

Arizona Health Care Cost Containment System

	FY 2012 ACTUAL	FY 2013 ESTIMATE	FY 2014 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,975.4	2,217.3	2,217.3
Personal Services	33,315,200	40,317,300	39,657,800
Employee Related Expenditures	15,090,700	17,876,200	17,599,300
Professional and Outside Services	3,355,800	5,369,800	5,289,500
Travel - In State	61,900	78,100	78,100
Travel - Out of State	24,600	29,200	29,200
Other Operating Expenditures	17,171,800	12,394,000	12,194,900
Equipment	2,080,600	1,964,500	1,964,500
OPERATING SUBTOTAL	71,100,600	78,029,100	76,813,300
SPECIAL LINE ITEMS			
Administration			
DES Eligibility	49,911,400	53,799,300	53,799,300
Proposition 204 - AHCCCS Administration	8,738,400	6,635,800	6,635,800
Proposition 204 - DES Eligibility	26,391,700	37,793,600	37,793,600
Medical Services			
Traditional Medicaid Services	3,088,709,900	3,420,887,100	3,743,692,800
Proposition 204 Services	1,392,928,500	1,166,614,700	964,187,800
Children's Rehabilitative Services	124,233,900	128,599,100	114,051,400
KidsCare Services	31,073,100	21,622,300	12,213,500
KidsCare II	0	0	26,825,700
ALTCS Services	1,380,288,300	1,177,910,000	1,271,574,100
Payments to Hospitals			
Disproportionate Share Payments	4,202,300	13,487,100	13,487,100
DSH Payments - Voluntary Match	0	28,457,100	28,457,100
Rural Hospitals	13,858,100	13,858,100	13,858,100
Graduate Medical Education	0	90,977,300	160,184,900
Safety Net Care Pool	0	0	166,000,000
AGENCY TOTAL	6,191,436,200^{1/}	6,238,670,600^{2/}	6,689,574,500
FUND SOURCES			
General Fund	1,402,751,200	1,397,607,300	1,368,032,900
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	3,161,100	3,221,100	3,303,900
Children's Health Insurance Program Fund	26,539,000	18,126,400	32,193,800
Healthcare Group Fund	1,424,700	2,281,300	1,065,500
Prescription Drug Rebate Fund - State	46,589,600	69,950,000	95,009,600
TPTF Emergency Health Services Account	18,957,900	19,222,900	18,320,100
TTHCF Medically Needy Account	38,295,800	38,295,800	37,389,300
SUBTOTAL - Other Appropriated Funds	134,968,100	151,097,500	187,282,200
SUBTOTAL - Appropriated Funds	1,537,719,300	1,548,704,800	1,555,315,100
<u>Expenditure Authority Funds</u>			
County Funds	284,502,300	294,122,200	295,193,300
Federal Medicaid Authority	4,228,335,600	4,049,365,700	4,379,477,200
Nursing Facility Provider Assessment Fund	0	0	17,698,000
Political Subdivision Funds	0	40,523,000	124,680,900
Prescription Drug Rebate Fund - Federal	0	165,392,300	178,543,000
Third Party Collections Fund	0	194,700	194,700

^{1/} Includes a total of \$693,100 GF, \$137,600 OF, and \$693,100 FMA appropriated in FY 2012 for costs associated with an additional pay period. These expenditures were not reflected in the individual agency tables in the *FY 2012 Appropriations Report*.

^{2/} In addition to these amounts, the FY 2013 General Appropriation Act included one-time FY 2013 adjustments for a state employee health insurance premium holiday and employee retention payments. The adjustments include a reduction of \$(705,500) GF for the premium holiday and an increase of \$1,210,500 GF and \$63,100 OF for the employee retention payment.

	FY 2012 ACTUAL	FY 2013 ESTIMATE	FY 2014 BASELINE
Tobacco Litigation Settlement Fund	101,067,400	100,000,000	100,000,000
TPTF Proposition 204 Protection Account	39,811,600	40,367,900	38,472,300
SUBTOTAL - Expenditure Authority Funds	4,653,716,900	4,689,965,800	5,134,259,400
SUBTOTAL - Appropriated/Expenditure Authority Funds	6,191,436,200	6,238,670,600	6,689,574,500
Other Non-Appropriated Funds	125,171,300	198,700,900	45,005,500
Federal Funds	445,582,600	409,041,100	75,825,100
TOTAL - ALL SOURCES	6,762,190,100	6,846,412,600	6,810,405,100

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.

AHCCCS' FY 2014 General Fund Baseline spending is projected to decrease by \$(29,574,400) or (2.1)%. The \$(29,574,400) includes:

- \$(87,868,300) for formula adjustments.
- \$58,293,900 for mandatory costs associated with federal health care legislation.

Below is an overview of FY 2014 formula adjustments, a discussion of mandatory changes from federal health care legislation, and a discussion of optional eligibility expansion. The Baseline assumes the full funding of mandatory programs and the continuation of current enrollment freezes (KidsCare and childless adults).

Formula Adjustments

Formula adjustments are comprised of FY 2013 and FY 2014 changes to caseloads, FY 2014 changes in capitation rates, FY 2014 changes to the federal match rate, and adjustments in other appropriated funds which result in an adjustment to the General Fund. *Table 2*, on the following page, summarizes the formula adjustments.

FY 2013 and FY 2014 Caseload Growth

Aside from caseload growth due to federal health care legislation (see *Mandatory Changes Resulting from Federal Health Care Legislation*), AHCCCS caseloads are expected to decline by (12,405) from June 2013 to June 2014. While the Traditional acute care and Proposition 204 non-childless adult populations are expected to increase by 3%, these increases are offset by declines in the childless adult, KidsCare, and KidsCare II population. The childless adult program has had an enrollment freeze since July 2011 and the KidsCare program has had an enrollment freeze since January 2010. KidsCare II ends on December 31, 2013. Children on KidsCare and KidsCare II on December 31, 2013 with income up to 133% of the Federal Poverty Level (FPL) (\$30,700 for a family of 4) will transfer to the Traditional program.

In addition to declines due to enrollment freezes, FY 2013 caseloads are expected to be lower than projected. Since the beginning of FY 2013, both the Traditional acute care program and the non-childless adult programs have remained relatively flat or declined slightly. The childless adult population has also decreased at a greater rate than anticipated.

The lower than projected FY 2013 caseload growth, coupled with the overall decline in FY 2014 caseloads, results in General Fund savings of \$(35,573,200) in FY 2014. Of this amount, \$(46,936,900) is from the continuation of lower than projected FY 2013 caseload growth. Caseloads, including expansions due to mandatory federal health care legislation, are shown in *Table 1* below.

