

Arizona Health Care Cost Containment System

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,217.3	2,208.3	2,214.3 ^{1/}
Personal Services	37,151,400	37,469,500	37,469,500
Employee Related Expenditures	16,424,700	16,709,600	16,342,100
Professional and Outside Services	3,785,000	5,130,900	5,212,100
Travel - In State	70,300	60,000	60,000
Travel - Out of State	24,000	33,400	33,400
Other Operating Expenditures	25,487,500	18,309,800	18,488,000
Equipment	728,600	80,300	80,300
OPERATING SUBTOTAL	83,671,500	77,793,500	77,685,400
SPECIAL LINE ITEMS			
Administration			
DES Eligibility	88,533,300	54,874,500	54,874,500 ^{2/}
Proposition 204 - AHCCCS Administration	8,080,500	6,863,900	6,832,800 ^{3/}
Proposition 204 - DES Eligibility	24,106,800	38,358,700	38,358,700 ^{3/}
Medical Services			
Traditional Medicaid Services	3,236,881,500	3,752,510,200	3,729,548,600 ^{4/5/}
Proposition 204 Services	1,306,266,400	2,388,974,200	2,417,700,600 ^{3/}
Adult Expansion	45,032,600	164,011,900	197,183,800
Children's Rehabilitative Services	156,409,000	225,988,500	234,866,700
KidsCare II	46,110,700	0	0
KidsCare Services	9,471,500	6,716,500	6,295,200
ALTCS Services	1,241,873,200	1,332,371,100	1,386,588,900 ^{6/7/8/}
Payment to Hospitals			
Disproportionate Share Payments	13,487,100	13,487,100	5,087,100 ^{9/}
DSH Payments - Voluntary Match	25,806,900	16,387,900	18,784,700 ^{10/11/}
Rural Hospitals	13,008,100	22,650,000	22,650,000
Graduate Medical Education	159,376,500	190,159,200	157,312,000 ^{11/12/}
Safety Net Care Pool	487,953,300	137,000,000	137,000,000 ^{11/13/}
AGENCY TOTAL	6,946,068,900	8,428,147,200 ^{14/}	8,490,769,000 ^{15/-20/}
FUND SOURCES			
General Fund	1,173,476,700	1,225,882,700	1,205,162,300
Other Appropriated Funds			
Budget Neutrality Compliance Fund	3,303,900	3,384,400	3,482,900
Children's Health Insurance Program Fund	46,468,700	6,649,800	7,674,400
Healthcare Group Fund	850,000	0	0
Prescription Drug Rebate Fund - State	94,941,200	79,035,000	83,778,800
TPTF Emergency Health Services Account	18,535,500	18,202,400	17,331,400
TTHCF Medically Needy Account	32,864,700	34,178,800	31,180,000
SUBTOTAL - Other Appropriated Funds	196,964,000	141,450,400	143,447,500
SUBTOTAL - Appropriated Funds	1,370,440,700	1,367,333,100	1,348,609,800
Expenditure Authority Funds			
County Funds	293,921,500	295,396,100	299,114,300
Federal Medicaid Authority	4,695,580,900	6,015,549,300	6,146,124,800
Hospital Assessment Fund	0	264,389,300	215,558,800
Nursing Facility Provider Assessment Fund	16,528,300	21,657,300	23,366,900
Political Subdivision Funds	233,303,300	112,943,100	98,945,600
Prescription Drug Rebate Fund - Federal	196,563,800	212,459,300	222,458,100
Third Party Liability and Recovery Fund	0	194,700	194,700
Tobacco Litigation Settlement Fund	100,764,700	100,000,000	100,000,000
TPTF Proposition 204 Protection Account	38,965,700	38,225,000	36,396,000

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
SUBTOTAL - Expenditure Authority Funds	5,575,628,200	7,060,814,100	7,142,159,200
SUBTOTAL - Appropriated/Expenditure Authority Funds	6,946,068,900	8,428,147,200	8,490,769,000
Other Non-Appropriated Funds	114,250,100	29,574,800	29,571,100
Federal Funds	63,547,800	97,818,900	90,270,000
TOTAL - ALL SOURCES	7,123,866,800	8,555,540,900	8,610,610,100

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.

- 1/ Includes 618.9 GF and 694.2 EA FTE Positions funded from Special Line Items in FY 2016.
- 2/ 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. (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 2016 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 2016 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/ Any federal monies that the AHCCCS Administration passes through to the Department of Economic Security for use in long-term administration care for persons with developmental disabilities do not count against the long-term care expenditure authority above. (General Appropriation Act footnote)
- 7/ Pursuant to A.R.S. § 11-292B the county portion of the FY 2016 nonfederal portion of the costs of providing long-term care services is \$249,234,600. This amount is included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 8/ Any supplemental payments received in excess of \$74,906,000 for nursing facilities that serve Medicaid patients in FY 2016, including any federal matching monies, by the AHCCCS Administration are appropriated to the Administration in FY 2016. 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. If the nursing facility provider assessment is not extended past September 30, 2015, the AHCCCS Administration shall revert \$56,384,400 of expenditure authority for FY 2016, including \$38,859,200 of Federal Medicaid Authority and \$17,525,200 of Nursing Facility Provider Assessment funding. (General Appropriation Act footnote)
- 9/ The \$5,087,100 appropriation for Disproportionate Share Payments (DSH) for FY 2016 made pursuant to A.R.S. § 36-2903.01O includes \$4,202,300 for the Maricopa County Health Care District and \$884,800 for private qualifying disproportionate share hospitals. (General Appropriation Act footnote)
- 10/ Any monies received for 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 2016 by the AHCCCS Administration in excess of \$18,784,700 are appropriated to the Administration in FY 2016. 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)
- 11/ The Expenditure Authority fund source includes voluntary payments made from political subdivisions for payments to hospitals that operate a graduate medical education program or treat low-income patients. The political subdivision portions of the FY 2016 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)
- 12/ Any monies for Graduate Medical Education received in FY 2016, including any federal matching monies, by the AHCCCS Administration in excess of \$157,312,000 are appropriated to the Administration in FY 2016. 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 received in excess of \$137,000,000 for the Safety Net Care Pool by the AHCCCS Administration in FY 2016, including any federal matching monies, are appropriated to the Administration in FY 2016. 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/ The AHCCCS Administration may transfer up to \$10,000,000 from state General Fund appropriations received in FY 2015 to the Department of Health Services for expenditures associated with Title XIX Behavioral Health Services. 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. (General Appropriation Act footnote)
- 15/ The non-appropriated portion of the Prescription Drug Rebate Fund established by A.R.S. § 36-2930 is included in the federal portion of the Expenditure Authority fund source. (General Appropriation Act footnote)

Summary

AHCCCS' FY 2016 General Fund spending decreases by \$(20,720,400) or (1.7)% from FY 2015. The \$(20,720,400) includes:

- \$23,753,600 in formula base adjustments.
- \$(12,405,000) in mandatory Affordable Care Act changes, primarily due to an enhanced federal match rate for the child expansion and the phase-down of primary care provider rate increases.
- \$(28,100,000) for a (5)% provider rate reduction and an ambulance rate reduction.
- \$(3,933,400) in policy changes.
- \$(35,600) in statewide adjustments.

AHCCCS' FY 2016 Hospital Assessment spending decreases by \$(48,830,500) or (18.5)% from FY 2015. This decrease is primarily due to an increase to the enhanced federal match rate for childless adult members with income from 0-100% of the federal poverty level (FPL) and a (5)% provider rate reduction.

In FY 2015, the budget also includes a \$(48,520,500) decrease from the General Fund and \$59,791,600 increase from the Hospital Assessment Fund to reflect revisions to caseload projections. These amounts are continued into FY 2016. (See *Other Issues section for more information.*)

As part of the budget's 3-year spending plan, AHCCCS' General Fund costs are projected to increase by \$33,917,700 in FY 2017 above FY 2016 and by \$46,004,400 in FY 2018 above FY 2017. (See *Other Issues section for more information.*)

The FY 2017 and FY 2018 estimates do not yet reflect the July 1, 2016 transfer of behavioral health functions from the Department of Health Services (DHS) to AHCCCS, as authorized by Laws 2015, Chapter 19 and Laws 2015, Chapter 195.

