

## Department of Health Services

	FY 2010 ACTUAL	FY 2011 ESTIMATE	FY 2012 BASELINE
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	1,628.4	1,632.1	1,632.1
Personal Services	56,846,100	50,003,100	50,003,100
Employee Related Expenditures	23,262,000	20,762,100	20,762,100
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	32,561,300	32,561,300
Equipment	766,600	923,500	923,500
<b>OPERATING SUBTOTAL</b>	<b>127,741,800</b>	<b>116,443,700</b>	<b>116,443,700</b>
<b>SPECIAL LINE ITEMS</b>			
<b>Public and Family Health</b>			
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
Alzheimer's Disease Research	2,250,000	125,000	125,000
Poison Control Centers Funding	990,000	990,000	990,000
AHCCCS-Children's Rehabilitative Services	97,795,600	90,825,500	110,126,600
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	6,271,300	6,271,300
<b>Behavioral Health</b>			
Medicaid Behavioral Health - Traditional	765,413,100	921,481,000	860,803,000
Medicaid Behavioral Health - Proposition 204	442,603,200	332,675,500	320,224,100
Proposition 204 Administration	6,071,000	6,446,700	6,446,700
Medicare Clawback Payments	7,792,900	8,581,500	12,541,500
Medicaid Special Exemption Payments	28,501,600	28,930,500	26,704,300
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
<b>AGENCY TOTAL</b>	<b>1,593,561,800</b>	<b>1,581,956,200</b>	<b>1,529,861,700</b>
<b>FUND SOURCES</b>			
General Fund	480,024,600	438,939,000	549,529,900
<u>Other Appropriated Funds</u>			
Arizona State Hospital Fund	8,687,400	11,159,500	11,159,500
Arizona State Hospital Land Earnings Fund	420,100	1,150,000	1,150,000
Capital Outlay Stabilization Fund	1,550,100	1,587,500	1,587,500
Child Fatality Review Fund	99,100	95,400	95,400
Emergency Medical Services Operating Fund	4,084,700	5,093,200	5,093,200
Environmental Laboratory Licensure Revolving Fund	690,200	924,000	924,000
Federal Child Care and Development Fund Block Grant	648,100	836,100	836,100
Health Services Licensing Fund	4,184,000	8,463,300	8,463,300
Hearing and Speech Professionals Fund	314,000	315,700	315,700
Indirect Cost Fund	7,607,400	7,746,700	7,746,700
Newborn Screening Program Fund	5,685,400	6,749,900	6,749,900
Nursing Care Institution Resident Protection Fund	28,700	38,000	38,000
Substance Abuse Services Fund	1,083,300	2,250,000	2,250,000
TTHCF Medically Needy Account	35,345,100	35,167,000	35,167,000
Vital Records Electronic Systems Fund	433,700	426,400	426,400

	FY 2010 ACTUAL	FY 2011 ESTIMATE	FY 2012 BASELINE
SUBTOTAL - Other Appropriated Funds	70,861,300	82,002,700	82,002,700
<b>SUBTOTAL - Appropriated Funds</b>	<b>550,885,900</b>	<b>520,941,700</b>	<b>631,532,600</b>
<b>Expenditure Authority Funds</b>			
Federal Medicaid Authority	1,042,675,900	1,061,014,500	898,329,100
SUBTOTAL - Expenditure Authority Funds	1,042,675,900	1,061,014,500	898,329,100
SUBTOTAL - Appropriated/Expenditure Authority Funds	<b>1,593,561,800</b>	<b>1,581,956,200</b>	<b>1,529,861,700</b>
Other Non-Appropriated Funds	107,423,400	101,853,900	102,768,300
Federal Funds	315,482,000	313,500,000	313,500,000
<b>TOTAL - ALL SOURCES</b>	<b>2,016,467,200</b>	<b>1,997,310,100</b>	<b>1,946,130,000</b>

**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 Baseline includes \$116,443,700 and 1,568.9 FTE Positions for the operating budget in FY 2012. These amounts consist of:

	<b>FY 2012</b>
General Fund	\$68,326,000
Arizona State Hospital Fund	10,028,800
ASH Land Earnings Fund	1,150,000
Capital Outlay Stabilization Fund	1,587,500
Child Fatality Review Fund	95,400
Emergency Medical Services (EMS) Operating Fund	4,643,200
Environmental Laboratory Licensure Revolving Fund	924,000
Federal Child Care and Development Fund (CCDF) Block Grant	836,100
Health Services Licensing Fund	8,463,300
Hearing and Speech Professionals Fund	315,700
Indirect Cost Fund	7,746,700
Newborn Screening Program Fund	478,600
Nursing Care Institution Resident Protection Revolving Fund	38,000
Vital Records Electronic Systems Fund	426,400
Federal Medicaid Authority (FMA)	11,384,000

These amounts are unchanged from FY 2011.