Population	June 2012	June 2013 ^{2/}	June 2014	'13-'14% Change
Traditional Acute Care ^{3/}	887,077	902,260	1,002,428	11.1%
Prop 204 Childless Adults	116,403	64,942	39,791	(38.7)
Other Proposition 204	151,328	151,756	169,728	11.8
KidsCare ^{3/}	10,331	6,523	2,446	(62.5)
KidsCare II ^{3/4/}	1,907	22,000	0	(100.0)
ALTCS - Elderly & Physically Disabled ^{5/}	27,592	28,017	28,578	2.0
Emergency Services	60,809	66,405	73,046	10.0
Total Member Months ^{6/}	1,255,447	1,241,903	1,316,017 ^{7/}	6.0

^{1/} The figures represent June 1 estimates.
^{2/} Represents revised forecast.
^{3/} Children on KidsCare and KidsCare II with incomes up to 133% of the Federal Poverty Level (FPL) are transferred to the Traditional program on January 1, 2014.
^{4/} Program ends on December 31, 2013.
^{5/} The Arizona Long Term Care System (ALTCS) program funded in AHCCCS.
^{6/} In addition, approximately 25,000 people will receive Medicaid services through the Department of Economic Security's Developmental Disabilities program.
^{7/} Includes 86,519 added as a result of federal health care legislation.

FY 2014 2% Capitation Rate Increase

In comparison to caseload growth rates which vary by population, capitation rate inflation is assumed to be 2% above FY 2013 across all capitated programs. Recent budgets have not provided a capitation rate increase. The 2% capitation increase is expected to cost an additional \$25,285,800 from the General Fund in FY 2014.

FY 2014 Federal Match Rate Increase

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 2014, the FMAP for Medicaid will increase to 66.84% (0.75% increase). The KidsCare rate will increase to 76.79% (0.53% increase). The formula adjustments include a decrease of \$(56,629,600) in General Fund spending to offset the federal rate increase.

Prescription Drug Rebate Fund Increase

The Baseline includes an increase of \$24,656,200 from the state portion of the Prescription Drug Rebate Fund and a corresponding decrease from the General Fund in FY 2014 based on AHCCCS estimates. Federal health care legislation requires drug manufacturers to provide rebates for drugs sold to Medicaid managed care plans. AHCCCS has been collecting these rebates since spring 2011.

Tobacco Tax Decline

The Baseline includes a decrease of \$(3,704,900) from tobacco tax revenues and a corresponding increase from the General Fund in FY 2014 as a result of declining tobacco tax revenues.

Mandatory Changes Resulting from Federal Health Care Legislation

Federal health care legislation passed in 2010, known as the Affordable Care Act (ACA), will have at least 4 impacts on the AHCCCS budget in FY 2014. These impacts are described below. These changes will have an impact in both the AHCCCS and the Department of Health Services (DHS) budget. A summary of the AHCCCS portion of the mandatory costs appears in *Table 2* and the combined AHCCCS and DHS cost appears in *Table 3*.

Child Expansion

While the United States Supreme Court struck down the provision which requires mandatory expansion for adults, the expansion for children under age 19 to 133% is required beginning on January 1, 2014. AHCCCS currently provides coverage for children under age 1 up to 140% FPL, children from 1-5 up to 133% FPL, and children from 6-18 up to 100% FPL.

The Baseline assumes that on January 1, 2014, 2,048 children on KidsCare and 10,850 children on KidsCare II will transfer from their respective programs to the Traditional program. While the federal government has

not yet made clear whether these children will be funded at the regular or the KidsCare match rate, the Baseline assumes they will receive the higher KidsCare match rate. In addition to the transfer children, the Baseline phases in newly eligible children over a 12-month period (January 1, 2014 through December 31, 2014); by June 2014, an additional 9,325 children will be added to the program. In total, the child expansion is estimated to cost \$5,330,200 from the General Fund in FY 2014.

Table 2
AHCCCS Baseline Spending Changes
(\$ in millions)

Formula Adjustments

FY 2013 and FY 2014 Caseload Growth	\$ (36)
FY 2014 2% Capitation Rate Increase	25
FY 2014 Federal Match Rate Increase	(57)
Prescription Drug Rebate Fund Increase	(25)
Tobacco Tax Decline	4
<i>Subtotal</i>	\$ (88)

Mandatory Federal Health Care Changes

Child Expansion	\$ 5
Currently Eligible But Not Enrolled	30
Provider Rate Increase	14
Health Insurer Fee	9
<i>Subtotal</i>	\$ 58

Currently Eligible But Not Enrolled

Beginning on January 1, 2014, individuals will be required to have health insurance or pay a fine unless they meet certain criteria. Uninsured individuals will also have access to health insurance through newly created health insurance exchanges, and individuals under 400% FPL will be eligible for premium subsidies.

Most individuals eligible for Medicaid but not enrolled will not be subject to the ACA fine. Nonetheless, publicity surrounding the individual mandate and additional availability of health insurance may induce some who are currently eligible but not enrolled to sign up. The Baseline assumes that 50% of the eligible non-participants will ultimately enroll, and it phases in these individuals over a 15-month period (October 1, 2013 through December 31, 2014); by June 2014, an estimated 66,009 currently eligible individuals will be added to the program at an estimated \$30,099,100 General Fund cost.

Provider Rate Increase

Federal health care legislation requires that Medicaid reimburse primary care providers (PCPs) 100% of the Medicare rates in 2013 and 2014. The federal government will pay 100% of the cost above what they reimbursed PCPs on July 1, 2009. Since AHCCCS has lowered reimbursement rates for PCPs since then, the state receives the regular match rate for the difference between the rate in effect on December 31, 2014 and the July 1, 2009 rate. The Baseline includes an increase of \$13,525,800 from the General Fund in FY 2014 for the PCP rate increase. The FY 2013 budget did not include a PCP rate increase.

