



April 3, 2026

Roberta Harrison
Interim Director
Arizona Health Care Cost Containment System
150 N. 18th Ave.
Phoenix, AZ 85007

RE: AzHHA Comments on FFY 2027 Hospital Assessments and HEALTHII Payments

Dear Interim Director Harrison,

Thank you for the opportunity to comment on the proposed Federal Fiscal Year (FFY) 2027 hospital assessment and HEALTHII payment model. The Arizona Hospital and Healthcare Association (AzHHA) is a statewide association representing more than 75 Arizona hospitals.

AzHHA appreciates AHCCCS's continued use of annual hospital assessment and HEALTHII workgroups to engage stakeholders and share information. This collaboration is particularly important as hospitals prepare for a period of significant federal change affecting Medicaid financing.

Beginning in FFY 2028, hospitals will face substantial reimbursement reductions under P.L. 119-21 (H.R. 1), along with payment methodology changes required by the 2024 Managed Care Rule. These changes are structural and unavoidable and will place considerable financial pressure on hospitals statewide. In this context, FFY 2027 serves as an important transition year.

Maximizing HEALTHII payments in FFY 2027 will help hospitals enter this transition in the strongest possible financial position, supporting continued access to care for AHCCCS members and minimizing service disruptions as new federal requirements take effect.

With that context in mind, we would like to bring the following recommendations to your attention.

Uniform Percentage Increases

AzHHA hospitals have significant concerns with AHCCCS's proposed approach to implementing uniform percentage increases for FFY 2027, particularly the proposal to make five HEALTHII payments while continuing to collect four HCIF assessment payments, with the final HEALTHII payment occurring up to 12 months after the end of the federal fiscal year. This proposal would create meaningful cash-flow challenges by delaying reimbursement while assessments continue to be collected on a standard schedule.

AzHHA recognizes AHCCCS's obligation to comply with federal requirements related to uniform percentage increases. At the same time, FFY 2027 represents a transition year, with more fundamental changes to HEALTHII payments required beginning in FFY 2028. In this context, AzHHA respectfully

proposes the following alternatives, listed in order of preference.

Option 1: Maintain the Current Collection and Payment Structure for FFY 2027

Given the scope of changes required for FFY 2028 under the 2024 Managed Care Rule, AzHHA believes it would be prudent to maintain the existing HEALTHII payment and HCIF assessment structure for FFY 2027. Implementing substantial process changes for a single year, only to redesign the system again the following year, introduces unnecessary complexity, operational risk and avoidable cash-flow disruption for hospitals.

Importantly, revisions to the uniform percentage increase do not necessarily constitute a change to the underlying SDP design. The approved preprint prospectively defines a payment methodology that incorporates estimated parameters at the time of rate development, along with a defined reconciliation process to align payments with finalized data. The use of an estimated uniform add-on reflects the practical reality that final utilization and payment data are not available during rate setting and represents implementation of the approved methodology rather than a structural redesign of the SDP.

For these reasons, AzHHA encourages AHCCCS to re-engage with CMS to determine whether maintaining the current collection and payment structure for FFY 2027 is permissible, with more substantive structural changes implemented beginning in FFY 2028. If a delay is not feasible, AzHHA respectfully requests additional discussion at the next workgroup meeting to clarify CMS's expectations and the specific rationale for requiring changes to occur in FFY 2027.

Option 2: Six HEALTHII Payments with Aligned HCIF Assessment Payments

If AHCCCS determines that some modification to the FFY 2027 payment structure is required, AzHHA recommends moving to six HEALTHII payments paired with six HCIF assessment payments, with HCIF assessments collected approximately six to seven weeks prior to each HEALTHII payment. This approach would better align assessment collections with payment timing and substantially reduce cash flow challenges for hospitals.

Under this option, AHCCCS would make four HEALTHII payments of 20 percent during FFY 2027 at their normal intervals, rather than holding back the full 20 percent final payment until the end of the process. Providing a portion of the remaining funds earlier would allow hospitals to receive some of the HEALTHII dollars sooner, while still preserving sufficient funds to ensure compliance with uniform percentage increase requirements.

By the time the fifth HEALTHII payment is calculated, AHCCCS should have access to significantly more complete claims and encounter data, allowing for a more informed estimate of the final payment amounts. The final HEALTHII payment, made approximately 12 months after the end of FFY 2027, would then serve as a true final assurance that UPIs made within each hospital category, improving accuracy given the known delays that sometimes occur in managed care organization claims and encounter data submissions.