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**

#### **County Tuberculosis Provider Care and Control**

The Baseline includes \$590,700 from the General Fund for County Tuberculosis Provider Care and Control in FY 2012. 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 Baseline includes \$1,000,000 from the General Fund for AIDS Reporting and Surveillance in FY 2012. 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 Baseline includes \$198,000 from the General Fund for Renal and Nonrenal Disease Management in FY 2012. 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 Baseline includes \$125,000 from the General Fund for Alzheimer's Disease Research in FY 2012. This amount is unchanged from FY 2011.

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

A.R.S. § 36-1161 requires 2 poison control centers to be maintained in Arizona. DHS decided to allocate \$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 Baseline includes \$110,126,600 for AHCCCS - Children's Rehabilitative Services in FY 2012. This amount consists of:

General Fund	36,410,600
Federal Medicaid Authority	73,716,000

FY 2012 adjustments would be as follows:

<b>Formula Growth</b>	<b>GF 14,548,900</b>
	<b>FMA 4,752,200</b>

The FY 2012 adjustment assumes enrollment growth of 1.8% from June 2011 to June 2012 and no increase in capitation rates above the FY 2011 rates. This would result in approximately 22,139 members per month being served in FY 2012. The FY 2011 capitation rates were 7.7% above the budgeted level and enrollment is projected to be 8.9% above the budgeted level, resulting in a FY 2011 General Fund shortfall of \$(5,974,600). The \$5,974,600 backfill plus \$8,574,300 for new FY 2012 growth yields an overall increase of \$14,548,900.

The Children's Rehabilitative Services (CRS) program offers health care to children with handicapping or potentially handicapping conditions. Statute authorizes the Department of Health Services (DHS) to oversee the program, and previous budgets have appropriated these monies to DHS. Beginning on January 1, 2011, the Executive moved the oversight of the CRS program from DHS to AHCCCS. Funding for AHCCCS' oversight is being provided through an interagency agreement. The Baseline continues to appropriate CRS monies in DHS since that agency is statutorily responsible for the program.

### ***Adult Cystic Fibrosis***

The Baseline includes \$105,200 from the General Fund for Adult Cystic Fibrosis in FY 2012. 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 Baseline includes \$1,346,700 and 1 FTE Position from the General Fund for the Breast and Cervical Cancer and Bone Density Screening in FY 2012. 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 Baseline includes \$400,000 from the Medically Needy Account of the Tobacco Tax and Health Care Fund for Folic Acid in FY 2012. 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 Baseline includes \$2,543,400 for High Risk Perinatal Services in FY 2012. 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 Baseline includes \$6,271,300 and 62.2 FTE Positions from the Newborn Screening Program Fund for the

Newborn Screening Program in FY 2012. These amounts are unchanged from FY 2011.

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 Legislative Consideration* for more information.

**Medicaid Behavioral Health - Traditional**

The Baseline includes \$860,803,000 for Medicaid Behavioral Health - Traditional in FY 2012. This amount consists of:

General Fund	281,003,000
Tobacco Tax and Health Care Fund	3,600,000
Medically Needy Account	
Federal Medicaid Authority	576,200,000

FY 2012 adjustments would be as follows:

<b>Formula Growth</b>	<b>GF 64,487,000</b>
	<b>FMA(125,165,000)</b>

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

- FY 2011 member months for Medicaid services that are projected to be (2.5)% lower than the budgeted amount for a General Fund base adjustment of \$(6,782,200).

- No funding for FY 2011 capitation rate overages.
- No increase in capitation rates in FY 2012.
- Reverse shift of monies from services to the agency operating budget.
- 2.3% enrollment growth in FY 2012
- The figures assume that 36% of Proposition 204 SMI clients would become part of the Traditional population in FY 2011, because these individuals are Supplemental Security Income (SSI) eligible. SSI eligible clients would receive Traditional services, even if Proposition 204 had not been enacted.

This line item provides behavioral health treatment to Medicaid eligible children and adults. There are approximately 1,270,260 eligible individuals. DHS receives a monthly capitation payment from AHCCCS for every individual eligible for Medicaid behavioral health services, although only an estimated 6.8%, or 86,378, of the eligible population will utilize services (*see Table 4*).