Table 3

General Fund and Federal Funds Medicaid Expansion Cost Estimates Above FY 2013
(\$ in millions)

		FY 2014		FY 2015		FY 2016		
		GF	FF	GF	FF	GF	FF	
Baseline Cost Above FY 13								
Mandatory Expansion – 133% FPL	AHCCCS	\$ 58	\$ 244	\$ 159	\$ 397	\$ 173	\$ 385	
Children, and increase from eligible but not enrolled ^{1/}	DHS	<u>16</u>	<u>34</u>	<u>55</u>	<u>113</u>	<u>63</u>	<u>135</u>	
	Total	\$ 74	\$ 278	\$ 214	\$ 510	\$ 236	\$ 520	
Optional Cost Above Baseline								
1. 100% FPL Childless Adult Coverage (Regular Match Rate) ^{2/}	AHCCCS	\$50	\$ 102	\$ 297	\$ 601	\$ 375	\$ 755	
	DHS	<u>13</u>	<u>26</u>	<u>77</u>	<u>156</u>	<u>97</u>	<u>195</u>	
	Total	\$63	\$ 128	\$ 374	\$ 757	\$ 472	\$ 951	
2. Full Expansion to 133% FPL ^{2/}	AHCCCS	\$ 5	\$ 185	\$ 82	\$1,047	\$ 71	\$ 1,342	
	DHS	<u>1</u>	<u>51</u>	<u>21</u>	<u>285</u>	<u>18</u>	<u>365</u>	
	Total	\$ 6	\$ 236	\$ 103	\$1,332	\$ 89	\$ 1,707	

^{1/} Includes the mandatory costs that result from the federal health care legislation.

^{2/} The federal government pays 100% of the cost of the adult expansion from 2014 to 2016. The federal share gradually declines to 90% by 2020.

Table 4

Total Medicaid Population Increase ^{1/}

	June 2014	June 2015	June 2016
Baseline			
Mandatory Expansion	87,000	168,000	173,000
Optional			
100% FPL Childless Adult Coverage ^{2/}	164,000	355,000	370,000
Full Expansion to 133% FPL ^{2/}	188,000	413,000	430,000

^{1/} All estimates reflect cumulative increase resulting from federal health care legislation. Population changes which would have occurred absent federal legislation are not included.

^{2/} Includes the mandatory Baseline population increase along with this specific option.

Health Insurer Fee

Federal health care legislation places an \$8 billion annual fee on the health insurance industry nationwide beginning in 2014. The fee grows to \$14.3 billion in 2018 and is indexed to inflation thereafter. The fee will be allocated to qualifying health insurers based on their respective market share of premium revenue in the previous year. Milliman, an actuarial consulting firm, estimates the fee will increase the cost of Medicaid managed care plans by 1.3% in 2014. The Baseline includes an increase of \$9,338,800 from the General Fund in FY 2014 for the health insurer fee.

Optional Eligibility Expansion

The United States Supreme Court’s ruling on the Affordable Care Act made the expansion of Medicaid eligibility to 133% FPL for adults optional. If a state chooses to expand to this level, the federal government will pay 100% of the cost of the adult expansion from 100% to 133% FPL in 2014 to 2016. The federal share

will gradually decline to 90% by 2020. The federal government will also pay an enhanced match for childless adults up to 100% FPL, starting at 83.6% in 2014 and increasing to 90% by 2016.

A decision will need to be made during the 2013 Legislative Session on whether to expand adult coverage to 133% FPL. If the decision is made not to expand, a decision will need to be made on the coverage level of childless adults. Although the Baseline continues the childless adult freeze, the federal waiver authority to fund childless adults ends on December 31, 2013. (The federal agreement was made prior to the Supreme Court ruling. At that time, the federal government believed that coverage to 133% FPL would be mandatory beginning on January 1, 2014.)

One scenario is to end the freeze on the childless adult population beginning on January 1, 2014. This proposal would result in the coverage of all adults up to 100% FPL (\$11,200 for a family of 1). Uninsured adults above 100% FPL would be able to obtain health insurance through the newly created health insurance exchange. Federal health care legislation provides financial assistance for those from 100%-400% FPL who purchase health insurance through a health insurance exchange.

While it was originally unclear what match rate childless adults would receive if the freeze was ended but the state did not expand to 133% FPL, the federal government clarified this in December 2012. The higher childless adult match rate is only available if Arizona expands adult coverage to 133% FPL. As a result, restoring eligibility to 100% FPL for childless adults will result in the federal government matching these expenditures at the regular 66% match rate.

Table 3 shows 3 different scenarios: mandatory expansion, restoration of childless adult coverage to 100% FPL, and full expansion to 133% FPL.

General Fund Costs Above FY 2013

- Mandatory expansion is estimated to cost \$74 million in FY 2014, \$214 million in FY 2015, and \$236 million in FY 2016. These costs are part of the JLBC Baseline.
- Restoring childless adult coverage to 100% is estimated to cost an additional \$63 million in FY 2014, \$374 million in FY 2015, and \$472 million in FY 2016. These costs are in addition to the mandatory expansion costs.
- The cost of full expansion is estimated to cost an additional \$6 million in FY 2014, \$103 million in FY 2015, and \$89 million in FY 2016. These costs are in addition to the mandatory expansion costs. Since the federal government pays 100% of the costs of expanding adults from 100%-133% FPL and they also pay an enhanced 83.6% match rate for childless adults under 100% FPL, the cost to the state is less for full expansion than for restoring childless adult coverage to 100% FPL.

Federal Funds Costs Above FY 2013

- Mandatory expansion is estimated to cost \$278 million in FY 2014, \$510 million in FY 2015, and \$520 million in FY 2016.
- Restoring childless adult coverage to 100% is estimated to cost an additional \$128 million in FY 2014, \$757 million in FY 2015, and \$951 million in FY 2016. These costs are in addition to the mandatory expansion costs.
- The cost of full expansion is estimated to cost an additional \$236 million in FY 2014, \$1.3 billion in FY 2015, and \$1.7 billion in FY 2016. These costs are in addition to the mandatory expansion costs.

Additional enrollment with these 3 scenarios is displayed in Table 4.

Operating Budget

The Baseline includes \$76,813,300 and 904.2 FTE Positions in FY 2014 for the operating budget. These amounts consist of:

	FY 2014
General Fund	\$28,047,100
Healthcare Group Fund	1,065,500
Children’s Health Insurance Program (CHIP) Fund	1,636,700
Prescription Drug Rebate Fund (PDRF) - State	114,800
Federal Medicaid Authority (FMA)	45,949,200

FY 2014 adjustments would be as follows:

Discontinue Healthcare Group OF (1,215,800)

The Baseline includes an agency-requested decrease of \$(1,215,800) from the Healthcare Group Fund in FY 2014 to discontinue Healthcare Group. Healthcare Group is designed to provide access to community-rated healthcare insurance for the small business community. Federal health care legislation creates health care exchanges which are expected to provide health insurance beginning in 2014. The exchanges are expected to provide a marketplace for uninsured individuals to obtain health insurance as well as provide community-rated health insurance for small business owners. Beginning on January 1, 2014, it is assumed that currently enrolled members in Healthcare Group will shift into health insurance offered in the healthcare exchange, making Healthcare Group no longer necessary.

