

Department of Health Services
Behavioral Health

JLBC: John Malloy
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DESCRIPTION	FY 2004 ACTUAL	FY 2005 ESTIMATE	FY 2006 JLBC
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	120.9	120.9	122.0
Personal Services	3,580,600	4,025,400	4,062,200
Employee Related Expenditures	1,041,500	1,221,000	1,252,200
Professional and Outside Services	1,099,100	1,114,500	1,114,900
Travel - In State	68,200	111,400	111,800
Travel - Out of State	1,100	16,500	16,500
Other Operating Expenditures	3,138,600	1,953,400	2,098,700
Equipment	114,200	0	0
OPERATING SUBTOTAL	9,043,300	8,442,200	8,656,300
SPECIAL LINE ITEMS			
Administration			
Medicare Clawback Payments			
Mental Health Institute	360,800	0	0
Medicaid Special Exemption Payments	8,811,500	12,862,000	15,850,300
Proposition 204 Administration	4,515,300	6,126,500	6,126,500
Children's Behavioral Health			
Children's Behavioral Health Services	9,285,100	9,351,800	9,351,800
CBH State Match for Title XIX	151,389,700	203,896,200	267,480,500
Proposition 204 Children's Behavioral Health Services	2,866,500	2,432,100	3,165,100
Seriously Emotionally Handicapped Children	0	500,000	500,000
Tobacco Settlement CBH Services	4,273,100	0	0
Seriously Mentally Ill			
Seriously Mentally Ill Non-Title XIX	58,153,000	61,116,700	61,116,700
Seriously Mentally Ill State Match for Title XIX	141,107,600	130,621,000	162,060,000
Proposition 204 Seriously Mentally Ill Services	126,566,600	124,474,700	159,736,000
Tobacco Settlement SMI Services	502,900	0	0
Court Monitoring	177,500	197,500	197,500
Arnold v. Sarn	39,279,300	37,838,700	37,696,400
General Mental Health/Substance Abuse			
Mental Health Non-Title XIX	2,445,700	2,447,300	2,447,300
Substance Abuse Non-Title XIX	14,612,100	14,635,400	14,635,400
Mental Health and Substance Abuse State Match for Title XIX	58,358,300	69,572,700	81,309,800
Proposition 204 General Mental Health and Substance Abuse	54,296,400	61,710,000	76,033,400
PROGRAM TOTAL	686,044,700	746,224,800	906,363,000
FUND SOURCES			
General Fund	200,710,300	238,787,300	295,093,900
Other Appropriated Funds			
CBH Tobacco Settlement Fund	4,273,100	0	0
Medical Services Stabilization Fund	360,800	0	0
SMI Services Fund	502,900	0	0
Substance Abuse Services Fund	2,500,000	2,500,000	2,500,000
TTHCF Medically Needy Account	28,297,600	29,424,800	29,424,800
SUBTOTAL - Other Appropriated Funds	35,934,400	31,924,800	31,924,800
SUBTOTAL - Appropriated Funds	236,644,700	270,712,100	327,018,700
Expenditure Authority Funds			
Federal Title XIX Funds	403,376,900	428,703,200	532,534,800
Tobacco Litigation Settlement Fund	46,023,100	46,809,500	46,809,500
SUBTOTAL - Expenditure Authority Funds	449,400,000	475,512,700	579,344,300
SUBTOTAL - Appropriated/Expenditure Authority Funds	686,044,700	746,224,800	906,363,000
Other Non-Appropriated Funds	56,686,000	58,003,800	65,116,600
Federal Funds	37,867,700	41,468,400	41,462,200
TOTAL - ALL SOURCES	780,598,400	845,697,000	1,012,941,800

CHANGE IN FUNDING SUMMARY

	FY 2005 to FY 2006 JLBC	
	\$ Change	% Change
General Fund	56,306,600	23.6%
Other Appropriated Funds	0	0.0%
Expenditure Authority Funds	103,831,600	21.8%
Total Appropriated/Expenditure Authority Funds	160,138,200	21.5%
Non Appropriated Funds	7,106,600	7.1%
Total - All Sources	167,244,800	19.8%

COST CENTER DESCRIPTION — The Behavioral Health program administers most mental health services for the state including both adult and children’s behavioral health services, substance abuse treatment and seriously emotionally handicapped children. Most services are provided through contracts with 5 Regional Behavioral Health Authorities (RBHAs) which then subcontract for provision of services with a provider network.