Below is an overview of the FY 2016 formula adjustments, a status update on the mandatory policy changes and caseload impacts since the implementation of the 2010 federal health care legislation, known as the Affordable Care Act (ACA) that began on January 1, 2014, and policy changes. *Table 1* summarizes these changes.

Table 1	
AHCCCS General Fund Budget Spending Changes	
(\$ in millions)	
Formula Adjustments	
FY 2016 Caseload Growth	\$ 23
FY 2016 3% Capitation Rate Increase	30
FY 2016 Federal Match Rate Increase	(27)
Prescription Drug Rebate Fund Increase	(5)
Tobacco Tax Decline	<u>3</u>
<i>Subtotal</i>	\$ 24
Mandatory ACA Changes	
Child Expansion	\$ (10)
Provider Rate Increase Phase Down	(6)
Health Insurer Fee	3
Currently Eligible But Not Enrolled ^{1/}	<u>--</u>
<i>Subtotal</i> ^{2/}	\$ (12)
Optional Medicaid Expansion	
Childless Adults and Adult Expansion ^{3/}	N/A
Policy Changes	
(5)% Provider Rate Reduction	\$ (26)
Ambulance Rate Reduction	(2)
Reduction of Private DSH Payments	(3)
Office of Inspector General Net Fraud Reduction	(1)
1.5% Capitation Rate Limit - FY 2017 and FY 2018 ^{4/}	0
Cost Sharing Provisions - FY 2017 and FY 2018 ^{4/}	<u>0</u>
<i>Subtotal</i>	\$ (32)
Total Spending Change ^{2/}	\$ (21)
^{1/} Amounts are included in the formula adjustment above. (See <i>Mandatory Affordable Care Act Changes section for more information.</i>)	
^{2/} Numbers do not add due to rounding.	
^{3/} The budget includes a \$(48.8) million reduction in hospital assessment funding in FY 2016 as a result of increase to the federal match rates and provider rate reductions. The assessment covers the General Fund portion of these populations and the remaining Proposition 204 populations.	
^{4/} First year of impact is FY 2017. (See <i>Policy Changes section for more information.</i>)	

- ^{16/} 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)
- ^{17/} The AHCCCS Administration shall report to the Joint Legislative Budget Committee on or before March 1 of each year on preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum 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)
- ^{18/} On or before January 6, 2016, 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, 2015. On June 30, 2016, the Administration shall report the same information for all of FY 2016. (General Appropriation Act footnote)
- ^{19/} 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)
- ^{20/} General Appropriation Act funds are appropriated as Operating Lump Sum with Special Line Items by Agency.

Formula Adjustments

Formula adjustments represent changes that occur under current law, including caseload, capitation and federal match rate revisions, a prescription drug rebate increase and a decline in tobacco tax collections. The sum of these adjustments increases the AHCCCS budget by \$23,753,600 in FY 2016.

FY 2016 Caseload Growth

Formula adjustments include 0.2% caseload growth for Traditional Acute Care and Proposition 204 populations, 2% caseload growth for the Arizona Long Term Care System (ALTCS) population, 3% caseload growth in Children’s Rehabilitative Services (CRS), and a (10)% decline in the KidsCare population in FY 2016. Formula adjustments do not include caseload growth for newly-eligible populations expanded under the ACA (see next sections for additional information). The FY 2016 formula adjustments incorporate an anticipated 4.2% caseload growth within the Traditional population in FY 2015. The 4.2% growth is primarily caused due to currently eligible but not enrolled individuals (see *Currently Eligible But Not Enrolled* section for additional information).

FY 2016 caseload changes are expected to result in a General Fund increase of \$23,121,700 in FY 2016. Caseloads, including expansions and the childless adult restoration, are shown in *Table 2*.

Population ^{2/}	June 2014	June 2015	June 2016	'15-'16% Change
Traditional Acute Care	939,643	979,073	980,630	0.2%
Prop 204 Childless Adults	215,742	285,743	286,198	0.2
Other Proposition 204	158,109	169,672	169,942	0.2
Adult Expansion ^{3/}	19,789	41,369	41,435	0.2
KidsCare	2,008	1,606	1,446	(10.0)
ALTCS - Elderly & Physically Disabled ^{4/}	28,524	29,380	29,967	2.0
Emergency Services	78,799	95,558	98,424	3.0
Total Member Months ^{5/}	1,442,614	1,602,401	1,608,042	0.4%

^{1/} The figures represent June 1 estimates.
^{2/} The Children’s Rehabilitative Services program is included in the Traditional Acute Care, Other Proposition 204, KidsCare, and ALTCS populations.
^{3/} Parents and Childless Adults 100%-133% FPL.
^{4/} The ALTCS program funded in AHCCCS.
^{5/} In addition, approximately 29,600 people will receive Medicaid services through the Department of Economic Security’s Developmental Disabilities program.

FY 2016 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 2016 across most programs.

The 3% capitation increase is budgeted to cost an additional \$29,853,200 from the General Fund in FY 2016. The 3% capitation rate adjustment was developed after analyzing recent capitation reviews, utilization, and trends in medical inflation.

FY 2016 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 2016, the FMAP rates will adjust as follows:

- Traditional Medicaid will increase to 68.81% (0.66% increase).
- Proposition 204 Childless Adult rate will increase to 89.05% (3.57% increase).
- KidsCare and Child Expansion rates will increase to 94.48% (see *Mandatory Affordable Care Act Changes* section for additional information).
- Adult Expansion rate will remain at 100%.

The formula adjustments include a decrease of \$(27,477,000) in General Fund spending to reflect savings from the regular federal rate increase.

Prescription Drug Rebate Fund Increase

The budget includes an increase of \$4,743,100 from the state portion of the Prescription Drug Rebate Fund and a corresponding \$(4,743,100) decrease from the General Fund in FY 2016 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 \$(2,998,800) from tobacco tax revenues and a corresponding \$2,998,800 increase from the General Fund in FY 2016 from declining tobacco sales. These declines result in a (8.8)% decrease within the Tobacco Tax and Health Care Fund (TTHCF) Medically Needy Account in FY 2016.

FY 2015 Adjustments

The budget includes a \$(48,520,500) ex-appropriation from the General Fund in FY 2015 associated with lower-than-expected Medicaid caseload growth within the Traditional line item population. In addition, the budget includes \$268,809,500 in an Expenditure Authority supplemental associated with higher-than-expected Medicaid caseload growth for the Proposition 204 Childless Adult population, partly offset by a decrease to DSH Voluntary Payments. (See *Other Issues and Disproportionate Share Payment Overview* sections for more information.)

Mandatory Affordable Care Act Changes

The 2010 Federal health care legislation, known as the Affordable Care Act (ACA), had a number of impacts on the AHCCCS and DHS Medicaid budgets that began on January 1, 2014. Mandatory changes resulting from the ACA are described below. The sum of these adjustments decrease the AHCCCS budget by \$(12,405,000) in FY 2016. A summary of the AHCCCS portion of the mandatory costs appears in *Table 1*.

Child Expansion

Beginning on January 1, 2014, ACA required the expansion for children under age 19 to 133% of the Federal Poverty Level (FPL) (\$32,300 for a family of 4). In addition, ACA allowed children with incomes 133% to 200% FPL to become eligible for a subsidy to purchase health insurance through the new federal health insurance exchange. Infants continue to be covered up to 140% FPL.

Prior to the ACA, AHCCCS provided coverage for children with incomes up to 200% FPL through 2 programs: KidsCare, also known as Arizona's Children's Health Insurance Program (CHIP), and KidsCare II. Both programs received an approximate 3:1 federal match rate for its recipients.

On January 1, 2014, 26,300 KidsCare recipients with incomes up to 133% FPL were transferred to the Traditional population. The transferred KidsCare and child expansion populations receive a 77.71% federal match rate in FY 2015.

Due to these programmatic changes, the KidsCare II program officially ended on January 31, 2014. Pre-January 2014 KidsCare I recipients with income from 133% to 200% FPL continue to receive coverage in KidsCare. As of April 1, 2015, the KidsCare program had approximately 1,600 remaining members.

The FY 2016 budget assumes a total of 36,200 enrollees in the child expansion program by June 2016. As of April 1, 2015, enrollment was about 37,500 members.

