hospitals:, Banner Boswell Medical Center, Banner Del Webb Medical Center, Banner University Medical Center - Phoenix, Banner University Medical Center - South, Banner University Medical Center - Tucson, Banner Desert, Banner Thunderbird, Banner Heart Hospital, Banner Estrella, Banner Gateway, Banner Behavioral Health, Banner Casa Grande, Banner Payson, Banner Baywood, John C. Lincoln Medical Center, HonorHealth Deer Valley Medical Center, Kingman Regional Medical Center, Mayo Hospital, Phoenix Children's Hospital, HonorHealth - Osborn, HonorHealth - Shea, HonorHealth – Thompson Peak, Dignity St. Joseph's Hospital – Phoenix, Tucson Medical Center, and Valleywise Health Medical Center. If funds are insufficient to cover all calculated distributions within any priority group described in paragraphs B(3)(a) and (b), the Administration shall adjust the distributions proportionally within that priority group. For the service period of July 1, 2024 – June 30, 2025, no GME redistribution payments will be made.

- 4) Beginning July 1, 2007 the AHCCCS Administration shall distribute monies for graduate medical education as prescribed in paragraphs B(1) and B(3) for the direct costs of graduate medical education programs established or

expanded on or after July 1, 2006. These programs must be approved by the Administration.

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The Administration will allocate funds to eligible GME programs based on the number of filled resident positions in each program, weighted by Medicaid utilization, and a statewide average per-resident cost according to the methodology described in paragraph B(3). Medicaid utilization is calculated in alignment with paragraph B(3) found on page 9(b) of this section.

For the service period of July 1, 2024, to June 30, 2025, the Administration shall distribute up \$ 27,777,453.87 under this paragraph to the following hospitals: Abrazo Arrowhead Campus, Abrazo West Campus, Banner Boswell Medical Center, Banner University Medical Center - Phoenix, Banner University Medical Center - South, Banner University Medical Center - Tucson, Banner Del Webb, Banner Desert, Banner Thunderbird, Banner Estrella, Banner Gateway, Banner Casa Grande, Canyon Vista Medical Center, HonorHealth Deer Valley Medical Center, HonorHealth Rehabilitation Hospital, John C. Lincoln Medical Center, Mayo Hospital, HonorHealth Four Peaks Medical Center, Phoenix Children's Hospital, HonorHealth - Osborn, HonorHealth - Shea, HonorHealth - Thompson Peak, Dignity St. Joseph's Hospital – Phoenix, Tucson Medical Center, Northwest Medical Center, Oro Valley Hospital, Valleywise Health Medical Center and Yuma Regional Medical Center. In addition to the above amount, this pool also includes the payment amounts listed on page 9(g)(i) for other teaching hospitals. If funds are insufficient to cover all calculated distributions, the Administration shall adjust the distributions proportionally. For the service period of July 1, 2024 – June 30, 2025, no GME redistribution payments will be made.

C. New Hospitals

Payments made to new hospitals with GME programs will be calculated using a statewide average where necessary until hospital-specific data can be obtained.

D. Indirect Medical Education Component

Beginning July 1, 2007, the AHCCCS Administration shall distribute monies for graduate medical education as prescribed in paragraphs B(1), B(3), and B(4) for a portion of additional indirect medical education costs at hospitals with GME programs with residency positions

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that include rotations in any county other than Maricopa or Pima whose population was less than five hundred thousand persons at the time the residency rotation was added to the academic year rotation schedule. These programs must be approved by the Administration.

The Administration will allocate funds for indirect costs to eligible GME programs based on the number of filled resident positions in each program that include rotations in qualifying counties, the number of months that a program's residents rotate to facilities in those counties, and a Medicaid-specific statewide average per-resident-per-month cost. The program allocation will be calculated as follows:

$$\text{Program Allocation} = (\text{Total filled resident positions that include rotations in qualifying counties}) \times (\text{Number of months per academic year that each resident will spend on such rotations}) \times (\text{Medicaid-specific statewide average per-resident-per-month cost}).$$

A filled resident position is a GME program position for which a resident is enrolled and receiving a salary. The number of filled resident positions in a program and the number of months that program residents rotate to facilities in qualifying counties will be derived by hospital and program reporting to the Administration.

The Medicaid-specific statewide average per-resident-per-month cost will be determined using the most recent as-filed Medicare cost reports on file with the Administration, and will be based on a calculated Medicaid IME cost for all hospitals that calculate a Medicare IME payment on the Medicare cost report and the total number of residents at those hospitals.

All Graduate Medical Education (GME) payments described in this section are made as fee-for-service and 438.60 supplemental payments directly by the state to eligible providers. These payments are not made through managed care organizations, are not included in capitation rates, and are not directed payments under 42 CFR 438.6c. Managed care encounter data are used solely for purposes of calculating Medicaid utilization and determining payment amounts. The use of managed care data does not establish fee-for-service payment authority and does not, by itself, constitute payment through managed care capitation rate.