Administration

DES Eligibility

The Baseline includes \$53,799,300 and 885 FTE Positions in FY 2014 for Department of Economic Security (DES) Eligibility services. These amounts consist of:

General Fund	24,993,300
Federal Medicaid Authority	28,806,000

These amounts are unchanged from FY 2013.

Through an Intergovernmental Agreement, DES performs eligibility determinations.

Proposition 204 - AHCCCS Administration

The Baseline includes \$6,635,800 and 128 FTE Positions in FY 2014 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	2,215,300
Federal Medicaid Authority	4,420,500

These amounts are unchanged from FY 2013.

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

Proposition 204 - DES Eligibility

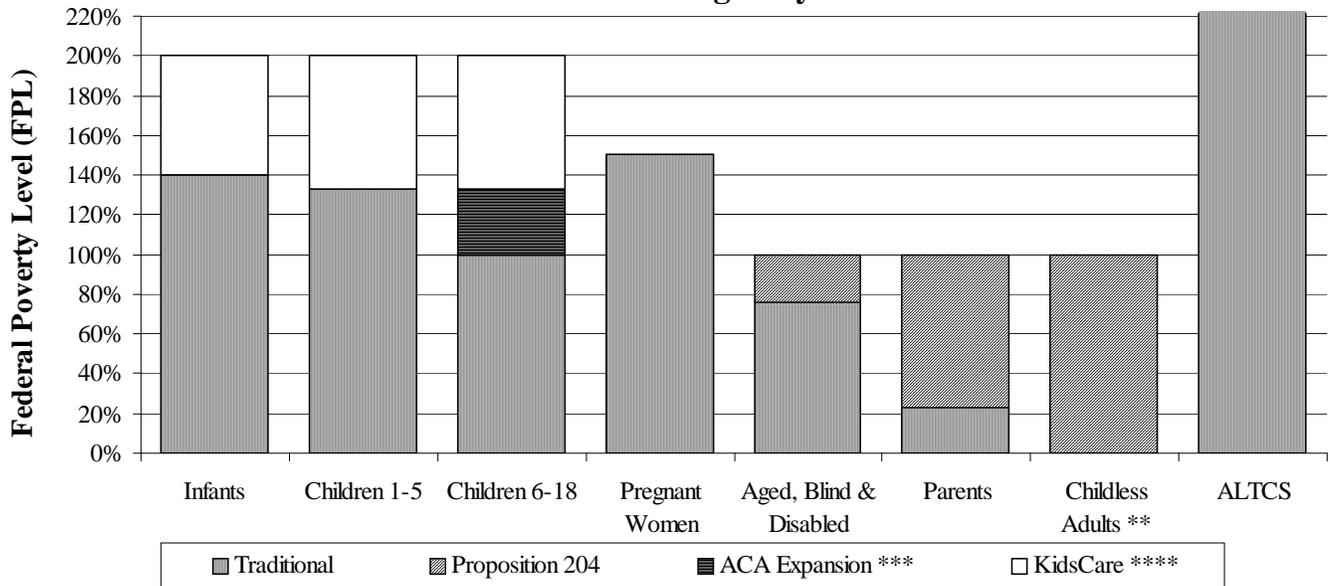
The Baseline includes \$37,793,600 and 300.1 FTE Positions in FY 2014 for Proposition 204 - DES Eligibility costs. These amounts consist of:

General Fund	17,156,600
Budget Neutrality Compliance Fund	3,303,900
Federal Medicaid Authority	17,333,100

FY 2014 adjustments would be as follows:

Chart 1

AHCCCS Eligibility*



* Women diagnosed with breast or cervical cancer by a provider recognized by the Well Women Healthcheck program and those in the "Ticket to Work" program receive coverage to 250% FPL.
 ** The Childless Adult Program has had an enrollment freeze since July 8, 2011.
 *** Federal health care legislation requires coverage of children to 133% beginning January 1, 2014.
 **** The KidsCare program has had an enrollment freeze since January 1, 2010. From May 1, 2012 to December 31, 2013, the KidsCare II program will enroll approximately 22,000 per month.

- The continuation of the childless adult freeze. Enrollment would decline by (38.7)% in FY 2014.
- 3.0% enrollment growth for all other Proposition 204 populations after the continuation of the FY 2013 caseload savings.
- A change in the federal match rate from 66.09% to 66.84%.
- 2% capitation rate increase.
- \$(1,895,600) decrease from the TPTF Proposition 204 Protection Account due to declining tobacco taxes and a corresponding General Fund increase.
- \$(902,800) decrease from the Emergency Health Services Account due to declining tobacco taxes and a corresponding General Fund increase.

**Federal Health Care Legislation GF 9,711,800
 FMA 40,417,300**

Mandatory changes due to federal health care legislation include an increase of individuals who are currently eligible but not enrolled, a primary care provider rate increase, and the health insurer fee. By June 2014, an estimated 13,419 individuals who had previously been eligible but not enrolled are expected to enroll in Medicaid.

Background – The Proposition 204 program serves individuals with incomes that exceed the income limits for the Traditional population, but are below 100% FPL (see Chart 1). The Childless Adult program has had an enrollment freeze since July 2011.

Children's Rehabilitative Services

The Baseline includes \$114,051,400 in FY 2014 for Children's Rehabilitative Services (CRS). This amount consists of:

General Fund	37,816,600
Federal Medicaid Authority	76,234,800

FY 2014 adjustments would be as follows:

Formula Adjustments	GF	(5,797,800)
	EA	(8,749,900)

The formula adjustments include 5.5% enrollment growth after the continuation of the FY 2013 caseload savings, an increase to the federal match rate, and a 2% capitation increase. This would result in approximately 26,000 members per month being served in June 2014.

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

KidsCare Services

The Baseline includes \$12,213,500 in FY 2014 for KidsCare Services. This amount consists of:

General Fund	2,580,400
CHIP Fund	9,633,100

FY 2014 adjustments would be as follows:

Formula Adjustments **GF (3,086,800)**
CHIP (8,625,500)

The formula adjustments include a (30)% enrollment decline after the continuation of the FY 2013 caseload savings, an increase to the federal match rate, and a 2% capitation rate increase.

Federal Health Care Legislation **GF 534,600**
CHIP 1,768,900

Mandatory changes due to federal health care legislation include a primary care provider rate increase. Federal health care legislation expands eligibility for the Traditional program up to 133% FPL beginning January 1, 2014. At that time, children from 100% to 133% FPL will transition from the KidsCare program to the Traditional program resulting in a decline of 2,048 children.