**Medicaid Behavioral Health - Proposition 204**

The Baseline includes \$320,224,100 for Medicaid Behavioral Health - Proposition 204 in FY 2012. This amount consists of:

General Fund	105,874,100
Federal Medicaid Authority	214,350,000

FY 2012 adjustments would be as follows:

<b>Formula Growth</b>	<b>GF 25,799,100</b>
	<b>FMA (38,250,500)</b>

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

- FY 2011 member months for Medicaid services that are projected to be (2.5)% lower than the budgeted amount for a General Fund base adjustment of \$(2,590,700).
- No funding for FY 2011 capitation rate overages.

<b>Table 1 General Fund Medicaid Behavioral Health Appropriations<sup>1/</sup></b>				
	<b>FY 2011 Appropriated</b>	<b>FY 2011 Revised</b>	<b>FY 2012</b>	<b>FY 2012 Above FY 2011 Appropriated</b>
Medicare Clawback Payments	\$ 8,581,500	\$ 8,162,700	\$ 12,541,500	\$ 3,960,000
Medicaid Special Exemption Payments	7,033,200	7,033,200	8,829,100	1,795,900
<u>State Match for Medicaid</u>				
CBH	123,806,200	120,358,000	157,854,600	34,048,400
SMI	67,610,100	60,328,100	84,242,300	16,632,200
GMH/SA <sup>2/</sup>	28,699,700	32,511,200	42,506,100	13,806,400
<u>State Match for Proposition 204</u>				
CBH	2,451,900	2,056,600	2,764,300	312,400
SMI	33,907,300	40,481,000	50,359,400	16,452,100
GMH/SA	43,715,800	38,900,300	52,750,400	9,034,600
<b>Total</b>	<b>\$315,805,700</b>	<b>\$309,831,100</b>	<b>\$411,847,700</b>	<b>\$96,042,000</b>

<sup>1/</sup> These amounts represent spending under the enhanced FMAP and contingent appropriation under Laws 2010, Chapter 232.  
<sup>2/</sup> Base amounts include \$3,600,000 from the Medically Needy Account of the Tobacco Tax and Health Care Fund.

- No increase in capitation rates in FY 2012.
- Reverse shift of monies from services to the agency operating budget.
- 2.3% enrollment growth in FY 2012.
- The figures assume that 36% of Proposition 204 SMI clients would become part of the Traditional population in FY 2011, because these individuals are Supplemental Security Income (SSI) eligible. SSI eligible clients would receive Traditional services, even if Proposition 204 had not been enacted.

This line item provides behavioral health treatment to individuals eligible for Medicaid pursuant to Proposition 204. The implementation of Proposition 204, passed by the voters in November of 2000, expanded the categories of eligibility for Medicaid services, including behavioral health services, up to 100% of the federal poverty level.

There are approximately 621,897 eligible individuals. DHS receives a monthly capitation payment from AHCCCS for every individual eligible for Medicaid behavioral health services, although only 6.8%, or 42,289, of the eligible population will utilize services (*see Table 4*).

**Proposition 204 Administration**

The Baseline includes \$6,446,700 for Proposition 204 Administration in FY 2012. 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 Baseline includes \$12,541,500 from the General Fund for Medicare Clawback Payments in FY 2012. FY 2012 adjustments would be as follows:

<b>Formula Growth</b>	<b>GF</b>	<b>3,960,000</b>
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The Baseline includes an increase of \$3,960,000 from the General Fund for formula growth associated with Medicare Clawback Payments in FY 2012. A federal revision to the state's Clawback obligation would yield \$(418,800) in savings in FY 2011. The DHS portion of the state's overall Clawback obligation would increase by \$4,378,800 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 Baseline includes \$26,704,300 for Medicaid Special Exemption Payments in FY 2012. This amount consists of:

General Fund	8,829,100
Federal Medicaid Authority	17,875,200

FY 2012 adjustments would be as follows:

<b>Formula Growth</b>	<b>GF</b>	<b>1,795,900</b>
	<b>FMA</b>	<b>(4,022,100)</b>

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. This amount also includes premium tax payments for AHCCCS - Children's Rehabilitative Services.

**Non-Medicaid Prescription Medication**

The Baseline includes \$40,154,900 for Non-Medicaid Prescription Medication in FY 2012. 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 Baseline includes \$5,324,800 from the Tobacco Tax and Health Care Fund Medically Needy Account for Supported Housing in FY 2012. 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 Baseline includes \$16,391,100 for Crisis Services in FY 2012. 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.

### **Community Placement Treatment**

The budget includes \$1,130,700 from the ASH Fund for Community Placement Treatment in FY 2012. 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 million for inpatient hospitalization services at the State Hospital for the seriously mentally ill. As of June 2010, the ASH census was 252 patients.

