

Department of Health Services

	FY 2010 ACTUAL	FY 2011 ESTIMATE	FY 2012 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	1,628.4	1,632.1	1,632.1 ^{1/}
Personal Services	56,846,100	49,783,700	51,177,400
Employee Related Expenditures	23,262,000	20,714,100	20,057,500
Professional and Outside Services	10,782,200	11,766,800	11,766,800
Travel - In State	421,500	385,600	385,600
Travel - Out of State	3,085,400	41,300	41,300
Other Operating Expenditures	32,578,000	46,846,600	45,934,500
Equipment	766,600	923,500	923,500
OPERATING SUBTOTAL	127,741,800	130,461,600	130,286,600 ^{2/3/4/5/6/7}
SPECIAL LINE ITEMS			
Public and Family Health			
Arizona Biomedical Research Commission	0	0	500,000 ^{8/}
County Tuberculosis Provider Care and Control	510,500	590,700	590,700
AIDS Reporting and Surveillance	1,000,000	1,000,000	1,000,000
Renal and Nonrenal Disease Management	198,000	198,000	198,000 ^{9/}
Alzheimer's Disease Research	2,250,000	1,125,000	1,125,000 ^{10/11/}
Poison Control Centers Funding	990,000	990,000	990,000
AHCCCS-Children's Rehabilitative Services	97,795,600	106,411,900 ^{12/13/}	0
Adult Cystic Fibrosis	105,200	105,200	105,200
Breast and Cervical Cancer and Bone Density Screening	944,700	1,346,700	1,346,700
Folic Acid	338,800	400,000	400,000
High Risk Perinatal Services	1,651,400	2,543,400	2,543,400
Newborn Screening Program	5,206,800	6,262,700	6,248,200
Behavioral Health			
Medicaid Behavioral Health - Traditional	765,413,100	906,354,200	1,074,490,600 ^{12/14/15/}
Medicaid Behavioral Health - Proposition 204	442,603,200	308,938,900	157,361,700 ^{12/13/14/15/}
Proposition 204 Administration	6,071,000	6,446,700	6,446,700 ^{14/}
Medicare Clawback Payments	7,792,900	8,162,700	12,541,500
Medicaid Special Exemption Payments	28,501,600	28,438,900	24,639,300
Medicaid Waiver Savings	0	0	(131,662,200)
Non-Medicaid Prescription Medication	0	40,154,900	40,154,900
Supported Housing	0	5,324,800	5,324,800
Crisis Services	0	16,391,100	16,391,100
State Only Behavioral Health	104,447,200	0	0
Community Placement Treatment	0	1,130,700	1,130,700
AGENCY TOTAL	1,593,561,800	1,572,778,100	1,352,152,900
FUND SOURCES			
General Fund	480,024,600	436,168,700	494,294,800
<u>Other Appropriated Funds</u>			
Arizona State Hospital Fund	8,687,400	11,159,500	13,807,300
Arizona State Hospital Land Earnings Fund	420,100	1,150,000	1,150,000
Capital Outlay Stabilization Fund	1,550,100	1,587,500	1,245,500
Child Fatality Review Fund	99,100	95,000	92,700
Emergency Medical Services Operating Fund	4,084,700	5,082,900	5,024,300
Environmental Laboratory Licensure Revolving Fund	690,200	921,800	907,200
Federal Child Care and Development Fund Block Grant	648,100	836,100	827,800
Health Services Licensing Fund	4,184,000	8,427,200	8,260,300
Hearing and Speech Professionals Fund	314,000	314,600	308,100
Indirect Cost Fund	7,607,400	7,730,500	7,509,000
Newborn Screening Program Fund	5,685,400	6,741,300	6,680,100
Nursing Care Institution Resident Protection Fund	28,700	38,000	438,000

	FY 2010 ACTUAL	FY 2011 ESTIMATE	FY 2012 APPROVED
Substance Abuse Services Fund	1,083,300	2,250,000	2,250,000
Tobacco Tax and Health Care Fund - Health Research Account	0	1,000,000	1,500,000
TTHCF Medically Needy Account	35,345,100	35,167,000	35,167,000
Vital Records Electronic Systems Fund	433,700	425,500	3,586,000
SUBTOTAL - Other Appropriated Funds	70,861,300	82,926,900	88,753,300
SUBTOTAL - Appropriated Funds	550,885,900	519,095,600	583,048,100
<u>Expenditure Authority Funds</u>			
Federal Medicaid Authority	1,042,675,900	1,053,682,500	769,104,800
SUBTOTAL - Expenditure Authority Funds	1,042,675,900	1,053,682,500	769,104,800
SUBTOTAL - Appropriated/Expenditure Authority Funds	1,593,561,800	1,572,778,100	1,352,152,900
Other Non-Appropriated Funds	107,423,400	101,853,900	114,330,600
Federal Funds	315,482,000	313,500,000	313,500,000
TOTAL - ALL SOURCES	2,016,467,200	1,988,132,000	1,779,983,500

