

Senate Engrossed

AHCCCS; procurement; contracting

State of Arizona
Senate
Fifty-seventh Legislature
Second Regular Session
2026

SENATE BILL 1713

AN ACT

AMENDING TITLE 36, CHAPTER 29, ARIZONA REVISED STATUTES, BY ADDING ARTICLE 3.1; RELATING TO THE ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM ADMINISTRATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Title 36, chapter 29, Arizona Revised Statutes, is
3 amended by adding article 3.1, to read:

4 ARTICLE 3.1. PROCUREMENT AND CONTRACTING

5 36-2978. Definitions

6 IN THIS ARTICLE, UNLESS THE CONTEXT OTHERWISE REQUIRES:

7 1. "ADMINISTRATION" MEANS THE ARIZONA HEALTH CARE COST CONTAINMENT
8 SYSTEM ADMINISTRATION.

9 2. "ARIZONA HYBRID MODEL" MEANS A PERFORMANCE-BASED PROCUREMENT AND
10 CONTRACT LIFE CYCLE FRAMEWORK THAT EVALUATES CONTRACTORS BASED ON
11 OBJECTIVE, MEASURABLE OPERATIONAL PERFORMANCE OVER A DEFINED MULTI-YEAR
12 PERIOD, SUBJECT TO THRESHOLD OPERATIONAL READINESS REQUIREMENTS.

13 3. "CONTRACTING DETERMINATION" MEANS A DETERMINATION BY THE
14 ADMINISTRATION REGARDING A CONTRACTOR'S ELIGIBILITY, SELECTION,
15 CONTINUATION, EXPANSION, LIMITATION, SUSPENSION OR TERMINATION UNDER THIS
16 ARTICLE.

17 4. "CONTRACTOR":

18 (a) HAS THE SAME MEANING PRESCRIBED IN SECTION 36-2901.

19 (b) INCLUDES ENTITIES COMMONLY REFERRED TO AS MANAGED CARE
20 ORGANIZATIONS.

21 5. "INCUMBENT CONTRACTOR" MEANS A CONTRACTOR THAT IS SERVICING A
22 PROGRAM IN A GENERAL SERVICE AREA AS OF 2026.

23 6. "NONINCUMBENT CONTRACTOR" MEANS AN EXISTING OR POTENTIAL
24 CONTRACTOR THAT WISHES TO SERVICE A PROGRAM THAT THE CONTRACTOR DOES NOT
25 CURRENTLY SERVICE IN A GENERAL SERVICE AREA PURSUANT TO THIS ARTICLE.

26 7. "OPERATIONAL FACTORS" MEANS ELEMENTS RELATED TO THE
27 ADMINISTRATION OF BENEFITS AND ACCESS TO CARE AND SERVICES THAT ARE
28 SUBJECT TO EVALUATION UNDER THE PERFORMANCE RUBRIC USING QUANTITATIVE
29 STANDARDS ESTABLISHED BY THE ADMINISTRATION, INCLUDING CLAIMS PROCESSING
30 AND PAYMENT, APPEALS, NETWORK ADEQUACY AND ENCOUNTER DATA SUBMISSION.

31 8. "OPERATIONAL READINESS" MEANS A THRESHOLD DETERMINATION THAT A
32 CONTRACTOR MEETS MINIMUM OPERATIONAL, ADMINISTRATIVE, FINANCIAL AND
33 SYSTEMS REQUIREMENTS NECESSARY TO PERFORM UNDER A MANAGED CARE CONTRACT,
34 AS ESTABLISHED BY THE ADMINISTRATION BY RULE.

35 9. "PERFORMANCE AND OPERATIONS PHASE" MEANS A DEFINED INITIAL
36 PERIOD OF OPERATIONS LASTING FOUR YEARS DURING WHICH CONTRACTOR
37 PERFORMANCE IS EVALUATED PURSUANT TO THE PERFORMANCE RUBRIC FOR THE
38 PURPOSES OF CONTRACT CONTINUATION, EXPANSION, LIMITATION, SUSPENSION OR
39 TERMINATION.

