

## Arizona Health Care Cost Containment System

	FY 2013 ACTUAL	FY 2014 ESTIMATE	FY 2015 APPROVED
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	2,217.3	2,217.3	2,208.3 <sup>1/</sup>
Personal Services	35,431,600	38,964,400	38,484,200
Employee Related Expenditures	14,731,000	17,350,700	17,158,100
Professional and Outside Services	4,222,800	5,657,100	5,667,600
Travel - In State	57,000	63,900	63,700
Travel - Out of State	30,700	36,100	35,700
Other Operating Expenditures	24,498,100	14,427,600	14,667,900
Equipment	1,533,400	1,901,700	1,716,300
<b>OPERATING SUBTOTAL</b>	<b>80,504,600</b>	<b>78,401,500</b>	<b>77,793,500</b>
<b>SPECIAL LINE ITEMS</b>			
<b>Administration</b>			
DES Eligibility	60,941,200	54,867,700	54,874,500 <sup>2/</sup>
Proposition 204 - AHCCCS Administration	9,201,000	6,863,100	6,863,900 <sup>3/</sup>
Proposition 204 - DES Eligibility	17,854,500	38,354,100	38,358,700 <sup>3/</sup>
<b>Medical Services</b>			
Traditional Medicaid Services	3,223,412,300	3,607,182,200	3,896,186,400 <sup>4/5/6/</sup>
Proposition 204 Services	1,113,353,400	1,256,591,000	1,948,717,900 <sup>3/</sup>
Adult Expansion	0	65,931,900	227,369,700
Children's Rehabilitative Services	114,789,800	129,810,900	197,070,000
KidsCare Services	18,577,600	12,321,500	6,223,000
KidsCare II	47,737,600	48,222,700	0
ALTCS Services	1,136,911,400	1,270,289,700	1,344,569,500 <sup>7/8/9/10/</sup>
<b>Payments to Hospitals</b>			
Disproportionate Share Payments	10,300,600	13,487,100	13,487,100 <sup>11/</sup>
DSH Payments - Voluntary Match	49,268,900	43,318,000 <sup>12/</sup>	19,373,400 <sup>12/</sup>
Rural Hospitals	13,008,100	13,858,100	22,650,000
Graduate Medical Education	167,561,500	186,490,100	165,918,500 <sup>13/</sup>
Safety Net Care Pool	361,954,900	479,690,900	68,500,000 <sup>14/</sup>
<b>AGENCY TOTAL</b>	<b>6,425,377,400</b>	<b>7,305,680,500<sup>15/</sup></b>	<b>8,087,956,100<sup>16/-23/</sup></b>

## FUND SOURCES

General Fund	1,267,202,100	1,261,493,800	1,274,403,200
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	3,221,100	3,303,900	3,384,400
Children's Health Insurance Program Fund	53,782,300	48,987,100	6,649,800
Healthcare Group Fund	1,133,500	1,097,200	0
Prescription Drug Rebate Fund - State	53,989,300	95,010,900	79,035,000
TPTF Emergency Health Services Account	18,964,600	18,320,100	18,202,400
TTHCF Medically Needy Account	38,295,800	37,389,300	34,178,800
SUBTOTAL - Other Appropriated Funds	169,386,600	204,108,500	141,450,400
<b>SUBTOTAL - Appropriated Funds</b>	<b>1,436,588,700</b>	<b>1,465,602,300</b>	<b>1,415,853,600</b>
<u>Expenditure Authority Funds</u>			
County Funds	292,035,200	295,193,300	295,518,400
Federal Medicaid Authority	4,172,226,700	4,753,556,000	5,723,788,500
Hospital Assessment Fund	0	0	204,597,700
Nursing Facility Provider Assessment Fund	0	17,698,000	17,171,800
Political Subdivision Funds	202,153,200	243,662,500	80,147,100
Prescription Drug Rebate Fund - Federal	133,422,400	178,543,000	212,459,300
Third Party Liability and Recovery Fund	0	194,700	194,700
Tobacco Litigation Settlement Fund	149,125,400	100,000,000	100,000,000
TPTF Proposition 204 Protection Account	39,825,800	38,472,300	38,225,000
SUBTOTAL - Expenditure Authority Funds	4,988,788,700	5,627,319,800	6,672,102,500
<b>SUBTOTAL - Appropriated/Expenditure Authority Funds</b>	<b>6,425,377,400</b>	<b>7,305,680,500</b>	<b>8,087,956,100</b>

	FY 2013 ACTUAL	FY 2014 ESTIMATE	FY 2015 APPROVED
Other Non-Appropriated Funds	59,520,100	118,697,800	33,694,900
Federal Funds	89,956,600	75,130,600	67,295,300
<b>TOTAL - ALL SOURCES</b>	<b>6,574,854,100</b>	<b>7,499,508,900</b>	<b>8,188,946,300</b>

**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.

- 1/ Includes 618.9 GF and 694.2 EA FTE Positions funded from Special Line Items in FY 2015.
- 2/ The amounts appropriated for the Department of Economic Security Eligibility line item must 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. (General Appropriation Act footnote)
- 3/ The amounts included in the Proposition 204 - AHCCCS Administration, Proposition 204 - DES Eligibility, and Proposition 204 Services line items include all available sources of funding consistent with A.R.S. § 36-2901.01B. (General Appropriation Act footnote)
- 4/ The AHCCCS Administration shall transfer up to \$1,200,000 from the Traditional Medicaid Services line item for FY 2015 to the Attorney General for costs associated with tobacco settlement litigation. (General Appropriation Act footnote)
- 5/ The AHCCCS Administration shall transfer \$436,000 from the Traditional Medicaid Services line item for FY 2015 to the Department of Revenue for enforcement costs associated with the March 13, 2013 master settlement agreement with tobacco companies. (General Appropriation Act footnote)
- 6/ The AHCCCS Administration shall transfer \$1,000,000 from the Traditional Medicaid Services line item for FY 2015 to the Automation Projects Fund established by A.R.S. § 41-714 to implement a tobacco tax processing and revenue accounting system at the Department of Revenue. (General Appropriation Act footnote)
- 7/ Any Federal Funds that the AHCCCS Administration passes through to the Department of Economic Security for use in long-term administration care for the developmentally disabled do not count against the long-term care expenditure authority above. (General Appropriation Act footnote)
- 8/ Pursuant to A.R.S. § 11-292B the county portion of the FY 2015 nonfederal portion of the costs of providing long-term care services is \$245,196,200. This amount is included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 9/ Any supplemental payments received in excess of \$53,918,700 for nursing facilities that serve Medicaid patients in FY 2015, including any federal matching monies, by the AHCCCS Administration are appropriated to the Administration in FY 2015. 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. These payments are included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 10/ It is the intent of the Legislature that the AHCCCS Administration increase skilled nursing facility provider rates by 2% in FY 2015, in addition to rate adjustments that would otherwise be actuarially determined for FY 2015. (General Appropriation Act footnote)
- 11/ The \$13,487,100 appropriation for Disproportionate Share Payments for FY 2015 made pursuant to A.R.S. § 36-2903.01O includes \$4,202,300 for the Maricopa County Health Care District and \$9,284,800 for private qualifying disproportionate share hospitals. (General Appropriation Act footnote)
- 12/ Any monies received for Disproportionate Share Payments (DSH) 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 2015 by the AHCCCS Administration in excess of \$19,373,400 are appropriated to the Administration in FY 2015. 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. (General Appropriation Act footnote)
- 13/ Any monies for Graduate Medical Education received in FY 2015, including any federal matching monies, by the AHCCCS Administration in excess of \$165,918,500 are appropriated to the Administration in FY 2015. 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. (General Appropriation Act footnote)
- 14/ Any monies received in excess of \$68,500,000 for the Safety Net Care Pool by the AHCCCS Administration in FY 2015, including any federal matching monies, are appropriated to the Administration in FY 2015. 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. (General Appropriation Act footnote)
- 15/ A. The AHCCCS Administration may transfer up to \$12,984,900 from state General Fund appropriations received in FY 2014 to the Department of Health Services for expenditures associated with Title XIX Behavioral Health Services.  
B. Before making any transfer pursuant to subsection A of this section, the AHCCCS Administration shall submit the proposed transfer for review by the Joint Legislative Budget Committee.  
C. On or before November 1, 2014, the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting shall jointly submit a report to the Governor and the Joint Legislative Budget Committee regarding the feasibility of adopting a common reporting format for the current financial status of the AHCCCS and the Department of Health Services. (General Appropriation Act footnote)
- 16/ The non-appropriated portion of the Prescription Drug Rebate Fund is included in the federal portion of the Expenditure Authority fund source. (General Appropriation Act footnote)
- 17/ Before making fee-for-service program or rate changes that pertain to fee-for-service rate categories, the AHCCCS Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

AHCCCS' FY 2015 General Fund spending would increase by \$12,909,400 or 1.0%. The \$12,909,400 includes:

- \$(23,608,800) for formula adjustments.
- \$98,866,900 for the annualization of costs associated with mandatory federal health care legislation.
- \$80,487,200 for the annualization of costs associated with Medicaid expansion and the childless adult restoration.
- \$(142,084,000) for hospital assessment savings.
- \$(751,900) for other adjustments.

