



May 22, 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 and Implementation of the 2024 Managed Care Rule

Dear Interim Director Harrison,

Thank you for the opportunity to comment on the proposed FFY 2027 hospital assessment and HEALTHII payment model. The Arizona Hospital and Healthcare Association (AzHHA) represents more than 75 hospitals statewide.

AzHHA appreciates AHCCCS's continued engagement but believes the current approach would benefit from greater transparency and a more structured process to ensure all components of the assessment and HEALTHII methodology are fully vetted with stakeholders. Given the scope and financial significance of these policies, hospitals need a clear understanding of proposed changes and sufficient opportunity to provide meaningful input before decisions are finalized.

As noted in our prior comments, hospitals are preparing for overlapping federal Medicaid financing changes. Addressing hospital assessments and HEALTHII payments in a single meeting will not allow sufficient depth of discussion. AzHHA encourages AHCCCS to convene a series of focused stakeholder workgroups and to clearly distinguish between assessment and HEALTHII discussions. At a minimum, we request two workgroup meetings on the fiscal impacts of implementing P.L. 119-21 and several workgroup meetings to discuss implementing changes to supplemental payments created by the 2024 Managed Care Rule.

P.L. 119-21 Fiscal Impact Modeling

AzHHA recommends convening the first workgroup in early summer to discuss the impacts of P.L. 119-21 (H.R. 1). Hospitals are already beginning budget development and multi-year financial planning for FFY 2028 and beyond, and need information to develop reasonable revenue projections.

At the first workgroup, AzHHA respectfully requests that AHCCCS share preliminary modeling related to the phased reduction of state-directed payments to 100 percent of Medicare rates. Hospitals do not currently have access to the underlying data needed to estimate Medicare-equivalent rates or assess the magnitude of potential impacts. While modeling at this stage will be preliminary, early directional information is essential. Without it, hospitals cannot meaningfully plan for potential service reductions, capital investments, or workforce impacts.

Managed Care Rule – Structured, Two-Way Engagement

AzHHA strongly urges AHCCCS to establish a formal, structured workgroup process this summer to collaboratively develop the methodology for implementing the FFY 2028 changes required under the 2024 Medicaid Managed Care Rule. Given the scope, operational complexity, and significant financial implications of these changes, a single meeting or limited stakeholder engagement process would be insufficient and would not allow for meaningful review, modeling, or feedback.

Because Arizona hospitals finance the majority of the non-federal share associated with Proposition 204 and adult expansion populations, as well as the state share supporting HEALTHII directed payments, hospitals must serve as core partners in the design and development of any future payment methodology. Accordingly, AzHHA recommends that the initial workgroups be limited to hospitals and hospital associations or alliances that directly finance and operationalize these programs.

These meetings should function as true two-way working sessions — not informational updates after policy decisions have already been made. Hospitals must have the opportunity to review data, evaluate modeling assumptions, identify operational concerns, and collaboratively shape policy options before any methodology is finalized. Most importantly, AHCCCS should not finalize or submit any supplemental payment transition methodology, directed payment structure, financing approach, or related CMS proposal without documented hospital review, consensus, and sign-off.

Early workgroup discussions should focus on the transition from quarterly HEALTHII supplemental payments to claims-based directed payment structures, including:

- Timing and payment predictability;
- Cash flow impacts on hospitals;
- Administrative and operational burden;
- Interactions with existing hospital assessments and financing structures;
- Rate development assumptions;
- Plan oversight and accountability mechanisms; and
- Safeguards to ensure directed payment dollars are fully and transparently passed through to hospitals.

Given the Managed Care Rule’s elimination of traditional supplemental payment reconciliation mechanisms, **it is especially critical that AHCCCS work collaboratively with hospitals to establish clear protections against payment dilution, utilization-driven variability, delayed payments, or the absorption of funds into managed care administrative costs or margin.** Hospitals must have transparency into payment methodologies and confidence that the funding they help finance will fully reach providers as intended.

Broader stakeholder engagement may be appropriate after preliminary policy concepts have been collaboratively developed with the hospitals that finance and sustain the program.

HEALTHII payments must continue to function as intended — supporting hospital reimbursement and preserving access to care for AHCCCS members across Arizona. Structural changes implemented without adequate collaboration, financial transparency, operational testing, and sufficient lead time would

materially increase financial instability for hospitals, particularly rural and safety-net providers. Any approach that shifts disproportionate financial risk onto hospitals, weakens payment transparency, or fails to ensure full provider pass-through of funds would undermine the stability and intent of the program and could ultimately result in service reductions, workforce impacts, or access challenges for Medicaid beneficiaries.

Specialty Hospital Methodology Change

AzHHA is disappointed with AHCCCS's decision not to revisit the specialty hospital methodology implemented last year. This change was made late in the process and was not vetted with hospitals.

Under this policy, HEALTHII payments for specialty hospitals were based solely on inpatient AHCCCS payments. While this had a limited impact on many providers, it had a significant unintended consequence for a predominantly outpatient specialty hospital. That hospital is now projected to receive less than \$300,000 in HEALTHII payments, compared to approximately \$3.7 million, despite no significant change in utilization.

AzHHA is also concerned that AHCCCS did not engage directly with the affected hospital while the change was under consideration. Earlier communication would have allowed for better understanding and potential mitigation of these impacts.

We recommend that AHCCCS consider reverting to the prior methodology, modifying the category to account for outpatient-predominant providers, or pursuing alternative approaches to achieve parity, such as adjustments to the outpatient fee schedule. Going forward, AHCCCS should proactively engage hospitals when significant policy changes with large financial impacts are under consideration.

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
Meaghan Kramer, Office of Governor Katie Hobbs