ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

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December 31, 2025

The Honorable David Livingston
Chairman, Joint Legislative Budget Committee
1700 W Washington St.
Phoenix, Arizona 85007

Dear Representative Livingston,

The Arizona Health Care Cost Containment System (AHCCCS) has completed an updated actuarial analysis of Managed Care Organization (MCO) capitation rates for the AHCCCS Complete Care (ACC) and ACC-Regional Behavioral Health Agreement (RBHA) Program and the Arizona Long Term Care System – Elderly and Physical Disability (ALTCS-EPD) Program and has determined that retroactive adjustments to the capitation rates are necessary. AHCCCS respectfully requests to be placed on the agenda of the next JLBC meeting to review these revised rates.

In accordance with Federal regulations, MCO capitation rates must be actuarially sound and must be approved by the Centers for Medicare and Medicaid Services (CMS). They must cover the anticipated costs for providing medically necessary services to AHCCCS members. As such, capitation rates are developed to reflect the costs of services provided as well as utilization of those services by AHCCCS members. Capitation rate trends reflect a combination of changes in cost and utilization, calculated as a per member per month (PMPM) expenditure to AHCCCS Contractors (including other state agencies, the Arizona Department of Economic Security/Division of Developmental Disabilities (DES/DDD) and the Department of Child Safety Comprehensive Health Plan (DCS CHP).

In the September 4, 2025, letter submitted to JLBC, AHCCCS outlined some possible scenarios which could result in the need for adjustments. Each of these scenarios continues to grow in likelihood, with some growing more urgently than others. The original capitation rate development used encounter and enrollment data through the first few months of federal fiscal year 2025 (i.e., through February 2025). As has been noted in past letters, the AHCCCS actuaries monitor the experience and if there are significant changes in actual experience from the projected assumptions used in the rate development, additional analysis is performed to determine the potential impact and whether there is a need to adjust the capitation rates to maintain actuarial soundness for the contract year. The experience in the ACC and ACC-RBHA Program has been significantly impacted by the continued declines in membership, with healthier members leaving the program, and members with higher health needs remaining on the program, raising the overall average acuity of members in the program over time.

ACC/ACC-RBHA Program Rate Changes

In the initial rate development, the Agency made assumptions related to member growth and average acuity that were not realized. The ACC/ACC-RBHA program continues to have declining membership rolls, most notably in the higher income risk groups related to the Prop 204 expansion, and the Medicaid expansion adults associated with the Patient Protection and Affordable Care Act. Accordingly, the program did not see net growth in the number of members covered by the ACC/ACC-RBHA program and acuity has continued to increase significantly as the members who remain on the program have much higher rates of complex needs.

Another assumption in the original capitation rate development for the ACC/ACC-RBHA Program was the expectation of declining growth in Applied Behavior Analysis (ABA) services which are primarily provided to children with autism diagnoses. ABA services have been a driver of increased costs in both the ACC/ACC-RBHA Program and in the ALTCS – Developmental Disabilities (DD) Program for a few years, and AHCCCS is working on a series of reforms that it intends to roll out in the next several months. AHCCCS had hoped to institute ABA reform earlier and is examining policy around service hour limitations with exceptions for medically necessary care, but the reform process has become more complicated, as informed by AHCCCS's reforms to another growing program, as set forth in greater detail below.

- As AHCCCS has updated both JLBC and the Auditor General, since the agency introduced reforms to curb the growth of Attendant Care and Habilitation Services under the Home and Community Based Services (HCBS) program for minor children pursuant to legislation enacted last session, the Agency has encountered barriers at the state and federal level that have made reform more complicated than anticipated. First, in response to a legal demand from disability advocates and significant bipartisan legislative advocacy, AHCCCS was directed to rewrite the HCBS policies to add an exception process to the service hour limitations intended for those children who required "extraordinary care," and to pursue the reforms via the rulemaking process pursuant to the Administrative Procedures Act (APA). The APA process is more complicated than traditional AHCCCS policy work, because it requires several steps over a series of months, including an Economic, Small Business, and Consumer Impact Statement (EIS), which the Agency has engaged an HCBS and health economy expert to complete.
- More recently, AHCCCS was informed on November 19, 2025 by its contracted External Quality Review Organization (EQRO), mandated by Section 1932 of the Social Security Act and 42 CFR Part 438) and subsequently by the Centers for Medicare & Medicaid Services (CMS) on December 4 that an exception process to the service hour limitations might cause Arizona's managed care organizations to violate federal law, in that it will likely take longer for the exception process to be completed than the number of days CMS permits to complete prior authorizations. This fact is made more complicated because, starting January 1, 2026, new CMS rules will require health plans to provide prior authorizations within 7 calendar days, with limited exceptions. For the last month, AHCCCS has been in discussions with CMS regarding whether a federal waiver will be required for an exception process for the service hour limitations, as contemplated by the recent rulemaking.