The budget also includes a \$(73,439,600) decrease from the General Fund in FY 2014 in order to shift the cost of Proposition 204 Services to the Hospital Assessment Fund and for reduced formula adjustments. These savings are continued into FY 2015. *(Please see Other Issues section for more information.)*

Below is an overview of FY 2015 formula adjustments, mandatory changes from federal health care legislation, and the childless adult restoration, adult expansion, the hospital assessment, and other funding changes.

**Formula Adjustments**

Formula adjustments are comprised of FY 2014 and FY 2015 changes to caseloads, FY 2015 changes in capitation rates, FY 2015 changes to the federal match rate, the annualization of shifting some behavioral health services for children in the Children's Rehabilitative Services (CRS) program from the Department of Health Services (DHS) to AHCCCS, an ambulance rate increase, a skilled nursing facility provider rate increase, and adjustments which result in an adjustment to the General Fund. *Table 1* summarizes the formula adjustments.

<b>Table 1</b>	
<b>AHCCCS General Fund Budget Spending Changes</b>	
(\$ in millions)	
<b>Formula Adjustments</b>	
FY 2014 Balance and FY 2015 Caseload Growth	\$ (31)
FY 2015 3% Capitation Rate Increase	27
FY 2015 Federal Match Rate Increase	(48)
CRS Integration	3
Ambulance Rate Increase	2
Nursing Facility Rate Increase	3
Prescription Drug Rebate Fund Decrease	16
Tobacco Tax Decline	4
<i>Subtotal</i>	\$ (24)
<b>Mandatory Federal Health Care Changes</b>	
Child Expansion	\$ 14
Currently Eligible But Not Enrolled	77
Provider Rate Increase	(2)
Health Insurer Fee	10
<i>Subtotal</i>	\$ 99
<b>Optional Medicaid Expansion</b>	
Childless Adult Restoration, 0-100% FPL	\$ 80
Adult Expansion, 100-133% FPL	0
<i>Subtotal</i>	\$ 80
<b>Hospital Assessment Savings</b>	
	\$ (142)
<b>Other Adjustments</b>	
Office of Inspector General (5 FTE Positions)	\$ (0)
Critical Access Hospital Increase	3
Higher Federal Administrative Match	(3)
<i>Subtotal</i> <sup>1/</sup>	\$ (1)
<b>Total Spending Change</b>	<b>\$ 13</b>
<sup>1/</sup> Numbers do not add due to rounding.	

*FY 2014 Balance and FY 2015 Caseload Growth*  
 Formula adjustments include flat caseload growth for Traditional acute care and Proposition 204 populations, 2.5% caseload growth for the Arizona Long Term Care System (ALTCS) population, and a (20)% decline in the KidsCare population in FY 2015. Formula adjustments do

18/ The AHCCCS Administration shall report to the Joint Legislative Budget Committee on or before 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 may not be more than 2%. Before implementation of any changes in capitation rates, the AHCCCS 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 more for a given fiscal year, the Administration shall submit the policy changes for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

19/ The Expenditure Authority fund source includes voluntary payments made from political subdivisions for Medicaid coverage of certain children and for payments to hospitals that operate a graduate medical education program or treat low-income patients. The political subdivision portions of the FY 2015 costs of Graduate Medical Education, Disproportionate Share Payments - Voluntary March and Safety Net Care Pool line items are included in the Expenditure Authority fund source. (General Appropriation Act footnote)

20/ On or before January 6, 2015, the AHCCCS Administration shall report to the Director of the Joint Legislative Budget Committee the total amount of Medicaid reconciliation payments and penalties received on or before that date since July 1, 2014. On June 30, 2015, the Administration shall report the same information for all of FY 2015. (General Appropriation Act footnote)

21/ The AHCCCS Administration shall report 30 days after the end of each calendar quarter to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on the implementation of its required automation interaction with the health insurance exchange and eligibility modifications. (General Appropriation Act footnote)

22/ On or before August 1, 2014, the AHCCCS Administration shall provide to the Joint Legislative Budget Committee for review a report on the interagency agreement with the Department of Health Services for providing acute care services for persons enrolled in the Maricopa Integrated Regional Behavioral Health Authority unless the Administration already provided the report in FY 2014. (General Appropriation Act footnote)

23/ General Appropriation Act funds are appropriated as Operating Lump Sum with Special Line Items by Agency.

not include caseload growth due to federal health care legislation (*see Mandatory Changes Resulting from Federal Health Care Legislation*), Medicaid expansion, and the childless adult restoration (*see Childless Adult Restoration, Adult Expansion, and the Hospital Assessment*).

The FY 2014 balance and FY 2015 caseload changes are expected to result in General Fund savings of \$(30,892,800) in FY 2015. Caseloads, including expansions and the childless adult restoration, are shown in Table 2.

<b>Population<sup>2/</sup></b>	<b>June 2013</b>	<b>June 2014<sup>3/</sup></b>	<b>June 2015</b>	<b>'14-'15% Change</b>
Traditional Acute Care <sup>4/</sup>	886,795	961,987	1,024,906	6.5%
Prop 204 Childless Adults <sup>5/</sup>	75,650	138,942	240,645	73.2
Other Proposition 204	147,885	166,006	182,062	9.7
Adult Expansion <sup>6/</sup>	0	24,121	58,894	144.2
KidsCare <sup>4/</sup>	7,185	3,060	2,448	(20.0)
KidsCare II <sup>4/7/</sup>	36,026	0	0	--
ALTCS - Elderly & Physically Disabled <sup>8/</sup>	28,020	28,631	29,346	2.5
Emergency Services	67,563	68,968	72,417	5.0
<b>Total Member Months<sup>9/10/</sup></b>	<b>1,249,124</b>	<b>1,391,715</b>	<b>1,610,718</b>	<b>15.7%</b>

1/ The figures represent June 1 estimates.  
 2/ Children in the Children's Rehabilitative Services program are included in the Traditional Acute Care, Other Proposition 204, KidsCare, and ALTCS populations.  
 3/ Represents revised forecast.  
 4/ Children on KidsCare and KidsCare II with incomes up to 133% of the Federal Poverty Level (FPL) were transferred to the Traditional program on January 1, 2014.  
 5/ Program permitted new participants again on January 1, 2014.  
 6/ Parents and Childless Adults 100%-133% FPL.  
 7/ Program ended on January 31, 2014.  
 8/ The Arizona Long Term Care System (ALTCS) program funded in AHCCCS.  
 9/ In addition, approximately 27,000 people will receive Medicaid services through the Department of Economic Security's Developmental Disabilities program.  
 10/ June 2014 amounts include 90,690 added as a result of mandatory federal health care legislation and 102,661 as a result of Medicaid expansion and childless adult restoration. By June 2015, these amounts are estimated to grow to 169,665 and 252,140, respectively.

**FY 2015 3% Capitation Rate Increase**

In comparison to caseload growth rates which vary significantly by population, capitation rate adjustments are assumed to be 3% above FY 2014 across most programs. The 3% capitation increase is budgeted to cost an additional \$26,972,000 from the General Fund in FY 2015.

**FY 2015 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. During FY 2015, the FMAP for Traditional Medicaid will increase to 68.15% (1.31% increase), the Proposition 204 Childless Adult rate will increase to 85.48% (1.86%

increase), the KidsCare rate will increase to 77.71% (0.91% increase), and the Adult Expansion rate will remain at 100%. The formula adjustments include a decrease of \$(47,388,800) in General Fund spending to reflect savings from the federal rate increase.

**Children's Rehabilitative Services (CRS) Integration**

On October 1, 2013, AHCCCS integrated care for most children in the CRS program. For children in the acute care programs, acute care and behavioral health services for children with CRS conditions are now provided through 1 CRS contractor. CRS children in the ALTCS Elderly and Physically Disabled (EPD) program now receive all of their CRS-related services through the ALTCS EPD program. While the integration is expected to be budget neutral, costs will be shifted between line items in the AHCCCS budget, and some behavioral health costs which were previously paid for in DHS will be shifted to AHCCCS. This cost shift is being addressed in FY 2014 through a partial year appropriation. In FY 2015, the budget continues to shift these costs between line items and includes an annualization increase of \$2,749,400 from the General Fund in FY 2015 in AHCCCS and a corresponding decrease in DHS.