Beginning on October 1, 2015, federal legislation increases the state's KidsCare and child expansion match rate to 100%. The budget includes a decrease of \$(9,555,500) in FY 2016 from the General Fund for the phased-in enrollment, annualization of these costs, and an FMAP increase.

Provider Rate Increase Phase Down

ACA 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. This particular enhanced rate primarily affected the mandatory expansion populations.

The FY 2015 budget assumed a General Fund PCP payment of \$12,319,700 in FY 2014 and \$8,339,000 in FY 2015. However, due to a delay in payment processing and review within the Federal Centers for Medicare and Medicaid Services (CMS), AHCCCS made payments of \$4,102,700 in FY 2014, and anticipates to pay \$7,021,600 in FY 2015 and \$2,373,900 in FY 2016.

The budget includes a decrease of \$(5,965,100) from the General Fund in FY 2016 for the PCP rate increase to account for the change from the FY 2015 appropriation to the expected FY 2016 payments.

Health Insurer Fee

ACA placed an \$8 billion annual fee on the health insurance industry nationwide in 2014. The fee eventually 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. The budget includes an increase of \$3,115,600 (from \$19,500,400 to \$22,616,000) from the General Fund in FY 2016 for the allocation of these costs.

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. As a result, the budget is forecasting a caseload growth of 4.2% in the Traditional population line item in FY 2015. The budget assumes the currently eligible but not enrolled population grows at the same 0.2% growth assumed for the Traditional population in FY 2016.

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

The FY 2014 Health and Welfare Budget Reconciliation Bill (BRB) (Laws 2013, 1st Special Session, Chapter 10) 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, along with an update on each program's enrollment since the restoration of Proposition 204 childless adults and the adult expansion beginning on January 1, 2014. *Table 3* summarizes the budgeted costs of these changes in FY 2015 and FY 2016.

Childless Adult Restoration, 0-100% FPL

The childless adult population had an enrollment freeze starting in July 2011. As a condition of expanding Medicaid, coverage for the childless adult population was restored in January 2014. The childless adult population receives a higher match rate than the standard 2:1 match. The increased match started at 83.62% in FY 2014, increased to 85.48% in FY 2015, and increases to 89.05% in FY 2016.

The original FY 2015 budget assumed that 240,600 childless adults who were not previously eligible would enroll in the program by June 2015, with a total of 247,800 enrolled by June 2016. As of April 1, 2015, there were approximately 280,700 childless adult enrollees in the Proposition 204 program.

The FY 2016 budget assumes a June 2015 enrollment of 285,700 and a June 2016 enrollment of 286,200. Though the population is assumed to grow only slightly, the FY 2016 budget includes a \$(46,496,100) decrease in hospital assessment state match for costs of this population. Of this amount, \$(10,362,200) is due to the (5)% provider rate reduction and \$(36,133,900) is due to the increased federal match rate and other formula adjustments. The hospital assessment is described below.

Adult Expansion, 100%-133% FPL

ACA 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 calendar years 2014 to 2016. The federal share will gradually decline to 90% by 2020. The hospital assessment covers the state portion for this population

(see *Hospital Assessment* section for additional information).

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 original FY 2015 budget assumed that 58,900 Adult Expansion enrollees who were not previously eligible would enroll in the program by June 2015, with a total of 60,700 enrolled by June 2016. As of April 1, 2015, there were approximately 50,900 Adult Expansion enrollees.

The FY 2016 budget assumes a June 2015 enrollment of 41,400 and a June 2016 enrollment of 41,500. Since newly-eligible adults are fully funded by the federal government through December 31, 2016 there is no change to the General Fund in FY 2016. The state portion is covered through the hospital assessment in calendar year 2017 and beyond.

Table 4 displays population growth since the ACA start date of January 1, 2014. By the end of FY 2016, enrollment is projected to grow by 376,000.

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. The assessment will be based on hospital discharges as reported on each hospital's Medicare Cost Report. The amounts differ based on types of providers.

In FY 2014, AHCCCS collected \$75,193,200 from the assessment, and was budgeted to collect \$204,597,700 in FY 2015. Due to the higher-than-expected caseload, the FY 2015 supplemental increases the assessment to \$264,389,300. The FY 2016 hospital assessment is projected to be \$215,558,800 and would cover the cost of Proposition 204 services in FY 2016.

Table 3

**Costs of Optional Medicaid Expansion
and the Proposition 204 Parents**
(\$ in millions)

		FY 2015 Revised			FY 2016 Appropriation		
		GF	HA ^{1/}	FF	GF	HA ^{1/}	FF
Adult Expansion 100-133% FPL ^{2/}	AHCCCS	\$ 0	\$ 0	\$ 159	\$ 0	\$ 0	\$ 197
	DHS	<u>0</u>	<u>0</u>	<u>74</u>	<u>0</u>	<u>0</u>	<u>42</u>
	Total	\$ 0	\$ 0	\$ 233	\$ 0	\$ 0	\$ 239
Proposition 204 – Childless Adults 0-100% FPL ^{2/}	AHCCCS	\$ 0	\$ 217	\$1,439	\$ 0	\$ 171	\$1,540
	DHS	<u>44</u>	<u>0</u>	<u>244</u>	<u>35</u>	<u>0</u>	<u>285</u>
	Total	\$ 44	\$ 217	\$1,683	\$ 35	\$ 171	\$1,825
Proposition 204 – Parents 22-100% FPL ^{3/4/}	AHCCCS	\$ 0	\$ 47	\$ 101	\$ 0	\$ 45	\$ 99
	DHS	<u>71</u>	<u>0</u>	<u>172</u>	<u>66</u>	<u>0</u>	<u>147</u>
	Total	\$ 71	\$ 47	\$ 273	\$ 66	\$ 45	\$ 246
Total Expenditures ^{5/}	Total	\$ 115	\$ 264	\$2,189	\$ 101	\$ 216	\$2,310

“GF” = General Fund ; “HA” = Hospital Assessment ; “FF” = Federal Funds

- ^{1/} Includes AHCCCS expenditures from the Hospital Assessment Fund for the Proposition 204 and Adult Expansion line items, beginning January 1, 2014. The Hospital Assessment Fund does not pay for behavioral health costs of these line items in the DHS budget.
- ^{2/} The federal government pays 100% of the cost of the adult expansion from 2014 to 2016 and 90.68% of the childless adults up to 100% FPL in 2016. These percentages converge to 90% by 2020.
- ^{3/} In addition to parents from 22-100% FPL, this population includes some children from 22-100% FPL and aged, blind, and disabled individuals from 75-100% FPL.
- ^{4/} In addition to the General Fund, AHCCCS state costs for the Proposition 204 line item are funded with tobacco tax and tobacco litigation settlement money. Figures in this table do not display this funding and any associated federal matching funds.
- ^{5/} Amounts may not add due to rounding.

Table 4

**Total Medicaid Population Increase
Since January 1, 2014 ^{1/}**

	June <u>2014</u>	June <u>2015</u>	June <u>2016</u>
Childless Adult Restoration	148,000	218,000	218,400
Adult Expansion 100%-133% FPL	19,800	41,400	41,500
Child Expansion 100%-133% FPL	29,900	36,100	36,200
Other Enrollees ^{2/}	<u>12,900</u>	<u>74,900</u>	<u>79,900</u>
Total	210,600	370,400	376,000

- ^{1/} June 2014 figures are actual amounts while June 2015 and June 2016 are budgeted projections.
- ^{2/} Currently eligible but not enrolled individuals are included in Other Enrollees.

Policy Changes

The budget includes a net savings of \$(32,033,400) in General Fund appropriations in FY 2016 from 4 policy changes. These 4 policy changes include: a (5)% provider rate reduction, an ambulance provider rate reduction, AHCCCS Office of Inspector General (OIG) net fraud reduction savings and a reduction in DSH payments made to private hospitals using a General Fund match (see the *DSH Payments Overview section for information on DSH payment reductions*). The budget’s 3-year spending plan

also includes adjustments for capitation rate limits and cost sharing provisions in FY 2017 and FY 2018.