- 1/ Includes 1 GF and 62.2 OF FTE Positions funded from Special Line Items in FY 2012.
- 2/ In addition to the appropriation for the Department of Health Services, earnings on state lands and interest on the investment of the Permanent Land Funds are appropriated to the State Hospital in compliance with the Enabling Act and the Constitution of Arizona. (General Appropriation Act footnote)
- 3/ Contingent on federal and Joint Legislative Budget Committee approval of the use of these monies, of the monies appropriated from the Nursing Care Institution Resident Protection Revolving Fund, \$400,000 shall be used by the department to improve the operation of nursing care institutions. The funding may be used for, but is not limited to, a contract with a survey contractor or contractors to conduct surveys of selected nursing care institution facilities in Arizona over a 2-year period beginning July 1, 2011. Monies appropriated for this purpose are exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations until June 30, 2013. Any unused and unallocated monies remaining on June 30, 2013, shall revert to the Nursing Care Institution Resident Protection Revolving Fund. Up to 8% of this appropriation may be used by the department for administrative purposes. (General Appropriation Act footnote)
- 4/ The department shall report to the Joint Legislative Budget Committee by March 1 of each year on preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum shall be no more than 2%. Before implementation of any changes in capitation rates for any behavioral health line items, the Department of Health Services shall report its expenditure plan for review by the Joint Legislative Budget Committee. Before the department implements any changes in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the department shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal analysis demonstrates that these changes will result in additional state costs of \$500,000 or greater for a given fiscal year, the department shall submit the policy changes for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 5/ A monthly report comparing total expenditures for the month and year-to-date as compared to prior year totals shall be forwarded electronically to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees, and the Director of the Joint Legislative Budget Committee by the 30th of the following month. The report shall include an estimate of potential shortfalls in programs, potential Federal and Other Funds, such as the statewide assessment for indirect costs, that may be available to offset these shortfalls, and a plan, if necessary, for eliminating any shortfall without a supplemental appropriation, and total expenditure authority of the month and year-to-date for federally-matched services. (General Appropriation Act footnote)
- 6/ General Appropriation Act funds are appropriated as Operating Lump Sum with Special Line Items by Agency.
- 7/ In addition to these amounts, a total of \$1,448,400 GF, \$775,000 OF, and \$103,100 FMA is appropriated in FY 2012 for costs associated with an additional pay period. (Please see the Agency Detail and Allocations section.)
- 8/ Laws 2002, Chapter 186 appropriation of \$500,000.
- 9/ The Department of Health Services may use up to 4% of the amounts appropriated for Renal and Nonrenal Disease Management for the administrative costs to implement the program. (General Appropriation Act footnote)
- 10/ The Department of Health Services shall distribute the entire appropriation for Alzheimer's Disease Research to grant recipients by September 30, 2011. (General Appropriation Act footnote)
- 11/ Of the \$1,125,000 for Alzheimer's Disease Research, it is the intent of the Legislature that \$1,000,000 of that amount be Tobacco Tax and Health Care Fund monies transferred from the Arizona Biomedical Research Commission to the Department of Health Services. (General Appropriation Act footnote) The Consolidation BRB also transfers the commission to DHS in FY 2012.
- 12/ The Department of Health Services shall report to the Joint Legislative Budget Committee 30 days after the end of each calendar quarter on the progress the department is making toward settling the *Arnold v. Sarn* lawsuit. The report shall include at a minimum the department's progress towards meeting the exit criteria and whether the department is in compliance with the exit criteria schedule. (General Appropriation Act footnote)
- 13/ For FY 2011, the Department of Health Services may use monies in the IGA and ISA Fund as the state Medicaid match for behavioral health services and AHCCCS - Children's Rehabilitative Services. Before using the monies, the department shall report to the Director of the Joint Legislative Budget Committee the proposed amount of the IGA and ISA Fund monies to be used for the match, the source of those monies, including reconciliation payments and penalties, and the total amount of reconciliation payments and penalties in the fund. On or before January 8, 2012, the department also shall report to the Director of the Joint Legislative Budget Committee the total amount of reconciliation payments and penalties deposited in the fund through December 31, 2011 in FY 2012. (General Appropriation Act footnote)
- 14/ It is the intent of the Legislature that the percent attributable to administration/profit for the Regional Behavioral Health Authority in Maricopa County is 9% of the overall capitation rate. (General Appropriation Act footnote)
- 15/ The amounts included in the Proposition 204 Administration and Medicaid Behavioral Health - Proposition 204 Special Line Items include all available sources of funding consistent with A.R.S. § 36-2901.01B. (General Appropriation Act footnote)

AGENCY DESCRIPTION — The Department of Health Services (DHS) is responsible for the provision of most public health programs not administered by AHCCCS, most behavioral health programs, the Arizona State Hospital (ASH), emergency medical services, state laboratory support, vital records maintenance, disease control, and epidemiological monitoring.