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**FORMAT** — Modified Lump Sum with Special Line Items by Agency

In FY 2011, the agency shifted General Fund monies appropriated for Medicaid services to fund their administrative costs. This adjustment to their budget format would preclude the agency from making a similar shift in FY 2012. (*See Other Issues for Legislative Consideration for more information on this shift.*)

### **FOOTNOTES**

#### *Standard Footnotes*

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.

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 the AHCCCS-Children's Rehabilitative Services and any Medicaid 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.

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 (1) potential shortfalls in programs, (2) 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 (3) total expenditure authority of the month and year-to-date for federally-matched services.

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.

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.

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. Sam* 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.

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.

The Department of Health Services shall distribute the entire appropriation for Alzheimer's Disease Research to grant recipients by September 30, 2011.

The Department of Health Services may transfer up to \$350,000 in revenues from the Indirect Cost Fund to the Arizona Health Care Cost Containment System Administration for the purpose of meeting indirect cost state match requirements related to AHCCCS - Children's Rehabilitative Services program.

### **STATUTORY CHANGES**

The Baseline would:

- As session law, continue requiring all counties to pay 100% of their Restoration to Competency costs.
- As session law, continue requiring all counties to pay 25% of their Sexually Violent Persons costs.

**OTHER ISSUES FOR LEGISLATIVE CONSIDERATION**

**Overall FY 2012 DHS Budget Changes**

The Baseline includes \$110,590,900 for DHS formula changes in FY 2012 as delineated by *Table 2*. Those changes are described in further detail below the table.

	<u>Adjustment</u>
Federal Match Rate Backfill	\$142,810,600
Regular FMAP Adjustment	(15,535,700)
Technical Adjustment	(7,426,400)
Reverse Administration Shift	(14,285,300)
FY 2011 Base Adjustment & FY 2012 Caseload Growth	5,027,700
Capitation Changes	<u>0</u>
<b>Total</b>	<b>\$110,590,900</b>

In total, the budget includes an increase of \$142,810,600 to backfill additional monies from the increased FMAP and costs associated with caseload growth, and a net decrease of \$(32,219,700) to account for capitation and caseload savings.

Federal Match Rate Backfill

Due to a reduction in the Federal Medicaid Assistance Percentage (FMAP), the Baseline 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.

Technical Adjustment

The Baseline 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 services for individuals with developmental disabilities.

Reverse Administration Shift

The Baseline includes a \$(14,285,300) decrease to reverse a FY 2011 shift of monies from Medicaid Behavioral Health programs to agency operations. In FY 2011, DHS shifted \$14,285,300 from their benefits line items to their administration budget to prevent reductions in the department’s operating expenses. According to the department, these monies were available due to anticipated penalties and excess capitation revenue. These line items were actually in shortfall, however, due to a lower than expected federal match. As a result, the DHS shift resulted in the Medicaid benefit line items being further in deficit. Given that the benefits are statutorily required and the administration budget is not, the Baseline readjusts DHS spending to restore the \$14.3 million to the Medicaid benefit line items and assumes the department will generate the same amount of offsets in FY 2012.

FY 2011 Base Adjustment and FY 2012 Caseload Growth

The Baseline includes a net \$5,027,700 General Fund increase for DHS caseload changes. This consists of FY 2011 base adjustments, which are \$5,555,800 for CRS and Clawback adjustments and \$(9,372,900) for BHS caseload changes. In FY 2012, caseloads are expected to grow by 2.3% at a cost of \$8,844,800.

FY 2012 Capitation Rate Changes

The Baseline reflects no net capitation rate adjustments in FY 2012. Capitation rates normally reflect adjustments in utilization of service and medical inflation. The FY 2011 budget, however, set a policy of no capitation adjustments, which is continued in the FY 2012 Baseline. If capitation rates increased by 5% in FY 2012, this would have cost an additional \$21,785,800 from the General Fund in FY 2012.

The Baseline includes no funding for behavioral health capitation rates that are higher than their budgeted FY 2011 amounts. At its August 2011 meeting, the Joint Legislative Budget Committee unfavorably reviewed proposed capitation rates that were higher than budgeted. If capitation rates increased to the proposed FY 2011 amount, this would have cost an additional \$24,871,900 from the General Fund in FY 2012.

**FY 2011 Net Funding Changes**

The Baseline includes no net DHS funding change in FY 2011. While there is no net change, there are numerous individual adjustments in the FY 2011 budget (*See Table 3*).