The HCBS rulemaking and potential waiver requirement has both informed and slowed AHCCCS's timeline with respect to ABA reform. The ACC/ACC-RBHA trend assumptions for two risk groups were dampened under the expectation of the forthcoming policy, but because the policy is still under development, and the trend assumptions for mental health practitioners for these two risk groups are thus being revised upwards to reflect the continued growth within this category of service. AHCCCS expects to introduce ABA reforms in the coming months which incorporate lessons learned from the HCBS reform process, but the agency does not anticipate savings in this fiscal year.

In recognition of the increased member acuity and continued ABA growth, the AHCCCS actuaries have redeveloped capitation rates for the ACC/ACC-RBHA program, addressing increased acuity associated with membership changes, including encounter data and enrollment through August 2025 in re-evaluating trend assumptions, as well as reviewing all other assumptions, including projected membership for the year. AHCCCS is submitting revised capitation rates to CMS to be effective retroactive to October 1, 2025, because the experience indicates that the capitation rates in effect currently are no longer actuarially sound given the newer data.

ALTCS-EPD Program Rate Changes

As was noted in the September 4, 2025, letter to JLBC, the ALTCS-EPD Program was set to transition from a previous contract to a new contract with different MCOs effective October 1, 2025. Actuarially sound capitation rates were developed for the transition, but the transition was stayed pursuant to a court order and AHCCCS was required to extend its contracts with the current MCOs on a very tight timeframe.

In the shortened timeframe available for the AHCCCS actuaries to redevelop the capitation rates for the extended contracts, there was an oversight made in the rate development related to a required change effective January 1, 2025, which impacted the actuarial soundness of the capitation rates. Effective January 1, 2025, CMS required that all dually-eligible (i.e., eligible for both Medicare and Medicaid) members in the ALTCS-EPD Program have their Medicaid plan of enrollment aligned with their Medicare plan of enrollment. This requirement resulted in significant shifts in enrollment among plans, with approximately 1,600 members shifting from their prior MCO to a new MCO. This meant that the individual MCOs responsible for these transitioned members' care and expenses in the base year were not the same as the individual MCOs that would be responsible for their care and expense going into the new contract year. To address this oversight, the AHCCCS actuaries re-distributed all base year expenses related to individuals who changed enrollment to their current MCO enrollment as of July and August 2025 from their original MCO to their current MCO. This redistribution changed the average PMPMs for each of the individual ALTCS-EPD contractors in the base year. After re-adjusting all aspects of rate development for these enrollment shifts, the actuaries re-evaluated trends with the encounter data available through July and August 2025 and adjusted the trend assumptions in the revised capitation rates as well to address the more recent experience, particularly in price increases caused by nursing facility consolidation among fewer operators. The revised capitation rates for ALTCS-EPD will be submitted to CMS to be effective retroactive to October 1, 2025.

Other potential rate changes

As noted above, there were other scenarios listed in the September 4, 2025 letter to JLBC which have increased in likelihood. The most notable of these are concerns around the ability of AHCCCS and the Department of Economic Security / Division of Developmental Disabilities (DES/DDD) to realize savings associated with the series of reforms required by HB2945 in the same timeframe as originally assumed in the capitation rate development.