**Ambulance Rate Increase**

The FY 2014 Health and Welfare Budget Reconciliation Bill (BRB) (Laws 2013, 1<sup>st</sup> Special Session, Chapter 10) increases ambulance reimbursement rates from 68.59% to 74.74% of the DHS-set rate as of October 1, 2014. The budget includes an increase of \$2,400,000 from the General Fund in FY 2015 to account for this increased rate. On October 1, 2015, the rates will increase to 80% of the DHS-set rates.

**Nursing Facility Rate Increase**

Nursing facilities provide services to institutionalized AHCCCS members enrolled in the Arizona Long Term Care System. The budget includes an increase of \$3,000,000 from the General Fund in FY 2015 for a 2% rate increase for nursing facilities. This rate increase represents a partial restoration of a 5% rate reduction to nursing facilities, and most other providers, implemented on October 1, 2011. In subsequent years, funding for the 2% rate increase is expected to be split between the General Fund and county contributions, according to funding formulas in statute.

**Prescription Drug Rebate Fund Decrease**

The budget includes a decrease of \$(15,975,900) from the state portion of the Prescription Drug Rebate Fund and a corresponding increase from the General Fund in FY 2015 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 budget includes a decrease of \$(3,575,500) from tobacco tax revenues and a corresponding increase from the General Fund in FY 2015 as a result of declining tobacco tax revenues.

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## ***Mandatory Changes Resulting from Federal Health Care Legislation***

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Federal health care legislation passed in 2010, known as the Affordable Care Act (ACA), has a number of impacts on the AHCCCS and DHS Medicaid budgets that began on January 1, 2014. Mandatory changes resulting from federal health care legislation are described below. A summary of the AHCCCS portion of the mandatory costs appears in *Table 1* and the combined AHCCCS and DHS cost appears in *Table 3*.

### *Child Expansion*

Federal health care legislation required the expansion for children under age 19 to 133% of the Federal Poverty Level (FPL) (\$31,700 for a family of 4) on and after January 1, 2014. AHCCCS previously provided 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 at an approximate 2:1 match rate.

The budget assumed that on January 1, 2014, 2,700 children on KidsCare and 16,700 children on KidsCare II were transferred from their respective programs to the Traditional program, and these children will continue to receive an approximate 3:1 federal match rate. The budget includes the annualization of these costs for FY 2015.

In addition to the transfer of children, the budget assumes that the newly eligible children will enroll over a 12-month period; by June 2014, an additional 7,600 children will be added to the program. This number will grow to a total of 18,600 by June 2015.

In total, the budget includes an additional \$14,127,300 from the General Fund for the annualization of these costs in FY 2015.

### *Currently Eligible But Not Enrolled*

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

Most individuals eligible for Medicaid but not enrolled are not 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 budget assumes that 50% of the eligible non-participants will

ultimately enroll, and it assumes these individuals enroll over a 15-month period; by June 2014, an estimated 66,000 currently eligible individuals will be added to the program, with a total of 133,500 by June 2015. The budget includes an additional \$76,677,700 for the phased in enrollment and annualization of these costs in FY 2015. The federal government provides the regular 2:1 match rate for these new enrollees.

### *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 pays 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 2:1 match rate for the difference between the rate in effect on December 31, 2014 and the July 1, 2009 rate.

The budget includes a decrease of \$(2,142,600) from the General Fund in FY 2015 for the PCP rate increase to account for the difference in FY 2014 and FY 2015 payments.

### *Health Insurer Fee*

The original federal health care legislation placed an \$8 billion annual fee on the health insurance industry nationwide in 2014. The fee grows to \$14.3 billion in 2018 and is indexed to inflation thereafter. The fee is allocated to qualifying health insurers based on their respective market share of premium revenue in the previous year. AHCCCS estimates the fee will increase the cost of Medicaid managed care plans by 1.24% in 2015. The budget includes an increase of \$10,204,500 from the General Fund for the annualization of these costs in FY 2015.

### *Young Adults Formerly in the Foster Care System*

Federal health care legislation requires states to provide Medicaid coverage for children who were in foster care and who qualified for Medicaid as of their eighteenth birthday until age 26. The cost associated with this change is incorporated into the overall budget.

### *Modified Adjusted Gross Income and Income Disregards*

Prior to 2014, the rules for counting eligibility for Medicaid varied from state to state and also can differ based on the eligibility category. In 2014, the ACA began requiring states to calculate income for most eligibility categories based on modified adjusted gross income (MAGI) and standardizes income disregards. Income disregards refer to what is included in calculating one's income. These changes will ultimately have some impact on who qualifies for AHCCCS, but it is not yet clear how these changes will impact the cost of the AHCCCS program and is not incorporated into the budget.

**Table 3**

**General Fund and Federal Funds Medicaid Expansion and Childless Adult Cost Estimates Above FY 2013 <sup>1/</sup>**

(\$ in millions)

		FY 2014 <sup>2/</sup>		FY 2015		FY 2016	
		GF	FF <sup>3/</sup>	GF	FF	GF	FF
Mandatory Expansion – 133% FPL	AHCCCS	\$ 59	\$ 245	\$ 158	\$ 526	\$ 163	\$ 410
Children, and increase from	DHS	<u>16</u>	<u>37</u>	<u>53</u>	<u>121</u>	<u>59</u>	<u>143</u>
eligible but not enrolled <sup>4/</sup>	<b>Total</b>	<b>\$ 75</b>	<b>\$ 282</b>	<b>\$ 211</b>	<b>\$ 647</b>	<b>\$ 222</b>	<b>\$ 553</b>
Full Expansion to 133% FPL and	AHCCCS	\$ (3)	\$ 342	\$ 77	\$1,091	\$ 63	\$1,400
Childless Adult Restoration <sup>5/6/</sup>	DHS	<u>(1)</u>	<u>149</u>	<u>16</u>	<u>271</u>	<u>12</u>	<u>348</u>
	<b>Total</b>	<b>\$ (4)</b>	<b>\$ 491</b>	<b>\$ 93</b>	<b>\$1,362</b>	<b>\$ 75</b>	<b>\$1,748</b>
Estimated Assessment <sup>6/7/</sup>	Total	63	-	205	-	187	-
GF Savings With Assessment <sup>8/</sup>	<b>Total</b>	<b>(67)</b>	-	<b>(112)</b>	-	<b>(112)</b>	-
Mandatory and Full Expansion, net of Assessment Savings	<b>Total</b>	<b>8</b>	-	<b>99</b>	-	<b>110</b>	-

1/ Estimates include the following assumptions: 1) 50% of those who are eligible but not enrolled will enroll and 2) the enrollment phase-in is completed in FY 2015.

2/ The expansion and restoration began on January 1, 2014.

3/ Includes Federal Medicaid Authority and the federal match for KidsCare.

4/ Includes the mandatory costs that result from federal health care legislation. Mandatory expansion costs were projected to receive a 68.15% match in FY 2015 and FY 2016.

5/ Costs are in addition to the mandatory costs. The federal government pays 100% of the cost of the adult expansion from 2014 to 2016 and 85.48% of the childless adults up to 100% FPL in 2015. These percentages converge to 90% by 2020.

6/ Represents appropriated amounts in FY 2014 and FY 2015 and JLBC Staff estimates in FY 2016.

7/ A hospital assessment covers the cost of the full expansion plus offset the current AHCCCS Proposition 204 General Fund cost, beginning January 1, 2014.

8/ Excludes the mandatory cost of federal health care legislation.

**Disproportionate Share Hospital Payments**

The original Federal health care legislation reduced Medicaid Disproportionate Share Hospital (DSH) payments nationwide by \$500 million in 2014 and \$600 million in 2015, or about 5% of overall payments. The reductions increase to \$5.6 billion by 2019, which is about 50% of the current nationwide funding level. The maximum amount of voluntary payments that can be provided to hospitals in FY 2015 was lowered for these reductions. As part of nationwide reductions, DSH payments to AHCCCS were anticipated to decrease by \$(23,944,600) in FY 2015. The December 2013 federal budget agreement, however, delayed the reductions until October 2015. The FY 2015 budget was not adjusted for this delay and decreases the appropriation for voluntary payments by \$(23,944,600) to \$19,373,400. A footnote appropriates any additional payments in excess of that amount to the agency with JLBC review. (Please see *DSH Payments - Voluntary Match SLI for additional information*).

**Childless Adult Restoration, Adult Expansion, and the Hospital Assessment**

The FY 2014 Health and Welfare BRB made a number of changes to Medicaid coverage, including the restoration of coverage for the childless adult population, the expansion of Medicaid coverage for adults to 133% FPL, and the implementation of a hospital assessment. These items are described in more detail below.

**Childless Adult Restoration, 0-100% FPL**

The childless adult population has had an enrollment freeze since July 2011. As a condition of expanding Medicaid, coverage for the childless adult population was restored. While the childless adult population from 0-100% FPL is not receiving the 100% match rate, it receives a higher match rate than the standard 2:1 match. The increased match starts at 83.62% in 2014 and increases to 85.48% in FY 2015.

