

Arizona Health Care Cost Containment System

	FY 2011 ACTUAL	FY 2012 ESTIMATE	FY 2013 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,983.4	2,975.4	2,975.4
Personal Services	30,695,900	41,568,400	40,920,900
Employee Related Expenditures	14,089,200	18,642,600	18,391,600
Professional and Outside Services	2,814,700	3,519,300	3,427,100
Travel - In State	63,900	84,500	84,400
Travel - Out of State	17,800	21,700	21,700
Other Operating Expenditures	17,352,500	13,286,100	13,041,500
Equipment	854,700	1,993,100	1,993,100
OPERATING SUBTOTAL	65,888,700	79,115,700	77,880,300
SPECIAL LINE ITEMS			
Administration			
DES Eligibility	36,959,000	53,661,700	53,661,700
Proposition 204 - AHCCCS Administration	8,030,500	6,620,400	6,620,400
Proposition 204 - DES Eligibility	34,754,300	37,716,400	37,716,400
Medical Services			
Traditional Medicaid Services	3,359,585,900	2,809,076,200	3,264,479,100
Proposition 204 Services	2,203,204,700	1,497,856,000	1,365,641,700
Children's Rehabilitative Services	0	110,126,600	128,599,100
KidsCare Services	52,521,000	36,067,800	21,622,300
ALTCS Services	1,245,500,300	1,229,251,600	1,177,910,000
Payments to Hospitals			
Disproportionate Share Payments	4,202,300	13,487,100	13,487,100
DSH Payments - Voluntary Match	0	0	28,457,100
Rural Hospitals	13,871,500	13,858,100	13,858,100
Graduate Medical Education	0	0	90,977,300
Safety Net Care Pool	0	0	0
Arizona Health System Improvement Pool	0	0	0
AGENCY TOTAL	7,024,518,200	5,886,837,600^{1/}	6,280,910,600
FUND SOURCES			
General Fund	1,301,689,300	1,363,735,000	1,407,257,400
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	2,338,000	3,161,100	3,221,100
Children's Health Insurance Program Fund	43,659,700	30,176,400	18,123,100
Healthcare Group Fund	1,773,700	3,496,300	2,260,900
Prescription Drug Rebate Fund - State	10,000,000	20,114,500	69,949,700
TPTF Emergency Health Services Account	19,910,300	19,222,900	19,222,900
TTHCF Medically Needy Account	38,295,800	38,295,800	38,295,800
SUBTOTAL - Other Appropriated Funds	115,977,500	114,467,000	151,073,500
SUBTOTAL - Appropriated Funds	1,417,666,800	1,478,202,000	1,558,330,900
<u>Expenditure Authority Funds</u>			
County Funds	0	302,984,400	294,122,200
Federal Medicaid Authority	5,465,202,100	3,956,877,300	4,081,979,600
Political Subdivision Funds	0	0	40,523,000
Prescription Drug Rebate Fund - Federal	0	0	165,392,300
Third Party Collections Fund	0	194,700	194,700
Tobacco Litigation Settlement Fund	99,161,600	108,211,300	100,000,000
TPTF Proposition 204 Protection Account	42,487,700	40,367,900	40,367,900
SUBTOTAL - Expenditure Authority Funds	5,606,851,400	4,408,635,600	4,722,579,700
SUBTOTAL - Appropriated/Expenditure Authority Funds	7,024,518,200	5,886,837,600	6,280,910,600

^{1/} In addition to these amounts, a total of \$693,100 GF, \$137,600 OF and \$693,100 FMA is appropriated in FY 2012 for costs associated with an additional pay period.

	FY 2011 ACTUAL	FY 2012 ESTIMATE	FY 2013 BASELINE
Other Non-Appropriated Funds	116,646,500	95,254,100	55,750,900
Federal Funds	293,292,400	395,650,800	85,521,300
TOTAL - ALL SOURCES	7,434,457,100	6,376,742,500	6,422,182,800

AGENCY DESCRIPTION — The Arizona Health Care Cost Containment System (AHCCCS) operates on a health maintenance organization model in which contracted providers receive a predetermined monthly capitation payment for the medical services cost of enrolled members. AHCCCS is the state's federally matched Medicaid program and provides acute and long-term care services.

FY 2013 Adjustments

AHCCCS' General Fund spending would increase by \$43,522,400 or 3.2%. The \$43,522,400 includes:

- \$(42,300) in net caseload reduction, as FY 2012 caseload savings will largely be offset by the new caseload growth in FY 2013.
- \$41,673,100 for a lower federal match rate.
- \$40,666,200 for the loss of one-time FY 2012 savings partially offset by the annualization of FY 2012 waiver changes.
- \$(46,985,900) due to the increase in Prescription Drug Rebate Fund savings.
- \$8,211,300 to backfill Tobacco Settlement Funds.

For additional information on how these changes are divided by line item, see *Table 7*.

Below is an overview of the FY 2013 Baseline and FY 2012 changes, including information on FY 2013 overall AHCCCS formula changes, changes to the Federal waiver, the FY 2012 shortfall, the Prescription Drug Rebate Fund, and the Tobacco Settlement Fund. This is followed by detailed descriptions of each line item. It is then followed by footnotes, statutory changes, more detailed information on county contributions, and detailed information on program components, and Tobacco Tax allocation. Finally, there are 3 tables at the end which provide more detail on the Medicaid Waiver impacts in FY 2012 and FY 2013 and a breakout of tobacco tax allocations.

The implementation of the new federal healthcare plan in January 2014 will have a significant impact on the state's Medicaid program. Those revisions are discussed in further detail in the Long-Term General Fund Estimates section of the Baseline book.

FY 2013 Overall AHCCCS Formula Adjustments

Overall AHCCCS caseloads are expected to be lower than budgeted in FY 2012, resulting in savings of \$(38,399,600). This savings would be offset by new non-Childless Adult caseload growth in FY 2013. This caseload increase would cost \$38,357,300 in FY 2013, or a net savings of \$(42,300) after adjusting for the lower FY 2012 caseloads.

AHCCCS caseloads are forecast to grow to 1,311,000 in FY 2013, an increase of 719 above the revised June 2012 forecast (*see Table 1*). After adjusting for an expected loss of 35,629 participants due to the Childless Adult and KidsCare enrollment freeze, caseloads would increase by 36,348 participants.

Apart from the enrollment freezes, caseloads are projected to grow by 3% in FY 2013. The Children's Rehabilitative Services program is expected to continue above-average growth.

Population	June 2011	June 2012 ^{2/}	June 2013	'12-'13% Change
Traditional Capitation	813,889	855,139	880,794	3.0%
Prop 204 Capitation	365,786	283,541	256,465 ^{3/}	(9.5)
Children's Rehabilitative Services	21,837	24,301	26,245	8.0
KidsCare ^{4/}	17,693	11,131	7,235 ^{3/}	(35.0)
Long-Term Care	27,439	27,988	28,828	3.0
Fee-For-Service/Other	<u>106,442</u>	<u>108,387</u>	<u>111,639</u>	<u>3.0</u>
Total AHCCCS	1,353,086	1,310,487	1,311,206 ^{3/}	0.1

^{1/} The figures represent point-in-time estimates. The Fee-For-Service/Other population includes the Dual Eligible (Medicare Premiums), Ticket to Work, and Breast and Cervical Cancer populations.

^{2/} Represents revised forecast.

^{3/} Includes a reduction of 31,733 participants due to the Childless Adult Enrollment freeze and 3,896 participants due to the KidsCare enrollment freeze.

^{4/} Does not include KidsCare expansion funded through the Safety Net Care Pool.

The Federal Medical Assistance Percentage (FMAP) is the rate at which the federal government matches state contributions to the Medicaid programs. These rates are set on a state-by-state basis and are revised each year. Typically the federal government provides an approximate 2:1 match for most Medicaid services and a 3:1 match for KidsCare. During FY 2013, the blended FMAP for Medicaid will decline to 66.09% (0.85% decline). The KidsCare rate will decline to 76.26% (0.59% decline). The reduced FMAP will result in additional General Fund costs of \$41,673,100 in FY 2013.

The Baseline includes a General Fund increase of \$40,666,200 for the loss of one-time FY 2012 savings of

\$228,702,500 partially offset by the annualization of \$(188,036,300) in FY 2012 waiver changes (*see Table 7 for details*). One-time FY 2012 savings include a FY 2012 payment deferral, additional prescription drug rebate savings, and savings from lower than anticipated FY 2012 capitation rates. These savings, as well as changes to the Federal waiver, are discussed in more detail in the next section.

