



SEP 30 2016

Administrator

Washington, DC 20201

Mr. Thomas Betlach
Director
Arizona Health Care Cost Containment System
801 East Jefferson Street
Phoenix, AZ 85034

Dear Mr. Betlach:

The Centers for Medicare & Medicaid Services (CMS) is approving Arizona's request to extend its Medicaid demonstration, entitled "Arizona Health Care Cost Containment System (AHCCCS)" (Project Number 11-W-00275/09). The demonstration is approved for an additional 5 years under the authority of section 1115(a) of the Social Security Act (the Act), effective October 1, 2016 through September 30, 2021.

Arizona's section 1115 demonstration provides authority for the continuation of its Medicaid managed care delivery system for mandatory and optional Medicaid state plan populations and physical and behavioral health integration through regional behavioral health authority (RBHA) and children's rehabilitative services (CRS) plans.

The demonstration advances strategies Arizona proposed to engage newly eligible beneficiaries in Arizona in maintaining and improving their health by providing incentives for beneficiaries to adopt healthy behaviors and receive care in the right setting at the right time.

The new beneficiary engagement initiative, AHCCCS Choice Accountability Responsibility Engagement (CARE), will affect the new adult group population addressed in section 1902(a)(10)(A)(i)(VIII) of the Act who have incomes above 100 percent up to and including 133 percent of the federal poverty level (FPL). Under this initiative, the state will link Medicaid benefits to an AHCCCS CARE program that will test the use of incentives to build health literacy, achieve identified health targets and encourage appropriate care. Under the state's AHCCCS CARE program, the state may require that Medicaid beneficiaries pay monthly contributions in amounts not more than two percent of household income and utilization-based copayment-like charges on a limited set of services, subject to Medicaid's aggregate cap of five percent of household income.

The state's AHCCCS CARE program also includes "Healthy Arizona," a healthy behaviors component to incentivize beneficiaries to engage in managing preventive healthcare and chronic illnesses. Individuals who meet a healthy behaviors target will qualify for elimination of their monthly contribution for six months as well as have access to incentive payments from their AHCCCS CARE account. Incentive expenditures out of the account are not subject to federal match. We look forward to working with the state on an evaluation design that will help CMS

and the state evaluate the link between Medicaid benefits and the state's AHCCCS CARE program.

The following Medicaid enrollees are not required to participate in AHCCCS CARE: individuals with incomes up to and including 100 percent of the FPL, individuals with serious mental illness, individuals who are considered medically frail, and American Indian/Alaska Natives.

In addition, outside this demonstration, the state aims to encourage employment through referrals to a new state-only work search and job training program called AHCCCS Works. This program, which will help connect beneficiaries to employment supports, is available for AHCCCS CARE beneficiaries who choose to participate. Health coverage provided by the Medicaid program and this demonstration will not be affected by this state initiative.

Additionally, for Arizona Long Term Care Services (ALTCS) beneficiaries, CMS is authorizing the state to provide adult dental benefits to up to \$1,000 annually, per person. CMS has also revised the special terms and conditions (STCs) and waiver and expenditure authorities to update certain requirements in accordance with CMS policy and to remove authorities that are obsolete or expired, including:

- The authorities that restrict individuals from disenrolling from managed care without cause have been time limited to align with the new managed care regulations. Beginning October 1, 2017, beneficiaries will be allowed 90 days to change managed care plans without cause.
- The expenditure authorities have been updated to reflect continuation of the phase-out of the safety net care pool (SNCP) for Phoenix Children's Hospital. Currently the state is allowed to claim up to \$110,000,000 total computable through the end of calendar year 2016. For calendar year 2017, the state is allowed to claim up to \$90,000,000 total computable before a complete phase out of the SNCP.
- The waiver of retroactive eligibility under section 1902(a)(34) of the Act that expired on December 31, 2013 has been removed.
- The waiver authority for disproportionate share hospital (DSH) payment requirements is revised to allow a one-year transition period to change its authority for its DSH payments to the Medicaid state plan in accordance with section 1923 of the Act.
- The expenditure authority to relieve the state of disallowances under section 1903(u) of the Act based on Medicaid Eligibility Quality Control (MEQC) findings has been removed because the state will follow current MEQC recoveries processes.
- The expenditure authority for outpatient drugs otherwise not allowable under section 1903(i)(23) of the Act expired November 1, 2012 and has been removed.
- The expenditure authority related to the tribal facility payments has been updated to clarify that the authority is for services to Medicaid eligible individuals.

Consistent with Medicaid law, CMS reviews section 1115 demonstration applications to determine whether they further the objectives of the program, such as by strengthening coverage or health outcomes for low-income individuals in the state or increasing access to providers. After reviewing Arizona's application to determine whether it meets these standards, CMS is unable to approve the following requests, which could undermine access to care and do not

support the objectives of the program: monthly contributions for beneficiaries in the new adult group with incomes up to and including 100 percent of FPL; exclusion from coverage for a period of six months for nonpayment of monthly premium contributions; a work requirement; fees for missed appointments; additional verification requirements; and a time limit on coverage.

Although not included in this approval, CMS will continue to work with Arizona on the important delivery system reforms it has proposed to integrate physical and behavioral health for children and adults and Medicaid beneficiaries leaving the justice system. We will also continue to engage the state on the pending American Indian Medical Home amendment request.

CMS' approval of this extension is conditioned upon compliance with the enclosed list of waiver and expenditure authorities and STCs defining the nature, character and extent of anticipated federal involvement in the project. The award is subject to our receiving your written acknowledgement of the award and acceptance of these STCs within 30 days of the date of this letter.

Your project officer for this demonstration is Ms. Jessica Woodard. She is available to answer any questions concerning your section 1115 demonstration. Ms. Woodard's contact information is as follows:

Centers for Medicare & Medicaid Services
Center for Medicaid & CHIP Services
Mail Stop: S2-01-16
7500 Security Boulevard
Baltimore, MD 21244-1850
Email: Jessica.Woodard@cms.hhs.gov

Official communications regarding program matters should be sent simultaneously to Ms. Woodard and Ms. Henrietta Sam-Louie, Associate Regional Administrator, in our San Francisco Regional Office. Ms. Sam-Louie's contact information is as follows:

Centers for Medicare & Medicaid Services
Division of Medicaid and Children's Health Operations
90 7th Street, Suite 5-300 (5W)
San Francisco, CA 94103-6707
Email: Henrietta.Sam-Louie@cms.hhs.gov

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

Page 4 – Mr. Thomas Betlach

Thank you for all your work with us, as well as stakeholders in Arizona, over the past months on this demonstration extension. Congratulations on its approval.

Sincerely,

A handwritten signature in blue ink, appearing to read "Andrew M. Slavitt".

Andrew M. Slavitt
Acting Administrator

Enclosures

Page 5 – Mr. Thomas Betlach

cc: Henrietta Sam-Louie, Associate Regional Administrator, CMS San Francisco Regional Office