

September 25, 2026

Edwin Walaszek
Division of Medicaid and Children's Health Operations
U.S. Department of Health & Human Services
Centers for Medicare & Medicaid Services
90 Seventh Street, Suite 5-300 (5W)
San Francisco, CA 94103-6707

RE: Arizona SPA # AZ-26-0004, Graduate Medical Education (GME) Intergovernmental Agreement (IGA)

Dear Mr. Walaszek:

Enclosed is State Plan Amendment (SPA) # AZ-26-0004, Graduate Medical Education (GME) Intergovernmental Agreement (IGA). This SPA describes the amounts and methodology for the Intergovernmental Agreement (IGA) Graduate Medical Education Program, effective July 1, 2026.

Tribal Consultation occurred for this SPA on August 4, 2026.

https://www.azahcccs.gov/AmericanIndians/Downloads/Consultations/Meetings/2026/08042026_AHC_CCS_TribalConsultationCombinedPresentation.pdf

The public notice period for this SPA will close on September 3, 2026, and no comments were received. Public Notice for this SPA was posted on the following

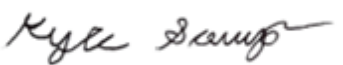
webpage: https://www.azahcccs.gov/shared/Downloads/PublicNotices/GME_FY_27_NOPI.pdf

The **Federal Fiscal Impact** of this SPA has been calculated as:

- FFY 2027: \$TBD
- FFY 2028: \$TBD

If there are any questions about the enclosed SPA, please contact Ryan Melson at Ryan.Melson@azahcccs.gov or 602-417-7309.

Sincerely,



Kyle Sawyer
Assistant Director, Public Policy and Strategic Planning
Arizona Health Care Cost Containment System (AHCCCS)

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

1. TRANSMITTAL NUMBER

2 6 — 0 0 0 4

2. STATE

A Z3. PROGRAM IDENTIFICATION: TITLE OF THE SOCIAL
SECURITY ACT

XIX



XXI

TO: CENTER DIRECTOR

CENTERS FOR MEDICAID & CHIP SERVICES
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE

July 1, 2026

5. FEDERAL STATUTE/REGULATION CITATION

42 CFR Part 447

6. FEDERAL BUDGET IMPACT (Amounts in WHOLE dollars)

a. FFY 2027 \$ TBDb. FFY 2028 \$ TBD

7. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT

Attachment 4.19-A Pages 8, 9(c), 9(d), 9(f), 9(g)(i)

8. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION
OR ATTACHMENT (If Applicable)

Attachment 4.19-A Pages 8, 9(c), 9(d), 9(f), 9(g)(i)

9. SUBJECT OF AMENDMENT

Updates the State Plan to detail amounts and methodology related to the Graduate Medical Education (GME) Intergovernmental Agreement (IGA).

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



12. TYPED NAME

Kyle Sawyer

13. TITLE

Assistant Director, Public Policy and Strategic Planning

14. DATE SUBMITTED

September 25, 2026

15. RETURN TO

Kyle Sawyer
150 N. 18th Ave.
Phoenix, AZ 85007**FOR CMS USE ONLY**

16. DATE RECEIVED

17. DATE APPROVED

PLAN APPROVED - ONE COPY ATTACHED

18. EFFECTIVE DATE OF APPROVED MATERIAL

19. SIGNATURE OF APPROVING OFFICIAL

20. TYPED NAME OF APPROVING OFFICIAL

21. TITLE OF APPROVING OFFICIAL

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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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~~6~~, to June 30, 2025~~7~~, 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~~6~~ - June 30, 2025~~7~~, no GME redistribution payments will be made.

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- 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~~6~~, to June 30, 202~~7~~⁵, the Administration shall distribute up to \$ 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~~6~~ – June 30, 202~~5~~⁷, 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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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, 202~~46~~, to June 30, 202~~57~~ 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, 202~~57~~, no GME redistribution payments will be made.

TN No. 24-0007-26-0004

Supersedes TN No. 23-0015-24-0007
20242026

Approval Date:

Effective Date: September 30/July 1,

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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, 202~~4~~6 to June 30, 202~~5~~7, 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, 202~~4~~6 – June 30, 202~~5~~7, 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, 202~~6~~7.

Supersedes TN No. ~~23-001524-0007~~
20242026

Approval Date:

Effective Date: ~~September 30~~July 1,