40 10. "PERFORMANCE RUBRIC" MEANS A STANDARDIZED SET OF QUANTITATIVE
41 MEASURES THAT IS USED TO:

42 (a) EVALUATE CONTRACTOR PERFORMANCE, INCLUDING RATES, RATIOS,
43 TIMELINESS BENCHMARKS AND ACCURACY THRESHOLDS, AND ADDRESS QUALITY OF
44 CARE, MEMBER EXPERIENCE AND OPERATIONAL FACTORS RELATED TO THE
45 ADMINISTRATION OF BENEFITS AND ACCESS TO CARE AND SERVICES.

1 (b) MEASURE PERFORMANCE OVER THE LIFE OF A CONTRACT AND THAT IS THE
2 ONLY MEANS OF ASSESSING COST, QUALITY AND MEMBER AND PROVIDER SATISFACTION
3 FOR THE PURPOSES OF CONTRACT AWARD, AMENDMENT OR RECISSION.

4 11. "PROGRAM" MEANS ANY OF THE FOLLOWING:

5 (a) THE ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM PURSUANT TO
6 ARTICLE 1 OF THIS CHAPTER.

7 (b) THE ARIZONA LONG-TERM CARE SYSTEM, AS IT APPLIES TO PERSONS WHO
8 ARE ELDERLY OR WHO HAVE A PHYSICAL DISABILITY PURSUANT TO ARTICLE 2 OF
9 THIS CHAPTER.

10 (c) THE CHILDREN'S HEALTH INSURANCE PROGRAM PURSUANT TO ARTICLE 4
11 OF THIS CHAPTER.

12 36-2978.01. Managed care contracts; procurement

13 NOTWITHSTANDING TITLE 41, CHAPTERS 6 AND 23 OR ANY OTHER LAW TO THE
14 CONTRARY:

15 1. BEGINNING OCTOBER 1, 2027, THE ADMINISTRATION SHALL CONDUCT
16 MANAGED CARE CONTRACTING FOR ANY PROGRAM EXCLUSIVELY PURSUANT TO THIS
17 ARTICLE. THIS ARTICLE APPLIES ONLY TO COMPREHENSIVE, RISK-BASED MANAGED
18 CARE CONTRACTS ISSUED BY THE ADMINISTRATION. THE ADMINISTRATION SHALL NOT
19 ISSUE REQUESTS FOR PROPOSALS, COMPETITIVE SEALED PROPOSALS OR SIMILAR
20 SOLICITATIONS FOR MANAGED CARE CONTRACTORS.

21 2. ALL SELECTION, EVALUATION, CONTINUATION, EXPANSION, LIMITATION,
22 SUSPENSION AND TERMINATION OF CONTRACTORS SHALL BE CONDUCTED SOLELY
23 PURSUANT TO THIS ARTICLE, WHICH CONSTITUTES THE EXCLUSIVE MANAGED CARE
24 CONTRACTING FRAMEWORK FOR EACH PROGRAM.

25 36-2978.02. Arizona hybrid model; performance-based
26 procurement framework; implementation

27 A. THE ARIZONA HYBRID MODEL SHALL INCLUDE ONLY THE FOLLOWING:

28 1. A PERFORMANCE-BASED SELECTION AND RETENTION OF CONTRACTORS USING
29 DEMONSTRATED PERFORMANCE AGAINST A PERFORMANCE RUBRIC AND THE OPERATIONAL
30 FACTORS.

31 2. AN EVALUATION OF PERFORMANCE OVER AN INITIAL DEFINED PERFORMANCE
32 AND OPERATIONS PHASE LASTING FOUR YEARS. THE RESULTS OF THE PERFORMANCE
33 AND OPERATIONS PHASE CONSTITUTE THE PRIMARY AND CONTROLLING BASIS FOR THE
34 ADMINISTRATION'S DECISIONS REGARDING CONTRACT CONTINUATION, EXPANSION,
35 LIMITATION, SUSPENSION AND TERMINATION. AFTER COMPLETING THE INITIAL
36 PERFORMANCE AND OPERATIONS PHASE, CONTRACTORS REMAIN SUBJECT TO ONGOING
37 PERFORMANCE REVIEW, MONITORING AND ENFORCEMENT BASED ON THE PERFORMANCE
38 RUBRIC AND OPERATIONAL FACTORS.