The Baseline continues the policy of no capitation rate increases in FY 2013. If capitation rates were grown at 2% in FY 2013, this would cost an additional \$26,698,800 from the General Fund.

Changes to the Federal Waiver

The FY 2012 budget included a reduction of \$(524,000,000) across the 3 Medicaid agencies: AHCCCS, the Department of Health Services (DHS), and the Department of Economic Security (DES). It also authorized AHCCCS, notwithstanding any other law, to adopt rules to implement a program within its available appropriations to: 1) make changes to the amount, scope or duration of services, 2) establish and maintain rules regarding standards, methods and procedures for determining eligibility within the available appropriation, and 3) make changes to reimbursement rates and methodologies, including rules

relating to cost sharing. The budget further stated that it is the intent of the Legislature that AHCCCS continue to implement a program within the available appropriation.

In March 2011, the Executive submitted a revised Waiver Demonstration proposal to the Federal government and additional state plan amendments. Most items required Federal approval. In subsequent negotiations, the Federal government approved certain items and disapproved others. As of this writing they have not yet addressed the limitation of hospital in-patient days to 25 annually. This limitation, however, has been incorporated into health plans' capitation rates (*see Program Components for an explanation of capitation*).

Table 2 shows how the Executive intended to achieve the savings shortly after the FY 2012 budget was passed, the revised estimates, and estimated savings in FY 2013.

For a more detailed breakout of the proposal by agency, see Table 8.

FY 2012 Shortfall

Due to the Medicaid Waiver Plan revisions, the state is estimated to have a statewide Medicaid General Fund shortfall of \$(223,108,900). The Executive has proposed statewide solutions to solve the shortfall as displayed in Table 3.

Proposal	FY 2012		FY 2013
	Original	Revised	
Eliminate "Spend-Down" Program	\$ 75.0	\$ 73.2	\$ 89.4
Implement Enrollment Freeze & 6 Month Redetermination for Childless Adults ^{1/}	193.5	136.7	305.2
Implement Enrollment Freeze for Parents from 75-100% FPL ^{2/}	17.8	0.0	0.0
Reduce Provider Rates by (5)% and Eliminate Outlier Payments	95.0	68.9	97.7
State Reimbursement of Medicare Liability ^{2/}	40.0	0.0	0.0
Expand Mandatory Co-Payments/Eliminate Non-Emergency Transportation for Some Recipients ^{3/}	2.7	0.0	0.0
Impose New Benefit Limits ^{4/}	40.0	22.1	32.0
Eliminate Federal Emergency Services ^{2/}	20.0	0.0	0.0
Health Plan Reconciliations ^{5/}	<u>40.0</u>	<u>0.0</u>	<u>0.0</u>
Total	\$524.0	\$300.9	\$524.3
Impact By Agency			
AHCCCS	\$478.9	\$250.2	\$438.2
DHS	43.5	38.4	69.7
DES	<u>1.6</u>	<u>12.2</u>	<u>16.3</u>
Total	\$524.0	\$300.9	\$524.2

1/ The 6-month redetermination was not approved.
2/ These items did not receive federal approval for implementation.
3/ Did not receive federal approval but in subsequent negotiations received approval to charge \$4 (roundtrip) copays on taxi rides for childless adults in Maricopa and Pima Counties beginning on April 1, 2012.
4/ Partially approved. Still awaiting approval to limit hospital inpatient days to 25 per year.
5/ AHCCCS had initially planned to use \$40 million of reconciliation payments in FY 2012 but instead used them to help pay off the FY 2011 rollover.

Solution	Savings
AHCCCS Payment Deferral	\$117.5
Non-Medicaid Reform Plan Surplus	20.2
Prescription Drug Surplus	<u>85.4</u>
Total	\$223.1

AHCCCS' share of the waiver plan shortfall is \$(228,702,500). The shortfall would be addressed by \$(117,544,800) in new rollover savings, \$(51,500,000) in prescription drug savings, and \$(59,657,700) in non-Medicaid Reform surplus savings. More detailed information on the shortfall and solutions can be found in Table 7 and Table 8.

AHCCCS Payment Deferral

Since FY 2009, AHCCCS has been required to defer a total of \$344,201,700 in June acute care capitation payments until July, so that these payments are made in the following fiscal year. In FY 2011, AHCCCS did not defer June capitation payments. To help make the June 2011 payment, AHCCCS used \$85,000,000 in reconciliation payments. Of that amount, \$40,000,000 would have otherwise been used in FY 2012 to achieve the \$(524,000,000) budgeted Medicaid reduction. Reconciliation payments are made to AHCCCS if health plans exceed a certain profit level (typically 2%-3%) within particular programs.

Although AHCCCS has now paid off the rollover, they intend to resume the rollover at the end of FY 2012 as required by the FY 2012 General Appropriation Act (Laws 2011, Chapter 24). This will lower their General Fund costs in FY 2012 by \$(117,544,800).

Non-Medicaid Reform Plan Surplus

Additional savings of \$(20,154,100) are expected due to lower than budgeted capitation rates in AHCCCS and DES (not associated with provider rate reductions), reconciliation payments, and lower than budgeted caseload growth. Of these savings, \$(59,657,700) is from AHCCCS and \$(1,623,600) from DES. These savings are offset by \$41,117,200 in higher than budgeted capitation rate increases in DHS.

Prescription Drug Rebate Surplus

The FY 2012 budget appropriated \$20,114,500 from the Prescription Drug Rebate Fund (PDRF) to offset AHCCCS expenses. Due to higher than anticipated rebates, AHCCCS estimates total receipts of \$105,514,500, or a surplus of \$85,400,000 from the PDRF in FY 2012 (see next section for more information about the PDRF). The Executive has proposed using \$51,500,000 to offset General Fund shortfalls in AHCCCS and \$33,900,000 to offset General Fund shortfalls in DHS.

Prescription Drug Rebate Fund

The Baseline includes an increase of \$46,985,900 from the Prescription Drug Rebate Fund (PDRF) and a corresponding decrease from the General Fund in FY 2013 based on AHCCCS estimates.

The Federal Affordable Care Act requires drug manufacturers to provide rebates for drugs sold to Medicaid managed care plans. The FY 2012 budget appropriated \$20,114,500 from the PDRF. Based on recipients of the refunds to date, AHCCCS estimates the fund will be able to support this increased appropriation even after increasing the fund's appropriation to \$105,514,500 in FY 2012.

Additionally the Baseline changes the federal portion of the Prescription Drug Rebate Fund to Expenditure Authority. In prior budgets, the federal portion was non-appropriated.

Tobacco Settlement

The Baseline includes a decrease of \$(8,211,300) from the Tobacco Settlement Fund and a corresponding increase to the General Fund in FY 2013 based on JLBC estimates. The Baseline assumes yearly collections totaling \$100,000,000.

Operating Budget

The Baseline includes \$77,880,300 and 1,208.4 FTE Positions in FY 2013 for the operating budget. These amounts consist of:

	FY 2013
General Fund	\$27,984,700
Healthcare Group Fund	2,260,900
Children's Health Insurance Program (CHIP) Fund	1,633,400
Prescription Drug Rebate Fund (PDRF)	114,500
Federal Medicaid Authority (FMA)	45,886,800

FY 2013 adjustments would be as follows:

**Healthcare Group HGF (1,235,400)
Administrative Decrease**

The Baseline includes an agency-requested decrease of \$(1,235,400) from the Healthcare Group Fund in FY 2013 for decreased administrative expenses in Healthcare Group. AHCCCS forecasts enrollment of 5,600 in healthcare insurance in June 2013 compared to 8,300 in June 2011. Healthcare Group's contract limits administrative expenses to 7% of total premium revenues.

Administration

DES Eligibility

The Baseline includes \$53,661,700 and 995.9 FTE Positions in FY 2013 for Department of Economic Security (DES) Eligibility services. These amounts consist of:

General Fund	24,924,500
Federal Medicaid Authority	28,737,200

These amounts are unchanged from FY 2012.

Through an Intergovernmental Agreement, DES performs eligibility determinations.

Proposition 204 - AHCCCS Administration

The Baseline includes \$6,620,400 and 167.2 FTE Positions in FY 2013 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	2,207,600
Federal Medicaid Authority	4,412,800

These amounts are unchanged from FY 2012.

Proposition 204 expanded AHCCCS eligibility. This line item contains funding for AHCCCS' administration costs of the Proposition 204 program.