	<u>Adjustment</u>
Federal Match Rate	\$25,528,800
Technical Adjustment	(7,426,400)
Reverse Administration Shift	(14,285,300)
Behavioral Health Caseload Savings	(9,372,900)
CRS Caseload and Clawback Adjustment	5,555,800
<b>Total</b>	<b>\$ 0</b>

The adjustments are described above.

**Behavioral Health Utilization**

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 utilization actuals, as well as projected utilization for the end of FY 2011 and FY 2012, for the 3

Medicaid services. Furthermore, *Table 4* summarizes utilization actuals and projections for the 3 services as totals for the Traditional and Proposition 204 Medicaid populations.

<u>Service</u>	<u>June 2010 Actuals</u>	<u>June 2011</u>	<u>June 2012</u>
CBH	34,785	35,006	35,820
SMI	25,249	26,199	26,808
GMH/SA	<u>62,637</u>	<u>64,539</u>	<u>66,039</u>
<b>Total</b>	<b>122,671</b>	<b>125,744</b>	<b>128,667</b>
<b>Population <sup>2/</sup></b>			
Traditional	82,353	84,416	86,378
Proposition 204	<u>40,318</u>	<u>41,328</u>	<u>42,289</u>
<b>Total</b>	<b>122,671</b>	<b>125,744</b>	<b>128,667</b>

<sup>1/</sup> The figures represent point-in-time estimates.  
<sup>2/</sup> June 2010 actuals rebased to reflect 36% SMI shift.

<b>SUMMARY OF FUNDS</b>	<b>FY 2010 Actual</b>	<b>FY 2011 Estimate</b>
<b>Addiction Reduction and Recovery Fund (HAS2523/A.R.S. § 36-2007)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> FY 2007 appropriation of \$2,500,000 from the General Fund and any federal monies and private grants, gifts, and contributions to assist in carrying out the purposes of this fund.		
<b>Purpose of Fund:</b> For substance abuse and addiction prevention programs including methamphetamine abuse and addiction prevention programs.		
<b>Funds Expended</b>	100	0
<b>Year-End Fund Balance</b>	0	0
<b>Arizona State Hospital Fund (HAS3120/A.R.S. § 36-545.08)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> State monies and matching federal monies for disproportionate share payments at the Arizona State Hospital, Title XIX reimbursement for services provided at the Arizona State Hospital, and monies collected for services to clients at the state hospital. The FY 2011 Health and Welfare Budget Reconciliation Bill (BRB) (Laws 2010, 7 <sup>th</sup> Special Session Chapter 10) continues a session law enacted in FY 2010 that requires that all counties pay 100% of the cost of care for Restoration to Competency Patients.		
<b>Purpose of Fund:</b> To provide treatment of patients at the Arizona State Hospital or to place Arizona State Hospital patients in the community.		
<b>Funds Expended</b>	8,687,400	11,159,500
<b>Year-End Fund Balance</b>	4,807,500	4,548,000
<b>Breast and Cervical Cancer Screening and Diagnostic Special Plate Fund (HAS2513/A.R.S. § 36-119)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Revenues from special plate fees and renewals. Of the \$25 fee, \$8 is for administrative costs deposited to the State Highway Fund and \$17 is deposited into the Breast and Cervical Cancer Screening and Diagnostic Special Plate Fund.		
<b>Purpose of Fund:</b> For breast and cervical cancer screening and diagnostic and outreach services.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	400,100	573,200
<b>Child Fatality Review Fund (HAS3036/A.R.S. § 36-3504)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> A \$1 surcharge on fees collected on all certified copies of death certificates, up to \$100,000. Any revenue collected in excess of \$100,000 is transferred from the fund to the Child Abuse Prevention Fund in the Department of Economic Security.		
<b>Purpose of Fund:</b> To organize county child fatality review teams and to study data collected by these teams to determine ways to reduce the state's child mortality rate.		
<b>Funds Expended</b>	99,100	95,400
<b>Year-End Fund Balance</b>	214,400	304,600