As set forth above in discussions related to ABA policy reform, Laws 2025 Chapter 93 (HB 2945) included several reforms aimed at ensuring utilization within the ALTCS program meets medical necessity and extraordinary care standards. The most impactful is anticipated to be an updated HCBS Needs Tool (HNT) that determines extraordinary care for minor children, which was proposed to include service hour limitations. An updated assessment tool was developed and implemented on October 1, 2025. Again, following the receipt of a legal demand and significant bipartisan legislative advocacy, Emergency Rulemaking was completed, which proposed minor changes to assessment criteria as well as a new extraordinary care review (ECR) process. Related policies were developed, and extensive public comments (approximately 6,000) are being reviewed and analyzed.

As set forth above, in late November and early December, the Agency's EQRO and CMS began discussing whether AHCCCS would need formal waiver approval from CMS in order for its service cap policies and exception process to be compliant with federal prior authorization timeframes. Based on this feedback, AHCCCS submitted a request to CMS for an exemption to the authorization time frame regulations in order to implement the new policies and work through the HNT assessments over the first 90 days. AHCCCS continues its conversations with CMS regarding the federal approvals necessary to implement these reforms. Until CMS approves of either a short-term exemption or a waiver, AHCCCS cannot finalize its policy or rulemaking process related to the service hour limitations. The agency has informed CMS of the urgency of these reforms, and that they are both required by legislation, and will be a significant cost containment tool for the agency, and CMS has been extraordinarily collaborative in helping the agency work toward a solution over the last month. This situation is being monitored and may result in additional adjustments to the ALTCS-DD Program capitation rates.

JLBC Review

Before implementing the revised capitation rates, AHCCCS is reporting its expenditure plan for review by the JLBC. This letter details and summarizes the required retroactive updates to capitation rates for CYE 2026 from October 1, 2025, through September 30, 2026, and the associated financial impacts, for the following programs: ACC, ACC-RBHA, and ALTCS-EPD.

Rates outlined in this letter are submitted to CMS to be effective October 1, 2025. The utilization and unit cost trends for all rates are detailed in the original actuarial certifications which were submitted to CMS and JLBC; updated utilization and unit cost trends will be provided to CMS and JLBC in a capitation rate amendment once finalized. The capitation rate amendment documents will only address changes

from the original capitation rate development and will refer back to the original rate certification for everything that has not been revised.

The impact of these retroactive changes over the previously certified CYE 2026 capitation rates is 9.2% for the ACC/ACC-RBHA Program and 2.7% for the ALTCS-EPD program. The PMPM growth in the ACC/ACC-RBHA Program is offset, at least in part, by lower projected membership. The PMPM increase in the ALTCS-EPD Program does not generally have any offsets, and is, as mentioned above, intended to correct an oversight which occurred during the redevelopment of capitation rates over a condensed period as a result of a court order, and which significantly impacted the membership mix for the individual MCOs.

If you have any questions, please do not hesitate to contact Jeffery Tegen, Assistant Director, Division of Business and Finance, at (602)-417-4705.

Sincerely,

Virginia Rountree,
Director

cc: The Honorable David C. Farnsworth, Vice Chairman, Joint Legislative Budget Committee
Richard Stavneak, Director, Joint Legislative Budget Committee
Meaghan Kramer, Health Policy Advisor, Office of the Governor
Ben Henderson, Director, Office of Strategic Planning and Budgeting
Cameron Dodd, Budget Manager, Office of Strategic Planning and Budgeting

Appendix Table 1A
CYE 2026 Medicaid Capitation Rates

Program	CYE 26 Original Rate	CYE 26 Revised Rate	CYE 26 Revised Change from CYE 26 Original Rates
ACC	$486.50	$532.55	9.46%
ACC-RBHA	$83.76	$87.64	4.64%
CHP	$1,884.14	$1,884.14	0.00%
ALTCS-EPD	$5,817.99	$5,972.79	2.66%
AHCCCS Total			**8.11%**
ALTCS-DD	$7,842.36	$7,842.36	0.00%
TCM	$227.99	$227.99	0.00%
DES/DDD Total			**0.00%**
AHCCCS and DES/DDD Total			**5.95%**