Proposition 204 - DES Eligibility

The Baseline includes \$37,716,400 and 603.9 FTE Positions in FY 2013 for Proposition 204 - DES Eligibility costs. These amounts consist of:

General Fund	17,200,800
Budget Neutrality Compliance Fund	3,221,100
Federal Medicaid Authority	17,294,500

FY 2013 adjustments would be as follows:

Statutory Adjustment	GF	(60,000)
	BNCF	60,000

The Baseline includes a decrease of \$(60,000) from the General Fund and a corresponding increase from the Budget Neutrality Compliance Fund (BNCF) in FY 2013 to reflect a statutorily-required increase of county contributions in FY 2013 (A.R.S. § 11-292O). (Please see Table 6 for contributions by county.)

Background – The BNCF is comprised of contributions from Arizona counties for administrative costs of the implementation of Proposition 204. Prior to the proposition, the counties funded and administered the health care program for some of the Proposition 204 population.

This line item contains funding for eligibility costs in DES for the Proposition 204 program.

Medical Services

AHCCCS oversees acute care and long term care services, as well as the Children’s Rehabilitative Services program. Overall formula adjustments are below. A description of program components can be found in the *Other Issues for Legislative Consideration* section.

Traditional Medicaid Services

The Baseline includes \$3,264,479,100 in FY 2013 for Traditional Medicaid Services. This amount consists of:

General Fund	857,132,700
County Funds	50,901,700
PDRF - State	63,741,300
TTHCF Medically Needy Account	38,295,800
Third Party Collections	194,700
Federal Medicaid Authority	2,102,779,800
PDRF - Federal	151,433,100

FY 2013 adjustments would be as follows:

Formula Adjustment	GF	150,616,100
	EA	304,786,800

The EA amount consists of \$305,136,600 in Federal Medicaid Authority and \$(349,800) in County Funds. The formula adjustments include:

- 3.0% enrollment growth in FY 2013 to a level of 880,800 (see Table 1).

- A change in the Federal Medical Assistance percentage (FMAP) from 66.94% in FY 2012 to 66.09% in FY 2013.
- 3.0% increase in reinsurance expenses and Medicare premiums.
- \$(349,800) decrease in Maricopa County Acute Care contribution under A.R.S § 11-292 with a corresponding General Fund increase.
- Annualized provider rate reductions and benefit limits from FY 2012.

Prescription Drug Rebates	GF	(53,215,600)
	OF	53,215,600
	EA	0

The Baseline includes an increase of \$53,215,600 from the PDRF and a corresponding decrease from the General Fund in FY 2013 to reflect increased prescription drug rebates. Of this amount, \$8,005,500 is being transferred from the Proposition 204 Services line item. Additionally, this line item includes an increase of \$151,433,100 from the federal portion of the PDRF and a corresponding decrease from Federal Medicaid Authority in FY 2013. The PDRF is a partially-appropriated fund. In previous budgets, the federal portion was non-appropriated. The Baseline changes the federal portion to Expenditure Authority beginning in FY 2013.

Background – Traditional Medicaid Services funds the following populations (see Chart 1):

- Children less than 1, up to 140% FPL
- Children aged 1-5, up to 133% FPL
- Children aged 6-18, up to 100% FPL
- Pregnant women, up to 150% FPL
- Aged, blind, and disabled adults, up to 75% FPL
- Parents, up to 23% FPL
- Women diagnosed through the Breast and Cervical Cancer Screening Program, up to 250% FPL
- Individuals aged 16-64 receiving Supplemental Security Income, up to 250% FPL (“Ticket to Work”)

Proposition 204 Services

The Baseline includes \$1,365,641,700 in FY 2013 for Proposition 204 Services. This amount consists of:

General Fund	258,523,200
Tobacco Settlement Fund	100,000,000
TPTF Proposition 204 Protection Account	40,367,900
Emergency Health Services Account	19,222,900
Federal Medicaid Authority	947,527,700

FY 2013 adjustments would be as follows:

Formula Adjustment	GF	(80,420,900)
	FMA	(51,793,400)

The Baseline includes a decrease of \$(132,214,300) in FY 2013 for formula adjustments to Proposition 204 Services. The formula adjustments include:

freeze since January 2010. Regular enrollment is projected at 11,100 in June 2012 and 7,200 in June 2013 (see Table 1).

Expanded enrollment may be available if the federal government approves the Safety Net Care Pool (see the Safety Net Care Pool line item for more details). If approved, this expansion may be addressed through the creation of a new KidsCare - Voluntary Match line item. AHCCCS estimates that approval will result in an additional enrollment of approximately 19,000 children.

While Federal health care legislation will not completely eliminate the freeze, it expands coverage in the Traditional program to 133% FPL beginning on January 1, 2014. This will require a shift of existing enrollees between 100%-133% FPL from KidsCare to Traditional Medicaid Services beginning on January 1, 2014.

Background – The KidsCare program, also referred to as the Children’s Health Insurance Program (CHIP), provides health coverage to children in families with incomes below 200% FPL, but above the levels required for the regular AHCCCS program. The KidsCare program receives an approximate 3 to 1 match rate, which is higher than the regular 2 to 1 match in the other programs. The federal monies are deposited into the CHIP Fund, and the CHIP Fund is then appropriated, along with the General Fund match, to fund the KidsCare program.

ALTCS Services

The Baseline includes \$1,177,910,000 in FY 2013 for Arizona Long Term Care System (ALTCS) expenditures. This amount consists of:

General Fund	162,594,300
County Contributions	243,220,500
PDRF - State	6,093,900
Federal Medicaid Authority	752,042,100
PDRF - Federal	13,959,200

FY 2013 adjustments would be as follows:

Formula Adjustment	GF	7,135,300
	EA	(58,476,900)

The Expenditure Authority amount consists of \$(52,813,800) in Federal Medicaid Authority and \$(5,663,100) in County Contributions. The formula adjustments include a 3.0% enrollment growth in FY 2013, a decrease in the FMAP, and annualized provider rate reductions and benefit limits. Caseloads are projected to grow to a level of 28,800 by June 2013 (see Table 1).

Prescription Drug Rebates	GF	(1,775,800)
	OF	4,625,100
	EA	(2,849,300)

The Baseline includes an increase of \$4,625,100 from the appropriated portion of the PDRF and a corresponding

decrease from other sources in FY 2013 to reflect increased prescription drug rebates. Of the \$(4,625,100), \$(1,775,800) is from the General Fund and \$(2,849,300) is from County Funds.

Additionally, this line item includes an increase of \$13,637,300 from the federal portion of the PDRF and a corresponding decrease from Federal Medicaid Authority in FY 2013. In previous budgets, the federal portion was non-appropriated. The Baseline changes the federal portion to Expenditure Authority beginning in FY 2013.

Background – ALTCS provides coverage for individuals up to 222% of the FPL, or \$24,176 per person. The federal government requires coverage of individuals up to 100% of Supplemental Security Income limit (SSI), which is equivalent to 72% of FPL, or \$7,841 per person.

Clients contribute to the cost of their care based on their income and living arrangement, with institutionalized members contributing more of their income to the cost of their care. For FY 2011, AHCCCS estimates that client contributions paid for 6.8% of care.

Payments to Hospitals

These line items represent payments made directly to hospitals separate from the traditional capitated or fee-for-service system.

Disproportionate Share Payments

The Baseline includes \$13,487,100 in FY 2013 for Disproportionate Share Hospital (DSH) Payments. This amount consists of:

General Fund	3,186,500
Federal Medicaid Authority	10,300,600

FY 2013 adjustments would be as follows:

Formula Adjustment	GF	71,800
	FMA	(71,800)

The formula adjustment represents a change in match rate.

Background – This line item represents supplementary payments to hospitals that serve a large, or disproportionate, number of low-income patients. Table 4 displays the allocation of Disproportionate Share Funding.

Table 4

Disproportionate Share Hospital Program

	<u>FY 2012</u>	<u>FY 2013</u>
<u>Eligible Funding</u>		
County-Operated Hospitals	\$ 89,877,700	\$ 89,877,700
Arizona State Hospital (ASH)	28,474,900	28,474,900
Private Hospitals	<u>9,284,800</u>	<u>9,284,800</u>
Total Allocations	\$127,637,400	\$127,637,400
<u>Distribution of Funding</u>		
Federal DSH to GF (Maricopa)	\$ 56,285,400	\$ 54,829,400
Federal DSH to GF (ASH)	<u>19,163,600</u>	<u>18,702,300</u>
Subtotal	\$ 75,449,000	\$ 73,531,700
County-Operated Hospitals	4,202,300	4,202,300
Private Hospitals	<u>9,284,800</u>	<u>9,284,800</u>
Total	\$ 88,936,100	\$ 87,018,800

The state only appropriates General Fund dollars for DSH payments to private hospitals (\$9,284,800 in total funds in FY 2013). Publicly operated hospitals are required to document uncompensated care costs to the federal government through a Certified Public Expenditure (CPE) process. Those CPEs result in the drawdown of Federal Funds. The state retains all of the Federal Funds with the exception of \$4,202,300 which is allocated to Maricopa Integrated Health System (MIHS).