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.

KidsCare II

The Baseline includes \$26,825,700 in FY 2014 for KidsCare II. This amount consists of:

Political Subdivision Funds 5,901,700
 CHIP Fund 20,924,000

FY 2014 adjustments would be as follows:

Change to Appropriated Funds **PSF 5,901,700**
CHIP 20,924,000

The KidsCare II program expands access to KidsCare services for approximately 22,000 children per month from May 1, 2012 to December 31, 2013. KidsCare II is funded by voluntary payments made by political subdivisions. The voluntary payments are matched by Federal Funds. The majority of the voluntary payments are used for the Safety Net Care Pool (*see Safety Net Care Pool section*). KidsCare II is only open to children from 100% to 175% FPL. On January 1, 2014, children with incomes up to 133% FPL will be transferred to the Traditional program. Pending additional information and federal approval of the Safety Net Care Pool and Coverage Expansion, the Baseline has not included funding for a potential KidsCare II expansion (*see Safety Net Care Pool and Coverage Expansion in Other Issues for Legislative Consideration for additional details*).

In prior budgets, all monies received by AHCCCS for KidsCare II have been non-appropriated. The FY 2014 Baseline converts KidsCare II monies to the regular budget

structure. Monies in FY 2012 and FY 2013 appear in the Other Non-Appropriated Funds line in the appropriation table above.

ALTCS Services

The Baseline includes \$1,271,574,100 in FY 2014 for Arizona Long Term Care System (ALTCS) expenditures. This amount consists of:

General Fund 162,226,100
 County Contributions 244,696,100
 PDRF - State 6,497,300
 Federal Medicaid Authority 828,232,100
 PDRF - Federal 12,224,500
 Nursing Facility Provider 17,698,000
 Assessment Fund

FY 2014 adjustments would be as follows:

Formula Adjustments **GF (1,697,000)**
OF 403,400
EA 27,911,100

The EA amount consists of \$29,954,600 in Federal Medicaid Authority, \$(308,800) in County Funds, and \$(1,734,700) from the federal portion of the Prescription Drug Rebate Fund. The formula adjustments include:

- 2.0% enrollment growth after continuation of the FY 2013 caseload savings.
- A change in the federal match rate from 66.09% to 66.84%.
- 2% capitation rate increase.
- \$403,400 increase to the state portion of the PDRF and corresponding decreases of \$(182,100) in County Contributions and \$(221,300) from the General Fund.
- \$(1,734,700) decrease to the federal portion of the PDRF and a corresponding Federal Medicaid Authority increase.

These adjustments would result in approximately 28,600 members per month being served in June 2014. (*See Table I.*)

Federal Health Care Legislation **GF 1,328,800**
EA 14,150,300

Mandatory changes due to federal health care legislation include a primary care provider rate increase and health insurer fee. The EA amount consists of \$12,365,900 in Federal Medicaid Authority and \$1,784,400 in county contributions.

Nursing Facility Assessments **EA 51,567,500**

The Baseline includes an increase of \$17,698,000 from the Nursing Facility Provider Assessment Fund and \$33,869,500 in Federal Medicaid Authority in FY 2014 for assessments collected by AHCCCS. ALTCS enrollees that require 24-hour nursing care are treated at nursing facilities while individuals with less chronic conditions receive assisted living or home and community based

services. Laws 2012, Chapter 213 requires AHCCCS to charge a provider assessment on health items and services provided by nursing facilities that are not paid for by Medicare. Charges are then used to obtain a federal match and make supplemental payments to facilities for covered AHCCCS expenditures.

Each facility that provides care to ALTCS enrollees receives supplemental payments, though some are exempt from paying the assessment. Non-exempt facilities with less than 43,500 bed days per year are charged \$7.50 per day of care provided while facilities with more than 43,500 bed days are charged \$1 per day. Monies in FY 2013 appear in the Other Non-Appropriated Funds and Federal Funds lines in the appropriation table above. The FY 2014 Baseline converts these funds to the regular budget structure.

Background – ALTCS provides coverage for individuals up to 222% of the FPL, or \$24,797 per person. The federal government requires coverage of individuals up to 100% of Supplemental Security Income limit (SSI), which is equivalent to approximately 75% of FPL, or \$8,376 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 2012, AHCCCS estimates that client contributions paid for 7.1% 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 2014 for Disproportionate Share Hospital (DSH) Payments. This amount consists of:

General Fund	3,042,600
Federal Medicaid Authority	10,444,500

FY 2014 adjustments would be as follows:

Formula Adjustment	GF (143,900)
	FMA 143,900

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 5* displays the allocation of Disproportionate Share Funding.

The state only appropriates General Fund dollars for DSH payments to private hospitals (\$9,284,800 in total funds in FY 2014). 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. Typically the state retains all of the Federal Funds with the exception of \$4,202,300 which is allocated to Maricopa Integrated Health System (MIHS).

For FY 2012 and FY 2013, the FY 2013 Health and Welfare Budget Reconciliation Bill (BRB) (Laws 2012, Chapter 299) limited the DSH payment attributed to MIHS to \$89,877,700. This limitation allows MIHS to use monies they spend on uncompensated care above that amount as a match for the Safety Net Care Pool and KidsCare II programs and results in the loss of some federal funding which would have otherwise been distributed to the General Fund. The Baseline does not include a limit for FY 2014.

Table 5 Disproportionate Share Hospital Program		
<u>Eligible Funding</u>	<u>FY 2013</u>	<u>FY 2014</u>
Public Hospitals	\$ 89,877,700	\$ 89,877,700
Arizona State Hospital (ASH)	26,724,700	26,724,700
Private Hospitals	<u>9,284,800</u>	<u>9,284,800</u>
Total Allocations	\$125,887,200	\$125,887,200
<u>Distribution of Funding</u>		
Federal DSH to GF (Maricopa)	\$ 64,460,900	\$ 60,424,800
Federal DSH to GF (ASH)	<u>16,400,300</u>	<u>17,443,600</u>
Subtotal	\$ 80,861,200	\$ 77,868,400
County-Operated Hospitals	4,202,300	4,202,300
Private Hospitals	<u>9,284,800</u>	<u>9,284,800</u>
Total	\$ 94,348,300	\$ 91,355,500

DSH Payments - Voluntary Match

The Baseline includes \$28,457,100 in FY 2014 for DSH Payments - Voluntary Match. This amount consists of:

Political Subdivision Funds (PSF)	9,325,400
Federal Medicaid Authority	19,131,700

FY 2014 adjustments would be as follows:

Formula Adjustment	PSF 25,800
	FMA (25,800)

The Baseline includes an increase of \$25,800 from Political Subdivision Funds and a corresponding decrease from Federal Medicaid Authority in FY 2014 to reflect a change in the match rate.