Appendix Table 1B
CYE 2026 Capitation Rates by Risk Group

ACC	CYE 26 Rvsd Proj MMs	CYE 26 Orig Rates Total	CYE 26 Rvsd Rates Total	Projected Expenditures CYE 26 Orig Rates CYE 26 Rvsd Proj MMs	Projected Expenditures CYE 26 Rvsd Rates CYE 26 Rvsd Proj MMs	Total Change from CYE 26 Orig Rates
AGE < 1	480,574	$757.91	$768.46	$ 364,230,100	$ 369,303,800	1.4%
AGE 1-20	7,753,092	$276.08	$297.67	$ 2,140,488,600	$ 2,307,898,900	7.8%
AGE 21+	3,005,417	$497.81	$543.39	$ 1,496,127,500	$ 1,633,099,200	9.2%
Duals	1,618,961	$178.09	$182.14	$ 288,314,900	$ 294,877,900	2.3%
SSIWO	626,548	$1,483.77	$1,587.15	$ 929,652,500	$ 994,425,200	7.0%
ESA	4,101,153	$728.19	$832.38	$ 2,986,436,400	$ 3,413,710,600	14.3%
NEA	679,078	$628.99	$758.62	$ 427,133,900	$ 515,164,200	20.6%
Delivery	28,835	$6,884.41	$6,880.33	$ 198,511,900	$ 198,394,300	(0.1%)
Total	18,264,823	$486.50	$532.55	$ 8,830,895,800	$ 9,726,874,100	10.1%

ACC-RBHA	CYE 26 Rvsd Proj MMs	CYE 26 Orig Rates Total	CYE 26 Rvsd Rates Total	Projected Expenditures CYE 26 Orig Rates CYE 26 Rvsd Proj MMs	Projected Expenditures CYE 26 Rvsd Rates CYE 26 Rvsd Proj MMs	Total Change from CYE 26 Orig Rates
SMI	535,362	$2,721.18	$2,830.10	$ 1,456,819,000	$ 1,515,126,100	4.0%
Crisis	19,813,080	$10.64	$11.17	$ 210,846,300	$ 221,385,000	5.0%
Total	19,813,080	$83.76	$87.64	$ 1,667,665,300	$ 1,736,511,100	4.1%

DCS CHP	CYE 26 Rvsd Proj MMs	CYE 26 Orig Rates Total	CYE 26 Rvsd Rates Total	Projected Expenditures CYE 26 Orig Rates CYE 26 Rvsd Proj MMs	Projected Expenditures CYE 26 Rvsd Rates CYE 26 Rvsd Proj MMs	Total Change from CYE 26 Orig Rates
Integrated Rate	84,099	$1,884.14	$1,884.14	$ 158,454,500	$ 158,454,500	0.0%

ALTCS-EPD	CYE 26 Rvsd Proj MMs	CYE 26 Orig Rates Total	CYE 26 Rvsd Rates Total	Projected Expenditures CYE 26 Orig Rates CYE 26 Rvsd Proj MMs	Projected Expenditures CYE 26 Rvsd Rates CYE 26 Rvsd Proj MMs	Total Change from CYE 26 Orig Rates
Dual	264,198	$4,836.31	$4,973.38	$ 1,277,744,900	$ 1,313,959,700	2.8%
Non-Dual	57,487	$10,306.98	$10,565.92	$ 592,512,700	$ 607,398,600	2.5%
Total	321,685	$5,817.99	$5,972.79	$ 1,870,257,600	$ 1,921,358,300	2.7%
AHCCCS TOTAL	**19,205,969**			**$ 12,527,273,200**	**$ 13,543,198,000**	**8.11%**

DES/DDD	CYE 26 Rvsd Proj MMs	CYE 26 Orig Rates Total	CYE 26 Rvsd Rates Total	Projected Expenditures CYE 26 Orig Rates CYE 26 Rvsd Proj MMs	Projected Expenditures CYE 26 Rvsd Rates CYE 26 Rvsd Proj MMs	Total Change from CYE 26 Orig Rates
ALTCS-DD	578,175	$7,842.36	$7,842.36	$ 4,534,261,600	$ 4,534,261,600	0.0%
Targeted Case Management	102,591	$227.99	$227.99	$ 23,389,400	$ 23,389,400	0.0%
DES/DDD Total	**680,766**	**$6,694.88**	**$6,694.88**	**$ 4,557,651,000**	**$ 4,557,651,000**	0.00%
AHCCCS & DES/DDD TOTAL	**19,784,144**			**$ 17,084,924,200**	**$ 18,100,849,000**	**5.95%**