Operating Budget

The budget includes \$130,286,600 and 1,568.9 FTE Positions in FY 2012 for the operating budget. These amounts consist of:

	<u>FY 2012</u>
General Fund	\$76,912,000
Arizona State Hospital Fund	12,676,600
ASH Land Earnings Fund	1,150,000
Capital Outlay Stabilization Fund	1,245,500
Child Fatality Review Fund	92,700
Emergency Medical Services (EMS) Operating Fund	4,574,300
Environmental Laboratory Licensure Revolving Fund	907,200
Federal Child Care and Development Fund (CCDF) Block Grant	827,800
Health Services Licensing Fund	8,260,300
Hearing and Speech Professionals Fund	308,100
Indirect Cost Fund	7,509,000
Newborn Screening Program Fund	431,900
Nursing Care Institution Resident Protection Revolving Fund	438,000
Vital Records Electronic Systems Fund	3,586,000
Federal Medicaid Authority (FMA)	11,367,200

These amounts fund the following adjustments:

Vital Records Self-Funding

The budget includes an increase of \$1,983,300 in FY 2012 to self-fund Vital Records and increase their total resources. This amount consists of:

General Fund	(1,205,600)
Vital Records Electronic Systems Fund	3,188,900

The Health Budget Reconciliation Bill (BRB) (Laws 2011, Chapter 31) removes fee caps and allows the DHS Director to set fees, including a fee that counties must pay for access to the agency's vital records system. Prior to this change, the agency funded Vital Records with \$1,205,600 from its General Fund operating budget, in addition to an appropriation of \$426,400 from the Vital Records Electronic Systems Fund. Under permanent law, the increased fee raising authority will allow the agency to self-fund Vital Records at a cost of \$3,615,300 prior to any statewide adjustments.

Nursing Care Institution Survey

The budget includes an increase of \$400,000 from the Nursing Care Institution Resident Protection Revolving Fund in FY 2012 to improve the operation of nursing care institutions over a 2-year period. (*See footnote 3.*)

Shift SVP Costs from General Fund to ASH Fund

The budget includes an increase of \$2,670,300 from the Arizona State Hospital (ASH) Fund and a corresponding decrease of \$(2,670,300) from the General Fund in FY 2012 to shift an additional 25% of Sexually Violent Persons (SVP) operating costs from the General Fund.

The Health BRB requires that all counties pay 50% of the daily cost of care for SVP patients. In previous session law, counties were required to pay 25% of daily SVP costs.

The Health BRB also continues to require that all counties pay 100% of the daily cost of care for Restoration to Competency (RTC) patients in the Arizona State Hospital. Treatment for RTC patients is funded through the agency operating budget.

Statewide Adjustments

The budget includes a decrease of \$(2,558,300) in FY 2012 for statewide adjustments. This amount consists of:

General Fund	(1,623,200)
Arizona State Hospital Fund	(22,500)
Capital Outlay Stabilization Fund	(342,000)
Child Fatality Review Fund	(2,300)
Emergency Medical Services Operating Fund	(58,600)
Environmental Laboratory Licensure Revolving Fund	(14,600)
Federal Child Care and Development Fund (CCDF) Block Grant	(8,300)
Health Services Licensing Fund	(166,900)
Hearing and Speech Professionals Fund	(6,500)
Indirect Cost Fund	(221,500)
Newborn Screening Program Fund	(46,700)
Vital Records Electronic Systems Fund	(28,400)
Federal Medicaid Authority	(16,800)

(Please see the Agency Detail and Allocations section.)

The Assurance and Licensure, Attorney General Legal Services, Arizona Statewide Immunization Information System, Laboratory Services, Loan Repayment, EMS Operations, Trauma Advisory Board, Scorpion Antivenom, Vital Records Systems Maintenance, Adult Sickle Cell Anemia, Child Fatality Review Team, Contract Compliance, Sexually Violent Persons and ASH Forensic Unit Debt Service line items have been shifted to the operating budget in FY 2012 and all years are displayed accordingly.

Public and Family Health

Arizona Biomedical Research Commission

The budget includes \$500,000 from the Health Research Account of the Tobacco Tax and Health Care Fund in FY 2012 for a new Arizona Biomedical Research Commission (ABRC) Special Line Item. In prior years, this amount was displayed in the Arizona Biomedical Research Commission.