39 3. EVALUATION STANDARDS THAT ARE OBJECTIVE, MEASURABLE, PUBLISHED
40 IN ADVANCE AND APPLIED UNIFORMLY AND THAT DO NOT INCLUDE SUBJECTIVE,
41 NARRATIVE-BASED OR DISCRETIONARY EVALUATION CRITERIA.

42 4. THE ESTABLISHMENT AND ENFORCEMENT OF MINIMUM ENROLLMENT
43 VIABILITY STANDARDS AND USE OF A SINGLE MEDICAID MANAGED CARE CONTRACT
44 FRAMEWORK FOR ALL CONTRACTORS THAT SERVICE A PROGRAM, INCLUDING UNIFORM

1 PERFORMANCE EXPECTATIONS, EVALUATION STANDARDS AND RENEWAL MECHANISMS TO
2 ELIMINATE DUPLICATIVE PROCUREMENTS AND ASSOCIATED ADMINISTRATIVE BURDEN.

3 B. NOTWITHSTANDING TITLE 41, CHAPTERS 6 AND 23 OR ANY OTHER LAW TO
4 THE CONTRARY, THE ADMINISTRATION SHALL USE A MULTI-PHASE PROCUREMENT AND
5 PERFORMANCE STRUCTURE TO IMPLEMENT THE ARIZONA HYBRID MODEL, CONSISTING OF
6 ALL OF THE FOLLOWING:

7 1. ON OR BEFORE OCTOBER 1, 2027, THE ADMINISTRATION SHALL DO BOTH
8 OF THE FOLLOWING AND MAKE THE INFORMATION PUBLICLY AVAILABLE:

9 (a) DEVELOP A STANDARDIZED PERFORMANCE RUBRIC. ALL METHODOLOGIES,
10 MEASURES, BENCHMARKS AND CALCULATION METHODS USED IN THE PERFORMANCE
11 RUBRIC SHALL BE PUBLICLY AVAILABLE THROUGHOUT THE DEVELOPMENT PROCESS, BUT
12 CONTRACTOR-SPECIFIC UNDERLYING DATA, PROPRIETARY INFORMATION AND PROTECTED
13 HEALTH INFORMATION MAY NOT BE DISCLOSED. THE ADMINISTRATION SHALL
14 DEVELOP, PUBLISH AND INVITE FEEDBACK ON THE PERFORMANCE RUBRIC BEFORE
15 COMMENCING THE CONTRACTING ELIGIBILITY DETERMINATION PERIOD REQUIRED BY
16 THIS ARTICLE.

17 (b) ADOPT RULES, CONSISTENT WITH FEDERAL LAW, PROVIDING FOR A
18 PERFORMANCE BOND REQUIREMENT FOR POTENTIAL CONTRACTORS OR CONTRACTORS
19 SEEKING TO PARTICIPATE. EACH POTENTIAL CONTRACTOR OR CONTRACTOR SHALL
20 ATTEST, BEFORE BOTH THE CONTRACTING ELIGIBILITY DETERMINATION PERIOD AND
21 THE PERFORMANCE AND OPERATIONS PHASE, THAT THE POTENTIAL CONTRACTOR OR
22 CONTRACTOR UNDERSTANDS THE PARAMETERS AND REQUIREMENTS OF THE PERFORMANCE
23 RUBRIC, ACCEPTS THE STATISTICAL AND METHODOLOGICAL BASIS ON WHICH THE
24 PERFORMANCE RUBRIC IS CONSTRUCTED AND AGREES TO ABIDE BY THE APPLICATION
25 OF THE PERFORMANCE RUBRIC PURSUANT TO SECTION 36-2978.05. EACH POTENTIAL
26 CONTRACTOR OR CONTRACTOR THAT DOES NOT MEET THE ESTABLISHED STANDARDS MAY
27 BE REMOVED AND IS NOT ELIGIBLE TO CONTRACT FOR A PROGRAM IN ACCORDANCE
28 WITH THIS ARTICLE AND THE RULES ADOPTED PURSUANT TO THIS ARTICLE.