DSH Payments - Voluntary Match

The Baseline includes \$28,457,100 in FY 2013 for DSH Payments - Voluntary Match. This amount consists of:

Political Subdivision Funds (PSF)	9,299,600
Federal Medicaid Authority	19,157,500

FY 2013 adjustments would be as follows:

**Change to Appropriated Funds PSF 9,299,600
FMA 19,157,500**

Beginning in FY 2010, the Health Budget Reconciliation Bill has allowed local governments, tribal governments and universities to provide voluntary DSH payments in order to receive a federal match. In FY 2011, 4 hospitals contributed the state match for \$10,104,665 in DSH payments.

In prior budgets, all monies received by AHCCCS from political subdivisions for DSH - Voluntary Match have been non-appropriated. The FY 2013 Baseline converts the Voluntary Match payments to the regular budget structure.

Rural Hospitals

The Baseline includes \$13,858,100 in FY 2013 for Rural Hospitals. This amount consists of:

General Fund	4,756,100
Federal Medicaid Authority	9,102,000

FY 2013 adjustments would be as follows:

Formula Adjustment

**GF 143,100
FMA (143,100)**

The formula adjustment represents a change in match rate.

Background – This line item is comprised of 2 programs. The Rural Hospital Reimbursement program increases inpatient reimbursement rates for qualifying rural hospitals. The Critical Access Hospitals program provides increased reimbursement to small rural hospitals that are federally designated as critical access hospitals. In FY 2011, 19 hospitals qualified for funding from Rural Hospital Reimbursement and 10 from Critical Access Hospitals.

Graduate Medical Education

The Baseline includes \$90,977,300 in FY 2013 for Graduate Medical Education (GME) expenditures. This amount consists of:

Political Subdivision Funds (PSF)	31,223,400
Federal Medicaid Authority	59,753,900

FY 2013 adjustments would be as follows:

**Change to Appropriated Funds PSF 31,223,400
FMA 59,753,900**

The GME program reimburses hospitals with graduate medical education programs for the additional costs of treating AHCCCS members with graduate medical students. While AHCCCS no longer provides any General Fund monies to this program, A.R.S. § 36-2903.01 allows local, county, and tribal governments, along with public universities to provide state match for GME, and entities may designate the recipients of such funds. In 2011, 5 hospitals received a total of \$90,977,300 for Graduate Medical Education.

In the FY 2012 budget, all monies received by AHCCCS from political subdivisions for GME have been appropriated to AHCCCS via a footnote that permitted AHCCCS to spend whatever was received. The FY 2013 Baseline converts the Voluntary Match payments to the regular budget structure.

Safety Net Care Pool

AHCCCS proposes the creation of the Safety Net Care Pool (SNCP) in FY 2012. Pending final Federal approval of the plan and legislative concurrence, the FY 2013 Baseline has not yet included specific funding for this pool.

As part of its federal waiver, AHCCCS has requested to establish a SNCP to fund unreimbursed costs incurred by providers in caring for the uninsured and AHCCCS recipients through December 31, 2013. Monies in this pool will first go to safety net hospital systems and rural hospitals. If remaining funding is available, it will be

made available for DSH hospitals (*see Disproportionate Share Payments line item for more details on DSH hospitals*).

The SNCP is part of a broader proposal to fund an expansion of the KidsCare program and improvements to certain medical systems. Laws 2011, Chapter 234 authorized hospitals to partner with political subdivisions (including local, county or tribal governments and Arizona public universities) to provide coverage for individuals who no longer qualify for Proposition 204. Under the AHCCCS proposal, the match is expected to be provided by at least Maricopa Integrated Health System, University of Arizona Health Network, and Phoenix Children’s Hospital, which will partner with a political subdivision. The political subdivisions are projected to provide a total of \$113,134,700 in state match at an approximate 2:1 matching ratio. That amount will draw down \$229,907,300 in Federal Funds for a total of \$343,042,000. According to the preliminary plan, those monies are expected to be allocated as displayed in *Table 5*:

Table 5	
Political Subdivision Match	
Program	Amount
Safety Net Care Pool	\$173,645,400
KidsCare Expansion	44,651,600
Arizona Health System Improvement Pool	124,745,000
Total	\$343,042,000

Arizona Health System Improvement Pool

AHCCCS proposes the creation of the Arizona Health System Improvement Pool (AHSIP) in FY 2012. Pending final federal approval of the plan and legislative concurrence, the FY 2013 Baseline has not yet included specific funding for this pool.

As part of its Federal waiver, AHCCCS has requested to establish the AHSIP. Monies in this pool will go for hospital improvements. As of December 2011, AHCCCS estimates \$125,000,000 will go towards the AHSIP in FY 2013. Of that amount, \$35,000,000 is expected to fund an electronic health record expansion at Maricopa Integrated Health System, \$50,000,000 is expected to fund the development of electronic health records and creation of a Level III Trauma Center at University of Arizona Health Network, and \$40,000,000 is expected to be used for the expansion of the emergency department and Level I Trauma Center at Phoenix Children’s Hospital.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Operating Budget

The amounts appropriated for the Department of Economic Security Eligibility line item shall be used for intergovernmental agreements with the Department of Economic Security for the purpose of eligibility determination and other functions. The General Fund share may be used for eligibility determination for other programs administered by the Division of Benefits and Medical Eligibility based on the results of the Arizona Random Moment Sampling Survey.

The amounts included in the Proposition 204 - AHCCCS Administration, Proposition 204 - DES Eligibility, and Proposition 204 Services Special Line Items includes all available sources of funding consistent with A.R.S. § 36-2901.01B.

Medical Services

Before making fee-for-service program or rate changes that pertain to fee-for-service rate categories, the Arizona Health Care Cost Containment System Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee.

The Arizona Health Care Cost Containment System Administration 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, the Arizona Health Care Cost Containment System Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. Before the Administration implements any changes in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the Administration 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 Administration shall submit the policy changes for review by the Joint Legislative Budget Committee.

Any Federal Funds that the Arizona Health Care Cost Containment System Administration passes through to the Department of Economic Security for use in long-term administration care for the developmentally disabled shall not count against the long-term care expenditure authority above.

The county portion of the FY 2013 nonfederal portion of the costs of providing long-term care system services is included in the Expenditure Authority fund source.

Payments to Hospitals

The \$13,487,100 appropriation for Disproportionate Share Payments for FY 2013 made pursuant to A.R.S. § 36-2903.01P includes \$4,202,300 for the Maricopa County Healthcare District and \$9,284,800 for private qualifying disproportionate share hospitals.

New Footnotes

The non-appropriated portion of the Prescription Drug Rebate Fund is included in the federal portion of the Expenditure Authority fund source.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote to appropriate all voluntary state match and Federal Medicaid Authority monies for Graduate Medical Education. These monies would be incorporated into the regular budget structure.

STATUTORY CHANGES

The Baseline would:

Rates and Services

- As session law, continue the FY 2010 risk contingency rate reduction for all managed care organizations. Continue to impose a reduction on funding for all managed care organizations administrative funding levels.
- As session law, continue to set AHCCCS ambulance reimbursement rates at 72.2% of the DHS approved rates from October 1, 2012 to September 30, 2013.

Counties

- As session law, set county Arizona Long Term Care System (ALTCs) contributions at \$243,220,500 (see Table 6).
- As session law, set the County Acute Care contribution at \$48,255,500 (see Table 6).

- As session law, require AHCCCS to transfer any excess monies back to the counties by December 31, 2013 if the counties' proportion of state match exceeds the proportion allowed in order to comply with the Federal Affordable Care Act.
- As session law, continue the collection of \$2,646,200 in DUC pool contributions from all counties other than Maricopa County. The Baseline would exclude these contributions from county expenditure limitations, retroactive to June 30, 2004.