The Consolidation BRB (Laws 2011, Chapter 27) transfers the functions of the Arizona Biomedical Research Commission to DHS on July 1, 2011. The authority to disburse appropriated and non-appropriated funds has been transferred to the DHS Director, but ABRC will have an advisory role within the agency. Prior year expenditures for ABRC as a separate state agency are summarized in a previous section of this report. (*Please see the Arizona Biomedical Research Commission narrative for additional information.*)

Laws 2002, Chapter 186 appropriated \$500,000 from the Health Research Fund annually from FY 2003 to FY 2012 for biotechnology. Funding is to be allocated to a nonprofit medical research foundation that specializes in biotechnology. These amounts are being distributed to the Translational Genomics Research Institute (Tgen). As a result of the appropriation in Laws 2002, Chapter 186, this funding does not appear in the General Appropriation Act.

County Tuberculosis Provider Care and Control

The budget includes \$590,700 from the General Fund in FY 2012 for County Tuberculosis Provider Care and Control. This amount is unchanged from FY 2011.

This line item provides General Fund reimbursement to hospitals and physicians for the care of hospitalized tuberculosis patients and for assistance to all county health departments for local tuberculosis control programs.

AIDS Reporting and Surveillance

The budget includes \$1,000,000 from the General Fund in FY 2012 for AIDS Reporting and Surveillance. This amount is unchanged from FY 2011.

The line item provides \$125,000 for a database system administered by Maricopa and Pima Counties to track the incidence of Acquired Immune Deficiency Syndrome (AIDS) and AIDS-related conditions. The program also receives \$875,000 to provide medications under the Arizona AIDS Drug Assistance Program, which also receives Federal Funds for the medications. The program served an average of 900 clients per month in FY 2010.

Renal and Nonrenal Disease Management

The budget includes \$198,000 from the General Fund in FY 2012 for Renal and Nonrenal Disease Management. This amount is unchanged from FY 2011.

This line item provides funding for medication and other transplant-related services for renal and nonrenal transplant patients who are ineligible for other public assistance programs.

Alzheimer's Disease Research

The budget includes \$1,125,000 in FY 2012 for Alzheimer's Disease Research. This amount consists of:

General Fund	125,000
TTHCF Health Research Account	1,000,000

These amounts are unchanged from FY 2011.

Of the \$1,125,000 appropriation, the budget requires that the Arizona Biomedical Research Commission transfer \$1,000,000 from the Tobacco Tax and Health Care Fund to this Special Line Item and that the entire appropriation is distributed to Alzheimer's Disease Research grant recipients by September 30, 2011. (*See footnotes 8 and 9.*)

This line item provides funding for grants to universities, hospitals, and research centers in Arizona for dollar-for-dollar matching grants for research on the causes of Alzheimer's disease.

Poison Control Centers Funding

The budget includes \$990,000 from the General Fund in FY 2012 for Poison Control Centers. This amount is unchanged from FY 2011.

A.R.S. § 36-1161 requires 2 poison control centers to be maintained in Arizona. DHS has allocated \$630,000 to the

University of Arizona Poison Information Center and \$360,000 to the Banner Poison Control Center.

AHCCCS - Children's Rehabilitative Services

The budget includes no funding in FY 2012 for AHCCCS - Children's Rehabilitative Services. This amount funds the following adjustment:

Transfer CRS to AHCCCS

The budget includes a decrease of \$(106,411,900) in FY 2012 to transfer Children's Rehabilitative Services (CRS) from DHS to AHCCCS. This amount consists of:

General Fund	(27,619,200)
Federal Medicaid Authority	(78,792,700)

As permanent law, the Health BRB transfers all CRS responsibilities and functions to AHCCCS effective July 1, 2011.

The CRS program offers health care to children with handicapping or potentially handicapping conditions

Adult Cystic Fibrosis

The budget includes \$105,200 from the General Fund in FY 2012 for Adult Cystic Fibrosis. This amount is unchanged from FY 2011.

This line item provides contracted care and treatment services through the CRS program for 20 individuals with cystic fibrosis.

Breast and Cervical Cancer and Bone Density Screening

The budget includes \$1,346,700 and 1 FTE Position from the General Fund in FY 2012 for the Breast and Cervical Cancer and Bone Density Screening. These amounts are unchanged from FY 2011.

The Well Woman Healthcheck program contracts for cancer screening women over age 40 that do not have health insurance and have incomes less than 250% of the Federal Poverty Level. Women who are diagnosed with breast and cervical cancer through this program are eligible to receive treatment through AHCCCS.

Folic Acid

The budget includes \$400,000 from the Medically Needy Account of the Tobacco Tax and Health Care Fund in FY 2012 for Folic Acid. This amount is unchanged from FY 2011.

This line item provides for the distribution of folic acid to women of child bearing age to help prevent birth defects.

In FY 2010, 21,142 low-income women of childbearing age received multivitamins and 8,000 women received folic acid education and multivitamins.