PERFORMANCE MEASURES	FY 2003 Actual	FY 2004 Actual	FY 2005 Estimate	FY 2006 JLBC
• % of SMI clients on anti-psychotics receiving new generation psychotropic medications	58.4	61.5	70	--
• % of RBHA Title XIX clients satisfied with services	88	88	88	90
• % of Title XIX population that is enrolled in a behavioral health service	9	11.2	9	11.5

Comments: The % of RBHA Title XIX clients satisfied with services is based on a survey that is conducted every 2 years. The next survey will be available in November 2005.

RECOMMENDED CHANGES FROM FY 2005

Title XIX Caseload and Inflation

The JLBC recommends an increase of \$159,924,100 for expected growth in the Title XIX Behavioral Health Programs. This amount consists of \$56,253,100 from the General Fund and \$103,671,000 from Federal Title XIX expenditure authority (EA).

For FY 2005, the JLBC is recommending a supplemental appropriation of \$67,991,700. This amount consists of \$21,546,000 from the General Fund and \$46,445,700 from Federal Title XIX expenditure authority. *(Please see the FY 2005 Supplemental discussion at the end of this section for more information).*

Behavioral Health Services (BHS) Title XIX enrollment growth is consistent with enrollment growth in the AHCCCS program, which is based on the JLBC Staff

forecast and an econometric model developed by the Economic and Business Research Program at the University of Arizona. This latter model uses economic variables such as population growth and various employment measures in estimating AHCCCS caseload growth. The recommended increase is based on both an expected capitation rate growth of 8% and a weighted average caseload growth of 2.4% from June 2005 to June 2006. DHS capitation rate growth was 12.8% in FY 2005 and 11.7% in FY 2004.

State monies provide approximately a 33% match to the Federal Funds (EA) received. The increase includes changes in behavioral health services and Medicaid Special Exemption Payments but does not address any changes in administrative costs.

Table 1 summarizes the estimated FY 2006 funding needs.

General Fund Title XIX Behavioral Health Projections				
	<u>FY 2005 Appropriated</u>	<u>FY 2005 Revised</u>	<u>FY 2006 Recommended</u>	<u>FY 2006 Above FY 2005 Appropriated</u>
CBH	\$ 64,727,100	\$ 77,024,000	\$ 88,007,800	\$ 23,280,700
CBH Proposition 204	394,700	506,600	643,300	248,600
SMI	42,577,900	46,230,100	53,321,800	10,743,900
SMI Proposition 204	5,562,100	9,033,900	17,544,100	11,982,000
GMH/SA	22,678,900	23,477,400	26,753,000	4,074,100
GMH/SA Proposition 204	8,717,200	9,567,600	13,618,500	4,901,300
Medicaid Special Exemption Payments	<u>4,192,700</u>	<u>4,557,000</u>	<u>5,215,200</u>	<u>1,022,500</u>
Total	\$148,850,600	\$170,396,600	\$205,103,700	\$56,253,100

Operating Budget

The JLBC recommends \$8,656,300 for the operating budget in FY 2006. This amount consists of \$4,169,200 from the General Fund and \$4,487,100 from Federal Title XIX Expenditure Authority. These amounts would fund the following adjustments:

		<u>FY 2006</u>
Shift PASARR Funding from	GF	\$53,500
Assurance and Licensure	EA	160,600

The JLBC recommends an increase of \$214,100 and 1.1 FTE Positions in FY 2006 to shift funding for the Preadmission Screening and Annual Resident Review (PASARR) from the Assurance and Licensure Special Line Item (SLI) to the Behavioral Health operating budget. These amounts consist of \$53,500 and 0.3 FTE Positions from the General Fund and \$160,600 and 0.8 FTE Positions from Federal Title XIX Expenditure Authority. The PASARR program conducts Level II psychiatric evaluations of Title XIX-certified nursing facility patients who have been identified through a Level I screening as potentially having a mental illness. In FY 2005, funding for PASARR and Title XIX Licensure was shifted from the AHCCCS budget to the Assurance and Licensure SLI. The PASARR functions, however, are conducted through the Behavioral Health program and, therefore, this recommendation shifts funding to the operating budget. There is a corresponding decrease in the Assurance and Licensure SLI for no net impact to the agency's budget.