29 2. TO STREAMLINE ADMINISTRATIVE PROCESSES, THE ADMINISTRATION SHALL
30 USE A SINGLE STATEWIDE MASTER CONTRACT FOR CONTRACTORS WITH
31 PROGRAM-SPECIFIC SCHEDULES, EXHIBITS OR ATTACHMENTS INCLUDED AS NECESSARY
32 TO SATISFY APPLICABLE FEDERAL REQUIREMENTS.

33 3. THE ADMINISTRATION SHALL ESTABLISH A BALANCED, TRANSPARENT
34 ENROLLMENT STRUCTURE ACROSS ALL INCUMBENT CONTRACTORS AND NONINCUMBENT
35 CONTRACTORS THAT ADVANCES MARKET FAIRNESS, SUPPORTS ONGOING STATEWIDE
36 COMPETITION AND PROTECTS MEMBER CHOICE WHILE MAINTAINING COMPLIANCE WITH
37 APPLICABLE FEDERAL REGULATIONS. THE ADMINISTRATION SHALL ADOPT RULES THAT
38 INCLUDE THE FOLLOWING:

39 (a) PROCEDURES AUTHORIZING THE ADMINISTRATION TO DIRECT, ON A
40 TEMPORARY BASIS, ALL OR A SUBSTANTIAL PORTION OF AUTO-ASSIGNED ENROLLMENT
41 TO NONINCUMBENT CONTRACTORS UNTIL THE ADMINISTRATION DETERMINES THAT THE
42 MINIMUM ENROLLMENT LEVELS NECESSARY FOR OPERATIONAL VIABILITY HAVE BEEN
43 ACHIEVED AND THAT THE MEMBERS RECEIVE NOTICE AND RETAIN THE RIGHT TO
44 SELECT ANOTHER AVAILABLE CONTRACTOR.

1 (b) PROCEDURES FOR THE BALANCED AND TRANSPARENT CHANGE OF
2 ENROLLMENT OF CONTRACTORS AS A RESULT OF THE OUTCOME OF THE PERFORMANCE
3 AND OPERATIONS PHASE.

4 (c) PROCEDURES REQUIRING THE ADMINISTRATION TO ANNUALLY DECIDE
5 WHETHER SMALLER OR LARGER CONTRACTORS HAVE DIFFERENT PER MEMBER
6 ADMINISTRATIVE OR OPERATING COSTS, TO PUBLISH THAT DECISION AS PART OF
7 RATE SETTING AND TO APPLY THAT RATIONALE WHEN SUPPORTED BY ACTUARIAL
8 ANALYSIS OR EXPLAIN WHY THE DECISION WAS NOT APPLIED.

9 (d) PROCEDURES FOR ANNUALLY UPDATING ENROLLMENT AFTER THE
10 PERFORMANCE AND OPERATIONS PHASE FOR ALL CONTRACTORS BASED ON HIGH AND LOW
11 PERFORMANCE, INCLUDING WHETHER IT IS NECESSARY TO MAKE SUCH ADJUSTMENTS.

12 (e) PROCEDURES GOVERNING THE ORDERLY ENROLLMENT TRANSITION FOR
13 MEMBERS OF CONTRACTORS THAT FAIL TO MEET ESTABLISHED PERFORMANCE
14 STANDARDS, IN A MANNER THAT MINIMIZES DISRUPTION FOR MEMBERS OF THE
15 PROGRAMS.

16 (f) PROCEDURES TO ENSURE THAT A CONTRACTOR DOES NOT RECEIVE OR IS
17 NOT AUTO-ASSIGNED MEMBERS IN A MANNER THAT RESULTS IN THE CONTRACTOR
18 EXCEEDING TWENTY PERCENT OF TOTAL ENROLLMENT IN ANY PROGRAM IN ANY YEAR.
19 THIS SUBDIVISION DOES NOT LIMIT VOLUNTARY MEMBER CHOICE. WHEN PRESENTING
20 CONTRACTOR OPTIONS FOR MEMBER SELECTION OR CONDUCTING AUTO-ENROLLMENT, THE
21 ADMINISTRATION SHALL LIMIT SUCH OPTIONS TO CONTRACTORS THAT ARE BELOW THE
22 TWENTY PERCENT ENROLLMENT THRESHOLD.