SUMMARY OF FUNDS	FY 2010 Actual	FY 2011 Estimate
<b>Donations - DHS (HSA3010/2025/A.R.S. § 36-132)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Individual donations for various health related purposes.		
<b>Purpose of Fund:</b> For specific purposes as designated by the donors. Monies donated pursuant to A.R.S. § 36-213 and A.R.S. § 36-204 for the Arizona State Hospital are accounted for separately.		
<b>Funds Expended</b>	427,600	432,100
<b>Year-End Fund Balance</b>	972,500	930,300
<b>Donations - Statewide (HAS2025/A.R.S. § 36-132)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Individual donations from employee recognition events.		
<b>Purpose of Fund:</b> Employee recognition purposes.		
<b>Funds Expended</b>	7,400	7,000
<b>Year-End Fund Balance</b>	3,400	1,700
<b>Emergency Medical Services Operating Fund (HAS2171/A.R.S. § 36-2218)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> The fund receives 48.9% of the Medical Services Enhancement Fund revenues, which are collected from a 13% surcharge on fines charged for criminal offenses and civil motor vehicle statute violations.		
<b>Purpose of Fund:</b> To fund local and state emergency medical services systems.		
<b>Funds Expended</b>	4,084,700	5,093,200
<b>Year-End Fund Balance</b>	825,600	1,545,900
<b>Environmental Laboratory Licensure Revolving Fund (HAS3017/A.R.S. § 36-495.15)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Fees collected for environmental lab licensure, fees derived from department-sponsored workshops, and monies from gifts, grants, and donations.		
<b>Purpose of Fund:</b> For costs associated with licensing environmental laboratories by the Department of Health Services.		
<b>Funds Expended</b>	690,200	924,000
<b>Year-End Fund Balance</b>	456,400	205,100
<b>Federal Child Care and Development Fund Block Grant (HAS2008/U.S. P.L 104-193)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Federal formula grant.		
<b>Purpose of Fund:</b> A portion of the Federal Child Care and Development Block Grant provides the Assurance and Licensure Division with monies for the licensure of child care facilities.		
<b>Funds Expended</b>	648,100	836,100
<b>Year-End Fund Balance</b>	1,375,800	1,141,700
<b>Federal Grants (HAS2000/A.R.S. § 35-142)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Grants and reimbursements from the federal government. Federal reimbursement for the Title XIX program is not included in this fund and can be found listed in the Title XIX Services and County Contributions Fund.		
<b>Purpose of Fund:</b> To provide health services in accordance with the terms of each specific grant.		
<b>Funds Expended</b>	302,918,200	305,118,900
<b>Year-End Fund Balance*</b>	(5,798,300)	(4,197,300)
<b>Federal Grants - American Recovery and Reinvestment Act (ARRA) (HSA2999/A.R.S. § 35-142)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> One-time Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
<b>Purpose of Fund:</b> One-time Federal Funds to be used by the department for Public Health and Family Health programs.		
<b>Funds Expended</b>	12,563,800	8,381,100
<b>Year-End Fund Balance</b>	402,700	2,064,600

SUMMARY OF FUNDS	FY 2010 Actual	FY 2011 Estimate
<b>Federal Medicaid Services (HSA2500/A.R.S. § 35-142)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> The fund receives federal match dollars for treating behavioral health problems in Medicaid-eligible persons, federal match dollars for Medicaid-eligible persons in the Children's Rehabilitative Services (CRS) program.		
<b>Purpose of Fund:</b> For accounting purposes, these monies are considered part of the Agreements/IGA Fund. However, for informational purposes, the revenues and expenditures related to behavioral health and the CRS program have been separated from the Agreements Fund.		
<b>Funds Expended</b>	1,042,675,900	1,061,014,500
<b>Year-End Fund Balance</b>	0	0
<b>Health Services Licensing Fund (HSA1995/A.R.S. § 36-405, A.R.S. § 36-414)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Nonrefundable fees for health care institution licensing services.		
<b>Purpose of Fund:</b> For health care institutions' licensing applications, initial license, renewal license and architectural drawing reviews. As permanent law, the FY 2010 Health and Welfare Budget Reconciliation Bill (BRB) allowed DHS to establish nonrefundable fees for assurance and licensure. Prior to the FY 2010 Health and Welfare BRB, these fees were set forth in permanent law, however, the new law now allows the department to establish fees for health care institutions. Fees collected on or before December 31, 2009 were deposited into the General Fund, which is where revenues were deposited prior to the statutory change. Beginning January 1, 2010, 90% of assurance and licensure fees have been deposited into this fund with the remaining 10% deposited into the General Fund.		
<b>Funds Expended</b>	4,184,000	8,463,300
<b>Year-End Fund Balance</b>	1,579,200	980,600
<b>Hearing and Speech Professionals Fund (HSA6243/A.R.S. § 36-1903)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Monies collected by DHS from the examination and licensing of hearing and speech professionals.		
<b>Purpose of Fund:</b> For the licensing and regulation of hearing and speech professionals.		
<b>Funds Expended</b>	314,000	315,700
<b>Year-End Fund Balance</b>	297,300	326,000
<b>IGA/County Contributions (HSA2144/2500/A.R.S. § 35-142)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> This fund receives revenues from intergovernmental agreements between DHS and other state and local entities, contributions from Maricopa and Pima Counties for treating persons with behavioral health problems, subaccounts for Liquor Services Fees authorized under A.R.S. § 4-203-02, and deposits from the State Lottery Fund pursuant to A.R.S. § 5-522. In FY 2010, DHS received \$46,500,000 from Maricopa and Pima County for behavioral health services, \$17,600,000 from the Arizona Health Care Cost Containment System (AHCCCS) for KidsCare, and \$9,600,000 from the Department of Economic Security for nutrition services. The department also received \$6,600,000 from the State Lottery Fund for teenage pregnancy prevention, Health Start, and the Women, Infants, and Children (WIC) program.		
<b>Purpose of Fund:</b> To fund services which DHS has agreed to perform at the request of, or in conjunction with, public agencies.		
<b>Funds Expended</b>	82,970,800	77,689,000
<b>Year-End Fund Balance</b>	22,551,300	21,909,300
<b>Indirect Cost Fund (HSA9001/A.R.S. § 36-108)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Charges made to Federal Funds and interagency agreements in order to reimburse the agency for a portion of the administrative costs of the programs.		
<b>Purpose of Fund:</b> To pay a portion of the administrative personnel and overhead costs associated with various federal programs and interagency agreements.		
<b>Funds Expended</b>	7,607,400	7,746,700
<b>Year-End Fund Balance</b>	1,887,200	1,714,000
<b>Internal Services Fund (HSA4202/A.R.S. § 36-108)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Charges from other DHS funds.		
<b>Purpose of Fund:</b> Revolving Fund used by DHS warehouse for the purchase of goods.		
<b>Funds Expended</b>	1,200	1,200
<b>Year-End Fund Balance</b>	57,800	56,600