Special Line Items

Administration

Medicare Clawback Payments

The JLBC recommends the creation of a new Special Line Item titled Medicare Clawback Payments that will be used to make payments to Medicare, as required by the Medicare Modernization Act (MMA). As part of the MMA, DHS will no longer be required to pay for prescriptions drug costs for members that are also eligible for Medicare. Instead, DHS will be required to make "clawback" payments to Medicare based on the estimated prescription drug cost of this population. This line item is currently recommended with no funding until a final estimate of the payment is available. Any savings realized in FY 2006 will be transferred to this line item, and used to make the necessary payments to Medicare. (*Please see the Medicare Modernization Act description for more information on the clawback and other provisions of the MMA.*)

Mental Health Institute

The JLBC recommends no funding for the Mental Health Institute for FY 2006. This amount is unchanged from FY 2005. Laws 2001, Chapter 273, as amended by Laws 2003, Chapter 1, 1st Special Session, provided \$2,000,000

from the Medical Services Stabilization Fund in FY 2002 for a one-time appropriation for the development of the Mental Health Institute. The FY 2004 expenditures from this line item reflect nonlapsing monies from this appropriation.

Medicaid Special Exemption Payments

The JLBC recommends \$15,850,300 for Medicaid Special Exemption Payments in FY 2006. This amount consists of \$5,215,200 from the General Fund and \$10,635,100 from Federal Title XIX expenditure authority. These amounts would fund the following adjustments:

Title XIX Caseload and Capitation	GF	1,022,500
Rate Growth	EA	1,965,800

The JLBC recommends an increase of \$2,988,300 in FY 2006 for increased Medicaid Special Exemption Payments related to Title XIX caseload and capitation rate growth. This amount consists of \$1,022,500 from the General Fund and \$1,965,800 from Federal Title XIX expenditure authority.

This Special Line Item provides the funding necessary for insurance premium tax payments by DHS required by Laws 2003, Chapter 186. Because DHS contracts with AHCCCS to provide Title XIX behavioral health services, the department is required to pay a 2% tax on the capitation payments it pays to RBHAs. Therefore, any increases in capitation payments associated with caseload growth and inflation necessitate an increase in premium tax payments. The amount excludes premium tax payments for the behavioral health capitation revenue from developmentally disabled clients, which is funded in the Department of Economic Security's budget.

Proposition 204 Administration

The JLBC recommends \$6,126,500 for Proposition 204 Administration in FY 2006. This amount consists of \$1,997,100 from the General Fund and \$4,129,400 from Federal Title XIX expenditure authority. These amounts are unchanged from FY 2005.

The implementation of Proposition 204, passed by the voters in November of 2000, expanded categories of eligibility for Title XIX services, including behavioral health services, up to 100% of the federal poverty level. State monies provide approximately a 33% match to the Federal expenditure authority received. This line item provides funding for the administrative component of this expansion.

Children's Behavioral Health (CBH)

Children's Behavioral Health Services

The JLBC recommends \$9,351,800 from the General Fund for CBH Services in FY 2006. This amount is unchanged from FY 2005. This line item provides General Fund monies for prevention programs and for treatment of non-Title XIX eligible children.