Hospitals

- As session law, continue to permit local governments, tribal governments, and universities to contribute state match monies for disproportionate share hospital payments in FY 2013, subject to legislative appropriation.
- As session law, establish FY 2013 disproportionate share distributions to the Maricopa County Hospital District, the Arizona State Hospital, private qualifying disproportionate share hospitals, and Yuma Regional Medical Center.

Erroneous Payments

- As session law, continue to state that it is the intent of the Legislature that AHCCCS comply with the Federal False Claims Act, achieve the maximum savings as possible under the federal act, and continue to consider best available technologies to consider fraud.
- As session law, permit AHCCCS to recover erroneous Medicare payments made due to errors by the federal Social Security Administration. Subject to legislative appropriation, any credits received may be used to pay for the AHCCCS program in the year they are received.

Table 6

County Contributions

County	FY 2012				FY 2013			
	BNCF	Acute	DUC	ALTCs	BNCF	Acute	DUC	ALTCs
Apache	\$ 104,200	\$ 268,800	\$ 87,300	\$ 631,800	\$ 106,200	\$ 268,800	\$ 87,300	\$ 611,200
Cochise	194,300	2,214,800	162,700	5,309,100	198,000	2,214,800	162,700	5,266,800
Coconino	191,700	742,900	160,500	1,896,300	195,400	742,900	160,500	1,834,500
Gila	78,700	1,413,200	65,900	2,113,600	80,200	1,413,200	65,900	2,146,400
Graham	56,000	536,200	46,800	1,430,800	57,000	536,200	46,800	1,434,200
Greenlee	14,400	190,700	12,000	162,300	14,700	190,700	12,000	192,800
La Paz	29,800	212,100	24,900	827,500	30,400	212,100	24,900	625,200
Maricopa	0	20,575,000	0	154,518,900	0	20,225,200	0	148,533,600
Mohave	223,800	1,237,700	187,400	7,335,500	228,000	1,237,700	187,400	8,000,100
Navajo	146,700	310,800	122,800	2,614,500	149,500	310,800	122,800	2,529,300
Pima	1,333,000	14,951,800	1,115,900	39,653,400	1,358,300	14,951,800	1,115,900	39,316,400
Pinal	260,800	2,715,600	218,300	15,702,000	265,800	2,715,600	218,300	15,081,500
Santa Cruz	61,600	482,800	51,600	1,933,300	62,800	482,800	51,600	1,904,900
Yavapai	246,400	1,427,800	206,200	9,586,200	251,000	1,427,800	206,200	8,450,900
Yuma	219,700	1,325,100	183,900	8,017,700	223,800	1,325,100	183,900	7,292,700
Subtotal	\$3,161,100	\$48,605,300	\$2,646,200	\$251,732,900	\$3,221,100	\$48,255,500	\$2,646,200	\$243,220,500
Total				\$306,145,500				\$297,343,300

Available Funding

- As session law, require the operation of the AHCCCS program within available funding.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

County Contributions

County governments make 4 different payments to defray the AHCCCS budget's costs, as summarized in *Table 6*.

The counties' single largest contribution is the ALTCS program. Pursuant to A.R.S. § 11-292, the state and the counties share in the growth of the ALTCS program, as defined by the following formula:

1. The growth is split 50% to the state, 50% to the counties.
2. The counties' portion is allocated among the counties based on their FY 2011 ALTCS utilization.
3. Each county's contribution is then limited to 90¢ per \$100 of net assessed property value. In FY 2013, this provision provides 1 county with a total of \$2,317,400 in relief.
4. In counties with an "on-reservation" population of at least 20%, the contribution is limited by an alternative formula specified in statute. In FY 2013, this provision provides 3 counties with a total of \$16,159,700 in relief.
5. If any county would still pay more under the above provisions than under the previous statutory percentages, that county's contribution is limited by a further alternative formula specified in statute. In FY 2013 no counties qualify for this relief.
6. The state pays for county costs above the average statewide per capita (\$40.07 in FY 2013). In FY 2013, this provision provides 6 counties with a total of \$13,296,800 in relief.

In FY 2013, provisions 3 through 6 of the ALTCS formula result in the state providing a total of \$31,773,900 in relief to 9 counties.

Program Components

Traditional Medicaid, Proposition 204, KidsCare, and ALTCS services include the following costs:

Capitation

The majority of AHCCCS payments are made through monthly capitated payments. This follows a health maintenance organization (HMO) model in which capitated providers accept a predetermined rate for each member. In FY 2013, the average capitation rate is expected to be approximately \$292 per member per month (or \$3,507 annually). Of that amount, \$99 is from state match and \$193 from Federal Medicaid Authority.

Reinsurance

Reinsurance is a stop-loss program for health plans and program contractors for patients with unusually high costs. The health plan is responsible for paying all of a member's costs until an annual deductible has been met.

Fee-for-Service

Rather than using Capitation, Fee-For-Service payments are made for 4 programs: 1) federally-mandated services for Native Americans living on-reservations; 2) rural Federally Qualified Health Centers (FQHC); 3) temporary Fee-For-Service coverage for those who leave AHCCCS before enrolling in a capitated plan; and 4) federally-mandated emergency services for unauthorized and qualified immigrants.

Medicare Premiums

AHCCCS provides funding for the purchase of Medicare Part B (supplemental medical insurance) and Part A (hospital insurance). Purchasing supplemental coverage reduces state expenditures since the federal Medicare program absorbs a portion of the costs. In addition, this includes the cost of premiums for certain disabled workers and low-income Qualified Medicare Beneficiaries.

Clawback

AHCCCS is not required to pay for prescription drug costs for members who are eligible for Medicare. Instead, AHCCCS is required to make "Clawback" payments to Medicare based on a certain percent (78.7% in 2013) of the estimated drug costs.

Tobacco Tax Allocation

Table 9 is a summary of the tobacco tax allocations.

Table 7

Summary of AHCCCS Medicaid Costs

	FY 2012					FY 2013					Policy Issue	
	Appropriation	Waiver	2012 Reallocation	Waiver A	2012 Supp. Rebase	FMAP A	Base A	Other Issues	Total	Cumulative Waiver		
AHCCCS Medicaid Cost												
Proposition 204 Services	608,796,200	(286,068,900)	322,727,300	(83,479,800)	(5,525,800)	9,299,600	7,290,600	8,211,300	258,523,200	(369,548,700)	(64,204,100)	
Traditional Services	936,988,700	(177,256,500)	759,732,200	119,663,600	(28,404,500)	26,793,700	26,333,600	(46,985,900)	857,132,700	(57,592,900)	97,400,500	
ALTCS Services	172,812,200	(15,577,400)	157,234,800	4,482,400	(7,427,300)	3,978,300	4,326,100	-	162,594,300	(11,095,000)	5,559,500	
KidsCare Services	7,524,800	-	7,524,800	-	-	371,500	(2,763,700)	-	5,132,600	-	(2,392,200)	
Children's Rehabilitative Services	36,410,600	-	36,410,600	-	2,958,000	1,015,100	3,230,700	-	43,614,400	-	7,203,800	
Hospital Payments	7,727,700	-	7,727,700	-	-	214,900	-	-	7,942,600	-	214,900	
Administration	72,377,600	-	72,377,600	-	-	-	-	(60,000)	12,377,600	-	60,000	
Total AHCCCS	1,842,637,800	(478,902,800)	1,363,735,000	40,666,200	(38,399,600)	41,673,100	38,417,300	(38,834,600)	1,407,257,400	(438,236,600)	43,522,400	
Detail: Waiver Impact												
<i>Medicaid Reform</i>												
Childless Adults	(193,493,900)	(136,716,700)	-	(168,482,600)	-	-	-	-	-	(305,199,300)	-	
Spend-Down Population	(75,014,000)	(73,203,400)	-	(16,203,600)	-	-	-	-	-	(89,407,000)	-	
Modified Reimbursement Rates	(95,000,000)	(68,920,300)	-	(28,738,300)	-	-	-	-	-	(97,658,600)	-	
Other Savings	(160,492,100)	(22,050,700)	-	(9,973,400)	-	-	-	-	-	(32,024,100)	-	
Subtotal - Medicaid Reform Impact	(524,000,000)	(300,891,100)	-	(223,397,900)	-	-	-	-	-	(524,289,000)	-	
AHCCCS Impact	(478,902,800)	(250,200,300)	-	(188,036,300)	-	-	-	-	-	(438,236,600)	-	
DHS Impact	(43,530,800)	(38,448,000)	-	(31,280,700)	-	-	-	-	-	(69,728,700)	-	
DES Impact	(1,566,400)	(12,242,800)	-	(4,080,900)	-	-	-	-	-	(16,323,700)	-	
<i>Waiver Makeup</i>												
Rollover	-	(117,544,800)	-	117,544,800	-	-	-	-	-	-	-	
Prescription Drug (Surplus)/Shortfall	-	(85,400,000)	-	85,400,000	-	-	-	-	-	-	-	
Non-Medicaid Reform Plan (Surplus)/Shortfall	-	(20,164,100)	-	20,164,100	-	-	-	-	-	-	-	
Subtotal - Waiver Makeup	-	(223,108,900)	-	223,108,900	-	-	-	-	-	-	-	
AHCCCS Impact	-	(228,702,500)	-	228,702,500	-	-	-	-	-	-	-	
DHS Impact	-	(5,082,800)	-	5,082,800	-	-	-	-	-	-	-	
DES Impact	-	10,676,400	-	(10,676,400)	-	-	-	-	-	-	-	
Total Impact	(524,000,000)	(524,000,000)	-	(289,000)	-	-	-	-	-	(524,289,000)	-	
AHCCCS Total Impact	(478,902,800)	(478,902,800)	-	40,666,200	-	-	-	-	-	(438,236,600)	-	
DHS Total Impact	(43,530,800)	(43,530,800)	-	(26,197,900)	-	-	-	-	-	(69,728,700)	-	
DES Total Impact	(1,566,400)	(1,566,400)	-	(14,757,300)	-	-	-	-	-	(16,323,700)	-	