For purposes of calculating IME payments, the state uses a combined inpatient payment base consisting of fee-for-service payments and estimated amounts derived from managed care encounter data. These estimated amounts are used solely as a proxy for total inpatient hospital activity and do not represent actual payments made by managed care organizations.

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The Medicaid-specific statewide average per-resident-per-month cost will be calculated by totaling the Medicaid IME costs for all hospitals that have such costs, dividing the result by the total number of residents at those hospitals, and dividing that result by 12. The Medicaid IME cost for each hospital is to be calculated as follows:

1. Calculate each hospital's Medicare share by dividing the Medicare inpatient discharges on the Medicare Cost Report (Worksheet S-3 Part I, Column 13, Line 14 plus Line 2) by the total inpatient hospital discharges on the Medicare Cost Report (Worksheet S-3 Part I, Column 15, Line 14).
2. Calculate the ratio of the residents to beds by dividing the number of filled resident positions for each hospital derived from reporting by the GME programs to the Administration as described in paragraph B(2) by the bed days available divided by the number of days in the cost reporting period from the Medicare Cost Report (Worksheet E Part A, Line 4, Column 1).
3. Calculate the indirect medical education adjustment factor by using the following formula: $1.35 \times \{[(1+r)^{405}] - 1\}$ where r is the ratio of residents to beds calculated above.
4. Calculate each hospital's total indirect medical education cost by adding the DRG amounts other than outlier payments from the Medicare cost report and the managed care simulated payments from the Medicare Cost Report (Worksheet E Part A, Lines 1, 1.01, 1.02, 1.03, 1.04 and 3, Column 1), multiplying the total by the indirect medical education adjustment factor and dividing the result by the Medicare share.
5. Calculate each hospital's Medicaid indirect medical education cost by multiplying the hospital's total indirect medical education by the Medicaid Utilization Percent used to determine the direct GME component.

The amount allocated to each program will be distributed to the program's sponsoring hospital or the program's base hospital if the sponsoring institution is not a hospital.

The total amount computed for a teaching hospital under this paragraph shall not exceed the greatest among the amounts described in paragraph F(1) through F(3).

A hospital that does not have any IME amount reported on the Medicare cost report, other than a children's hospital or a new teaching hospital whose latest available Medicare cost report used does not include the hospital's Medicare IME amount as a teaching hospital, will be ineligible for IME payment under this paragraph D.

Medicaid utilization is calculated in alignment with paragraph B(3) found on page 9(b) of this section.

For the service period of July 1, 2024, to June 30, 2025 the Administration shall distribute up to \$ 11,585,704.63 under this paragraph to the following hospitals: Banner University Medical Center - South, Banner University Medical Center - Tucson, Canyon Vista Medical Center, HonorHealth Four Peaks Medical Center, Kingman Regional Medical Center, and Yuma Regional Medical Center. If funds are insufficient to cover all calculated distributions, the Administration shall adjust the distributions proportionally. For the service period of July 1, 2024 – June 30, 2025, no GME redistribution payments will be made.

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A hospital that does not have any IME amount reported on the Medicare cost report, other than a children's hospital or a new teaching hospital described above, will be ineligible for IME payment under paragraphs D and F.

Medicaid utilization is calculated in alignment with paragraph B(3) found on page 9(b) of this section.

For the service period of July 1, 2024 to June 30, 2025, the Administration shall distribute up to \$ 366,206,974.39 in total funds under this paragraph to the following hospitals: Abrazo Central Campus, Abrazo Arrowhead Campus, Abrazo West Campus, Banner Boswell Medical Center, Banner Del Webb Medical Center, Banner University Medical Center - Phoenix, Banner University Medical Center - South, Banner University Medical Center - Tucson, Banner Desert, Banner Thunderbird, Banner Heart Hospital, Banner Estrella, Banner Gateway, Banner Behavioral Health, Banner Casa Grande, Banner Payson, Banner Baywood, Canyon Vista Medical Center, Chandler Regional Medical Center, HonorHealth Deer Valley Medical Center, HonorHealth Rehabilitation Hospital, John C. Lincoln Medical Center, Mayo Hospital, Mercy Gilbert, HonorHealth Four Peaks Medical Center, Phoenix Children's Hospital, HonorHealth - Osborn, HonorHealth - Shea, HonorHealth - Thompson Peak, Dignity St. Joseph's Hospital - Phoenix, Tucson Medical Center, Northwest Medical Center, Oro Valley Hospital, Valleywise Health Medical Center and Yuma Medical Center. Any unallocated authority remaining from paragraphs B(3), B(4) or D after any necessary redistribution under paragraph E may be distributed under this paragraph. If funds are insufficient to cover all calculated distributions, the Administration shall adjust the distributions proportionally. For the service period of July 1, 2024 – June 30, 2025, no GME redistribution payments will be made.

All payments for GME and IME provided for in paragraphs B-F are payable annually at the end of the year. All GME and IME payments will be made to providers by June 30, 2026.