Children's Behavioral Health State Match for Title XIX

The JLBC recommends \$267,480,500 for CBH State Match for Title XIX in FY 2006. This amount consists of \$88,007,800 from the General Fund and \$179,472,700 from Federal Title XIX expenditure authority. These amounts would fund the following adjustments:

**Title XIX Caseload and Capitation GF 23,280,700
Rate Growth EA 40,303,600**

The JLBC recommends an increase of \$63,584,300 in FY 2006 for Title XIX Children's Behavioral Health caseload and capitation rate growth. This amount consists of \$23,280,700 from the General Fund and \$40,303,600 from Federal Title XIX expenditure authority. The recommended amount assumes 8% growth in the capitation rate (from \$45.79 to \$49.45), and 2.5% growth in client population from June 2005 to June 2006.

This line item funds behavioral health treatment to Title XIX eligible children. The recommended amount would provide capitation payments for an average of approximately 471,137 eligible children per month. DHS receives a monthly capitation payment from AHCCCS for every child eligible for Title XIX behavioral health services, although only an estimated 6.9% of the eligible population will utilize services.

Proposition 204 Children's Behavioral Health Services

The JLBC recommends \$3,165,100 for Proposition 204 CBH Services in FY 2006. This amount consists of:

General Fund	643,300
Tobacco Litigation Settlement Fund	398,100
Federal Title XIX expenditure authority	2,123,700

These amounts include the following adjustments:

**Proposition 204 Caseload and GF 248,600
Capitation Rate Growth EA 484,400**

The JLBC recommends an increase of \$733,000 in FY 2006 for Proposition 204 Children's Behavioral Health caseload and capitation rate growth. This amount consists of \$248,600 from the General Fund and \$484,400 from Federal Title XIX expenditure authority. The recommended amount assumes 8% growth in the capitation rate (from \$45.79 to \$49.45), and 2.4% growth in client population from June 2005 to June 2006.

This line item provides behavioral health treatment to children eligible for Title XIX pursuant to Proposition 204. Because most children were already eligible for Title XIX prior to the implementation of Proposition 204, this population is very small. The recommended amount would provide capitation payments for an average of approximately 5,633 eligible children per month in FY 2006. DHS receives a monthly capitation payment from AHCCCS for every child eligible for Title XIX behavioral health services, although only an estimated 6.9% of the eligible population will utilize services.

Seriously Emotionally Handicapped Children

The JLBC recommends \$500,000 from the General Fund for Seriously Emotionally Handicapped Children in FY 2006. This amount is unchanged from FY 2005. This line item provides General Fund monies for a portion of the cost of residential treatment and educational services for children referred by school districts. Referrals are based on an inability to educate the children in a conventional school environment due to a serious emotional handicap. Funding is also provided for this program through the state Department of Education and local school districts.

Tobacco Settlement Children's Behavioral Health Services

The JLBC recommends no new Tobacco Settlement funding for Children's Behavioral Health in FY 2006. This amount is unchanged from FY 2005. This line item originally included \$20,000,000 in one-time non-lapsing funding appropriated in FY 2001 from the Tobacco Settlement for Children's Behavioral Health Services. There is no ongoing funding for this line item and this amount is not specified in the General Appropriation Act.

The FY 2004 expenditures from this line item reflect nonlapsing monies from this appropriation. All of the monies have been spent and there will be no further expenditures from this line item.

Seriously Mentally Ill (SMI)

SMI is a population of adult patients with more long-term or ongoing mental illness than those funded through the General Mental Health Special Line Items.

Seriously Mentally Ill Non-Title XIX

The JLBC recommends \$61,116,700 for SMI Non-Title XIX services in FY 2006. This amount consists of \$31,691,900 from the General Fund and \$29,424,800 from the Medically Needy Account of the Tobacco Tax and Health Care Fund. These amounts are unchanged from FY 2005. This line item provides funding for treatment for SMI clients that are not eligible for Title XIX coverage.