Background – Beginning in FY 2010, the Health BRB has allowed local governments, tribal governments and universities to provide voluntary DSH payments in order to receive a federal match. In FY 2012, 6 hospitals contributed the state match for \$7,618,600 in total DSH payments.

The FY 2013 budget converted the Voluntary Match payments to the regular budget structure. Payments in FY 2012 appear in the Other Non-Appropriated Funds line in the appropriation table above.

Rural Hospitals

The Baseline includes \$13,858,100 in FY 2014 for Rural Hospitals. This amount consists of:

General Fund	4,541,300
Federal Medicaid Authority	9,316,800

FY 2014 adjustments would be as follows:

Formula Adjustment	GF	(214,800)
	FMA	214,800

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 2012, 21 hospitals qualified for funding from Rural Hospital Reimbursement and 11 from Critical Access Hospitals.

Graduate Medical Education

The Baseline includes \$160,184,900 in FY 2014 for Graduate Medical Education (GME) expenditures. This amount consists of:

Political Subdivision Funds	52,492,600
Federal Medicaid Authority	107,692,300

FY 2014 adjustments would be as follows:

Increased Funding	PSF	21,269,200
	FMA	47,938,400

The Baseline includes an increase of \$69,207,600 in FY 2014 for anticipated increased funding reflecting current expenditures.

Background – 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, 6 hospitals received a total of \$113,352,900 for Graduate Medical Education.

The FY 2013 budget converted Graduate Medical Education to the regular budget structure. Payments in FY 2012 appear in the Other Non-Appropriated Funds line in the appropriation table above.

Safety Net Care Pool

The Baseline includes \$166,000,000 in FY 2014 for the Safety Net Care Pool (SNCP) program. This amount consists of:

Political Subdivision Funds	56,971,200
Federal Medicaid Authority	109,028,800

FY 2014 adjustments would be as follows:

Change to Appropriated Funds	PSF	56,971,200
	FMA	109,028,800

In prior budgets, all monies received by AHCCCS for SNCP have been non-appropriated. The FY 2014 Baseline converts SNCP monies to the regular budget structure. Monies in FY 2012 and FY 2013 appear in the Other Non-Appropriated Funds line in the appropriation table above. This amount reflects a half year of funding.

Background – In April 2012, AHCCCS received federal approval to establish the SNCP program to fund unreimbursed costs incurred by hospitals in caring for the uninsured and AHCCCS recipients through December 31, 2013. SNCP uses voluntary monies from political subdivisions to draw down federal matching monies at a 2:1 match. The funds are then distributed to participating hospitals. As a federal condition of participating in the program, some of the monies must be used to expand KidsCare (*see KidsCare II section*). At the time of this writing AHCCCS anticipates that the University of Arizona Health Network will receive \$70,000,000, Phoenix Children’s Hospital will receive \$52,500,000, and Maricopa Integrated Health Systems will receive \$43,500,000 in total funds for SNCP in FY 2014. This program received \$150,000,000 in total funds in FY 2012 and is expected to receive \$348,000,000 in total funds in FY 2013.

Pending additional information and federal approval of the Safety Net Care Pool and Coverage Expansion, the Baseline has not included funding for a potential SNCP expansion related to the City of Phoenix hospital bed assessment (*see Safety Net Care Pool and Coverage Expansion in Other Issues for Legislative Consideration for additional details*).

* * *

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 the 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 2014 nonfederal portion of the costs of providing long-term care system services is included in the Expenditure Authority fund source.

The Arizona Health Care Cost Containment System Administration shall transfer up to \$1,200,000 from the Traditional Medicaid Services line item for FY 2014 to the Attorney General for costs associated with tobacco settlement litigation.

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

Payments to Hospitals

The \$13,487,100 appropriation for Disproportionate Share Payments for FY 2014 made pursuant to A.R.S. § 36-2903.01O includes \$4,202,300 for the Maricopa County Healthcare District and \$9,284,800 for private qualifying disproportionate share hospitals.

Any monies received for Disproportionate Share Payments from political subdivisions of this state, tribal governments and any university under the jurisdiction of the Arizona Board of Regents, and any federal monies used to match those payments, that are received in FY 2014 by the Arizona Health Care Cost Containment System Administration in excess of \$28,457,100 are appropriated to the administration in FY 2014. Before the expenditure of these increased monies, the administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision.

Any monies for Graduate Medical Education received in FY 2014, including any federal matching monies, by the Arizona Health Care Cost Containment System Administration in excess of \$160,184,900 are appropriated to the administration in FY 2014. Before the expenditure of these increased monies, the administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision.

Reconciliation Payments

On or before January 7, 2014, the Arizona Health Care Cost Containment System Administration shall report to the Director of the Joint Legislative Budget Committee the total amount of Medicaid reconciliation payments and penalties received by that date since July 1, 2013. On June 30, 2014, the administration shall report the same information for all of FY 2014.

New Footnotes

Beginning July 1, 2013, the Arizona Health Care Cost Containment System Administration shall report 30 days after the end of each calendar quarter to the Directors of the Joint Legislative Budget Committee and Governor's Office for Strategic Planning and Budgeting on the implementation of its required automation interaction with the health insurance exchange and eligibility modifications.

STATUTORY CHANGES

The Baseline would:

Rates and Services:

- As session law, continue to reduce the risk contingency rate setting for all managed care organizations by 50% and impose a 5.88% reduction on funding for all managed care organizations administrative funding levels.

- As session law, state that it is the intent of the Legislature that AHCCCS not increase capitation rates more than 3% in FY 2015 and FY 2016.
- As session law, require AHCCCS to monitor contractor compliance and performance requirements in the provision of covered dental services to eligible members.
- As permanent law, continue to provide coverage for 6 types of transplants which were restricted by Laws 2010, 7th Special Session, Chapter 10. Laws 2011, Chapter 31 effectively lifted the restriction but that provision is set to expire on December 31, 2013.
- As permanent law, reset the inpatient hospital prospective tiered per diem rates to the amounts payable for those services on October 1, 2011. The rates are currently reset to September 30, 2011. This will help AHCCCS to implement a program within its available funding.