The budget assumes that childless adults who were not previously eligible due to the freeze will enroll in the program over a 12-month period; by June 2014, an additional 79,000 adults were projected to be added to the program. The budgeted number is projected to grow to a total of 193,000 by June 2015. By June 2014, the actual childless adult restoration was 147,972 individuals. The budget includes an increase of \$80,487,200 in state match monies for the annualization of these costs in FY 2015. The state portion of the cost will be paid for by the hospital assessment, which is described below.

**Adult Expansion, 100%-133% FPL**

Federal health care legislation allowed states to expand Medicaid coverage for adults up to 133% FPL on and after January 1, 2014 and receive a higher match rate. The federal government will pay 100% of the cost of the Adult Expansion (parents and childless adults whose incomes are from 100% to 133% FPL) in 2014 to 2016. The federal share will gradually decline to 90% by 2020.

While the FY 2014 Health and Welfare BRB expands eligibility for this population, the expansion is discontinued if any of the following occur: 1) the federal matching rate for adults from 100%-133% FPL or childless adults falls below 80%; 2) the maximum amount that can be generated from the hospital assessment is insufficient to pay for the newly eligible populations (*see Hospital Assessment section*), or 3) the Federal ACA is repealed.

The budget assumes that the newly eligible adults will enroll over a 12-month period; by June 2014, an additional 24,000 adults were projected to be added to the program. By June 2014, the actual Adult Expansion was 19,789 individuals. The budgeted number is projected to grow to a total of 59,000 by June 2015 as displayed in *Table 4*. Since this is fully funded by the federal government in FY 2015, this will not increase General Fund costs.

	<b>June 2014</b>	<b>June 2015</b>	<b>June 2016</b>
Mandatory Expansion	91,000	170,000	175,000
Childless Adult Restoration	79,000	193,000	199,000
Adult Expansion 100%- 133% FPL	<u>24,000</u>	<u>59,000</u>	<u>61,000</u>
<b>Total</b>	<b>193,000</b>	<b>422,000</b>	<b>434,000</b>

<sup>1/</sup> Population changes which would have occurred absent federal legislation are not included.  
<sup>2/</sup> Numbers do not add due to rounding.

*Hospital Assessment*

The FY 2014 Health and Welfare BRB required AHCCCS to establish an assessment on hospital revenue, discharges, or bed days for the purpose of funding the state match portion of the Medicaid expansion and the entire Proposition 204 population on and after January 1, 2014. For FY 2014, the assessment will be based on hospital discharges as reported on each hospital's 2011 Medicare Cost Report. The amounts differ based on types of providers.

In FY 2014, AHCCCS is expected to collect \$75,445,200 from the assessment. Since these monies can only be expended on the Proposition 204 population in 2014, AHCCCS is limited in its expenditure to expenses which would have previously been paid for from the General Fund. The JLBC Staff estimates these expenses will be \$62,513,700 in FY 2014 and the \$12,931,500 balance will remain in the fund to offset future Proposition 204 expenditures.

The budget assumes the assessment will grow to \$204,597,700 in FY 2015 and will cover the cost of all Proposition 204 services in FY 2015, thereby reducing General Fund costs by a corresponding amount. While the

FY 2014 budget displayed the Hospital Assessment Fund as a non-appropriated fund, the FY 2015 budget converts this to the regular budget structure as expenditure authority. The General Fund savings related to the hospital assessment is expected to increase by \$(142,084,000) in FY 2015.

**Other Adjustments**

The budget includes a net savings of \$(751,900) in General Fund appropriations in FY 2015 from 3 adjustments. These 3 adjustments include: AHCCCS Office of Inspector General staffing, a Critical Access Hospital (CAH) payments increase, and higher Federal administrative match. (*Please see the Operating Budget, Traditional Medicaid Services and Rural Hospitals sections for more information.*)

**Operating Budget**

The budget includes \$77,793,500 and 895.2 FTE Positions in FY 2015 for the operating budget. These amounts consist of:

	<b>FY 2015</b>
General Fund	\$25,779,100
Children's Health Insurance Program (CHIP) Fund	1,684,000
Prescription Drug Rebate Fund (PDRF) - State	116,100
Federal Medicaid Authority (FMA)	50,214,300

These amounts fund the following adjustments:

**Discontinue Healthcare Group**

The budget includes a decrease of \$(1,097,200) and (14) FTE Positions from the Healthcare Group Fund in FY 2015 to discontinue Healthcare Group.

The FY 2014 Health and Welfare BRB repealed Healthcare Group on January 1, 2014, and the FY 2014 budget included funding for half of the year. This decrease would fully eliminate funding for Healthcare Group in FY 2015.

Healthcare Group was designed to provide access to community-rated healthcare insurance for the small business community. Federal health care legislation created health care exchanges that provide health insurance beginning in 2014. The exchanges provide a marketplace for uninsured individuals to obtain health insurance as well as provide community-rated health insurance for small business owners. AHCCCS assumed that on and after January 1, 2014 the currently enrolled members in Healthcare Group will shift into health insurance offered in the healthcare exchange, making Healthcare Group no longer necessary.

### Higher Federal Administrative Match

The budget includes a decrease of \$(3,200,000) from the General Fund and a corresponding \$3,200,000 increase of Federal Medicaid Authority to reflect savings from a federal rate increase that covers AHCCCS administrative costs under the ACA.

Under Medicaid Management Information Systems (MMIS) rules and with the implementation of the ACA, states are eligible for an enhanced 75% Federal Financial Participation (FFP) rate if the position(s) comply and meet certain maintenance, operation, and Medicaid eligibility determination criteria and standards. The federal government agreed to increase their Federal Fund match rate from 50% to 75% for AHCCCS administrative costs. These savings reduce the General Fund by \$(3,200,000) and increase the FMA amount by \$3,200,000 in FY 2015. AHCCCS expects the federally enhanced rate to be available indefinitely. The savings will be returned to the General Fund.

### Office of Inspector General Staffing

The budget includes an increase of \$481,000 and 5 FTEs in FY 2015 for AHCCCS Office of Inspector General (OIG) staffing. These amounts consist of:

General Fund	240,500
Federal Medicaid Authority	240,500

The AHCCCS OIG is responsible for conducting criminal investigations and investigative audits for all AHCCCS programs involving state and/or federal tax dollars. OIG is a designated criminal justice agency and works closely with federal, state and local law enforcement on cases in which providers, subcontractors, members and employees may be involved in fraudulent activity. Included in the \$481,000 appropriation is a \$120,000 contract extension for computer data mining capabilities used to discover fraudulent activity. Based on historical data, the budget includes a cost recovery savings of \$(592,400) that results in a net savings of \$(351,900) to the General Fund and \$(1,493,900) in Federal Funds. *(Please see Traditional Services section for the allocated savings.)*

### Statewide Adjustments

The budget includes an increase of \$8,200 in FY 2015 for statewide adjustments. This amount consists of:

General Fund	3,600
CHIP Fund	500
Federal Medicaid Authority	4,100

*(Please see the Agency Detail and Allocations section.)*

## Administration

### DES Eligibility

The budget includes \$54,874,500 and 885 FTE Positions in FY 2015 for Department of Economic Security (DES) Eligibility services. These amounts consist of:

General Fund	25,491,200
Federal Medicaid Authority	29,383,300

These amounts fund the following adjustments:

### Statewide Adjustments

The budget includes an increase of \$6,800 in FY 2015 for statewide adjustments. This amount consists of:

General Fund	3,400
Federal Medicaid Authority	3,400

Through an Intergovernmental Agreement, DES performs eligibility determination for AHCCCS programs.

### Proposition 204 - AHCCCS Administration

The budget includes \$6,863,900 and 128 FTE Positions in FY 2015 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	2,320,900
Federal Medicaid Authority	4,543,000

These amounts fund the following adjustments:

### Statewide Adjustments

The budget includes an increase of \$800 in FY 2015 for statewide adjustments. This amount consists of:

General Fund	400
Federal Medicaid Authority	400

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

### Proposition 204 - DES Eligibility

The budget includes \$38,358,700 and 300.1 FTE Positions in FY 2015 for Proposition 204 - DES Eligibility costs. These amounts consist of:

General Fund	17,337,800
Budget Neutrality Compliance Fund	3,384,400
Federal Medicaid Authority	17,636,500

These amounts fund the following adjustments:

### Statutory Adjustment

The budget includes a decrease of \$(80,500) from the General Fund and a corresponding \$80,500 increase from the Budget Neutrality Compliance Fund (BNCF) in FY 2015 to reflect a statutorily-required increase of county contributions in FY 2015 (A.R.S. § 11-292O). (Please see Table 6 for contributions by county.)