Seriously Mentally Ill State Match for Title XIX

The JLBC recommends \$162,060,000 for SMI State Match for Title XIX in FY 2006. This amount consists of \$53,321,800 from the General Fund and \$108,738,200 from Federal Title XIX expenditure authority. These amounts would fund the following adjustments:

**Title XIX Caseload and Capitation GF 10,743,900
Rate Growth EA 20,695,100**

The JLBC recommends an increase of \$31,439,000 in FY 2006 for Title XIX Seriously Mentally Ill caseload and capitation rate growth. This amount consists of \$10,743,900 from the General Fund and \$20,695,100 from Federal Title XIX expenditure authority. The recommended amount assumes 8% growth in the

capitation rate (from \$63.11 to \$68.16), and 2.4% growth in client population from June 2005 to June 2006.

This line item provides behavioral health treatment to Title XIX eligible SMI adults. The recommended amount would provide capitation payments for an average of approximately 228,175 eligible adults. DHS receives a monthly capitation payment from AHCCCS for every adult eligible for Title XIX behavioral health services, although only an estimated 4.2% of the eligible population will utilize services.

Proposition 204 Seriously Mentally Ill Services

The JLBC recommends \$159,736,000 for Proposition 204 Seriously Mentally Ill (SMI) Services in FY 2006. This amount consists of:

General Fund	17,544,100
Tobacco Litigation Settlement Fund	35,013,000
Federal Title XIX expenditure authority	107,178,900

These amounts include the following adjustments:

Proposition 204 Caseload and	GF	11,982,000
Capitation Rate Growth	EA	23,279,300

The JLBC recommends an increase of \$35,261,300 in FY 2006 for Proposition 204 SMI caseload and capitation rate growth. This amount consists of \$11,982,000 from the General Fund and \$23,279,300 from Federal Title XIX expenditure authority. The recommended amount assumes 8% growth in the capitation rate (from \$63.11 to \$68.16), and 2.4% growth in client population from June 2005 to June 2006.

This line item provides behavioral health treatment to SMI adults who are Title XIX eligible pursuant to Proposition 204. The recommended amount would provide capitation payments for an average of approximately 206,273 eligible adults. DHS receives a monthly capitation payment from AHCCCS for every adult eligible for Title XIX behavioral health services, although only an estimated 4.2% of the eligible population will utilize services.

Tobacco Settlement SMI Services

The JLBC recommends no new Tobacco Settlement funding for SMI Services in FY 2006. This amount is unchanged from FY 2005. This line item originally included \$50,000,000 from the Seriously Mentally Ill Services Fund, which received a one-time appropriation from Tobacco Settlement monies in FY 2001 to provide community housing, vocational rehabilitation, and other recovery support services for the seriously mentally ill.

There is no ongoing funding for this line item and this amount is not specified in the General Appropriation Act, but the monies were planned to be expended over 3 years. Funding was allocated to each RBHA based upon population. Through FY 2004, DHS spent \$53,322,200 (these expenditures include the spending of interest earned on the account). DHS expects to spend the remaining

monies, totaling \$1,085,700, in FY 2005 and therefore there are no expenditures anticipated for FY 2006. These FY 2005 expenditures do not appear in the table because they are unexpended monies from a prior year appropriation.

Court Monitoring

The JLBC recommends \$197,500 from the General Fund for Court Monitoring in FY 2006. This amount is unchanged from FY 2005. This line item provides funds for the state share of the expenses incurred by the Office of the Court Monitor, which was established as a result of the *Arnold v. Sarn* lawsuit.

Arnold v. Sarn

The JLBC recommends \$37,696,400 for *Arnold v. Sarn* in FY 2006. This amount consists of \$27,500,000 from the General Fund and \$10,196,400 from Federal Title XIX expenditure authority. These amounts include the following adjustments:

FMAP Adjustment	EA	(142,300)
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The JLBC recommends a decrease of \$(142,300) in Federal Title XIX expenditure authority to account for the expected standard change in the FMAP from Federal Fiscal Year (FFY) 2005 to FFY 2006.

This line item provides funding to address the requirements of the *Arnold v. Sarn* lawsuit. It is the intent of the Legislature that this funding be used throughout the state for all persons who meet the same criteria as those covered in the *Arnold v. Sarn* lawsuit.

General Mental Health and Substance Abuse

General Mental Health and Substance Abuse (GMH/SA) funding assists adults who do not qualify as SMI.