Notes:

1/ The increase in waiver impacts in the FY 2013 budget. The \$40.7 million represents the loss of \$29 million in one-time waiver "makeup" savings offset by \$(188) million from annualizing Medicaid reform waiver savings.

2/ Includes ongoing impacts of \$(59) million in waiver surplus, \$18.3 million in one-time reconciliation payments, and \$3 million in Children's Rehabilitative Services.

3/ Cost changes due to a decrease in the Federal Medical Assistance Percentage (FMAP) from 67.3% in federal fiscal year 2012 to 65.68% in federal fiscal year 2013.

4/ Includes changes in Prescription Drug Rebates and a Tobacco Settlement backfill.

5/ Various assumptions were made to allocate impacts to AHCCCS SLI's to make waiver change calculations. For Medicaid Reform, the impacts are distributed as follows:
 - Modified Reimbursement Rate: 25% to Proposition 204, 60% to Traditional, and 15% to ALTCS
 - New Benefit Limits: 38.6% to Prop. 204, 57.9% to Traditional, and 3.5% to ALTCS
 - Remaining reforms were allocated 100% to Prop. 204

For net Waiver impacts of \$40.7 million:
 - Rollover: 25% to Prop. 204 and 75% to Traditional
 - Prescription Drug Surplus: 48.1% to Prop. 204 and Traditional each, and 3.9% to ALTCS
 - Non-Medicaid Reform Plan Surplus: 41.7% to Prop. 204, 48.3% to Traditional and 10% to ALTCS
 6/ Assumes implementation of Executive Waiver proposals, including: a Freeze on Childless Adults, elimination of the Spend-Down population, a (5)% reduction in reimbursement rates for health providers, and the institution of new benefit limits.
 7/ Beyond the FY 2012 appropriations column, this row only includes New Benefit Limit impacts.
 8/ Division of impacts between AHCCCS, DHS, and DES based on proportions in the FY 2013 waiver savings estimates provided by AHCCCS.

Table 8

Summary of Medicaid Waiver Impacts by Agency

Waiver Item	FY 2012 Appropriated				Revised FY 2012 Estimate				Change (FY 2012 Estimate - FY 2012 Appropriated)			
	AHCCCS	DHS	DES	Total System	AHCCCS	DHS	DES	Total System	AHCCCS	DHS	DES	Total System
Spend-Down Population	(72,476,500)	(2,537,500)	-	(75,014,000)	(70,569,900)	(2,633,500)	-	(73,203,400)	1,906,600	(96,000)	-	1,810,600
Childless Adults	(164,370,100)	(29,123,800)	-	(193,493,900)	(113,151,200)	(23,565,500)	-	(136,716,700)	51,218,900	5,558,300	-	56,777,200
Freeze TANF	(13,277,300)	(4,514,800)	-	(17,792,100)	-	-	-	-	13,277,300	4,514,800	-	17,792,100
New Benefit Limits	(40,000,000)	-	-	(40,000,000)	(20,521,600)	(68,100)	(1,461,000)	(22,050,700)	19,478,400	(68,100)	(1,461,000)	17,949,300
Modified Reimbursement Rates	(86,078,900)	(7,354,700)	(1,566,400)	(95,000,000)	(45,957,600)	(12,180,900)	(10,781,800)	(68,920,300)	40,121,300	(4,826,200)	(9,215,400)	26,079,700
Eliminate Federal Emergency Services	(20,000,000)	-	-	(20,000,000)	-	-	-	-	20,000,000	-	-	20,000,000
Copyments and Non-Emerg Transport	(2,700,000)	-	-	(2,700,000)	-	-	-	-	2,700,000	-	-	2,700,000
State Reimbursement of Medicare Liability	(40,000,000)	-	-	(40,000,000)	-	-	-	-	40,000,000	-	-	40,000,000
Reconciliation Payment	(40,000,000)	-	-	(40,000,000)	-	-	-	-	40,000,000	-	-	40,000,000
Subtotal - Original Medicaid Reform Plan	(478,902,800)	(43,530,800)	(1,566,400)	(524,000,000)	(250,200,300)	(38,448,000)	(12,242,800)	(300,891,100)	228,702,500	5,082,800	(10,676,400)	223,108,900
Rollover	-	-	-	-	(117,544,800)	-	-	(117,544,800)	-	-	-	(117,544,800)
Total Medicaid Reform Plan	(478,902,800)	(43,530,800)	(1,566,400)	(524,000,000)	(367,745,100)	(38,448,000)	(12,242,800)	(418,435,900)	111,157,700	5,082,800	(10,676,400)	105,564,100
Non-Medicaid Reform Plan (Surplus)/Shortfall	-	-	-	-	(59,657,700)	41,117,200	(1,623,600)	(20,164,100)	(59,657,700)	41,117,200	(1,623,600)	(20,164,100)
Overall State Match (Surplus)/Shortfall	(478,902,800)	(43,530,800)	(1,566,400)	(524,000,000)	(427,402,800)	2,669,200	(13,866,400)	(438,600,000)	51,500,000	46,200,000	(12,300,000)	85,400,000
Remediation Plan	-	-	-	-	-	(12,300,000)	12,300,000	-	-	(12,300,000)	12,300,000	-
GF Appropriation Adjustment	-	-	-	-	(51,500,000)	(33,900,000)	-	(85,400,000)	(51,500,000)	(33,900,000)	-	(85,400,000)
Surplus Prescription Drug Revenues	-	-	-	-	(51,500,000)	(46,200,000)	12,300,000	(85,400,000)	(51,500,000)	(46,200,000)	12,300,000	(85,400,000)
Revised Overall State Match (Surplus)/Shortfall	(478,902,800)	(43,530,800)	(1,566,400)	(524,000,000)	(478,902,800)	(43,530,800)	(1,566,400)	(524,000,000)	-	-	-	-

Waiver Item	FY 2012 Appropriated				FY 2013 Estimates				FY 2013 Waiver Change			
	AHCCCS	DHS	DES	Total System	AHCCCS	DHS	DES	Total System	AHCCCS	DHS	DES	Total System
Spend-Down Population	(72,476,500)	(2,537,500)	-	(75,014,000)	(86,330,700)	(3,076,300)	-	(89,407,000)	(13,854,200)	(538,800)	-	(14,393,000)
Childless Adults	(164,370,100)	(29,123,800)	-	(193,493,900)	(254,878,900)	(50,320,400)	-	(305,199,300)	(90,508,800)	(21,196,600)	-	(111,705,400)
Freeze TANF	(13,277,300)	(4,514,800)	-	(17,792,100)	-	-	-	-	13,277,300	4,514,800	-	17,792,100
New Benefit Limits	(40,000,000)	-	-	(40,000,000)	(29,985,300)	(90,800)	(1,948,000)	(32,024,100)	10,014,700	(90,800)	(1,948,000)	7,975,900
Modified Reimbursement Rates	(86,078,900)	(7,354,700)	(1,566,400)	(95,000,000)	(67,041,700)	(16,241,200)	(14,375,700)	(97,658,600)	19,037,200	(8,886,500)	(12,809,300)	(2,658,600)
Eliminate Federal Emergency Services	(20,000,000)	-	-	(20,000,000)	-	-	-	-	20,000,000	-	-	20,000,000
Copyments and Non-Emerg Transport	(2,700,000)	-	-	(2,700,000)	-	-	-	-	2,700,000	-	-	2,700,000
State Reimbursement of Medicare Liability	(40,000,000)	-	-	(40,000,000)	-	-	-	-	40,000,000	-	-	40,000,000
Reconciliation Payment	(40,000,000)	-	-	(40,000,000)	-	-	-	-	40,000,000	-	-	40,000,000
Total Medicaid Reform Plan	(478,902,800)	(43,530,800)	(1,566,400)	(524,000,000)	(438,236,600)	(69,728,700)	(16,323,700)	(524,289,000)	40,666,200	(26,197,900)	(14,757,300)	(289,000)