### Statewide Adjustments

The budget includes an increase of \$4,600 in FY 2015 for statewide adjustments. This amount consists of:

General Fund	2,300
Federal Medicaid Authority	2,300

*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.

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### Medical Services

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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* section.

### Traditional Medicaid Services

The budget includes \$3,896,186,400 in FY 2015 for Traditional Medicaid Services. This amount consists of:

General Fund	961,573,500
County Funds	50,307,100
PDRF - State	73,756,400
TTHCF Medically Needy Account	34,178,800
Third Party Liability and Recovery Fund	194,700
Federal Medicaid Authority	2,577,614,700
PDRF - Federal	198,561,200

These amounts fund the following adjustments:

### Formula Adjustments

The budget includes an increase of \$291,090,500 in FY 2015 for formula adjustments. This amount consists of:

General Fund	72,580,100
County Funds	(190,100)
PDRF - State	(14,641,100)
TTHCF Medically Needy Account	(3,210,500)
Federal Medicaid Authority	204,309,400
PDRF - Federal	32,242,700

The formula adjustments include:

- 0% enrollment growth (aside from any changes associated with federal health care legislation).
- The annualization of costs associated with this legislation.
- A change in the federal match rate from 66.84% to 68.15%.
- 3% capitation rate increase.
- The annualization of shifting acute care services for children with CRS conditions to the CRS line item.
- \$(190,100) decrease in Maricopa County Acute Care contribution under A.R.S. § 11-292 with a corresponding General Fund increase.
- \$(14,641,100) decrease to the state portion of the PDRF and a corresponding General Fund increase.
- \$32,242,700 increase to the federal portion of the PDRF and a corresponding Federal Medicaid Authority decrease.
- \$(3,210,500) decrease from the TTHCF Medically Needy Account due to declining tobacco tax revenues and a corresponding General Fund increase.

### Increased Cost Recoveries

Based on historical experience, the budget includes a decrease of \$(2,086,300) for cost recoveries identified by AHCCCS OIG staff in FY 2015. This amount consists of:

General Fund	(592,400)
Federal Medicaid Authority	(1,493,900)

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

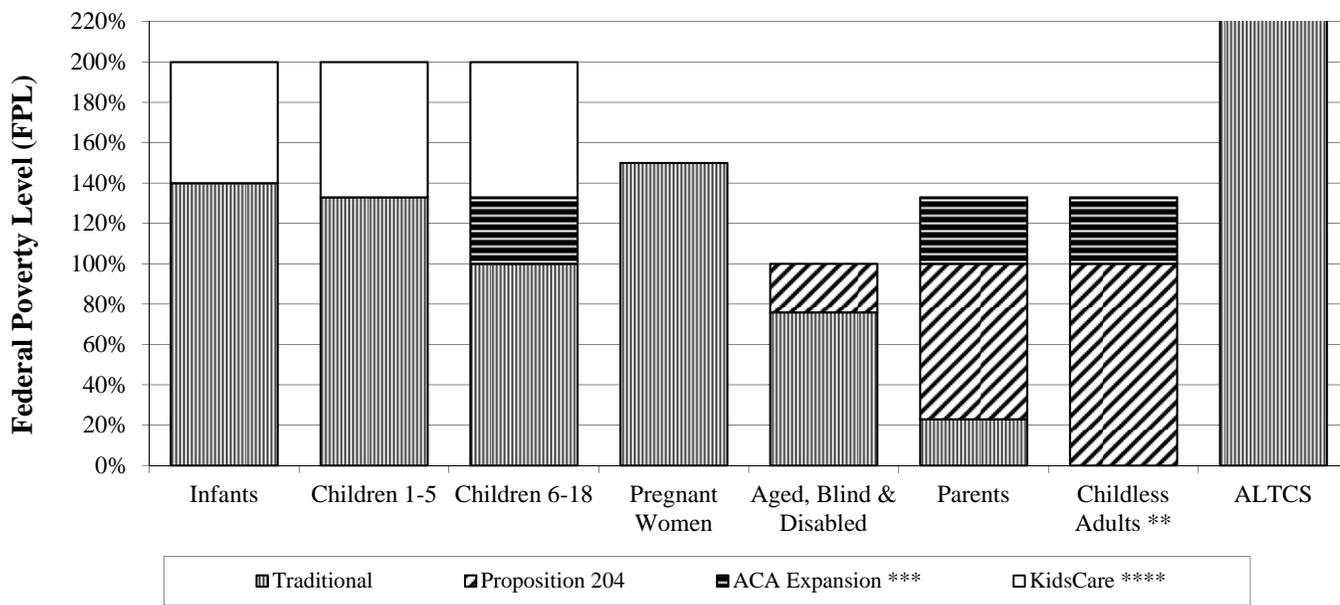
- Children less than 1, up to 140% FPL.
- Children aged 1-5, up to 133% FPL.
- Children aged 6-18, up to 100% FPL through December 31, 2013 and up to 133% FPL thereafter.
- Pregnant women, up to 150% FPL.
- Aged, blind, and disabled adults, up to 75% FPL.
- Parents, up to 22% FPL.
- Women diagnosed with breast or cervical cancer by a provider recognized by DHS’ Well Women Healthcheck program up to 250% FPL.
- Individuals aged 16-64 receiving Supplemental Security Income, up to 250% FPL (“Ticket to Work”).

Section 14 of the FY 2015 Health and Welfare BRB (Laws 2014, Chapter 11) sets the County Acute Care contribution at \$47,553,700 in FY 2015. This amount includes an inflation indexing of the Maricopa County contributions as required by Laws 2005, Chapter 328.

Section 15 of the FY 2015 Health and Welfare BRB continues to require the collection of \$2,646,200 in the Disproportionate Uncompensated Care pool contributions from counties other than Maricopa County. The

**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 had an enrollment freeze from July 8, 2011 to December 31, 2013. The freeze was lifted on January 1, 2014.  
 \*\*\* Beginning January 1, 2014.  
 \*\*\*\* The KidsCare program has had an enrollment freeze since January 1, 2010.

contributions are excluded from county expenditure limitations.

The FY 2015 General Appropriation Act (Laws 2014, Chapter 18) set county contributions for Traditional Medicaid Services at \$50,307,100 in FY 2015. Section 14 of the FY 2015 Health and Welfare BRB set county contributions for the Traditional line item at a lower amount of \$50,199,900 in FY 2015. This report uses the \$50,307,100 county contribution amount included in the FY 2015 General Appropriation Act.

**Proposition 204 Services**

The budget includes \$1,948,717,900 in FY 2015 for Proposition 204 Services. This amount consists of:

Hospital Assessment Fund	204,597,700
Tobacco Litigation Settlement Fund	100,000,000
TPTF Proposition 204 Protection Account	38,225,000
TPTF Emergency Health Services Account	18,202,400
Federal Medicaid Authority	1,587,692,800

These amounts fund the following adjustments:

**Formula Adjustments**

The budget includes an increase of \$692,126,900 in FY 2015 for formula adjustments. This amount consists of:

General Fund	(71,509,700)
Hospital Assessment Fund	204,597,700

TPTF Proposition 204 Protection Account	(247,300)
TPTF Emergency Health Services Account	(117,700)
Federal Medicaid Authority	559,403,900

The formula adjustments include:

- 0% enrollment growth (aside from any changes associated with federal health care legislation).
- The annualization of costs associated with this legislation.
- A change in the federal match rate for the non-childless adult population from 66.84% to 68.15%. A change in the federal match rate for childless adults from 83.62% to 85.48%.
- 3% capitation rate increase.
- The continued shift of expenditures from the General Fund to the Hospital Assessment Fund. Beginning on January 1, 2014, Proposition 204 service expenditures paid from the General Fund have been shifted to the Hospital Assessment Fund.
- The conversion of the Hospital Assessment Fund to expenditure authority under the regular budget structure. In FY 2014, the Hospital Assessment Fund was listed as non-appropriated.
- \$(247,300) decrease from the TPTF Proposition 204 Protection Account due to declining tobacco tax revenues and a corresponding General Fund increase.
- \$(117,700) decrease from the Emergency Health Services Account due to declining tobacco tax revenues and a corresponding General Fund increase.

*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 had an enrollment freeze from July 8, 2011 through January 1, 2014.

**Adult Expansion**

The budget includes \$227,369,700 from Federal Medicaid Authority in FY 2015 for the Adult Expansion. This amount funds the following adjustments:

**Formula Adjustments**

The budget includes an increase of \$161,437,800 of Federal Medicaid Authority in FY 2015 for the annualization and phase-in of this population.

*Background* – Beginning on January 1, 2014, the Adult Expansion provided Medicaid services for adults from 100%-133% FPL who are not eligible for another Medicaid program. The federal government will pay 100% of the cost of this population in 2014 to 2016. The federal share will gradually decline to 90% by 2020.

