

# JLBC Fiscal Note

**BILL #** SB 1713

**TITLE:** AHCCCS; procurement; contracting

**SPONSOR:** Shope

**PREPARED BY:** Chandler Coiner

**STATUS:** Senate Engrossed

## Description

The bill would require the Arizona Health Care Cost Containment System (AHCCCS), beginning October 1, 2027, to adopt the "Arizona Hybrid Model" as the exclusive framework for issuing contracts for its Medicaid managed care programs. The bill would prohibit the use of the current request for proposal (RFP) model and would instead require AHCCCS to establish a series of cost, quality, and member satisfaction metrics by which to evaluate the performance of all contracted managed care organizations (MCOs). An MCO that applies and is determined to be "operationally ready" would operate for a 4-year performance period, during which the MCO is evaluated based on AHCCCS' specified metrics. The decision to continue, expand, limit, suspend, or terminate the contract would be based upon this ongoing evaluation. The bill does not affect AHCCCS' contract with the Department of Economic Security (DES) to operate the Developmental Disabilities (DD) program.

## Estimated Impact

We are unable to determine the fiscal impact with any level of certainty because of two significant unknown factors: 1) how the new contracting process would work in practice and 2) what metrics AHCCCS would use to evaluate MCOs. While some state Medicaid programs have adopted elements of the Arizona Hybrid Model, we are not aware of any state that broadly operates under the exact processes specified by this bill. Below, we have provided a list of potential impacts. We estimate the bill could (in no particular order):

- 1) Affect AHCCCS Administrative Costs – We estimate that, in the short term, there would be start-up costs associated with establishing the Arizona Hybrid Model. In the long term, AHCCCS estimates the bill would increase its administrative costs due to an increase in the number of participating MCOs, adding to its oversight responsibilities. Conversely, advocates of the bill estimate it would eliminate administrative costs associated with the RFP process. The proponents do not think that the number of MCOs will necessarily increase since the bill would allow AHCCCS to cap the number of MCOs. We believe that either scenario is possible but do not think we can reliably predict the long-term impact given the hybrid model required by the bill has not been implemented by another state.
- 2) Affect MCO Program Costs – Under the RFP model, AHCCCS solicits proposals from prospective MCOs that must include an administrative component bid. The bid is based on both fixed costs and costs that vary with the number of members the MCO would cover. If the MCO's proposal is accepted, the administrative bid is incorporated into the capitation payment the MCO receives each month (which is funded via a combination of state and federal sources, including the state General Fund).

Under this bill's Arizona Hybrid Model, prospective MCOs would not bid on an administrative component as the bill would instead require AHCCCS to select contractors who meet operational readiness and performance metrics to be subsequently defined by the agency. AHCCCS states that it is unable to develop an estimate of the impact of the bill on MCO administrative costs but assessed that the bill would likely increase such costs due to a lack of competition between MCOs. While the impact is uncertain for the reasons discussed above, we generally concur with AHCCCS' assessment. Under either the RFP model or the hybrid model, AHCCCS must comply with federal requirements that capitation rates be actuarially sound. Additionally, certain cost/quality metrics could potentially induce MCOs to further reduce their costs, (e.g. MCOs are incentivized to improve member health status, ultimately resulting in service utilization reductions), but we cannot determine which metrics AHCCCS would select in advance.

- 3) Affect State Litigation Costs – Advocates of the bill have stated that it would eliminate or reduce state litigation costs that result from the subjective decision-making inherent in the current RFP model. We do not think that we can reliably predict the level of litigation associated with the bill. For example, if the metrics AHCCCS selects would disadvantage a particular MCO, the MCO could potentially take legal action against the state.