SUMMARY OF FUNDS	FY 2010 Actual	FY 2011 Estimate
<b>Medical Marijuana Fund (HSA9999/A.R.S. § 36-2817)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> The fund receives application and renewal fees from medical marijuana dispensaries, civil penalties and private donations.		
<b>Purpose of Fund:</b> To regulate dispensation, prescription, and use of medical marijuana, including an electronic registry of dispensary agents, patients and designated caregivers.		
<b>Funds Expended</b>	0	603,600
<b>Year-End Fund Balance</b>	0	59,400
<b>Newborn Screening Program Fund (HSA2184/A.R.S. § 36-694.01)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Monies received as part of the hospital charges for each child born in Arizona. Fee limits for newborn screening are \$30 for the first blood and hearing screening and \$40 for the second blood and hearing screening.		
<b>Purpose of Fund:</b> To provide monies for the centralized testing of all newborns in the state for a standard set of 29 metabolic and congenital (environmental/inherited) disorders. Every 4 years the department solicits bids for the contracting of these tests. The State Health Lab holds the current contract. In addition, the fund provides monies for follow-up counseling for the parents of affected infants.		
<b>Funds Expended</b>	5,685,400	6,749,900
<b>Year-End Fund Balance*</b>	388,600	(1,361,300)
<b>Nursing Care Institution Resident Protection Fund (HSA2329/A.R.S. § 36-446.08)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Civil penalties paid by nursing care institution administrators and assisted living facility managers for violations of their licenses or certifications.		
<b>Purpose of Fund:</b> For the protection of the health and property of residents of nursing care facilities that are found deficient.		
<b>Funds Expended</b>	28,700	38,000
<b>Year-End Fund Balance</b>	0	0
<b>Oral Health Fund (HSA3038/A.R.S. § 36-138)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies received from AHCCCS contracts for dental services.		
<b>Purpose of Fund:</b> To provide dental services to Medicaid-eligible children identified by the DHS Oral Health program.		
<b>Funds Expended</b>	275,300	275,300
<b>Year-End Fund Balance</b>	674,100	696,600
<b>Risk Assessment Fund (HSA2427/A.R.S. § 36-1693)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies from the Department of Environmental Quality for risk services performed by DHS. The fund may also receive legislative appropriations, gifts, grants, or donations.		
<b>Purpose of Fund:</b> To conduct health effects studies and risk assessments of public health risks from environmental exposure, to evaluate and calculate cleanup standards, to communicate health risks to the public, and for administrative costs of those activities.		
<b>Funds Expended</b>	15,600	0
<b>Year-End Fund Balance</b>	3,700	3,200
<b>Serious Mental Illness Services Fund (HSA2464/A.R.S. § 36-503.02)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies appropriated from the Tobacco Litigation Settlement Account, other legislative appropriations and interest earned on these monies. The fund received a one-time appropriation of \$50,000,000 from tobacco settlement funds in FY 2001. The final \$1,100,000 was spent in FY 2005.		
<b>Purpose of Fund:</b> To fund Community Housing, Vocational Rehabilitation, and other recovery support services to persons with serious mental illnesses.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0
<b>Service Fees Increase Fund (HSA1050/Laws 2010, 7th Special Session, Chapter 12)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> General Fund fee increase from fees raised pursuant to Laws 2010, 7th Special Session, Chapter 12.		
<b>Purpose of Fund:</b> Operating activities.		
<b>Funds Expended</b>	567,100	0
<b>Year-End Fund Balance</b>	52,100	299,900