Coverage of this population is discontinued if any of the following occur: 1) the federal matching rate for adults in this category or childless adults falls below 80%; 2) the maximum amount that can be generated from the hospital assessment is insufficient to pay for the newly eligible populations; or 3) the Federal ACA is repealed.

**Children’s Rehabilitative Services**

The budget includes \$197,070,000 in FY 2015 for Children’s Rehabilitative Services (CRS). This amount consists of:

General Fund	62,761,900
Federal Medicaid Authority	134,308,100

These amounts fund the following adjustments:

**Formula Adjustments**

The budget includes an increase of \$2,432,400 in FY 2015 for formula adjustments. This amount consists of:

General Fund	(1,395,700)
Federal Medicaid Authority	3,828,100

The formula adjustments include 4.5% enrollment growth, an increase to the federal match rate, and a 3% capitation rate increase. This would result in approximately 25,600 members per month being served in June 2015.

**Annualization of CRS Integration**

The budget includes an increase of \$64,826,700 in FY 2015 for annualization of shifting acute care and behavioral health services to the CRS line item. Included in this amount is a \$8,401,400 total fund increase, which

represents a shift from DHS. A corresponding decrease of \$(8,401,400) can be found in DHS. The remaining increase for this policy is the result of annualizing an FY 2014 shift of acute care costs for members of this population that previously received acute care services under the Traditional and Proposition 204 Medicaid Service line items. The total annualization amount consists of:

General Fund	9,034,100
Federal Medicaid Authority	55,792,600

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

**KidsCare Services**

The budget includes \$6,223,000 in FY 2015 for KidsCare Services. This amount consists of:

General Fund	1,257,200
CHIP Fund	4,965,800

These amounts fund the following adjustment:

**Formula Adjustments**

The budget includes a decrease of \$(6,098,500) in FY 2015 for formula adjustments. This amount consists of:

General Fund	(1,532,700)
CHIP Fund	(4,565,800)

The formula adjustments include a (20)% enrollment decline, an increase to the federal match rate, a 3% capitation rate increase, and the annualization of costs associated with federal health care legislation.

*Background* – The KidsCare program, also referred to as the Children’s Health Insurance Program (CHIP), provides health coverage to children in families with incomes between 133% and 200% FPL, but above the levels required for the regular AHCCCS program. The KidsCare program receives an approximate 3:1 match rate. 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. The KidsCare program has had an enrollment freeze since January 1, 2010.

**KidsCare II**

The budget includes no funding for KidsCare II in FY 2015. This amount funds the following adjustments:

**Expiration of Program**

The budget includes a decrease of \$(48,222,700) in FY 2015 for the KidsCare II program. This amount consists of:

Political Subdivision Funds	(10,450,700)
CHIP Fund	(37,772,000)

The program was initially scheduled to end on December 31, 2013, but the program was extended for 1 month in order to provide additional time to transition to the federal health care exchange.

Although the *FY 2014 Appropriations Report* displays a \$26,825,700 appropriation for FY 2014, a footnote appropriates any expenses in excess of that amount. AHCCCS has informed JLBC that they expect to expend \$48,222,700 for KidsCare II in FY 2014.

The KidsCare II program expanded access to KidsCare from May 1, 2012 to January 31, 2014. KidsCare II was funded by voluntary payments made by political subdivisions and city hospital assessments which were then matched by federal monies. The majority of the payments collected from these measures were used for the Safety Net Care Pool (see *Safety Net Care Pool* section). On January 1, 2014 children with incomes up to 133% FPL were shifted to the Traditional program, and those with incomes from 133%-200% became eligible for a subsidy to purchase health insurance through the new federal health insurance exchange.

### **ALTCS Services**

The budget includes \$1,344,569,500 in FY 2015 for Arizona Long Term Care System (ALTCS) expenditures. This amount consists of:

General Fund	167,782,300
County Contributions	245,211,300
PDRF - State	5,162,500
Federal Medicaid Authority	895,343,500
PDRF - Federal	13,898,100
Nursing Facility Provider Assessment Fund	17,171,800

These amounts fund the following adjustments:

#### **Formula Adjustments**

The budget includes an increase of \$64,859,900 in FY 2015 for formula adjustments. This amount consists of:

General Fund	3,840,600
County Contributions	515,200
PDRF - State	(1,334,800)
Federal Medicaid Authority	60,691,500
PDRF - Federal	1,673,600
Nursing Facility Provider Assessment Fund	(526,200)

The formula adjustments include:

- 2.5% enrollment growth.
- A change in the federal match rate from 66.84% to 68.15%.

- 3% capitation rate increase.
- The annualization of costs associated with federal health care legislation.
- Annualization of the shift of CRS-related services for children in the ALTCS program to this line item.
- \$(1,334,800) decrease to the state portion of the PDRF and corresponding increases of \$601,600 in County Contributions and \$733,200 from the General Fund.
- \$1,673,600 increase to the federal portion of the PDRF and a corresponding Federal Medicaid Authority decrease.
- \$(526,200) decrease from the Nursing Facility Provider Assessment Fund and an increase of \$2,877,400 in Federal Medicaid Authority for supplemental payments to nursing facilities.

These adjustments would result in approximately 29,300 members per month being served in June 2015. (See *Table I.*)

#### **Nursing Facility Rate Increase**

The budget includes an increase of \$9,419,900 in FY 2015 for a 2% provider rate increase for nursing facilities. This amount consists of:

General Fund	3,000,000
Federal Medicaid Authority	6,419,900

Nursing facilities provide services to institutionalized AHCCCS members enrolled in the Arizona Long Term Care System. On October 1, 2011, a 5% rate reduction on nursing facilities was implemented in efforts to generate state budgetary savings. This budget includes a 2% rate increase for nursing facilities as a partial restoration of the initial reduction. In subsequent years, funding for the 2% rate increase is expected to be split between the General Fund and county contributions, according to funding formulas in statute.

The FY 2015 General Appropriation Act set county contributions for ALTCS at \$245,211,300 in FY 2015. Section 9 of the FY 2015 Health and Welfare BRB set county ALTCS contributions at a lower amount of \$245,196,200 in FY 2015. This report uses the \$245,211,300 county contribution amount included in the FY 2015 General Appropriation Act.

*Background* – ALTCS provides coverage for individuals up to 222% of the FPL, or \$25,900 per person. The federal government requires coverage of individuals up to 100% of the Supplemental Security Income limit (SSI), which is equivalent to approximately 75% of FPL, or \$8,752 per person. In addition to state funding, AHCCCS charges assessments on nursing facilities to receive matching Federal Funds that are used to make supplemental payments to facilities for covered expenditures.

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 2013, 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 budget includes \$13,487,100 in FY 2015 for Disproportionate Share Hospital (DSH) Payments. This amount consists of:

General Fund	2,928,400
Federal Medicaid Authority	10,558,700

These amounts fund the following adjustments:

#### **Formula Adjustments**

The budget includes a decrease of \$(114,200) from the General Fund and a corresponding increase of \$114,200 from Federal Medicaid Authority in FY 2015 due to a change in the federal match rate.

*Background* – This line item represents supplementary payments to hospitals that serve a large, or disproportionate, number of low-income patients. The allocations of Disproportionate Share Funding displayed in *Table 5* were established in sections 7, 12 and 30 of the FY 2015 Health and Welfare BRB.

**Table 5**  
**Disproportionate Share Hospital Program**

<u>Eligible Funding</u>	<u>FY 2014</u>	<u>FY 2015</u>
Public 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>
<b>Total Allocations</b>	<b>\$127,637,400</b>	<b>\$127,637,400</b>
<u>Distribution of Funding</u>		
Federal DSH to GF (Maricopa)	\$ 56,222,500	\$ 57,328,000
Federal DSH to GF (ASH)	<u>19,798,200</u>	<u>19,493,900</u>
Subtotal	\$ 76,020,700	\$ 76,821,900
County-Operated Hospitals	4,202,300	4,202,300
Private Hospitals	<u>9,284,800</u>	<u>9,284,800</u>
<b>Total</b>	<b>\$ 89,507,800</b>	<b>\$ 90,309,000</b>

The state only appropriates General Fund dollars for DSH payments to private hospitals (\$9,284,800 in total funds in FY 2015). 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).