High Risk Perinatal Services

The budget includes \$2,543,400 in FY 2012 for High Risk Perinatal Services. This amount consists of:

General Fund	2,093,400
Emergency Medical Services Operating Fund	450,000

These amounts are unchanged from FY 2011.

This line item provides contracted transport services for high risk expectant mothers and contracted physician follow-up services for uninsured newborns in intensive care centers. It also provides funding for 4 visits per year to families who have babies born at risk of having developmental problems (i.e. speech problems, poor motor skills, delay in walking, etc.). The purpose of the visits is to have children developmentally ready to enter school by age 5.

Newborn Screening Program

The budget includes \$6,248,200 and 62.2 FTE Positions from the Newborn Screening Program Fund in FY 2012 for the Newborn Screening Program. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(14,500) from the Newborn Screening Program Fund in FY 2012 for statewide adjustments.

This line item funds the centralized testing of all newborns in the state for a standard set of 29 disorders. In FY 2012, the program will provide screening for approximately 105,000 newborns. The program also provides for follow-up counseling for the parents of affected newborns. The State Health Laboratory currently holds the contract for testing.

Behavioral Health

These line items fund 3 types of services; 1) Serious Mental Illness, 2) Children's Behavioral Health and 3) General Mental Health and Substance Abuse. See *Table 1* and *Other Issues* for more information.

Medicaid Behavioral Health - Traditional

The budget includes \$1,074,490,600 in FY 2012 for Medicaid Behavioral Health - Traditional. This amount consists of:

	FY 2011 Appropriated	FY 2011 Revised	FY 2012	FY 2012 Above FY 2011 Revised
Medicare Clawback Payments	\$ 8,581,500	\$ 8,162,700	\$ 12,541,500	\$ 4,378,800
Medicaid Special Exemption Payments	7,033,200	7,033,200	8,146,400	1,113,200
<u>State Match for Medicaid</u>				
CBH	123,806,200	120,358,000	122,380,400	2,022,400
SMI	67,610,100	60,328,100	182,412,600	122,084,500
GMH/SA ^{2/}	28,699,700	32,511,200	50,459,400	17,948,200
<u>State Match for Proposition 204</u>				
CBH	2,451,900	2,056,600	2,588,100	531,500
SMI	33,907,300	40,481,000	0	(40,481,000)
GMH/SA	43,715,800	38,900,300	49,439,600	10,539,300
Medicaid Waiver Savings	0	0	(43,530,800)	(43,530,800)
Total	\$315,805,700	\$309,831,100	\$384,437,200	\$74,606,100

1/ The FY 2010 and FY 2011 amounts represent spending under the enhanced FMAP provided by ARRA.
2/ Base amounts include \$3,600,000 from the Medically Needy Account of the Tobacco Tax and Health Care Fund.

General Fund	351,652,400
Tobacco Tax and Health Care Fund Medically Needy Account	3,600,000
Federal Medicaid Authority	719,238,200

estimated average 8.2%, or 96,424, of the eligible population will utilize services (*see Table 4*).

Medicaid Behavioral Health - Proposition 204

These amounts fund the following adjustments:

Formula Growth

The budget includes an increase of \$168,136,400 in FY 2012 for Medicaid Behavioral Health - Traditional caseload and capitation rate changes. This amount consists of:

General Fund	153,852,200
Federal Medicaid Authority	14,284,200

Beside the federal match rate change, described below, the formula adjustments include:

- No increase in capitation rates in FY 2012.
- Continuation of a (3.12)% provider rate reduction that began in April 2011.
- Reclassification of individuals receiving Proposition 204 services as eligible for Traditional services.
- 5% enrollment growth in FY 2012.

The FY 2011 supplemental reduced \$(1,663,000) from the General Fund and \$(4,744,400) in Federal Medicaid Authority for a provider rate reduction that began April 1, 2011. The FY 2011 supplemental is incorporated into the FY 2011 figures above and continued into FY 2012.

This line item provides behavioral health treatment to Medicaid eligible children and adults. Prior to any changes associated with the Executive Medicaid Waiver request, there is an average of 1,177,064 eligible individuals per month. DHS receives a monthly capitation payment from AHCCCS for every individual eligible for Medicaid behavioral health services, although only an

The budget includes \$157,361,700 in FY 2012 for Medicaid Behavioral Health - Proposition 204. This amount consists of:

General Fund	52,027,700
Federal Medicaid Authority	105,334,000

These amounts fund the following adjustments:

Formula Growth

The budget includes a decrease of \$(151,577,200) in FY 2012 for Medicaid Behavioral Health - Proposition 204 caseload and capitation rate changes. This amount consists of:

General Fund	(24,904,000)
Federal Medicaid Authority	(126,673,200)

Besides the federal match rate change, described below, the formula adjustments include:

- No increase in capitation rates in FY 2012.
- Continuation of a (3.12)% provider rate reduction that began in April 2011.
- Reclassification of individuals receiving Proposition 204 services as eligible for Traditional services.
- 5% enrollment growth in FY 2012.

