



To: Members of the House Appropriations Committee
Members of the Senate Appropriations Committee
Re: AzHHA Comments to HB2945 and SB1734

Members of the House and Senate Appropriations Committee,

AzHHA has reviewed HB2945 and its companion bill SB1734 and would like to share our concerns for your consideration.

Regarding Section 1, 36-2901.06. Capitation rate adjustments; limit:

The proposed language in Section 1 states that capitation rates for the upcoming fiscal year “SHALL BE AS SPECIFIED IN THE GENERAL APPROPRIATIONS ACT.” Requiring the legislature to set capitation rates for an entire fiscal year as part of the state budget is impractical for the following reasons:

1. The Centers for Medicare and Medicaid Services (CMS) require that capitation rates be actuarially sound, reflecting healthcare costs, utilization trends, and risk profiles. According to 42 C.F.R. § 438.4, these rates must be certified by qualified actuaries and cover all reasonable costs. ***CMS explicitly prohibits states from determining rates solely based on budget constraints***; instead, rates must align with projected costs and service needs to maintain compliance and mitigate federal funding risks.
2. Determining sound capitation rates demands the latest and most precise cost trend data, including healthcare price inflation, utilization patterns, provider rate increases, population enrollment data, new treatments or drugs, and relevant policy changes. Rates that lack soundness lead to underpayment for AHCCCS health plans, jeopardizing their ability to provide services and maintain provider networks. If AHCCCS is compelled to operate with inaccurate rates, it will undoubtedly result in service disruptions and a decline in quality. Any compromise in actuarial soundness puts federal matching funds at serious risk. This is why every budget contains detailed information on how the capitation rates will potentially impact expenditures, with required reporting and review by JLBC before implementing changes to the capitation rate. ([SFY2026 Baseline Budget, AHCCCS budget, Page 41, Footnote five](#))
3. When capitation rates cannot be adjusted expediently, health plans will experience uncertainty and potential cash flow crises. When rate changes require a bill to be passed, technical decisions are delayed or unduly influenced by factors other than healthcare realities. State budget timelines and the CMS timeline for capitation rate approval do not align. Delays in rate approval will result, severely disrupting care delivery and provider payments.

If Medicaid capitation rates paid to health plans are fixed for an entire fiscal year prior to completing the full actuarial evaluation process, the consequences for hospitals will be dire, particularly those serving high Medicaid populations. Arizona hospitals currently operate on thin margins; underpayment from plans places them at substantial financial risk. In rural and underserved areas, Medicaid constitutes a vital portion of hospital revenue. Unsound rates can drive these hospitals toward service cuts or even closure. Additionally, hospitals may be forced to shift costs onto commercial payers, increasing the problem of healthcare inflation.

Regarding Section 2, Article 1 36-3302. Waiver requests; legislative approval required:

The current wording of HB2945 and SB1734 mandates that all waiver requests, regardless of their nature, must undergo the legislative process to create a new section of statute. This approach is not only unreasonable from a technical standpoint, but it will also create significant challenges for the executive branch over time, irrespective of the party in power. The legislative process is slow and deliberative by design—It is not equipped to handle routine operational activities efficiently. AHCCCS is a \$22 billion agency that must operate efficiently in its technical interactions with CMS.

AzHHA believes that waiver requests aimed at implementing substantial policy changes should absolutely move through the legislative process. The executive branch must collaborate with the legislative body, which is charged with considering, debating, and developing policies for executive approval. To address this issue, we propose splitting this section into two clear paragraphs: one that directs AHCCCS to report all technical waiver activities to the Joint Legislative Budget Committee for informational purposes and another that requires waiver requests contemplating policy changes to go through the legislative process. This adjustment is essential for the effective operation of the state's Medicaid program.

We thank you for your consideration and are happy to discuss our concerns with each of you.

Sincerely,



Helena Whitney
Senior Vice President of Policy & Advocacy
Arizona Hospital & Healthcare Association