Table 9

Summary of Tobacco Tax and Health Care Fund and Tobacco Products Tax Fund

	<u>FY 2011</u>	<u>FY 2012</u>
Medically Needy Account		
<u>Funds Available</u>		
Balance Forward	\$ 2,836,800	\$ 5,994,500
Transfer In - Tobacco Tax and Health Care Fund	49,130,000	47,869,700
Transfer In - Tobacco Products Tax Fund	26,883,600	25,950,900
Interest & Refunds	<u>15,500</u>	<u>0</u>
Total Funds Available	\$78,865,900	\$79,815,100
<u>Allocations</u>		
<i>AHCCCS</i>		
Traditional Medicaid State Match Appropriation	<u>\$38,295,800</u>	<u>\$38,295,800</u>
Total AHCCCS Allocations	\$38,295,800	\$38,295,800
<i>DHS</i>		
Behavioral Health GF Offset	\$34,393,500	\$34,767,000
Folic Acid	<u>182,100</u>	<u>400,000</u>
Total DHS Allocations	<u>\$34,575,600</u>	<u>\$35,167,000</u>
Balance Forward	\$ 5,994,500	\$ 6,352,300
AHCCCS Proposition 204 Protection Account		
<u>Funds Available</u>		
Balance Forward	\$ 262,800	\$ 19,600
Transfer In - Tobacco Products Tax Fund	42,506,400	40,367,900
Transfer In - Emergency Health Services Account	3,900	9,300
Interest	<u>900</u>	<u>0</u>
Total Funds Available	\$42,774,000	\$40,396,800
<u>Allocations</u>		
AHCCCS State Match	\$42,487,700	\$40,367,900
Administrative Adjustments	<u>266,700</u>	<u>0</u>
Balance Forward	\$ 19,600	\$ 28,900
AHCCCS Emergency Health Services Account		
<u>Funds Available</u>		
Balance Forward	\$ 0	\$ 0
Transfer In - Tobacco Products Tax Fund	19,913,800	19,222,900
Interest	<u>5,800</u>	<u>0</u>
Total Funds Available	\$19,919,600	\$19,222,900
<u>Allocations</u>		
AHCCCS State Match Appropriation	\$19,222,900	\$19,222,900
Administrative Adjustments	<u>687,400</u>	<u>0</u>
Balance Forward ^{1/}	\$ 9,300	\$ 0
DHS Health Education Account		
<u>Funds Available</u>		
Balance Forward	\$ 6,310,900	\$ 8,406,100
Transfer In - Tobacco Tax and Health Care Fund	16,225,400	15,654,000
Transfer In - Tobacco Products Tax Fund	<u>1,991,400</u>	<u>1,916,000</u>
Total Funds Available	\$24,527,700	\$25,976,100
<u>Allocations</u>		
Tobacco Education and Prevention Program	\$14,601,600	\$17,000,000
Leading Causes of Death - Prevention and Detection	<u>1,520,000</u>	<u>2,000,000</u>
Balance Forward	\$ 8,406,100	\$ 6,976,100
Health Research Account		
<u>Funds Available</u>		
Balance Forward	\$ 2,429,200	\$ 3,457,600
Transfer In - Tobacco Tax and Health Care Fund	3,513,600	3,419,200
Transfer In - Tobacco Products Tax Fund	<u>4,984,600</u>	<u>4,805,700</u>
Total Funds Available	\$10,927,400	\$11,682,500
<u>Allocations</u>		
Biomedical Research	\$7,469,800	\$7,227,500
Alzheimer's Disease Research	0	1,000,000
Biotechnology (Laws 2002, Ch. 186)	<u>0</u>	<u>500,000</u>
Balance Forward	\$3,457,600	\$2,955,000

^{1/} Any unencumbered funds in the Emergency Health Services Account are transferred to the Proposition 204 Protection Account at the end of each year.

