

May 14, 2026

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

Dear Senator Farnsworth,

The Arizona Health Care Cost Containment System (AHCCCS) has completed an updated actuarial analysis of Managed Care Organization (MCO) capitation rates for the Arizona Department of Economic Security/Division of Developmental Disabilities (DES/DDD) 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, 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. One of these scenarios related to DES/DDD was reiterated in the December 12, 2025 letter submitted to JLBC, regarding concerns about the ability of 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. This situation has been monitored and it has been determined that the projected savings associated with the implementation of the Home and Community Based Services (HCBS) Needs Tool (HNT) in the current capitation rates are now overstated due to delays outside of DES/DDD's control and need to be revised, resulting in increased capitation rates for the CYE 27 rating year.

For more detail regarding the causes of the delayed implementation of the HNT tool including rulemaking and federal compliance concerns, please refer to our letter to JLBC dated April 23, 2026.

The original capitation rate calculations incorporated approximately \$70M total fund in savings from the Home and Community-Based Services (HCBS) Needs Tool (HNT). While these savings were expected to offset costs beginning October 1, 2025, they will not be realized as anticipated due to delays in obtaining

Centers for Medicare & Medicaid Services (CMS) approval and the completion of the regulatory rulemaking process required for implementation.

The HNT was planned to go into effect on October 1, 2025, and the corresponding savings had been built into the capitation rates for that period. However, as a result of the extended timeline and the need for CMS review and approval, alongside the procedural requirements for rulemaking, the implementation is now projected for late summer or early fall 2026. Consequently, the 1.4% increase will be applied retroactively to the original planned implementation date, 10/1/25, in order to preserve actuarial integrity and ensure rates remain aligned with service delivery expectations.

It is important to highlight that the requirement for actuarial soundness, as set forth under federal regulations, mandates that capitation rates must accurately reflect reasonable estimates of costs for covered services. The inclusion of anticipated HNT savings prior to their actual realization would compromise the actuarial soundness of the rates. Therefore, the adjustment is necessary to ensure capitation rates remain compliant with actuarial standards, protecting both the financial stability and regulatory compliance of the DDD program until the HNT can be fully implemented.

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 DES/DDD Program.

Rates outlined in this letter are submitted to CMS to be effective October 1, 2025. No certification amendment will be developed as the change falls within the threshold allowed by [42 CFR 438.7\(c\)\(3\)](#) for capitation rate changes that do not require a revised rate certification.

The impact of these retroactive changes over the previously certified CYE 2026 capitation rates is 1.4% for the DES/DDD Program. We are committed to maintaining transparency throughout this process and will continue to monitor progress with CMS and the regulatory agencies. If there are further questions or need for additional clarification regarding the rate adjustment or actuarial requirements, please do not hesitate to reach out.

Should you have any questions on any of these issues, please feel free to contact Erica Johnson, Chief Actuary, at erica.johnson@azahcccs.gov.

Sincerely,



Roberta Harrison
Interim Director

cc: The Honorable David Livingston, 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, Governor's Office of Strategic Planning and Budgeting
Cameron Dodd, Budget Manager, Governor's Office of Strategic Planning and Budgeting

Appendix Table 1A
CYE 2026 ALTCS-DD Capitation Rates

Capitation Rate Cell	CYE 26 Original Rate	CYE 26 Revised Rate	CYE 26 Revised Change from CYE 26 Original Rates
ALTCS-DD	\$7,842.36	\$7,952.35	1.40%
TCM	\$227.99	\$227.99	0.00%
DES/DDD Total			1.40%

Appendix Table 1B
CYE 2026 Capitation Rates by Risk Group

DES/DDD	CYE 26 Rvsd Proj MMs	CYE 26 Orig Rates	CYE 26 Rvsd Rates	Projected Expenditures		Total Change from CYE 26 Orig Rates
		Total	Total	CYE 26 Orig Rates	CYE 26 Rvsd Rates	
				CYE 26 Rvsd Proj MMs	CYE 26 Rvsd Proj MMs	
ALTCS-DD	578,175	\$7,842.36	\$7,952.35	\$ 4,534,261,600	\$ 4,597,852,800	1.4%
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	\$6,788.29	\$ 4,557,651,000	\$ 4,621,242,200	1.40%