23 4. THE ADMINISTRATION SHALL CONDUCT A SINGLE, COORDINATED
24 PROCUREMENT USING THE METHOD REQUIRED BY THIS ARTICLE FOR CAPITATED,
25 COMPREHENSIVE MANAGED CARE ORGANIZATION CONTRACTS ISSUED BY THE
26 ADMINISTRATION, TO THE GREATEST EXTENT PRACTICABLE AND CONSISTENT WITH
27 FEDERAL LAW.

28 36-2978.03. Multiphase procurement; contractors; eligibility
29 to contract

30 A. THE ADMINISTRATION SHALL ESTABLISH A MULTIPHASE PROCUREMENT THAT
31 INCLUDES:

- 32 1. THE CONTRACTING ELIGIBILITY DETERMINATION PERIOD.
- 33 2. THE OPERATIONAL READINESS REVIEW.
- 34 3. THE PERFORMANCE AND OPERATIONS PHASE.
- 35 4. THE OPERATIONAL CAP AND MARKET ADJUSTMENT.

36 B. EACH INCUMBENT CONTRACTOR MAY FILE FOR ELIGIBILITY TO COMPETE
37 FOR A CONTRACT TO SERVE A PROGRAM OR A SERVICE AREA THAT IS NOT CURRENTLY
38 SERVED BY A MANAGED CARE ORGANIZATION. AN INCUMBENT CONTRACTOR CURRENTLY
39 SERVING ANY PROGRAM FOR THE ADMINISTRATION IS PRESUMED TO BE ELIGIBLE TO
40 PARTICIPATE IN THE PERFORMANCE AND OPERATIONS PHASE.

41 C. EACH NONINCUMBENT CONTRACTOR SHALL MEET BASIC ELIGIBILITY
42 CRITERIA PRESCRIBED BY THE ADMINISTRATION, INCLUDING FINANCIAL SOLVENCY,
43 AT LEAST FIVE YEARS OF OPERATIONAL EXPERIENCE, WHICH MAY BE IN OTHER
44 STATES, AND SUCCESSFUL OPERATIONAL READINESS HISTORY.

1 D. ANY APPLICANT THAT MEETS THE THRESHOLD ELIGIBILITY REQUIREMENTS
2 BUT THAT IS NOT INITIALLY SELECTED MAY BE PLACED IN A QUALIFIED APPLICANT
3 HOLDING POOL. THE ADMINISTRATION MAY ESTABLISH A CAP ON THE NUMBER OF
4 APPLICANTS THAT MAY FILE FOR A CONTRACTING ELIGIBILITY DETERMINATION.

5 36-2978.04. Applicants; operational readiness review;
6 notification; cap

7 A. ONLY APPLICANTS THAT ARE DETERMINED TO BE OPERATIONALLY READY
8 MAY ADVANCE BEYOND THE OPERATIONAL READINESS REVIEW PHASE. THE
9 ADMINISTRATION MAY REMOVE FROM CONSIDERATION ANY APPLICANT THAT IS
10 DETERMINED TO NOT BE OPERATIONALLY READY. THE REMOVAL OF AN APPLICANT
11 DOES NOT CONSTITUTE A CONTRACTING DETERMINATION AND IS NOT SUBJECT TO
12 INDEPENDENT REVIEW OR APPEAL. THE ADMINISTRATION SHALL NOTIFY THE
13 APPLICANT OF THE REASONS FOR THE REMOVAL.

14 B. THE ADMINISTRATION MAY ESTABLISH A CAP ON THE NUMBER OF
15 APPLICANTS THE ADMINISTRATION APPROVES AFTER THE OPERATIONAL READINESS
16 REVIEW.

17 36-2978.05. Performance period; operational caps; office of
18 administrative hearings review

19 A. CONTRACTS ISSUED PURSUANT TO THIS ARTICLE SHALL OPERATE FOR A
20 FOUR-YEAR PERFORMANCE PERIOD CONSISTENT WITH THIS SECTION. A CONTRACTOR'S
21 PERFORMANCE SHALL BE MEASURED EXCLUSIVELY USING THE PERFORMANCE RUBRIC
22 AND PUBLISHED OPERATIONAL FACTORS. THE ADMINISTRATION'S PERFORMANCE
23 DETERMINATIONS SHALL BE MATHEMATICAL, OBJECTIVE AND NONDISCRETIONARY.