#### DSH Payments - Voluntary Match

The budget includes \$19,373,400 in FY 2015 for DSH Payments - Voluntary Match. This amount consists of:

Political Subdivision Funds (PSF)	5,280,100
Federal Medicaid Authority	14,093,300

These amounts fund the following adjustments:

#### **Reduced Funding**

The budget includes a decrease of \$(23,944,600) in FY 2015 for a reduction in DSH payments imposed by federal health care legislation (*see Mandatory Changes Resulting from Federal Health Care Legislation for additional information*). This amount consists of:

Political Subdivision Funds (PSF)	(8,915,200)
Federal Medicaid Authority	(15,029,400)

A federal budget agreement has delayed the planned DSH payment reductions until October 2015. Although the *FY 2015 Appropriations Report* displays the reduced appropriation of \$19,373,400 for FY 2015, a footnote appropriates any additional payments in excess of that amount. Similarly, although the *FY 2014 Appropriations Report* displays a \$28,457,100 appropriation for FY 2014, a footnote appropriates any additional payments in excess of that amount. AHCCCS has informed JLBC that they expect to expend \$43,318,000 in total voluntary DSH payments in FY 2014.

*Background* – Beginning in FY 2010, the Health and Welfare BRB has allowed local governments, tribal governments and universities to provide voluntary DSH payments in order to receive a federal match. Section 2 in the FY 2015 Health and Welfare BRB made this permission permanent. In FY 2013, 11 hospitals contributed the state match for \$49,268,900 in total DSH payments.

#### Rural Hospitals

The budget includes \$22,650,000 in FY 2015 for Rural Hospitals. This amount consists of:

General Fund	7,170,900
Federal Medicaid Authority	15,479,100

These amounts fund the following adjustments:

#### **Formula Adjustment**

The budget includes a decrease of \$(170,400) from the General Fund and a corresponding increase of \$170,400 from Federal Medicaid Authority in FY 2015 due to a change in the federal match rate.

### Critical Access Hospital Payment Increase

The budget includes an increase of \$8,791,900 in FY 2015 for payments to Critical Access Hospitals (CAH). This amount consists of:

General Fund	2,800,000
Federal Medicaid Authority	5,991,900

*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. Funding is distributed according to a hospital’s share of the cost in serving Medicaid enrollees during the prior year. In FY 2014, 21 hospitals qualified for funding from Rural Hospital Reimbursement and 11 from Critical Access Hospitals. In August 2013, La Paz Regional Hospital qualified for CAH payments. As a result, La Paz Regional Hospital will no longer receive \$300,000 in 100% State funding from DHS for its emergency and trauma services. (Please see *Emergency and Trauma Services in the DHS section of this report for more information.*)

### Graduate Medical Education

The budget includes \$165,918,500 in FY 2015 for Graduate Medical Education (GME) expenditures. This amount consists of:

Political Subdivision Funds	52,840,900
Federal Medicaid Authority	113,077,600

These amounts fund the following adjustments:

#### Decreased Funding

The budget includes a decrease of \$(20,571,600) in FY 2015 for a reduction in GME payments. This amount consists of:

Political Subdivision Funds	(8,271,900)
Federal Medicaid Authority	(12,299,700)

Although the *FY 2014 Appropriations Report* displays a \$160,184,900 appropriation for FY 2014, a footnote appropriates any additional payments in excess of that amount. AHCCCS has informed JLBC that they expect to expend \$186,490,100 in total GME payments in FY 2014.

*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 FY 2013, 10 hospitals received a total of \$167,561,500 for Graduate Medical Education.

### Safety Net Care Pool

The budget includes \$68,500,000 in FY 2015 for the Safety Net Care Pool (SNCP) program. This amount consists of:

Political Subdivision Funds	22,026,100
Federal Medicaid Authority	46,473,900

These amounts fund the following adjustments:

#### Reducing Program Participation

The budget includes a decrease of \$(411,190,900) in FY 2015 for ending participation in the SNCP program for all but the Phoenix Children’s Hospital after December 31, 2013. This amount consists of:

Political Subdivision Funds	(135,877,600)
Federal Medicaid Authority	(275,313,300)

Although the *FY 2014 Appropriations Report* displays a \$166,000,000 appropriation for FY 2014, a footnote appropriates any additional payments in excess of that amount. AHCCCS has informed JLBC that they expect to expend \$479,690,900 in total SNCP payments in FY 2014.

*Background* – The SNCP program funds unreimbursed costs incurred by hospitals in caring for uninsured and AHCCCS recipients. Local governments or public universities provide the state match, and the voluntary contributions receive an approximate 2:1 match from the federal government. As a federal condition of participating in the program, some of the monies must be used for coverage expansion of the KidsCare and the childless adult population.

In April 2012, AHCCCS received federal approval to establish the SNCP program. The program was expanded a year later using monies collected from a City of Phoenix hospital assessment. In June 2013, this resulted in an additional 36,026 children covered through KidsCare II program and 1,588 additional persons covered through the childless adult program.

While this program was originally expected to end on December 31, 2013, the FY 2014 Health and Welfare BRB allowed the Phoenix Children’s Hospital to continue to participate in the SNCP program through December 31, 2017 if approved by the federal government. In December 2013, the federal government approved Phoenix Children’s Hospital’s continued participation in the program through December 31, 2014.

**Table 6**

**County Contributions**

<u>County</u>	<u>FY 2014</u>				<u>FY 2015</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	\$ 108,900	\$ 268,800	\$ 87,300	\$ 613,500	\$ 111,500	\$ 268,800	\$ 87,300	\$ 618,300
Cochise	203,100	2,214,800	162,700	5,179,900	208,100	2,214,800	162,700	5,138,500
Coconino	200,400	742,900	160,500	1,841,200	205,300	742,900	160,500	1,855,700
Gila	82,300	1,413,200	65,900	2,126,000	84,300	1,413,200	65,900	2,107,500
Graham	58,500	536,200	46,800	1,427,300	59,900	536,200	46,800	1,442,600
Greenlee	15,000	190,700	12,000	128,800	15,400	190,700	12,000	76,200
La Paz	31,200	212,100	24,900	691,300	31,900	212,100	24,900	712,200
Maricopa	0	19,820,700	0	149,698,100	0	19,630,600	0	150,220,100
Mohave	233,900	1,237,700	187,400	7,952,700	239,600	1,237,700	187,400	7,972,700
Navajo	153,300	310,800	122,800	2,538,600	157,000	310,800	122,800	2,558,300
Pima	1,393,200	14,951,800	1,115,900	39,129,200	1,427,200	14,951,800	1,115,900	38,921,100
Pinal	272,600	2,715,600	218,300	15,246,800	279,200	2,715,600	218,300	15,295,000
Santa Cruz	64,400	482,800	51,600	1,908,200	66,000	482,800	51,600	1,914,900
Yavapai	257,500	1,427,800	206,200	8,382,500	263,800	1,427,800	206,200	8,315,100
Yuma	229,600	1,325,100	183,900	7,832,000	235,200	1,325,100	183,900	8,063,100
<b>Subtotal</b>	<b>\$3,303,900</b>	<b>\$47,851,000</b>	<b>\$2,646,200</b>	<b>\$244,696,100</b>	<b>\$3,384,400</b>	<b>\$47,660,900</b>	<b>\$2,646,200</b>	<b>\$245,211,300</b>
<b>Total</b>				<b>\$298,497,200</b>				<b>\$298,902,800</b>

**Other Issues**

**FY 2014 Ex-Appropriation**

The budget includes a decrease of \$(73,439,600) from the General Fund in FY 2014, which is primarily the result of shifting the cost of Proposition 204 Services to the Hospital Assessment Fund. While the FY 2014 budget included the establishment of a hospital assessment to fund Proposition 204 services, when it was added, a corresponding General Fund amount was not reduced from the budget. The General Fund cost reduction of the agency’s FY 2014 ex-appropriation was partially offset by a \$17,638,500 General Fund supplemental for DHS in FY 2014.

The budget permits AHCCCS to transfer up to \$12,984,900 of FY 2014 General Fund appropriation to the Department of Health Services (DHS) if AHCCCS has sufficient available funding and DHS experiences a commensurate shortfall in FY 2014. Prior to implementation, AHCCCS shall submit the proposed transfer for review by the Joint Legislative Budget Committee.

**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 2013 ALTCS utilization.
3. Each county’s contribution is then limited to 90¢ per \$100 of net assessed property value. In FY 2015, this provision provides 3 counties with a total of \$5,941,500 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 2015, this provision provides 3 counties with a total of \$15,754,200 in relief.
5. If any county could 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 2015 no counties qualify for this relief.
6. The state pays for county costs above the average statewide per capita (\$39.30 in FY 2015). In FY 2015 this provision provides 7 counties with a total of \$10,177,000 in relief.

In FY 2015, provisions 3 through 6 of the ALTCS formula result in the state providing a total of \$31,872,700 in relief to 10 counties.

The FY 2015 Health and Welfare BRB requires AHCCCS to transfer any excess monies back to the counties on December 31, 2015 if the counties’ portion of the state match exceeds the proportion allowed in order to comply with the Federal Affordable Care Act.

**FY 2015 Health and Welfare BRB**

In addition to the previously mentioned items, the FY 2015 Health and Welfare BRB includes the following provisions:

## ***Changes to Rates and Services***

### ***Administrative Costs***

Section 17 continues 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.