The FY 2012 amounts do not include savings associated with the Executive Medicaid Waiver request, which are allocated in a separate line item. The Medicaid Waiver reduces the appropriation for Medicaid Behavioral Health - Proposition 204 by \$(42,676,500) from the General Fund

and \$(86,401,800) in Federal Medicaid Authority. *(Please see Medicaid Waiver Savings in this section and the AHCCCS narrative for additional information.)*

The FY 2011 supplemental reduced \$(635,100) from the General Fund and \$(1,811,700) in Federal Medicaid Authority for a provider rate reduction that began April 1, 2011. The FY 2011 supplemental is incorporated into the FY 2011 figures above and continued into FY 2012.

This line item provides behavioral health treatment to Medicaid eligible children and adults. Prior to any changes associated with Executive Medicaid Waiver request, there is an average of 774,993 eligible individuals per month. DHS receives a monthly capitation payment from AHCCCS for every individual eligible for Medicaid behavioral health services, although only an estimated 5.4%, or 41,917, of the eligible population will utilize services *(see Table 4)*.

Proposition 204 Administration

The budget includes \$6,446,700 in FY 2012 for Proposition 204 Administration. This amount consists of:

General Fund	1,642,800
Federal Medicaid Authority	4,803,900

These amounts are unchanged from FY 2011.

This line item provides funding for the administrative component of the Proposition 204 population.

Medicare Clawback Payments

The budget includes \$12,541,500 from the General Fund in FY 2012 for Medicare Clawback Payments. This amount funds the following adjustments:

Formula Growth

The budget includes an increase of \$4,378,800 from the General Fund in FY 2012 for formula growth associated with Medicare Clawback Payments. A federal revision to the state’s Clawback yielded \$(418,800) in savings in FY 2011. The DHS portion of the state’s overall Clawback obligation would increase by \$4,378,800 over the revised FY 2011 for a net increase of \$3,960,000 in FY 2012.

As part of the Medicare Modernization Act (MMA) effective January 1, 2006, DHS is not required to pay for prescription drug costs for members who are also eligible for Medicare. Instead, DHS is required to make “Clawback” payments to Medicare based on 80% of the estimated prescription drug cost of this population in 2012. The state’s share of 80% declines annually by 1.7% and the Clawback cost per member is annually increased based on national health trend information.

Medicaid Special Exemption Payments

The budget includes \$24,639,300 in FY 2012 for Medicaid Special Exemption Payments. This amount consists of:

General Fund	8,146,400
Federal Medicaid Authority	16,492,900

These amounts fund the following adjustments:

Formula Growth

The budget includes a decrease of \$(3,799,600) in FY 2012 for Medicaid Special Exemption Payments related to caseload growth and FMAP adjustments. *(See Other Issues for additional information on FMAP changes.)* This amount consists of:

General Fund	1,448,200
Federal Medicaid Authority	(5,247,800)

The FY 2012 amounts do not include savings associated with the Executive Medicaid Waiver request, which are allocated in a separate line item. The Medicaid Waiver reduces the appropriation for Medicaid Special Exemption Payments by \$(854,300) from the General Fund and \$(1,729,600) in Federal Medicaid Authority. *(Please see Medicaid Waiver Savings in this section and the AHCCCS narrative for additional information.)*

The FY 2011 supplemental reduced \$(54,900) from the General Fund and \$(156,600) in Federal Medicaid Authority for a provider rate reduction that began April 1, 2011. The FY 2011 supplemental is incorporated into the FY 2011 figures above and continued into FY 2012.

This line item provides funding necessary for insurance premium tax payments by DHS. The department is required to pay a 2% tax on the capitation payments it pays to Regional Behavioral Health Authorities.

Medicaid Waiver Savings

The budget includes a reduction of \$(131,662,200) in FY 2012 for Medicaid Waiver Savings. This amount consists of:

General Fund	(43,530,800)
Federal Medicaid Authority	(88,131,400)

These amounts are allocated against the Medicaid Behavioral Health - Proposition 204 and Medicaid Special Exemption Payment line items in the General Appropriation Act. For the purpose of this report, the savings appears as a separate line item. *(Please see the AHCCCS narrative for additional information.)*

Non-Medicaid Prescription Medication

The budget includes \$40,154,900 in FY 2012 for Non-Medicaid Prescription Medication. This amount consists of:

General Fund	28,453,800
Tobacco Tax and Health Care Fund	11,701,100
Medically Needy Account	

These amounts are unchanged from FY 2011.