This structure balances multiple objectives: it mitigates hospital cash flow concerns, allows AHCCCS to rely on more complete data when calculating payments, and preserves sufficient funds to ensure that uniform

percentage increases are accurately applied across hospital categories.

Option 3: Five HEALTHII Payments with Aligned HCIF Assessment Payments

As a third alternative, AzHHA suggests maintaining five HEALTHII payments paired with five HCIF assessment payments, with assessments collected six to seven weeks before each payment. The first four payments would each represent 20 percent of the annual total and occur during FFY 2027, with the final payment and corresponding assessment occurring in FFY 2028 once sufficient data are available. While this option is less preferred than Option 2, it would still be better to align assessment collections with payment timing and reduce the cash flow impact associated with delaying HEALTHII payments. This would be more in line with the how the Access to Professional Services Initiative (APSI) makes payments, except the final payment made be made later than the final APSI payment.

Commitment to Additional Stakeholder Workgroups

As hospitals prepare for federally mandated changes to Medicaid financing, AzHHA encourages AHCCCS to continue focused and meaningful stakeholder engagement.

First, **AzHHA recommends convening an additional hospital assessment and HEALTHII payment workgroup dedicated to the impacts of P.L. 119-21.** At that meeting, we respectfully request that AHCCCS share the preliminary modeling developed with its consultant related to the phased reduction of state-directed payments to 100 percent of Medicare rates and anticipated reductions to hospital assessment caps. AzHHA and its member hospitals do not currently have access to the underlying data needed to independently estimate the Medicare rates.

While we understand that any modeling at this stage will be preliminary, early directional information is essential for hospitals as they begin long-term financial planning and assess potential impacts to services and access.

AzHHA also encourages AHCCCS to begin engagement this summer on the FFY 2028 changes required under the 2024 Managed Care Rule. Because hospitals fund the majority of the non-federal share for Proposition 204 and adult expansion populations, as well as the state share of HEALTHII payments through hospital assessments, **AzHHA recommends that initial stakeholder workgroups be limited to AHCCCS hospitals and hospital associations/alliances.** Early conversations should address the transition away from quarterly HEALTHII payments and the move toward claims-based directed payment structures, with broader stakeholder involvement occurring later as implementation details are refined.

It is critical that HEALTHII payments continue to function as intended — as a mechanism to support hospital reimbursement. Significant shifts of funding away from hospitals would increase the risk of service reductions or closures, ultimately limiting access to care for AHCCCS members.

Specialty Hospital Methodology Change

We are concerned about a last-minute change made last year to the HEALTHII methodology for specialty hospitals that was not vetted through the hospital workgroup or communicated to hospitals in advance. Under this change, HEALTHII payments for specialty hospitals were based solely on inpatient AHCCCS payments.

While this had little impact on most specialty hospitals, it resulted in a significant and unintended consequence for a specialty hospital that is predominantly outpatient. As a result, one hospital lost over 90% of its HEALTHII funding, translating to an approximately 30% reduction in its total AHCCCS reimbursement, despite no change in utilization or quality performance. This outcome reflects differences in care delivery models rather than differences in access or value.

We recommend that AHCCCS consider reverting to the prior specialty hospital methodology if possible, modifying the specialty hospital category to account for outpatient-predominant providers, or pursuing alternative approaches to achieve parity, such as adjustments to the outpatient fee schedule.

Update the Enrollment Projections

Based on information presented at the workgroup meeting, it appears that the enrollment projections used in the FFY 2027 model rely on data through October 2025. Since that time, AHCCCS enrollment has declined by approximately 100,000 members and has decreased each month since May 2024.

Given the size and consistency of this decline, AzHHA strongly encourages AHCCCS to update the enrollment assumptions used to calculate the Hospital Assessment Fund (HAF) assessment. Incorporating more current enrollment data would improve model accuracy and better align assessments and HEALTHII payments with current program enrollment.

Thank you again for the opportunity to provide comments. Please do not hesitate to contact me if you have questions or would like to discuss these issues further.

Sincerely,



Amy Upston
Director of Financial Policy and Reimbursement

cc:

Jeff Tegen, Chief Financial Officer
Cynthia Layne, DBF Deputy Assistant Director
Peter Moore, Reimbursement Administrator