FY 2016 (5)% Provider Rate Reduction

Section 16 of the FY 2016 Health BRB (Laws 2015, Chapter 14) authorizes AHCCCS to reduce provider rates by a cumulative total of up to (5.0)%. This rate reduction would not apply to nursing facilities, developmental disability providers, or home and community based services. AHCCCS is permitted to use discretion in making these reductions. Any reduction would need to be federally approved and the state must prove that the reductions would not affect access to health care. If the capitation rate increase in FY 2016 is less than 3.0%, then AHCCCS may use those savings to reduce the provider rate reductions. The budget includes a \$(25,700,000) million General Fund reduction in FY 2016 for implementation of the provider rate decrease.

Ambulance Rate Reduction

The FY 2014 Health and Welfare BRB increased ambulance reimbursement rates as a percent of Department of Health Services (DHS) established rates from 68.59% to 74.74% as of October 1, 2014 and from 74.74% to 80% as of October 1, 2015. Section 3 of the FY 2016 Health BRB decreases ambulance reimbursement rates as scheduled to go into effect October 1, 2015, to 68.59%. The budget includes a

decrease of \$(2,400,000) from the General Fund in FY 2016, which represents the savings from reducing the reimbursement rate from 74.74% to 68.59%. Relative to the previously scheduled October 1, 2015 rate of 80%, the reduction to 68.59% represents a \$(6,033,300) decrease from the General Fund in FY 2016.

Office of Inspector General Net Fraud Reduction Savings

The budget includes 6 FTE Positions and a net \$(1,322,700) General Fund decrease in FY 2016 for AHCCCS OIG staffing. This General Fund net savings represents \$(1,542,600) from additional cost recoveries by staffing and \$219,900 in additional staffing costs. The AHCCCS OIG is responsible for conducting criminal investigations and investigative audits for all AHCCCS programs.

1.5% Capitation Rate Limit – FY 2017 and FY 2018

Section 26 of the FY 2016 Health BRB limits capitation rate increases to 1.5% in FY 2017 and FY 2018. The FY 2016 JLBC Baseline’s 3-year spending projection assumed that the rates would increase by 3% in both years. Relative to the FY 2016 JLBC Baseline, these limits are estimated to reduce General Fund costs by \$(12.8) million in FY 2017 and \$(29.7) million in FY 2018. This change does not impact the FY 2016 budget amounts.

Cost Sharing Provisions – FY 2017 and FY 2018

Section 19 of the FY 2016 Health BRB requires the state to request the federal government for authority to impose several cost-sharing provisions on Medicaid enrollees, beginning January 1, 2016. The provisions of section 19 are similar to mandatory and optional cost-sharing authority granted to Indiana that became effective February 1, 2015. Pending federal approval, the state would:

- Collect a premium equal to 2% of income from adult Medicaid enrollees with incomes up to 133% of FPL. This provision is estimated to result in non-General Fund savings of \$(5.3) million and \$(7.3) million in FY 2017 and FY 2018, respectively. These savings are relative to FY 2016. The federal government granted Indiana authority to require a 2% premium for adult enrollees with income from 100% to 133% FPL. Adults with incomes from 0% to 100% FPL though, have the option of paying the premium in order to enroll in a health plan with enhanced benefits. The assumed savings of this provision only includes estimated premiums collected from adults with income from 100% to 133% FPL. AHCCCS state costs of this population are funded by the hospital assessment. (See DHS section for discussion of General Fund savings.)
- Collect co-pays of up to \$25 for non-emergency use of an emergency department by adult enrollees up to 133% of FPL. Adults below 100% of FPL, however,

would be charged a co-payment of \$8 for a first incident and \$25 thereafter. This provision is estimated to result in General Fund savings of \$(0.3) million and non-General Fund savings of \$(1.3) million in FY 2017 and FY 2018, respectively. These savings are relative to FY 2016.

- No longer fund costs of nonemergency medical transportation services for adults with incomes between 100% to 133% FPL, from October 1, 2015 to September 30, 2016. Due to data limitations, the impact of this provision was not estimated. The federal government funds all costs of this population through December 31, 2016.

The 3-year budget plan associated with the enacted FY 2016 budget includes General Fund savings of \$(0.3) million in both FY 2017 and FY 2018 and non-General Fund savings of \$(6.6) million and \$(8.6) million in AHCCCS for these cost-sharing provisions in FY 2017 and FY 2018, respectively. The 3-year budget plan additionally includes General Fund savings of \$(1.1) million and \$(1.5) million for these provisions in the DHS budget in FY 2017 and FY 2018, respectively (see the DHS section for more information).

Operating Budget

The budget includes \$77,685,400 and 901.2 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$25,756,700
Children’s Health Insurance Program (CHIP) Fund	1,717,200
Prescription Drug Rebate Fund (PDRF) - State	198,000
Federal Medicaid Authority (FMA)	50,013,500

These amounts fund the following adjustments:

Increased PDRF Rebate

The budget includes an increase of \$81,200 from the PDRF-State in FY 2016 due to an increase in prescription drug reimbursements pursuant to a contract adjustment.

Office of Inspector General Staffing

The budget includes 6 FTE Positions in FY 2016 for AHCCCS Office of Inspector General (OIG) staffing. Of this amount, 3 FTE Positions are allocated to the General Fund and 3 FTE Positions are allocated to FMA. While the budget allocates the staffing costs to the Traditional Services line, the FY 2017 Baseline will shift this funding to the Operating Budget. (See Traditional Services section for the net fraud reduction savings.)

Statewide Adjustments

The budget includes a decrease of \$(189,300) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(22,400)
CHIP Fund	33,200
PDRF - State	700
Federal Medicaid Authority	(200,800)

(Please see the Agency Detail and Allocations section.)

Administration

DES Eligibility

The budget includes \$54,874,500 and 885 FTE Positions in FY 2016 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 are unchanged from FY 2015.

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

Proposition 204 - AHCCCS Administration

The budget includes \$6,832,800 and 128 FTE Positions in FY 2016 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	2,307,700
Federal Medicaid Authority	4,525,100

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(31,100) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(13,200)
Federal Medicaid Authority	(17,900)

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 2016 for Proposition 204 - DES Eligibility costs. These amounts consist of:

General Fund	17,239,300
Budget Neutrality Compliance Fund (BNCF)	3,482,900
Federal Medicaid Authority	17,636,500

These amounts fund the following adjustments:

Statutory Adjustments

The budget includes a decrease of \$(98,500) from the General Fund and a corresponding increase of \$98,500 from BNCF in FY 2016 to reflect a statutory-required increase of county contributions in FY 2016 (A.R.S. § 11-2920). *(See Table 6 for contributions by county.)*

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

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

Medical Services

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

Traditional Medicaid Services

The budget includes \$3,729,548,600 in FY 2016 for Traditional Medicaid Services. This amount consists of:

General Fund	890,833,000
County Funds	49,879,700
PDRF - State	78,105,000
TTHCF Medically Needy Account	31,180,000
Third Party Liability and Recovery Fund	194,700
Federal Medicaid Authority	2,471,472,300
PDRF - Federal	207,883,900

These amounts fund the following adjustments:

Formula Adjustments and Policy Changes

The budget includes an increase of \$(18,721,500) in FY 2016 for formula adjustments and policy changes. This amounts consists of:

General Fund	(17,250,400)
County Funds	(320,200)
PDRF - State	4,348,600
TTHCF Medically Needy Account	(2,998,800)

Federal Medicaid Authority	(11,823,400)
PDRF - Federal	9,322,700

The adjustments include:

- 0.2% enrollment growth.
- An increase in the federal match rate from 68.15% to 68.81%.
- 3% capitation rate increase.
- (5)% provider rate reduction.
- Ambulance rate decrease from 74.74% to 68.59% of DHS rates.
- \$(320,200) decrease in Maricopa County Acute Care contribution (county funds) under A.R.S. § 11-292 with a corresponding General Fund increase.
- \$4,348,600 increase to the state portion of the PDRF and a corresponding General Fund decrease.
- \$9,322,700 increase to the federal portion of the PDRF and a corresponding Federal Medicaid Authority decrease.
- \$(2,998,800) 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 \$(4,240,100) for cost recoveries identified by AHCCCS OIG staff in FY 2016. This amount consists of:

General Fund	(1,322,700)
Federal Medicaid Authority	(2,917,400)

In addition to a total of \$(4,945,000) in recovery savings, these amounts incorporate \$219,900 in General Fund and \$485,000 in Federal Medicaid Authority increases to fund 6 additional FTE Positions in the Operating Budget in FY 2016. The FY 2017 Baseline will shift staffing costs to the Operating Budget while retaining reductions of \$(1,542,600) in General Fund money and \$(3,402,400) in Federal Medicaid Authority for cost recoveries in the Traditional Services line.