Counties

- As session law, set county Arizona Long Term Care System (ALTCs) contributions at \$244,696,100 (*see Table 6*).
- As session law, set the County Acute Care contribution at \$47,851,000 (*see Table 6*).
- As session law, require AHCCCS to transfer any excess monies back to the counties by December 31, 2014 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 (*see Table 6*).
- As session law, continue to exclude Proposition 204 administrative costs from county expenditure limitations, retroactive to June 30, 2004.

Hospitals

- As session law, establish FY 2014 disproportionate share distributions to the Maricopa County Hospital District, the Arizona State Hospital, private qualifying

disproportionate share hospitals, and Yuma Regional Medical Center.

- As session law, continue to permit local governments, tribal governments, and universities to contribute state match monies for disproportionate share hospital payments in FY 2014, subject to legislative appropriation.

Erroneous Payments

- As session law, continue to permit AHCCCS to recover erroneous Medicare payments the state has made due to errors on behalf of the federal government. Credits may be used to pay for the AHCCCS program in the year they are received.
- 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 to consider best available technologies to reduce fraud.

Available Funding

- As session law, continue to state that it is the intent of the Legislature that AHCCCS implement a program within its available appropriation.

**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

Table 6

County Contributions

<u>County</u>	<u>FY 2013</u>				<u>FY 2014</u>			
	<u>BNCF</u>	<u>Acute</u>	<u>DUC</u>	<u>ALTCS</u>	<u>BNCF</u>	<u>Acute</u>	<u>DUC</u>	<u>ALTCS</u>
Apache	\$ 106,200	\$ 268,800	\$ 87,300	\$ 611,200	\$ 108,900	\$ 268,800	\$ 87,300	\$ 613,500
Cochise	198,000	2,214,800	162,700	5,266,800	203,100	2,214,800	162,700	5,179,900
Coconino	195,400	742,900	160,500	1,834,500	200,400	742,900	160,500	1,841,200
Gila	80,200	1,413,200	65,900	2,146,400	82,300	1,413,200	65,900	2,126,000
Graham	57,000	536,200	46,800	1,434,200	58,500	536,200	46,800	1,427,300
Greenlee	14,700	190,700	12,000	192,800	15,000	190,700	12,000	128,800
La Paz	30,400	212,100	24,900	625,200	31,200	212,100	24,900	691,300
Maricopa	0	20,225,200	0	148,533,600	0	19,820,700	0	149,698,100
Mohave	228,000	1,237,700	187,400	8,000,100	233,900	1,237,700	187,400	7,952,700
Navajo	149,500	310,800	122,800	2,529,300	153,300	310,800	122,800	2,538,600
Pima	1,358,300	14,951,800	1,115,900	39,316,400	1,393,200	14,951,800	1,115,900	39,129,200
Pinal	265,800	2,715,600	218,300	15,081,500	272,600	2,715,600	218,300	15,246,800
Santa Cruz	62,800	482,800	51,600	1,904,900	64,400	482,800	51,600	1,908,200
Yavapai	251,000	1,427,800	206,200	8,450,900	257,500	1,427,800	206,200	8,382,500
Yuma	223,800	1,325,100	183,900	7,292,700	229,600	1,325,100	183,900	7,832,000
Subtotal	\$3,221,100	\$48,255,500	\$2,646,200	\$243,220,500	\$3,303,900	\$47,851,000	\$2,646,200	\$244,696,100
Total				\$297,343,300				\$298,497,200

- based on their FY 2012 ALTCS utilization.
3. Each county's contribution is then limited to 90¢ per \$100 of net assessed property value. In FY 2014, this provision provides 3 counties with a total of \$4,283,000 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 2014, this provision provides 3 counties with a total of \$16,108,300 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 2014 no counties qualify for this relief.
 6. The state pays for county costs above the average statewide per capita (\$38.91 in FY 2014). In FY 2014, this provision provides 7 counties with a total of \$10,709,000 in relief.

In FY 2014, provisions 3 through 6 of the ALTCS formula result in the state providing a total of \$31,100,300 in relief to 10 counties.

Program Components

Traditional Medicaid, Proposition 204, KidsCare, CRS, 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 2014, the average capitation rate is expected to be approximately \$315 per member per month (or \$3,780 annually). Of that amount, \$105 is from state match and \$210 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 (76.7% in 2014) of the estimated drug costs.

Safety Net Care Pool and Coverage Expansion

In December 2012, the Phoenix City Council adopted the Phoenix Access to Care Ordinance which will charge a short-term assessment on most Phoenix acute care hospitals, referred to as Phoenix Access to Care. The assessment is expected to generate approximately \$130,000,000 in local match.

If approved by the federal government, the assessment will obtain a 66% federal match and be used to expand the Safety Net Care Pool, KidsCare II and childless adults under 100% FPL. KidsCare II would be expanded to children up to 200% FPL (it is currently limited to 175% FPL). Additional targeted childless adults (those without dependent children) would be parents of children who were eligible for KidsCare or KidsCare II but who turned 19 and parents of children who enter the foster care system. At the time of this writing, it is unknown how many additional people this expansion may cover.

Pending additional information and federal approval of the Safety Net Care Pool and Coverage Expansion, the Baseline has not included funding for a potential expansion (*see Safety Net Care Pool and KidsCare II for additional details*).

Proposition 202 – Trauma and Emergency Services Fund

In April 2012, AHCCCS received federal approval to obtain a federal match for Proposition 202 - Trauma and Emergency Services Fund. This fund consists of tribal gaming monies received from the Arizona Benefits Fund. Currently, hospitals receive approximately \$20,000,000 annually from this fund. AHCCCS distributes 90% to trauma facilities and 10% to emergency departments. The additional federal match is expected to generate approximately \$13,300,000 annually through December 31, 2013. AHCCCS intends to distribute 40% of the additional money to rural hospitals, 30% to trauma centers, and 30% to emergency departments.

Tabacco Tax Allocation

Table 7 is a summary of the tobacco tax allocations.