Mental Health Non-Title XIX

The JLBC recommends \$2,447,300 from the General Fund for Mental Health Non-Title XIX services in FY 2006. This amount is unchanged from FY 2005. This line item provides funding for mental health treatment services for adults who require treatment but are not diagnosed SMI and are not eligible for the Title XIX program, as well as general mental health services for children and for substance abuse services and prevention.

Substance Abuse Non-Title XIX

The JLBC recommends \$14,635,400 for Substance Abuse Non-Title XIX services in FY 2006. This amount consists of \$12,135,400 from the General Fund and \$2,500,000 from the Substance Abuse Services Fund. These amounts are unchanged from FY 2005.

This line item provides funding for drug and alcohol abuse services for adults who are not eligible for the Title XIX program.

JLBC RECOMMENDED STATUTORY CHANGES

The JLBC recommends continuing the suspension of the Suicide Prevention Program. The program did not receive funding in FY 2005 and the FY 2005 Health Budget Reconciliation Bill suspended the program unless new Federal Funds that do not require state matching funds were received for the program. No funding is recommended for FY 2006.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

FY 2005 Supplemental

The current JLBC estimate for a FY 2005 supplemental is \$67,991,700. This amount consists of \$21,546,000 from the General Fund and \$46,445,700 from Federal Title XIX expenditure authority.

Table 2 displays the expected allocations of the supplemental FY 2005 General Fund monies.

Table 2	
	<u>FY 2005 Supplemental</u>
CBH	\$12,296,900
CBH Proposition 204	111,900
SMI	3,652,200
SMI Proposition 204	3,471,800
GMH/SA	798,500
GMH/SA Proposition 204	850,400
Medicaid Special Exemption Payments	<u>364,300</u>
Total	\$21,546,000

Through December 1, enrollment is 10.8% above budgeted levels. This includes a 9.9% increase in the regular population and a 13.9% increase in the Proposition 204 population.

Medicare Modernization Act

The Medicare Prescription Drug Improvement and Modernization Act of 2003 (MMA) includes several provisions that will affect state Medicaid programs, including, but not limited to, the following:

- Medicare coverage of prescription drugs: The MMA shifts drug coverage for dual-eligibles from Medicaid to Medicare. This should produce budget savings equal to what Medicaid previously paid for client drug costs.
- “Clawback” provisions: The MMA requires states to pay a percentage of what they would have spent on dual-eligible drug costs. In FY 2006 this percentage is 90%. The calculations for this figure are based in part

on the state’s FY 2003 per capita expenditures on Medicaid prescription drugs for dual eligibles, trended forward using nationwide per capita growth in prescription drug spending. This should produce additional budget costs. It is important to note that even if Arizona prescription drug spending would have risen at a lower-than-average rate, the clawback payments are inflated based on national trends in spending.

- Administration of the low-income subsidy: Low-income beneficiaries receive additional help from the federal government for their prescription drug costs. The Social Security Administration and state Medicaid agencies are responsible for determining eligibility for this additional assistance. At this point, the role of the state Medicaid agency has not been fully defined, but this requirement will likely produce additional administrative costs.
- Enrollment in Medicaid: States are required to screen Medicare beneficiaries seeking the additional low-income assistance for eligibility in the Medicaid program (including eligibility for categories that provide premium and cost-sharing assistance only). If individuals are determined to be eligible for Medicaid, the state must offer them the option to enroll. This could produce “woodwork” effects in which Medicaid enrollment increases as individuals applying for the Medicare benefit are found to be eligible for Medicaid. Because some of the administrative provisions are still being finalized, we do not have an estimate of the woodwork effect at this point.
- State option to fill-in gaps: States will have the option to fill-in gaps in Medicare drug coverage. For example, if Medicare formularies are very restrictive, the state can choose to provide additional prescription drug coverage using 100% state funds. Furthermore, if states believe the cost-sharing provisions for dual-eligibles are too expensive for these seniors, states can subsidize these costs using 100% state funds.

SUMMARY OF FUNDS - SEE AGENCY SUMMARY

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