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

- Children less than 1, up to 140% FPL.
- Children aged 1-18, up to 133% FPL.
- 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”).

Proposition 204 Services

The budget includes \$2,417,700,600 in FY 2016 for Proposition 204 Services. This amount consists of:

Hospital Assessment Fund	215,558,800
Tobacco Litigation Settlement Fund	100,000,000
TPTF Proposition 204 Protection Account	36,396,000
TPTF Emergency Health Services Account	17,331,400
Federal Medicaid Authority	2,048,414,400

These amounts fund the following adjustments:

Formula Adjustments and Policy Changes

The budget includes an increase of \$28,726,400 in FY 2016 for formula adjustments and policy changes. This amount consists of:

Hospital Assessment Fund	(48,830,500)
TPTF Proposition 204 Protection Account	(1,829,000)
TPTF Emergency Health Services Account	(871,000)
Federal Medicaid Authority	80,256,900

The adjustments include:

- 0.2% enrollment growth.
- A change in the federal match rate for the non-childless adult population from 68.15% to 68.81%. A change in the federal match rate for childless adults from 85.48% to 89.05%.
- 3% capitation rate increase.
- (5)% provider rate reduction.
- \$(1,829,000) decrease from the TPTF Proposition 204 Protection Account due to declining tobacco tax revenues and a \$1,829,000 corresponding Hospital Assessment Fund increase.
- \$(871,000) decrease from the Emergency Health Services Account due to declining tobacco tax revenues and a \$871,000 corresponding Hospital Assessment Fund increase.

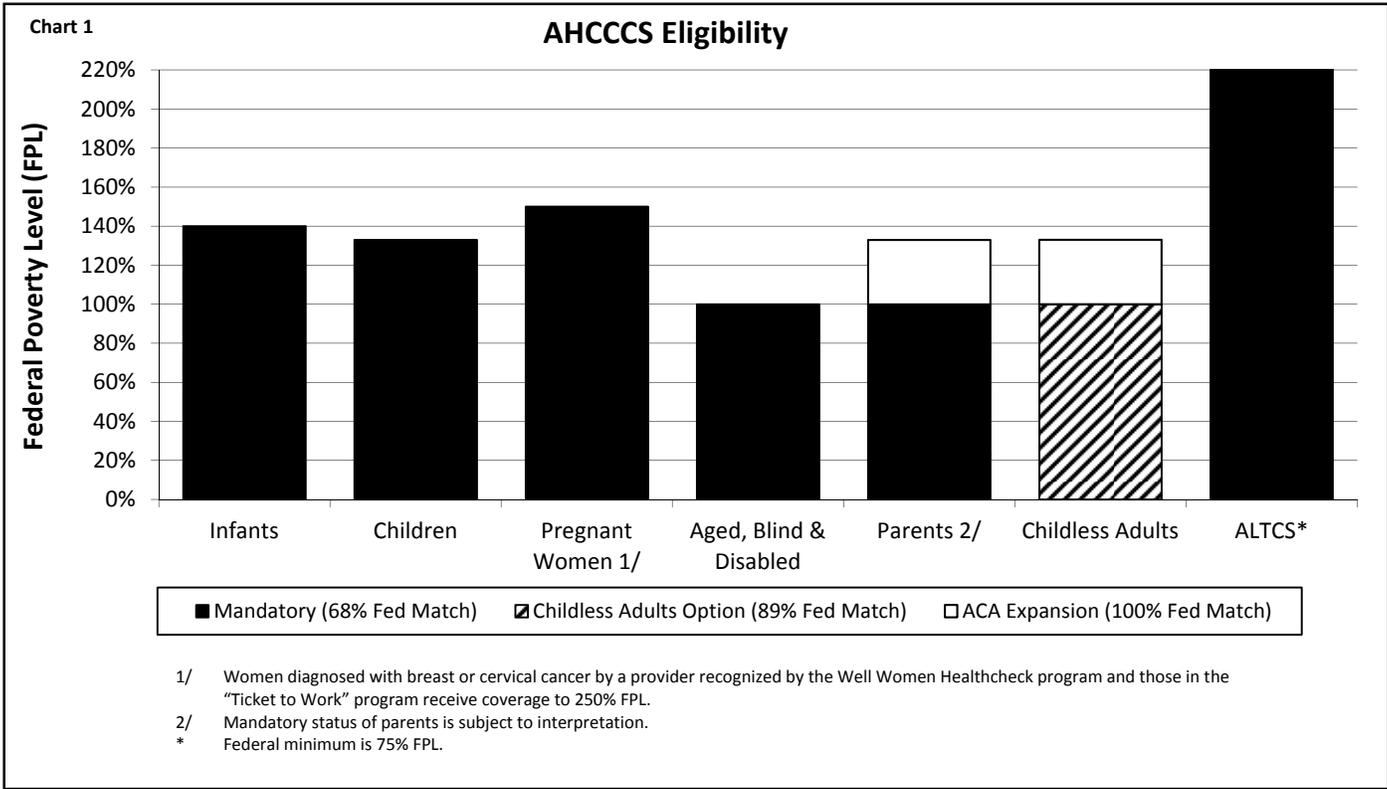
Background – The Proposition 204 program serves individuals with incomes that exceed the income limits for the Traditional population, but are below 100% FPL (see Chart 1).

Adult Expansion

The budget includes \$197,183,800 from Federal Medicaid Authority in FY 2016 for the Adult Expansion. This amount funds the following adjustments:

Formula Adjustments and Policy Changes

The budget includes an increase of \$33,171,900 from Federal Medicaid Authority for formula adjustments and



policy changes. The adjustments include 0.2% enrollment growth, a 3% capitation rate increase and health insurer fees.

Background – Beginning on January 1, 2014, the Adult Expansion line item funds Medicaid services for adults from 100% to 133% FPL who are not eligible for another Medicaid program. The federal government will pay 100% of the cost of this population in calendar years (CY) 2014 to 2016. The federal share will gradually decline to 90% by CY 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 \$234,866,700 in FY 2016 for Children’s Rehabilitative Services (CRS). This amount consists of:

General Fund	73,001,000
Federal Medicaid Authority	161,865,700

These amounts fund the following adjustments:

Formula Adjustments and Policy Changes

The budget includes an increase of \$8,878,200 in FY 2016 for formula adjustments and policy changes. This amount consists of:

General Fund	1,021,400
Federal Medicaid Authority	7,856,800

The adjustments include 3% enrollment growth, an increase to the federal match rate, a 3% capitation rate increase, a (5)% provider rate reduction and health insurer fees. This would result in approximately 28,000 members per month being served in June 2016.

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

KidsCare Services

The budget includes \$6,295,200 in FY 2016 for KidsCare Services. This amount consists of:

General Fund	338,000
CHIP Fund	5,957,200

These amounts fund the following adjustments:

Formula Adjustments and Policy Changes

The budget includes a decrease of \$(421,300) in FY 2016 for formula adjustments and policy changes. This amount consists of:

General Fund	(1,412,700)
CHIP Fund	991,400

The adjustments include a (10)% enrollment decline, an increase to the federal match rate, and a 3% capitation rate increase.

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.

Beginning on October 1, 2015, KidsCare will receive a 100% federal match rate through September 30, 2019. 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. The KidsCare program will receive a 3:1 federal match rate for the first quarter of the state FY 2016 (July 1, 2015 through September 30, 2015) and a 100% federal match rate beginning on October 1, 2015 thereafter, for a weighted blended FY 2016 rate of 94.48%. (See *Mandatory Affordable Care Act Changes section for additional information about this program.*)

ALTCS Services

The budget includes \$1,386,588,900 in FY 2016 for ALTCS expenditures. This amount consists of:

General Fund	162,880,800
County Contributions	249,234,600
PDRF - State	5,475,800
Federal Medicaid Authority	931,056,600
PDRF - Federal	14,574,200
Nursing Facility Provider Assessment Fund	23,366,900

These amounts fund the following adjustments:

Formula Adjustments and Policy Changes

The budget includes an increase of \$54,217,800 in FY 2016 for formula adjustments and policy changes. This amount consists of:

- 2% enrollment growth.
- An increase in the federal match rate from 68.15% to 68.81%.
- 3% capitation rate increase.