This line item provides funding for a benefit package for Non-Medicaid SMI clients to partially cover the costs of prescription medications and associated services, such as laboratory costs and prescribing clinician costs.

Supported Housing

The budget includes \$5,324,800 from the Tobacco Tax and Health Care Fund Medically Needy Account in FY 2012 for Supported Housing. This amount is unchanged from FY 2011.

This line item funds housing services that will enable individuals to live in the community. These funds may serve Medicaid and 100% state funded recipients. Medicaid, however, does not provide a match for housing assistance.

Crisis Services

The budget includes \$16,391,100 in FY 2012 for Crisis Services. This amount consists of:

Substance Abuse Services	2,250,000
Tobacco Tax and Health Care Fund	14,141,100
Medically Needy Account	

These amounts are unchanged from FY 2011.

This line item provides funding for persons in need of emergency behavioral health assistance. These services may include 24-hour crisis telephone lines, crisis mobile teams, and facility-based crisis services. These funds serve 100% state funded recipients.

State Only Behavioral Health

The budget includes no funding in FY 2012 for State Only Behavioral Health.

The FY 2011 budget reduced and reorganized Non-Medicaid behavioral health spending for both SMI and General Mental Health populations. This line item represents monies that funded Non-Medicaid line items for Children's Behavioral Health, SMI, Mental Health, and

Substance Abuse in FY 2010. These line items were replaced by new line items for Prescription Medication, Supported Housing and Crisis Services in FY 2011.

Community Placement Treatment

The budget includes \$1,130,700 from the ASH Fund in FY 2012 for Community Placement Treatment. This amount is unchanged from FY 2011.

This line item provides funding for housing, transportation, clinical support, and meaningful day activities for State Hospital patients treated in the community.

The operating budget includes approximately \$66,000,000 for inpatient hospitalization services at the State Hospital for the seriously mentally ill. As of March 2011, the ASH census was 234 patients.

Fund Transfers

The budget includes transfers from this agency's funds to the General Fund. *(Please see the Fund Transfers section at the back of this report for more details.)*

Other Issues

Overall FY 2012 DHS Formula Changes

The budget includes \$63,625,200 in FY 2012 for DHS formula changes as delineated by Table 2. Those changes are described in further detail below the table.

Table 2

FY 2012 General Fund Formula Changes

	Adjustment
Federal Match Rate Backfill	\$127,274,900 ^{1/}
Caseload Growth	27,316,000 ^{1/}
Medicaid Waiver Savings	(43,530,800)
Provider Rate Reduction	(11,024,300)
Shift CRS to AHCCCS	(36,410,600)
Total	\$ 63,625,200

^{1/} The combination of these lines equals the formula change in the Statewide Detailed List of General Fund Changes by Agency.

In total, the budget includes an increase of \$154,590,900 to backfill additional monies from the increased FMAP and costs associated with caseload growth, a net decrease of \$(54,555,100) to account for savings related to the Executive Medicaid Waiver Request and April 2011 provider rate reductions, and \$(36,410,600) to shift Children's Rehabilitative Services to AHCCCS.

Federal Match Rate Backfill

Due to a reduction in the Federal Medicaid Assistance Percentage (FMAP), the budget includes \$142,810,600 to backfill the loss of Federal Funds. The FMAP is the rate at

which the federal government matches state contributions to Medicaid programs. These rates are set on a state-by-state basis and are revised each year. The federal government provided a 65.8% match for most Medicaid services.

The American Recovery and Reinvestment Act of 2009 (ARRA) increased the Medicaid match rate for most services to 75.93%. The FY 2011 budget assumed the continuation of that rate through the end of FY 2011. The federal government subsequently decided to phase down that match rate as of January 2011. The final blended FY 2011 FMAP is estimated to be 74.05%, which would require the state to increase its share of FY 2011 costs by \$25,528,800.

During FY 2012, the FMAP for Medicaid will decline to 66.9%, a (7.1)% decline. The rate would have otherwise returned to 65.8%, but the state's low personal income growth qualifies it for a higher rate. This better regular match rate generates savings of \$(15,535,700) to offset the \$142,810,600 backfill for a net increase of \$127,274,900.

FY 2011 Base Adjustment and
FY 2012 Caseload Growth

The budget includes a net \$27,316,000 General Fund increase for DHS caseload changes. This consists of FY 2011 base adjustments, which are \$5,555,800 for CRS and Clawback adjustments, \$(2,570,100) for April 2011 provider rate savings, and \$(9,372,900) for BHS caseload changes. In FY 2012, caseloads are expected to grow by 2.3% at a cost of \$33,703,200.

Medicaid Waiver Savings

The budget reflects \$(43,530,800) in savings associated with the Executive request for a federal waiver to reduce Medicaid coverage. These savings are allocated against Medicaid Behavioral Health - Proposition 204 services. (Please see the Proposition 204 and Federal Waiver Request section in the AHCCCS narrative for additional information.)