SUMMARY OF FUNDS	FY 2011 Actual	FY 2012 Estimate
Budget Neutrality Compliance Fund (HCA2478/A.R.S. § 36-2928)		Appropriated
Source of Revenue: County contributions.		
Purpose of Fund: To provide administrative funding for costs associated with the implementation of the Proposition 204 expansion. Proposition 204 shifted some county administrative functions to the state, for which the counties now compensate the state.		
Funds Expended	2,338,000	3,161,100
Year-End Fund Balance	0	0
Children's Health Insurance Program Fund (HCA2409/A.R.S. § 36-2995)		Appropriated
Source of Revenue: Includes Medicaid matching monies for Arizona's State Children's Health Insurance Program (CHIP), called KidsCare. General Fund monies are used to leverage the federal monies and are not included in the reported CHIP Fund expenditures.		
Purpose of Fund: To provide health insurance for low-income children 19 years of age and under. The eligibility limit for the program has been set at 200% of the Federal Poverty Level, which is approximately \$44,700 for a family of 4.		
Funds Expended	43,659,700	30,176,400
Year-End Fund Balance	1,840,000	1,840,000
County Funds (HCA2120 Acute Care/HCA2223 Long Term Care/ A.R.S. § 36-2912 Acute Care/A.R.S. § 36-2953 Long Term Care)		Expenditure Authority
Source of Revenue: Statutorily prescribed county contributions.		
Purpose of Fund: For the provision of acute medical and long term care services to Arizona Health Care Cost Containment System (AHCCCS) eligible populations. County contributions and state General Fund appropriations serve as the state match for federal Medicaid dollars.		
Funds Expended	0	302,984,400
Year-End Fund Balance	0	0
Employee Recognition Fund (HCA2025/A.R.S. § 36-2903)		Non-Appropriated
Source of Revenue: Private donations.		
Purpose of Fund: To be used for the agency's employee recognition program.		
Funds Expended	12,800	10,000
Year-End Fund Balance	9,200	6,200
Federal - Medicaid Direct Services (HCA2120/A.R.S. § 36-2913)		Non-Appropriated
Source of Revenue: Federal funding through the U.S. Department of Health & Human Services, Centers for Medicare and Medicaid Services.		
Purpose of Fund: To reimburse schools participating in the Direct Services Claiming program for services provided to children with disabilities who are Medicaid eligible. All federal Medicaid monies must flow through AHCCCS, therefore, these monies are obtained by AHCCCS and then passed on to the participating schools.		
Funds Expended	32,958,700	33,027,100
Year-End Fund Balance	0	0
Federal Funds (HCA2000 Acute Care/A.R.S. § 36-2913)		Non-Appropriated
Source of Revenue: Federal grant monies.		
Purpose of Fund: To provide federal match for non-appropriated state expenditures.		
Funds Expended	138,157,400	78,942,900
Year-End Fund Balance	0	0
Federal Grants - American Recovery and Reinvestment Act (ARRA) (HCA2999/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
Purpose of Fund: Federal Funds to assist Medicaid providers in adopting electronic medical records.		
Funds Expended	0	106,018,100
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2011 Actual	FY 2012 Estimate
Federal Medicaid Funds (HCA2120/HCA2223 Long Term Care/ A.R.S. § 36-2913 Acute Care/ A.R.S. § 36-2953 Long Term Care)		Expenditure Authority
Source of Revenue: Federal funding through the U.S. Department of Health & Human Services, Centers for Medicare and Medicaid Services.		
Purpose of Fund: For AHCCCS' administrative costs and for the provision of acute and long term services to categorically eligible populations.		
Funds Expended	5,465,202,100	3,956,877,300
Year-End Fund Balance	0	0
Healthcare Group Fund (HCA3197/A.R.S. § 36-2912.01)		Partially-Appropriated
Source of Revenue: Premiums paid by employers and employees enrolled in Healthcare Group, including monies to fund the administration of the Healthcare Group program.		
Purpose of Fund: A portion of this fund is appropriated to fund the administrative costs of Healthcare Group. The rest of the fund is non-appropriated and used to pay medical claims for members of Healthcare Group. Healthcare Group is operated by AHCCCS and is a premium based health insurance program available to small businesses and self-employed persons.		
Appropriated Funds Expended	1,773,700	3,496,300
Non-Appropriated Funds Expended	36,004,700	29,338,400
Year-End Fund Balance	8,925,400	6,172,200
Hospital Loan Residency Fund (HCA2532/A.R.S. § 36-2921)		Non-Appropriated
Source of Revenue: Received a \$1,000,000 deposit from the General Fund in FY 2007. In future years, will also include any repaid loan money received from the participating hospitals.		
Purpose of Fund: To provide interest free loans to fund start-up and ongoing costs for residency programs in accredited hospitals, with priority given to rural areas.		
Funds Expended	0	0
Year-End Fund Balance	200,000	200,000
IGA and ISA Fund (HCA2500/A.R.S. § 36-2925)		Non-Appropriated
Source of Revenue: Monies voluntarily given to AHCCCS from local governments and tribal communities in order to obtain a federal match. Beginning in FY 2013, these monies are displayed in the Political Subdivision Funds.		
Purpose of Fund: To expand funding for Graduate Medical Education and other payments to hospitals.		
Funds Expended	50,290,600	38,146,700
Year-End Fund Balance	0	0
Intergovernmental Service Fund (HCA2438/A.R.S. § 36-2927)		Non-Appropriated
Source of Revenue: Monies collected from the State of Hawaii.		
Purpose of Fund: To be used for costs associated with information technology services provided by AHCCCS to the State of Hawaii for the design, development, implementation, operation, and maintenance of a Medical Management Information System.		
Funds Expended	5,978,600	7,000,000
Year-End Fund Balance	1,726,400	1,385,400
Political Subdivision Funds (HCA1111/A.R.S. § 36-2927)		Expenditure Authority
Source of Revenue: Monies voluntarily given to AHCCCS from local governments, tribal communities, or Arizona public universities in order to obtain a federal match.		
Purpose of Fund: To expand funding for hospitals or increase enrollment for KidsCare or Proposition 204.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2011 Actual	FY 2012 Estimate
Prescription Drug Rebate Fund (HCA2546/A.R.S. § 36-2930)		Partially-Appropriated
Source of Revenue: Prescription drug rebate collections, interest from prescription drug rebate late payments and Federal monies made available to this state for the operation of the AHCCCS Prescription Drug Rebate Program.		
Purpose of Fund: To pay for the administrative costs of the Prescription Drug Rebate Program, for payments to contractors or providers in the administration's medical services programs, and to offset General Fund costs for Medicaid programs. Also used to return the federal share of Prescription Drug Rebate collections and interest from late payments to the federal Centers for Medicare and Medicaid Services by offsetting future federal draws. Federal monies in this fund are non-appropriated through FY 2012. Beginning in FY 2013, federal monies are listed as Expenditure Authority. All Other monies are appropriated.		
Appropriated Funds Expended	10,000,000	20,114,500
Non-Appropriated Funds Expended	122,176,300	177,662,700
Year-End Fund Balance	36,385,700	87,075,500
Proposition 202 - Trauma and Emergency Services Fund (HCA2494/A.R.S. § 36-2903.07)		Non-Appropriated
Source of Revenue: Gaming monies received from the Arizona Benefits Fund.		
Purpose of Fund: For unrecovered trauma center readiness and emergency services costs.		
Funds Expended	16,505,300	19,664,200
Year-End Fund Balance	5,000,000	5,020,000
Temporary Medical Coverage Fund (HCA2529/A.R.S. § 36-2930)		Appropriated
Source of Revenue: Received a one-time General Fund deposit of \$6,500,000 in FY 2007 in addition to revenue from premium payments. This program was suspended beginning in FY 2009, and AHCCCS was instructed to use the \$3,200,000 appropriated from this fund to pay for reconciliation obligations incurred for claims with dates of services before July 1, 2008. This program has since been eliminated.		
Purpose of Fund: To pay for the services and costs associated with persons who are eligible for temporary medical coverage.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Temporary Transaction Privilege and Use Tax - 1% Fund (HCA1032/Article IX, Section 12.1 of State Constitution)		Non-Appropriated
Source of Revenue: Temporary 3-year 1-cent sales and use tax authorized by voters during the May 2010 special election. The tax expires after May 31, 2013.		
Purpose of Fund: To provide funding for primary and secondary education, health and human services and public safety. Expenditures are not displayed to avoid double counting General Fund. (For FY 2011, the General Accounting Office reported as of August 2011 that the Department of Education received \$576,697,200 and that the Department of Corrections, Arizona Health Care Cost Containment System (AHCCCS), Department of Economic Security, and Department of Health Services each received \$72,087,200.)		
Funds Expended	0	0
Year-End Fund Balance	0	0
Third Party Collections Fund (HCA3791 Acute Care/ HCA3019 Long Term Care/A.R.S. § 36-2913)		EA/Non-Appropriated
Source of Revenue: Collections from third-party payers and revenues from lien and estate recoveries.		
Purpose of Fund: To provide acute medical services to AHCCCS members.		
Appropriated Funds Expended	0	194,700
Non-Appropriated Funds Expended	7,854,500	94,800
Year-End Fund Balance	844,000	844,000
Tobacco Litigation Settlement Fund (TRA2561/A.R.S. § 36-2901.02)		Expenditure Authority
Source of Revenue: Monies received from tobacco companies as part of a lawsuit settlement.		
Purpose of Fund: Established by Proposition 204 (enacted in the 2000 General Election) to provide funding to expand the AHCCCS program to 100% of the Federal Poverty Level and for 6 public health programs.		
Funds Expended	99,161,600	108,211,300
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2011 Actual	FY 2012 Estimate
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Tobacco Tax and Health Care Fund* (RVA1306/A.R.S. § 36-771) **Non-Appropriated**

Source of Revenue: The fund consists of certain tax monies collected on cigarettes, cigars, smoking tobacco, plug tobacco, snuff and other forms of tobacco, and all interest earned on these monies.

Purpose of Fund: To AHCCCS for the Medically Needy Account (70%), the Arizona Department of Health Services (DHS) for the Health Education Account (23%), the Health Research Account (5%), and the State Department of Corrections (DOC) for the Corrections Fund Adjustment Account (2%). Under A.R.S. § 36-775, the amount transferred to the Corrections Fund Account is to reflect only the actual amount needed to offset decreases in the Corrections Fund resulting from lower tax revenues. Any unexpended Corrections Fund Adjustment Account amounts are to be transferred out proportionally to the other 3 accounts. These taxes were enacted in Proposition 200 and approved by voters in the 1994 General Election.

Tobacco Tax and Health Care Fund - Medically Needy Accounts* **Partially-Appropriated**
(HCA1306/A.R.S. § 36-774)

Source of Revenue: The account receives 70¢ of each dollar deposited in the Tobacco Tax and Health Care Fund, administered by the Department of Revenue, and 27¢ of each dollar deposited into the Tobacco Products Tax Fund, also administered by the Department of Revenue. The fund also receives a portion of the monies reverting from the Corrections Fund Adjustment Account and an allocation from the Healthcare Adjustment Account. These taxes were enacted in Proposition 200 and approved by voters in the 1994 General Election.

Purpose of Fund: For health care services including, but not limited to, preventive care, transplants and the treatment of catastrophic illness or injury. Eligible recipients include persons statutorily determined to be medically indigent, medically needy, or low-income children. A portion of the monies is transferred to the DHS for statutorily established services, grants and pilot programs.

Tobacco Products Tax Fund - Emergency Health Services Account* **Appropriated**
(HCA1304/A.R.S. § 36-776)

Source of Revenue: This account receives 20¢ of each dollar deposited into the Tobacco Products Tax Fund, administered by the Department of Revenue.

Purpose of Fund: For primary care services, reimbursement of uncompensated care costs, and trauma center readiness costs.

Tobacco Products Tax Fund - Proposition 204 Protection Account* **Expenditure Authority**
(HCA1303/A.R.S. § 36-778)

Source of Revenue: This account receives 42¢ of each dollar deposited into the Tobacco Products Tax Fund, administered by the Department of Revenue.

Purpose of Fund: To fund state match costs in AHCCCS for the Proposition 204 program. These monies are non-appropriated and must be spent before any other state monies on the Proposition 204 program.

*See Table 9.