- (5)% provider rate reduction.
- \$313,300 increase to the state portion of the PDRF and corresponding decreases of \$(141,300) in County Contributions and \$(172,000) from the General Fund.
- \$676,100 increase to the federal portion of the PDRF and a corresponding decrease of \$(676,100) in Federal Medicaid Authority.
- \$1,709,600 increase to the Nursing Facility Provider Assessment Fund and an increase of \$5,198,600 in Federal Medicaid Authority for supplemental payments to nursing facilities. Laws 2015, Chapter 39 continues the assessment through September 30, 2023. (See *below.*)

Background – ALTCS provides coverage for individuals up to 222% of the FPL, or \$26,100 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 \$8,827 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 2014, AHCCCS estimates that client contributions paid for 6.5% of care.

From October 1, 2012 to September 30, 2015, Laws 2012, Chapter 213 permits AHCCCS to charge a provider assessment on health items and services provided to ALTCS enrollees by nursing facilities that are not paid for by Medicare. Laws 2015, Chapter 39 continues the assessment through September 30, 2023. The assessment equals \$10.50 per non-Medicare day of care for facilities with less than 43,500 Medicaid bed days per year and \$1.40 per day of care for facilities with more than 43,500 Medicaid bed days.

Payments to Hospitals

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

Disproportionate Share Hospital Payments Overview

The DSH program provides supplemental payments of federal and state dollars to hospitals that serve a large, or disproportionate, number of low-income patients. The total amount of eligible funding is adjusted annually for changes in prices and the federal match rate. The FY 2016 budget includes \$161,962,900 of eligible DSH funding, of

Table 5

Disproportionate Share Hospital Program

	FY 2015		FY 2016	
	January Baseline ^{1/}	March Budget	January Baseline ^{1/}	March Budget
Eligible Funding ^{2/}				
MIHS - CPE	\$ 89,877,700	\$ 105,945,500	\$ 89,877,700	\$ 113,818,500
ASH - CPE	28,474,900	28,474,900	28,474,900	28,474,900
Private Hospitals	9,284,800	9,284,800	9,284,800	884,800
DSH Voluntary Match ^{3/}	<u>32,455,700</u>	<u>16,387,900</u>	<u>34,359,700</u>	<u>18,784,700</u>
Total Funding	\$ 160,093,100	\$ 160,093,100	\$161,997,100	\$161,962,900
Net Distribution - Disproportionate Share Payments				
General Fund				
Retain FF of CPE (via MIHS)	\$ 57,328,000	\$ 68,328,000	\$ 57,741,400	\$ 74,241,400
Retain FF of CPE (via ASH)	<u>19,493,900</u>	<u>19,493,900</u>	<u>19,624,900</u>	<u>19,624,900</u>
Subtotal - General Fund	\$ 76,821,900	\$ 87,821,900	\$ 77,366,300	\$ 93,866,300
Other Entities				
State MIHS	\$ 4,202,300	\$ 4,202,300	\$ 4,202,300	\$ 4,202,300
Private Hospitals with GF Match	<u>9,284,800</u>	<u>9,284,800</u>	<u>9,284,800</u>	<u>884,800</u>
Subtotal – Other Entities	\$ 13,487,100	\$ 13,487,100	\$ 13,487,100	\$ 5,087,100
Total DSH Distributions	\$ 90,309,000	\$ 101,309,000	\$ 90,853,400	\$ 98,953,400
Net Distribution - DSH Voluntary Match	\$ 32,455,700	\$ 16,387,900	\$ 34,359,700	\$ 18,784,700
Total Distributions	\$ 122,764,700	\$ 117,696,900	\$ 125,213,100	\$ 117,738,100

^{1/} Also represents the original FY 2015 General Appropriation Act (Laws 2014, Chapter 18) and FY 2015 Health and Welfare BRB (Laws 2014, Chapter 11) from April 2014. January Baseline refers to JLBC Staff estimates of funding formula requirements released in January 2015.

^{2/} Amounts include state and federal match funding.

^{3/} A FY 2016 General Appropriation Act (Laws 2015, Chapter 8) footnote appropriates any additional payments in excess of \$18,784,700 for DSH Voluntary Payments. The JLBC Staff estimates that actual total payments will equal \$18,818,900 in FY 2016 as a result of a technical adjustment.

which \$117,738,100 is distributed according to the allocations described below and listed in *Table 5*. The remaining \$44,224,800 of eligible funding represents existing expenditures used as part of the state match.

Retain Federal Match of Certified Public Expenditures

Publicly operated hospitals are required to document uncompensated care costs to the federal government through a Certified Public Expenditure (CPE) process. Those CPEs serve as the state match for the drawdown of Federal Funds. The publically operated hospitals are Maricopa Integrated Health System (MIHS) and DHS' Arizona State Hospital (ASH). Of the Federal Funds drawn down through CPEs, the FY 2016 budget retains \$93,866,300 as General Fund revenue rather than distributing the funds to MIHS and ASH. Of the \$93,866,300, \$74,241,400 is associated with MIHS and \$19,624,900 with ASH. Since these monies are retained as General Fund revenue, they do not appear in the FY 2016 General Appropriation Act.

State MIHS Distribution

While the state retains \$74,241,400 of the MIHS federal match as General Fund revenue, another \$4,202,300 of the federal draw down is distributed to MIHS. This distribution to MIHS is appropriated in the Disproportionate Share

Payments line. (The state match is part of the CPE and does not appear in the FY 2016 General Appropriation Act.)

Private Hospital Distribution with General Fund Match

The state appropriates General Fund dollars, which receive a drawdown of federal dollars, for DSH payments to private hospitals. The FY 2016 budget includes an \$884,800 total funds appropriation for this distribution in the Disproportionate Share Payments line, including \$275,000 from the General Fund and \$609,800 in federal expenditure authority.

DSH Voluntary Match Distribution

Since FY 2010, the state has allowed local governments, tribal governments and universities to provide the state match in the form of voluntary payments to draw down federal dollars. Any eligible DSH funding remaining after the previously mentioned allocations is made available for voluntary match payments. The FY 2015 Health and Welfare BRB made this provision permanent. The FY 2016 budget includes an \$18,784,700 total funds appropriation for this distribution in the DSH Payments - Voluntary Match line, including \$5,793,500 of local voluntary payments and \$12,991,200 in federal expenditure authority.

DSH Payment Adjustments

The FY 2016 budget includes 3 primary adjustments to DSH Payments, which are detailed below and incorporated into the amounts listed for the March Budget in *Table 5*.

Increase MIHS Eligible Funding and State Retention

In the original FY 2015 General Appropriation Act, MIHS eligible funding had been limited to \$89,877,700. Sections 6 and 28 of the FY 2016 Health BRB increased the eligible funding for MIHS by \$16,067,800 in FY 2015 (from \$89,877,700 to \$105,945,500). This higher MIHS cap allows the state to retain more of the federal match as General Fund revenue. Of the eligible funding, the state will retain \$68,328,000 in Federal Funds in FY 2015 for deposit to the General Fund. The budget continues the state’s current retention of all Federal Funds drawn down for ASH, which totals \$19,493,900 in FY 2015.

Section 10 of the FY 2016 Health BRB further increases the eligible funding for MIHS by \$7,873,000, to \$113,818,500 in FY 2016. Of the eligible funding, the state will retain \$74,241,400 in Federal Funds in FY 2016 for deposit to the General Fund. The budget continues the state’s current retention of all Federal Funds drawn down for ASH, which totals \$19,624,900 in FY 2015.