FY 2012 Capitation Rate Changes

The budget reflects a net \$(11,024,300) capitation rate adjustment in FY 2012 for a Medicaid Behavioral Health provider rate reduction. Capitation rates normally reflect adjustments in utilization of service and medical inflation. As permitted by the FY 2011 Health BRB (Laws 2010, 7th Special Session, Chapter 10), AHCCCS reduced Medicaid Behavioral Health capitation payments by (3.12)% in April 2011, which yielded a savings of \$(2,570,100) for the last 3 months of the fiscal year as reflected above. A full year of savings in FY 2012 yields a savings of \$(13,594,400) for a net decrease of \$(11,024,300).

Revised FY 2011 Budget

The revised FY 2011 budget includes a net decrease of \$(2,570,100). While the net decrease is due to a provider rate reduction enacted in April 2011, there are numerous

technical adjustments in the FY 2011 budget that result in no net change (See Table 3.)

Federal Match Rate Backfill

Although the enhanced match rate was estimated in the original FY 2011 budget to generate \$142,810,600, the lower than anticipated rate reduced that amount at total cost of \$25,528,800.

Technical Adjustment

The revised FY 2011 budget includes a \$(7,426,400) General Fund decrease to reflect an adjustment to Behavioral Health Services' (BHS) capitation payments. The FY 2011 budget erroneously double-appropriated monies to DHS for behavioral health services for individuals with developmental disabilities.

Reconciliation Payments and Penalties

The revised FY 2011 budget includes a \$(14,285,300) decrease to use reconciliation payments and penalty fees assessed to Medicaid Behavioral Health providers to draw down federal matching monies for Medicaid Behavioral Health programs. An FY 2012 General Appropriation Act footnote requires that prior to any expenditure of these monies, DHS report to the Joint Legislative Budget Committee the proposed amount of these monies to be used for state match, the source of these monies and the total amount of revenue collected.

Caseload and Clawback Savings

The revised FY 2011 budget reflects includes a net savings of \$(3,817,100). Of this amount, \$(9,372,900) is a result of Medicaid Behavioral Health caseload savings, \$(418,800) for a federal revision to the state's Clawback obligation, and \$5,974,600 for higher than budgeted AHCCCS-CRS caseloads.

April 2011 Provider Rate Reduction

The revised FY 2011 budget includes a decrease of \$(2,570,100) for a Medicaid provider rate reduction that began on April 1, 2011.

	<u>Adjustment</u>
Federal Match Rate	\$25,528,800
Technical Adjustment	(7,426,400)
Reverse Administration Shift	(14,285,300)
Behavioral Health Caseload	(9,372,900)
Savings	
Clawback Adjustment	(418,800)
CRS Caseload Adjustment	5,974,600
April Provider Rate	
Reduction	<u>(2,570,100)</u>
Total	\$ (2,570,100)

Projected Caseloads and Excess Capitation Funding

The department receives a flat amount for each Medicaid individual per month, regardless of whether or not those

individuals actually receive treatment. *Table 4* summarizes projected capitation costs for Medicaid Behavioral Health Services.

Excluding Medicaid Waiver Savings and administration costs, the FY 2012 budget includes a state match appropriation of \$415,426,500 for Medicaid Behavioral Health services. The state match portion of Medicaid Behavioral Health is currently projected to total \$396,159,000. Monies appropriated for state match for

Medicaid in DHS are primarily General Fund, plus \$3,600,000 from the Medically Needy Account of the Tobacco Tax and Health Care Fund. At budgeted caseload and capitation levels, it is estimated that DHS has \$19,267,500 in excess capitation funding from the General Fund in FY 2012.

	Member Years	Monthly Cap Rate	Total	Less Admin	Total Funds	Medicaid Authority	State Match
CBH	618,712	\$ 34.47	\$ 255,924,200	\$ (8,471,100)	\$ 247,453,100	\$165,638,900	\$ 81,814,200
CMDP	10,083	957.31	115,831,600	(3,834,000)	111,997,600	74,968,400	37,029,200
SMI	656,244	67.03	527,856,700	(17,472,100)	510,384,600	341,638,700	168,745,900
GMH/SA	656,244	38.06	299,719,900	(9,920,700)	289,799,200	193,984,300	95,814,900
DD	10,774	114.36	14,784,700	(489,400)	14,295,300	9,568,900	4,726,400
Special Exemption					24,282,400	16,254,000	8,028,400
Total			\$1,214,117,100	\$(40,187,300)	\$1,198,212,200	\$802,053,200	\$396,159,000
Appropriation Excess Capitation Funding					\$1,256,491,600	\$841,065,100	\$415,426,500
					\$58,279,400	\$39,011,900	\$19,267,500