SUMMARY OF FUNDS	FY 2010 Actual	FY 2011 Estimate
<b>Smoke Free Arizona Fund (HSA2541/A.R.S. § 36-601.01)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> A 2¢ per pack tax on cigarettes. Any revenues not used by the department to enforce the smoking ban are deposited to the Tobacco Tax Products Fund to be used for education programs to reduce or eliminate tobacco use.		
<b>Purpose of Fund:</b> To enforce the provisions of Proposition 201 (Smoke Free Arizona Act) enacted in the 2006 General Election. The Smoke Free Arizona Act banned smoking in public places except retail tobacco stores, veteran and fraternal clubs, hotel rooms designated as smoking rooms, and outdoor patios.		
<b>Funds Expended</b>	4,145,500	3,832,900
<b>Year-End Fund Balance</b>	277,200	305,000
<b>State Hospital Land Earnings Fund (HSA3128/A.R.S. § 36-211)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Monies received from interest on the Arizona State Hospital's Permanent Land Fund, as established through Arizona's Enabling Act, Section 25, and the monies derived from the lease of these lands and miscellaneous revenue.		
<b>Purpose of Fund:</b> For the benefit and support of the Arizona State Hospital.		
<b>Funds Expended</b>	420,100	1,150,000
<b>Year-End Fund Balance</b>	1,029,400	183,600
<b>Substance Abuse Services Fund (HSA2227/A.R.S. § 36-2005)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> The fund receives 23.6% of monies collected from Medical Services Enhancement Fund, which is a 13% penalty levied on criminal offenses, motor vehicle civil violations, and game and fish violations. Monies are deposited into 2 subaccounts.		
<b>Purpose of Fund:</b> To provide alcohol and other drug screening, education or treatment for persons court-ordered to attend and who do not have the financial ability to pay for the services, to contract for preventive or rehabilitative and substance abuse services, and to provide priority for treatment services to pregnant substance abusers.		
<b>Funds Expended</b>	1,083,300	2,250,000
<b>Year-End Fund Balance</b>	1,374,100	1,374,100
<b>Tobacco Tax and Health Care Fund - Health Education Account (HSA1308/A.R.S. § 36-772)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> The account receives 23¢ of each dollar deposited in the Tobacco Tax and Health Care Fund and 2¢ of each dollar in the Tobacco Products Tax Fund.		
<b>Purpose of Fund:</b> Monies are used for community-based education and evaluation, and other programs to discourage tobacco use among the general public, specifically targeting minors and culturally diverse populations. The monies from the Tobacco Products Tax Fund are used for the prevention and detection of the 4 leading causes of death.		
<b>Funds Expended</b>	19,012,800	19,012,800
<b>Year-End Fund Balance</b>	0	0
<b>Tobacco Tax and Health Care Fund - Medically Needy Account (HSA1306/A.R.S. § 36-774)</b>		<b>Partially-Appropriated</b>
<b>Source of Revenue:</b> The account receives funding from the Medically Needy Account of the Tobacco Tax and Health Care Fund, which is managed by AHCCCS. All monies remaining unexpended at the end of the fiscal year revert to the AHCCCS Medically Needy Account. <i>(See Tobacco Tax Table in the AHCCCS section.)</i>		
<b>Purpose of Fund:</b> Monies are used for a variety of health programs that are intended to increase primary care and mental health services for uninsured and low-income populations.		
<b>Appropriated Funds Expended</b>	35,345,100	35,167,000
<b>Non-Appropriated Funds Expended</b>	0	0
<b>Vital Records Electronic Systems Fund (HSA3039/A.R.S. § 36-341.01)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Fees collected for searches, copies of records, applications to file delayed records, requests for supplementary birth certificates, following adoption, legitimation, paternity determination, surgical alterations, and chromosomal counts, or amendments to existing records.		
<b>Purpose of Fund:</b> To develop and operate a new vital records automated system.		
<b>Funds Expended</b>	433,700	426,400
<b>Year-End Fund Balance</b>	14,800	439,500

\*As reported by the agency. Actual ending balance will not be negative.