Relative to the original FY 2015 appropriation, the \$16,067,800 increase in the MIHS cap will allow the state to retain an additional \$11,000,000 in federal match as FY 2015 General Fund revenue. Relative to the FY 2016 JLBC Baseline, the MIHS cap is increasing from \$89,877,700 to \$113,818,500. Of this \$23,940,800 increase, the state will retain an additional \$16,500,000 in federal match as FY 2016 General Fund revenue. The remaining \$7,440,800 reflects CPE match.

Increasing the eligible funding to MIHS reduces funding remaining for voluntary DSH payments and results in a \$(16,067,800) ex-appropriation to the DSH Payments - Voluntary Match line in FY 2015 (from \$32,455,700 to \$16,387,900). Relative to the original FY 2015 General Appropriation Act, increasing MIHS’ federal match by \$11,000,000 while reducing voluntary DSH payments by \$(16,067,800) reduces total distributions in FY 2015 by \$(5,067,800), from \$122,764,700 to \$117,696,900.

Relative to the FY 2016 JLBC Baseline, increasing eligible funding for MIHS from \$89,877,700 to \$113,818,500 reduces eligible funding for voluntary match DSH payments by a corresponding \$(23,940,800) in FY 2016. Some of this reduction, however, is offset by other adjustments. Relative to the Baseline, the net reduction in total distributions in FY 2016 is \$(7,475,000), from \$125,213,100 to \$117,738,100.

Lower General Fund Match for Private Hospitals

Section 10 of the FY 2016 Health BRB reduces total payments to private Disproportionate Share Hospitals by \$(8,400,000), from \$9,284,800 in FY 2015 to \$884,800 in FY 2016. The General Fund share of this savings is \$(2,610,700) in FY 2016. The FY 2016 budget assumes that each qualifying private hospital will be able to receive a minimum General Fund payment of \$5,000 and federal match payment of \$11,087 in FY 2016. The federal government requires that each private hospital participating in DSH receive payments totaling at least \$5,000 from state and federal sources. While eligibility changes annually, there are currently 47 qualifying hospitals.

This General Fund match reduction has the effect of increasing the remaining funding available for voluntary match payments by a corresponding \$8,400,000 under the DSH Payments - Voluntary Match line item in FY 2016. Combined with the \$(23,940,800) decrease above, eligible funding for DSH Voluntary Match payments has a net decrease of \$(15,575,000) relative to the FY 2016 JLBC Baseline (from \$34,359,700 to \$18,784,700).

Increase in Uncompensated Care Payments

The federal government annually adjusts the total amount of uncompensated care payments that Arizona hospitals are permitted to receive through DSH. The budget includes an increase of \$1,869,800 in FY 2016 for this adjustment to increase total eligible funding for DSH payments from \$160,093,100 in FY 2015 to \$161,962,900 in FY 2016. The \$1,869,800 will be available for the voluntary payments program.

A FY 2016 General Appropriation Act footnote appropriates any additional eligible funding for DSH Voluntary Match in FY 2016. As a result of a technical adjustment, the JLBC Staff estimates that actual total eligible funding for DSH will equal \$161,997,100 in FY 2016, or \$34,200 greater than the actual appropriation.

Disproportionate Share Payments

The budget includes \$5,087,100 in FY 2016 for DSH Payments. This amount consists of:

General Fund	275,000
Federal Medicaid Authority	4,812,100

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(42,700) from the General Fund and a corresponding increase of \$42,700 from Federal Medicaid Authority in FY 2016 due to a change in the federal match rate.

Lower General Fund Match Payments to Hospitals

The budget includes a decrease of \$(8,400,000) in FY 2016 to reduce DSH payments from the General Fund and matching Federal funds to qualifying private hospitals (*see Disproportionate Share Payments Overview section and Table 5 for more information*). This amount consists of:

General Fund	(2,610,700)
Federal Medicaid Authority	(5,789,300)

Of the \$5,087,100 of total funds appropriated by the FY 2016 budget in the Disproportionate Share Payments line, \$884,800 represents distributions to private hospitals including \$275,000 from the General Fund and \$609,800 in federal expenditure authority. The remaining \$4,202,300 represents federal matching funds that the state appropriates to MIHS.

DSH Payments - Voluntary Match

The budget includes \$18,784,700 in FY 2016 for DSH Payments - Voluntary Match. This amount consists of:

Political Subdivision Funds	5,793,500
Federal Medicaid Authority	12,991,200

These amounts fund the following adjustments:

Allocation Shift for Retained MIHS Funding

The budget includes a decrease of \$(7,873,000) in FY 2016 due to MIHS retaining more DSH funding. This amount consists of:

Political Subdivision Funds	(2,373,000)
Federal Medicaid Authority	(5,500,000)

Relative to the revised FY 2015 appropriation, the FY 2016 Health BRB increases the eligible DSH funding for MIHS by \$7,873,000 in FY 2016 (from \$105,945,500 to \$113,818,500). This adjustment decreases remaining eligible DSH funding for hospitals under the DSH Payments – Voluntary Match line by \$(7,873,000) in FY 2016. The FY 2016 budget continues the \$(16,067,800) funding decrease to this program in FY 2015. (*See Disproportionate Share Hospital Overview and Table 5 for more information.*)

Allocation Shift for Reducing General Fund Payments

The budget includes an increase of \$8,400,000 in FY 2016 due to a decrease in DSH payments made to private hospitals using a General Fund state match (*see Disproportionate Share Payments Overview section and Table 5 for more information*). This amount consists of:

Political Subdivision Funds	2,610,700
Federal Medicaid Authority	5,789,300

Increase in Total Uncompensated Care Payments

The budget includes an increase of \$1,869,800 in FY 2016 from a federal increase in the total amount of uncompensated care payments Arizona hospitals are permitted to receive. This amount consists of:

Political Subdivision Funds	260,000
Federal Medicaid Authority	1,609,800

Although the *FY 2016 Appropriations Report* displays an appropriation of \$18,784,700 for FY 2016, a FY 2016 General Appropriation Act footnote appropriates any additional payments in excess of that amount. The JLBC Staff estimates that actual total payments will equal \$18,818,900 in FY 2016. This higher amount would increase the total eligible DSH funding listed in *Table 5* to \$161,997,100 in FY 2016.

Sections 6 and 10 of the FY 2016 Health BRB require AHCCCS to give priority to eligible rural hospitals when allocating voluntary match DSH payments in FY 2015 and FY 2016. These sections of the Health BRB also permit AHCCCS to include MIHS in allocations of voluntary match DSH payments if the public hospital's CPE and matching Federal Funds exceeds \$105,945,500 in FY 2015 and \$113,818,500 in FY 2016.

Rural Hospitals

The budget includes \$22,650,000 in FY 2016 for Rural Hospitals (which includes Critical Access Hospitals (CAH)). This amount consists of:

General Fund	7,039,600
Federal Medicaid Authority	15,610,400

These amounts fund the following adjustments:

Formula Adjustment

The budget includes a decrease of \$(131,300) from the General Fund and a corresponding increase of \$131,300 from Federal Medicaid Authority in FY 2016 due to a change in the federal match rate.

Subject to federal approval, section 4 of the FY 2016 Health BRB permits political subdivisions, tribal governments or universities to provide a state match contribution for additional federal funding for CAHs. Section 18 of the Health BRB requires AHCCCS to report any voluntary payments paid to CAHs in FY 2016. The budget does not include a specific appropriation for voluntary payments.

Background – This line item is comprised of 2 programs. The Rural Hospital Reimbursement program increases inpatient reimbursement rates for qualifying rural hospitals.

The CAH program provides increased reimbursement to small rural hospitals that are federally designated as CAHs. 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 CAH.

Graduate Medical Education

The budget includes \$157,312,000 in FY 2016 for Graduate Medical Education (GME) expenditures. This amount consists of:

Political Subdivision Funds	50,099,900
Federal Medicaid Authority	107,212,100

These amounts fund the following adjustments:

Decreased Funding

The budget includes a decrease of \$(32,847,200) in FY 2016 for a reduction in GME payments. This amount consists of:

Political Subdivision Funds	(13,200,900)
Federal Medicaid Authority	(19,646,300)

Although the FY 2015 General Appropriation Act displays a \$165,918,500 appropriation for FY 2015, a footnote appropriates any additional payments in excess of that amount. AHCCCS has informed JLBC that it expects to expend \$190,159,100 in total GME payments in FY 2015. The FY 2015 amounts have been adjusted accordingly. The FY 2016 decrease is associated with a revised GME spending plan to reflect a payment reduction to 1 hospital.

