



March 27, 2025

Carmen Heredia, Director
Arizona Health Care Cost Containment System
801 E. Jefferson
Phoenix, AZ 85034

Dear Director Heredia:

Thank you for the opportunity to comment on the proposed Federal Fiscal Year (FFY) 2026 hospital assessment and HEALTHII payment model. The Arizona Hospital and Healthcare Association (AzHHA) is a statewide association representing more than 70 Arizona hospitals. We appreciate that AHCCCS continues to hold workgroups each year, provides transparency, and allows hospitals to provide input. We also greatly appreciate that AHCCCS decided to rebase the data used for the hospital assessment, allowing AzHHA to increase the Health Care Investment Fund (HCIF) assessment and, thereby, HEALTHII payments for the upcoming year. Additionally, we are grateful that AHCCCS is continuing to use a pay-for-reporting methodology for FFY 2026, which further provides hospitals with sufficient time to make meaningful changes to the metrics.

While AHCCCS has done an excellent job with the model for the upcoming year, we would like to bring a few items to your attention.

Update the Enrollment Projections

Based on the information presented at the meeting, it appears that enrollment projections use actual data through September or October 2024. AHCCCS enrollment has declined every month since May 2024, with the population declining by almost 140,000 since September 2024. **Given this large decrease, we urge AHCCCS to update the enrollment estimates used to calculate the Hospital Assessment Fund (HAF) assessment.** Additionally, it would be helpful for hospitals and AHCCCS to further understand why such a large decrease has occurred and when enrollment is likely to start increasing again. We encourage the AHCCCS administration to better understand what is happening and relay this information to hospital providers.

Re-evaluate the Large HAF Fund Balance

AHCCCS is also proposing to retain a HAF fund balance of approximately \$153 million at the end of both FFYs 2025 and 2026 due to “significant enrollment uncertainty.” AzHHA supports maintaining a fund balance to mitigate fluctuating enrollment, and we appreciate the importance of this financial stability. However, we believe that the current figure of \$153 million may require further consideration. With the unprecedented changes being discussed by the federal government, it's essential to reassess this balance to ensure it aligns effectively with the evolving

financial landscape for hospitals.

HIE Exchange Participation

We appreciate the AHCCCS Administration's desire to align HEALTHII quality metrics with Health Information Exchange (HIE) participation. However, we would like to express some concerns regarding the lack of detailed information on what this alignment entails. Given the increased costs associated with HIE participation and other complicating factors, we suggest that AHCCCS consider allowing participation in its most basic form for hospitals to qualify for HEALTHII quality payments.

Additionally, we've received feedback from hospitals regarding the challenges of maintaining HIE participation during transitions to new electronic health record (EHR) systems. In many instances, this transition can lead to interruptions in data sharing that may last several months or even close to a year. We believe it would be beneficial for AHCCCS to adopt a more flexible approach during these EHR transitions to ensure that hospitals are not inadvertently penalized for circumstances beyond their control.

FFY 2025 HCIF Assessment Payments

We would also like to address the FFY 2025 HCIF assessment payments. While we fully support having AHCCCS and health plans make HEALTHII payments as soon as possible once approved by CMS, several hospitals have expressed concerns regarding paying two-quarters of HCIF assessment payments before the first quarter of HEALTHII payments are made. Due to the delay of the HEALTHII payments, some hospitals have reported needing to institute hiring freezes, defer accounts payable, and even take out additional lines of credit. While most hospitals will be able to manage to make two quarters' worth of HCIF assessment payments if CMS approves the HEALTHII payments soon, **we ask AHCCCS to work with any hospitals that are only able to make one quarter's worth of payments before receiving HEALTHII payments. We would like to suggest that, in the event of further delays in the approval of HEALTHII payments, AHCCCS consider a more flexible approach. It would be beneficial if hospitals were not required to cover three-quarters of HEALTHII payments before receiving any funds.**

FFY 2027 HEALTHII Payments

We wish to bring to your attention our perspectives regarding the transition of the FFY 2027 HEALTHII payments from a lump sum payment structure to integration within the managed care organization (MCO) capitation rates. While we acknowledge the importance of adhering to this new federal requirement, we are concerned that the expected increase in MCO capitation payments may lead to some uncertainty regarding the flow of payments for hospitals as they are contracted with multiple MCOs. Additionally, we are concerned that state lawmakers may misunderstand the reasons for significantly increasing capitation rates and make decisions that are harmful to hospitals as they formulate the budget for fiscal year 2027 – 2028 and beyond.

In light of this, we respectfully request that AHCCCS consider convening a small workgroup

starting in August 2025. This workgroup would serve as a platform for developing thoughtful policy recommendations that ensure the HEALTHII payments function as intended while also helping lawmakers understand the changes associated with this significant program. Initiating this workgroup in August 2025 provides AHCCCS, its contractors, and hospitals ample opportunity to collaboratively work on legislation that clarifies the mechanics of HEALTHII payments (if necessary) and to make any necessary adjustments to AHCCCS policies, regulations, and contracts. We believe that this cooperative approach would greatly benefit all parties involved and contribute to a successful transition.

Once again, we thank you for considering this request. Please do not hesitate to contact me if you have any questions or would like to discuss this in more detail.

Sincerely,

A handwritten signature in black ink that reads "Amy Upston". The signature is written in a cursive, flowing style.

Amy Upston
Director of Financial Policy and Reimbursement

cc:

Jeff Tegen, Chief Financial Officer
Cynthia Layne, DBF Deputy Assistant Director
Kenna Garman, Senior Medicaid Rates Analyst