24 B. THE ADMINISTRATION MAY IMPOSE CAPS ON THE TOTAL NUMBER OF
25 CONTRACTORS IN EACH PROGRAM. THE ADMINISTRATION'S DECISIONS REGARDING THE
26 CONTINUATION, EXPANSION, LIMITATION AND TERMINATION OF A CONTRACT SHALL BE
27 BASED ON PERFORMANCE OUTCOMES AND COHORT LIMITATIONS.

28 C. IF A CONTRACTOR FILES A PROTEST OR APPEAL REGARDING THE FINAL
29 APPLICATION OF THE PERFORMANCE RUBRIC PURSUANT TO THIS SECTION AND HAS
30 EXHAUSTED THE APPLICABLE PROTEST OR APPEAL PROCESS, THE OFFICE OF
31 ADMINISTRATIVE HEARINGS IS LIMITED TO VERIFYING WHETHER THE ADMINISTRATION
32 APPLIED ITS PUBLISHED PERFORMANCE RUBRIC CONSISTENTLY AND OBJECTIVELY,
33 MAINTAINED DATA INTEGRITY, INCLUDING THE USE OF CORRECT SOURCES AND TIME
34 FRAMES, AND APPLIED FORMULAS, WEIGHTS AND CALCULATIONS EXACTLY AS
35 PUBLISHED. IF THE OFFICE OF ADMINISTRATIVE HEARINGS CONFIRMS AN ERROR,
36 THE ADMINISTRATION SHALL CORRECT AND REISSUE THE DETERMINATION. THE
37 DECISION OF THE OFFICE OF ADMINISTRATIVE HEARINGS IS FINAL AND NO FURTHER
38 ADMINISTRATIVE APPEAL IS AVAILABLE.

39 36-2978.06. Federal compliance; program protection;
40 rulemaking

41 A. A CONTRACT MAY NOT BE AWARDED, CONTINUED OR RETAINED IF DOING SO
42 WOULD RESULT IN THE LOSS OF FEDERAL MEDICAID FUNDING.

43 B. THIS ARTICLE DOES NOT ALTER THE ADMINISTRATION'S AUTHORITY OR
44 OBLIGATION TO COMPLY WITH FEDERAL MEDICAID REQUIREMENTS OR APPLICABLE
45 WAIVER AUTHORITIES.

1 C. THIS ARTICLE DOES NOT CHANGE ELIGIBILITY CATEGORIES, MEMBER
2 POPULATIONS, BENEFIT DESIGN OR SERVICE DELIVERY MODELS, INCLUDING
3 STATE-ADMINISTERED OR FEE-FOR-SERVICE PROGRAMS.

4 D. THE ADMINISTRATION SHALL ADOPT RULES NECESSARY TO IMPLEMENT THIS
5 ARTICLE CONSISTENT WITH ITS REQUIREMENTS.

6 Sec. 2. Rulemaking exemption; public hearing

7 Notwithstanding any other law, for the purposes of this act, the
8 Arizona health care cost containment system is exempt from the rulemaking
9 requirements of title 41, chapters 6 and 6.1, Arizona Revised Statutes,
10 except that the Arizona health care cost containment system shall provide
11 notice and at least one public hearing at least thirty days before
12 finalizing the rules.

13 Sec. 3. Legislative findings; intent

14 A. The legislature finds that the Arizona health care cost
15 containment system should operate as a national leader in the
16 administration of medicaid managed care contracting and that competition
17 is best achieved through demonstrated performance rather than speculative
18 or proposal-based projections.

19 B. The legislature further finds that procurement models relying
20 primarily on subjective or narrative evaluation criteria increase
21 litigation risk, delay implementation of contracts and create uncertainty
22 for providers, members and this state.

23 C. The legislature determines that a performance-based procurement
24 and contract life cycle framework using objective, measurable metrics
25 applied over time promotes transparency, accountability, market stability
26 and fiscal stewardship.

27 D. The legislature intends to require the Arizona health care cost
28 containment system to implement a mandatory and uniform managed care
29 procurement and contracting framework that selects and retains contractors
30 based on demonstrated performance rather than hypothetical or
31 narrative-based submissions.