A risk contingency is added to capitation rates to cover unforeseen circumstances and/or pricing mismatches (e.g. actual trends differ from assumptions). If this risk contingency is not necessary, or is insufficient, it is retained as profit (or loss) and there is no limit. Previously, risk contingency was set at 2%.

### ***Capitation Rates***

Section 28 states that it is the intent of the Legislature that AHCCCS not increase capitation rates more than 3% in FY 2015, FY 2016 and FY 2017.

### ***Insulin Pumps***

Section 4 restores insulin pump therapy as a covered service for adult AHCCCS members. Laws 2010, 7<sup>th</sup> Special Session, Chapter 10 previously eliminated coverage of this service for adults.

### ***Counties***

Section 16 continues to exclude Proposition 204 administration costs from county expenditure limitations.

### ***Erroneous Payments***

Section 18 continues to permit AHCCCS to recover erroneous Medicare payments the state has made due to errors on behalf of the federal government. Subject to legislative appropriation, credits may be used to pay for the AHCCCS program in the year they are received.

Additionally, Section 27 continues 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***

Section 26 continues to state that it is the intent of the Legislature that AHCCCS implement a program within its available appropriation.

### ***Reports***

Section 21 continues to require AHCCCS to submit a report by December 1, 2014 on the use of emergency departments for non-emergency use by AHCCCS enrollees.

Section 22 continues to require AHCCCS and DHS to submit a joint report by January 1, 2015 on hospital costs and charges.

Sections 3 and 8 continue to require AHCCCS to annually report on the change in uncompensated hospital costs and hospital profitability.

## ***Program Components***

Traditional Medicaid, Proposition 204, Adult Expansion, 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 2015, the average capitation rate is expected to be approximately \$324 per member per month (or \$3,888 annually). Of that amount, \$92 is from state match and \$232 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 (75.0% in 2015) of the estimated drug costs.

## ***Tobacco Master Settlement Agreement***

The budget requires AHCCCS to transfer up to \$2,636,500 from the Traditional Medicaid Services line item in FY 2015 to assist in the enforcement of a multi-year settlement reached between tobacco companies and the state over the Master Settlement Agreement (MSA). This transfer amount consists of:

- Up to \$1,200,000 to the Attorney General (AG) for costs associated with tobacco settlement litigation.
- \$436,500 to the Department of Revenue (DOR) to fund 6 positions that will perform luxury tax enforcement and audit duties.
- \$1,000,000 to the Automation Project Fund for the development of a luxury tax processing and revenue accounting system within DOR.

This adjustment does not include the \$600,000 appropriation from the Consumer Protection-Consumer Fraud Revolving Fund to the Attorney General for costs associated with tobacco settlement litigation. *(Please see the Attorney General - Department of Law section in this report for more information.)*

*Background* – In 1998, the major tobacco companies and 46 states reached a settlement in which the signatory tobacco companies would make an annual payment to compensate the states for Medicaid costs associated with tobacco use. Currently, Arizona receives an annual payment of states promised to diligently enforce the provisions and collection of tobacco tax laws within their respective states. In CY 2013, an arbitration panel approved an amended settlement between participating manufacturers and 19 states, including Arizona, to resolve issues relating to the tobacco tax enforcement.

CY 2015 is the first year tobacco tax collections will come under diligent enforcement scrutiny under the provisions of the amended settlement. The monies provided in the budget will allow DOR to comply with the terms of the amended agreement through enhanced auditing capabilities and an automated accounting system. The latter will enhance enforcement by automating the current manual data entry process, allowing delinquent returns and account information to be tracked, and logging data that DOR does not currently track for non-participating manufacturers, cigarette stamp inventory, and other tobacco sales data. *(Please see the Department of Revenue section in this report for more information.)*

<b><i>Tobacco Tax Allocation</i></b>
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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**

	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
<b>Medically Needy Account</b>			
<u>Funds Available</u>			
Balance Forward	\$ 4,120,900	\$ 387,000	\$ 0
Transfer In - Tobacco Tax and Health Care Fund	46,966,400	42,747,000	45,072,600
Transfer In - Tobacco Products Tax Fund	25,607,000	24,732,200	24,573,200
Interest & Refunds	2,100	0	0
<b>Total Funds Available</b>	<b>\$ 76,696,400</b>	<b>\$ 67,866,200</b>	<b>\$ 69,645,800</b>
<u>Allocations</u>			
<i>AHCCCS</i>			
AHCCCS State Match Appropriation	\$ 38,295,800	\$ 37,389,300	\$ 34,178,800
Administrative Adjustments	2,930,600	0	0
<b>Total AHCCCS Allocations</b>	<b>\$ 41,226,400</b>	<b>\$ 37,389,300</b>	<b>\$ 34,178,800</b>
<i>DHS</i>			
Behavioral Health GF Offset	\$ 34,767,000	\$ 34,767,000	\$ 34,767,000
Folic Acid	316,000	400,000	400,000
Renal, Dental Care, and Nutrition Supplements	0	300,000	300,000
<b>Total DHS Allocations</b>	<b>35,083,000</b>	<b>35,467,000</b>	<b>35,467,000</b>
<b>Balance Forward</b>	<b>\$ 387,000</b>	<b>\$ (4,990,100) <sup>1/</sup></b>	<b>\$ 0</b>
<b>AHCCCS Proposition 204 Protection Account</b>			
<u>Funds Available</u>			
Balance Forward	\$ 0	\$ 0	\$ 0
Transfer In - Tobacco Products Tax Fund	39,831,900	38,472,300	38,225,000
<b>Total Funds Available</b>	<b>\$ 39,831,900</b>	<b>\$ 38,472,300</b>	<b>\$ 38,225,000</b>
<u>Allocations</u>			
AHCCCS State Match Appropriation	\$ 39,825,800	38,472,300	38,225,000
Administrative Adjustments	6,100	0	0
<b>Balance Forward</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>AHCCCS Emergency Health Services Account</b>			
<u>Funds Available</u>			
Balance Forward	\$ 0	\$ 0	\$ 0 <sup>2/</sup>
Transfer In - Tobacco Products Tax Fund	18,967,600	18,320,100	18,202,400
<b>Total Funds Available</b>	<b>\$ 18,967,600</b>	<b>\$ 18,320,100</b>	<b>\$ 18,202,400</b>
<u>Allocations</u>			
AHCCCS State Match Appropriation	\$ 18,964,600	\$ 18,320,100	\$ 18,202,400
Administrative Adjustments	3,000	0	0
<b>Balance Forward <sup>2/</sup></b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>DHS Health Education Account</b>			
<u>Funds Available</u>			
Balance Forward	\$ 7,741,000	\$ 7,731,700	\$ 5,009,100
Transfer In - Tobacco Tax and Health Care Fund	15,575,300	14,045,400	14,809,600
Transfer In - Tobacco Products Tax Fund	1,896,800	1,832,000	1,820,200
<b>Total Funds Available</b>	<b>\$ 25,213,100</b>	<b>\$ 23,609,100</b>	<b>\$ 21,638,900</b>
<u>Allocations</u>			
Tobacco Education and Prevention Program	\$ 14,141,100	\$ 16,200,000	\$ 16,200,000
Leading Causes of Death - Prevention and Detection	3,340,300	2,400,000	2,400,000
<b>Balance Forward</b>	<b>\$ 7,731,700</b>	<b>\$ 5,009,100</b>	<b>\$ 3,038,900</b>
<b>Health Research Account</b>			
<u>Funds Available</u>			
Balance Forward	\$ 3,395,100	\$ 1,573,500	\$ 296,500
Transfer In - Tobacco Tax and Health Care Fund	3,249,500	3,053,400	3,219,400
Transfer In - Tobacco Products Tax Fund	4,874,300	4,580,000	4,550,600
<b>Total Funds Available</b>	<b>\$ 11,518,900</b>	<b>\$ 9,206,900</b>	<b>\$ 8,066,500</b>
<u>Allocations</u>			
Biomedical Research	\$ 8,945,400	\$ 7,910,400	\$ 7,910,400 <sup>3/</sup>
Alzheimer's Disease Research	1,000,000	1,000,000	1,000,000
<b>Balance Forward</b>	<b>\$ 1,573,500</b>	<b>\$ 296,500</b>	<b>\$ (843,900) <sup>1/</sup></b>

<sup>1/</sup> Actual balances will not be negative.

<sup>2/</sup> Any unencumbered funds in the Emergency Health Services Account are transferred to the Proposition 204 Protection Account at the end of each year.

<sup>3/</sup> Prior to the FY 2015 budget, the Biomedical Research allocation only included non-appropriated funding. The FY 2015 budget increases the appropriated funding for Biomedical Research by \$2,000,000 and decreases non-appropriated funding by \$(2,000,000).