Table 7

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

Medically Needy Account	<u>FY 2012</u>	<u>FY 2013</u>
<u>Funds Available</u>		
Balance Forward	\$ 5,050,200	\$ 4,260,800
Transfer In - Tobacco Tax and Health Care Fund	46,903,400	46,377,400
Transfer In - Tobacco Products Tax Fund	25,580,600	25,284,600
Interest & Refunds	<u>151,600</u>	<u>0</u>
Total Funds Available	\$ 77,685,800	\$ 75,922,800
<u>Allocations</u>		
<i>AHCCCS</i>		
AHCCCS 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	\$ 34,767,000	\$ 34,767,000
Folic Acid	<u>362,200</u>	<u>400,000</u>
Total DHS Allocations	<u>35,129,200</u>	<u>35,167,000</u>
Balance Forward	\$ 4,260,800	\$ 2,460,000
AHCCCS Proposition 204 Protection Account		
<u>Funds Available</u>		
Balance Forward	\$ 19,600	\$ 0
Transfer In - Tobacco Products Tax Fund	<u>39,792,000</u>	<u>39,331,600</u>
Total Funds Available	\$ 39,811,600	\$ 39,331,600
<u>Allocations</u>		
AHCCCS State Match Appropriation	\$ <u>39,811,600</u>	<u>40,367,900</u>
Balance Forward	\$ 0	\$ (1,036,300) ^{1/}
AHCCCS Emergency Health Services Account		
<u>Funds Available</u>		
Balance Forward	\$ 9,300	\$ 0
Transfer In - Tobacco Products Tax Fund	<u>18,948,600</u>	<u>18,729,300</u>
Total Funds Available	\$ 18,957,900	\$ 18,729,300
<u>Allocations</u>		
AHCCCS State Match Appropriation	\$ <u>18,957,900</u>	<u>19,222,900</u>
Balance Forward ^{2/}	\$ 0	\$ (493,600) ^{1/}
DHS Health Education Account		
<u>Funds Available</u>		
Balance Forward	\$ 8,406,100	\$ 7,741,100
Transfer In - Tobacco Tax and Health Care Fund	15,516,400	15,238,300
Transfer In - Tobacco Products Tax Fund	<u>1,894,900</u>	<u>1,872,900</u>
Total Funds Available	\$ 25,817,400	\$ 24,852,300
<u>Allocations</u>		
Tobacco Education and Prevention Program	\$ 15,745,200	\$ 16,200,000
Leading Causes of Death - Prevention and Detection	<u>2,331,100</u>	<u>2,200,000</u>
Balance Forward	\$ 7,741,100	\$ 6,452,300
Health Research Account		
<u>Funds Available</u>		
Balance Forward	\$ 6,912,000	\$ 10,307,100
Transfer In - Tobacco Tax and Health Care Fund	4,283,900	3,312,600
Transfer In - Tobacco Products Tax Fund	<u>6,057,500</u>	<u>4,682,300</u>
Total Funds Available	\$ 17,253,400	\$ 18,302,000
<u>Allocations</u>		
Biomedical Research	\$ 5,946,300	\$ 5,027,000
Alzheimer's Disease Research	1,000,000	1,000,000
Biotechnology (Laws 2002, Ch. 186)	<u>0</u>	<u>0</u>
Balance Forward	\$ 10,307,100	\$ 12,275,000

^{1/} Actual balances will not be negative.

^{2/} 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 2012 Actual	FY 2013 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	3,161,100	3,221,100
Year-End Fund Balance	6,000	6,000
Children's Health Insurance Program Fund (HCA2409/A.R.S. § 36-2995)		Partially-Appropriated
Source of Revenue: Includes Medicaid matching monies for Arizona's State Children's Health Insurance Program (CHIP), called KidsCare and KidsCare II. General Fund monies are used to leverage federal monies for KidsCare and contributions from political subdivisions are used to leverage federal monies for KidsCare II. General Fund monies and political subdivision contributions 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. Monies for the KidsCare program are displayed as appropriated, and monies for the KidsCare II program are displayed as non-appropriated in FY 2012 and FY 2013. The eligibility limit for the KidsCare and KidsCare II programs have been set at 200% and 175% of the Federal Poverty Level, respectively (approximately \$46,100 and \$40,300 for a family of 4).		
Appropriated Funds Expended	26,539,000	18,126,400
Non-Appropriated Funds Expended	285,700	38,846,400
Year-End Fund Balance	1,423,500	1,423,500
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	284,502,300	294,122,200
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	9,300	10,500
Year-End Fund Balance	9,900	8,400
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	24,889,200	25,404,000
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	163,391,100	272,654,600
Year-End Fund Balance	32,100	0

SUMMARY OF FUNDS	FY 2012 Actual	FY 2013 Estimate
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	76,183,400	72,136,100
Year-End Fund Balance	0	0
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 eligible populations.		
Funds Expended	4,228,335,600	4,049,365,700
Year-End Fund Balance	48,072,700	48,072,700
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	1,424,700	2,281,300
Non-Appropriated Funds Expended	28,654,000	24,990,500
Year-End Fund Balance	8,879,400	9,445,800
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	360,000
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.		
Purpose of Fund: To expand funding for Graduate Medical Education, KidsCare II, the Safety Net Care Pool program or other payments to hospitals.		
Funds Expended	75,545,500	131,146,400
Year-End Fund Balance	47,896,600	47,896,600
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	6,563,100	8,000,000
Year-End Fund Balance	1,158,300	1,262,800

SUMMARY OF FUNDS	FY 2012 Actual	FY 2013 Estimate
Nursing Facility Provider Assessment Fund (HCA2567/A.R.S. § 36-2999.53)		EA/Non-Appropriated
Source of Revenue: Assessment on health care items and services provided by some nursing facilities, nursing facility penalties, grants, gifts, and contributions from public or private sources.		
Purpose of Fund: To qualify for federal matching funds for supplemental payments for nursing facility services, to reimburse the Medicaid sharer of the assessment, to provide Medicaid supplemental payments to fund covered nursing facility services for Medicaid beneficiaries, and to pay up to a 1% in administrative expenses incurred by AHCCCS for administering this fund. Beginning in FY 2014, these funds are listed as Expenditure Authority.		
Expenditure Authority Funds Expended	0	0
Non-Appropriated Funds Expended	0	13,273,500
Year-End Fund Balance	0	0
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	40,523,000
Year-End Fund Balance	0	0
Prescription Drug Rebate Fund (HCA2546/A.R.S. § 36-2930)		EA/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.		
State Funds Expended	46,589,600	69,950,000
Federal Funds Expended	180,833,200	165,392,300
Year-End Fund Balance	65,917,200	65,679,400
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	14,385,200	21,267,000
Year-End Fund Balance	15,025,400	16,010,200
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.		
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.		
Expenditure Authority Funds Expended	0	194,700
Non-Appropriated Funds Expended	14,200	13,000
Year-End Fund Balance	1,149,400	1,149,300

SUMMARY OF FUNDS	FY 2012 Actual	FY 2013 Estimate
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	101,067,400	100,000,000
Year-End Fund Balance	0	0
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* (HCA1306/A.R.S. § 36-774)		Partially-Appropriated
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* (HCA1304/A.R.S. § 36-776)		Appropriated
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* (HCA1303/A.R.S. § 36-778)		Expenditure Authority
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 7.