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 2014, 10 hospitals received a total of \$159,376,500 for Graduate Medical Education.

Safety Net Care Pool

The budget includes \$137,000,000 in FY 2016 for the Safety Net Care Pool (SNCP) program. This amount consists of:

Political Subdivision Funds	43,052,200
Federal Medicaid Authority	93,947,800

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(1,421,400) from the Political Subdivision Funds and a corresponding increase of \$1,421,400 from Federal Medicaid Authority in FY 2016 due to a change in the federal match rate.

Although the FY 2015 General Appropriation Act displays a \$68,500,000 appropriation for FY 2015, a footnote appropriates any additional payments in excess of that amount. AHCCCS has informed JLBC that they expect to expend \$137,000,000 in total SNCP payments in FY 2015 and FY 2016 considering that the federal government has approved the continuation of the program for Phoenix Children's Hospital (PCH) through December 31, 2015. FY 2015 and FY 2016 SNCP payments have been delayed due to an unanticipated review and processing payments within CMS. Because of these delays, the first 6 months of calendar year 2015 will not be paid until FY 2016. The FY 2015 amounts have been adjusted accordingly.

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.

In April 2012, AHCCCS received federal approval to establish the SNCP program. While this program was originally expected to end on December 31, 2013, the FY 2014 Health and Welfare BRB allowed PCH to continue to participate in the SNCP program through December 31, 2017. The federal government has approved the hospital to continue participating in the program through December 31, 2015.

Additional Legislation

FY 2016 Health BRB

In addition to the previously mentioned items, the FY 2016 Health BRB includes the following provisions:

Changes to Rates and Services

Section 15 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 unnecessary or insufficient, then it is retained

as profit (or loss) and there is not limit. Previously, risk contingency was set at 2%.

Counties

Section 14 continues to exclude Proposition 204 administration costs from county expenditure limitations.

Erroneous Payments

Section 20 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.

Available Funding

Section 25 continues to state that it is the intent of the Legislature that AHCCCS implement a program within its available appropriation.

Reports

Section 22 continues to require AHCCCS to submit a report by December 1, 2015 on the use of emergency departments for non-emergency use by AHCCCS enrollees.

Section 23 continues to require AHCCCS and DHS to submit a joint report by January 1, 2016 on hospital costs and charges.

Other Legislation

Seriously Mentally Ill Housing Trust Fund

Laws 2015, Chapter 195 transfers the administration of the non-appropriated Seriously Mentally Ill Housing Trust Fund from DHS to AHCCCS in FY 2017 (*please see Additional Legislation in the DHS section for more information on this fund*).

Orthotics

Laws 2015, Chapter 264 requires AHCCCS to provide orthotics, which are devices to support or supplement weakened or abnormal joints or limbs, if all the following conditions apply:

- The orthotic is medically necessary as the preferred treatment option;
- The orthotic is less expensive than all other alternatives; and
- The orthotic is ordered by a physician or primary care practitioner.

AHCCCS; Contractors; Prescription Monitoring

Laws 2015, Chapter 30 requires an AHCCCS contractor to intervene if a member has 10 or more prescriptions for controlled substances within a 3-month period. Contractors must also monitor prescriptions for controlled substances that are filled by members and intervene with both the

prescriber and the member when excessive amounts of these substances are used. The contractor must direct these cases to the AHCCCS Director for review.

AHCCCS; Emergency Services; Case Management

Laws 2015, Chapter 31 requires an AHCCCS contractor to educate a member regarding the proper use of emergency services if the member inappropriately uses emergency services at least 4 times in a 6-month period. The contractor should also report these interventions to AHCCCS.

AHCCCS; Annual Waiver Submittals

Laws 2015, Chapter 7 directs AHCCCS to apply for federal permission to:

- Institute a work requirement for all able-bodied adults receiving Medicaid services and monthly reporting on a member’s family income to re-determine eligibility;
- Restrict benefits for able-bodied adults to a lifetime limit of 5 years with certain exceptions; and
- Develop cost-sharing requirements that deter nonemergency usage of ambulance services and emergency departments.

Other Issues

This section includes information on the following topics:

- FY 2015 Adjustments
- Long-Term Budget Impacts
- Hospital Assessment Fund
- Behavioral Health Transfer
- County Contributions
- Program Components
- Tobacco Master Settlement Agreement
- Tobacco Tax Allocations

FY 2015 Adjustments

General Fund

The budget includes an ex-appropriation of \$(48,520,500) from the General Fund in FY 2015, which is primarily the result of lower than expected enrollment growth in the Traditional population. The original FY 2015 budget assumed that publicity surrounding the federal health care individual mandate and additional availability of health insurance would induce currently eligible but not enrolled membership greater than previously budgeted.

The budget permits AHCCCS to transfer up to \$10,000,000 of FY 2015 General Fund appropriation to DHS if AHCCCS has sufficient available funding and DHS experiences a shortfall in

FY 2015. Prior to implementation, AHCCCS shall submit the proposed transfer for review by the Joint Legislative Budget Committee.

Expenditure Authority

The budget includes a \$268,809,500 supplemental of Expenditure Authority funding in FY 2015. Of this amount, \$59,791,600 is from the Hospital Assessment Fund, \$214,085,700 is from Federal Medicaid Authority and \$(5,067,800) is from the Political Subdivision Fund. (See *Hospital Assessment Fund* section below for more information.)

Long-Term Budget Impacts

The budget's 3-year spending plan assumes that AHCCCS' statutory caseload and policy changes will require a net additional \$33.9 million in FY 2017 above FY 2016 and a net additional \$46.0 million in FY 2018 above FY 2017.

These estimates are based on:

- Enrollment growth of 2.0% and 0.1% in FY 2017 and FY 2018, respectively.
- Capped capitation rate growth of 1.5% in each year.
- An increase in the federal match rate (from 68.81% in FY 2016 to 69.92% in FY 2017 and FY 2018).
- \$(8.5) million in annualization savings in FY 2017 from the October 1, 2015 (5)% provider rate reduction.
- Savings of \$(300,000) in FY 2017 from federal approval of cost-sharing provisions.
- \$(172,700) in annualization savings in FY 2017 from statewide adjustments that begin in FY 2016.

Hospital Assessment Fund

The budget includes a supplemental \$59,791,600 increase to the Hospital Assessment Fund in FY 2015. The amount is the result of greater than expected enrollment of the Proposition 204 childless adult population following the restoration of coverage beginning on January 1, 2014. The original FY 2015 budget estimated that by June 2015 approximately 240,600 childless adults would be enrolled in the program. The revised budget estimates that enrollment of the population will instead reach 285,700 by June 2015.

The FY 2016 hospital assessment is projected to be \$215.6 million and would cover the cost of all Proposition 204 services in FY 2016. This \$(48.8) million decrease from the FY 2015 appropriation is primarily the result of a higher federal match rate for Proposition 204 childless adults (from 85.48% in FY 2015 to 89.05% in FY 2016) and a (5)%

provider rate reduction to be implemented on October 1, 2015.

Behavioral Health Transfer

The FY 2016 Agency Consolidation BRB (Laws 2015, Chapter 19) and Laws 2015, Chapter 195 transfer responsibility for behavioral health services from DHS to AHCCCS effective July 1, 2016. ASH will remain under the jurisdiction of DHS. Chapter 195 requires AHCCCS and DHS to jointly submit a report by November 15, 2015 to JLBC for review that details the transfer of resources between the 2 departments. The Chapter 19 legislation is an outgrowth of prior integration efforts between AHCCCS and DHS (see the *DHS* section for more information).

County Contributions

County governments make 4 different payments to defray the AHCCCS budget's costs, as summarized in *Table 6*. FY 2016 payments listed in the table are specified in sections 7, 12 and 13 of the FY 2016 Health BRB.

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 2014 ALTCS utilization.
3. Each county's contribution is then limited to 90¢ per \$100 of net assessed property value. In FY 2016, this provision provides 3 counties with a total of \$5,932,100 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 2016, this provision provides 3 counties with a total of \$15,262,800 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 2016 no counties qualify for this relief.
6. The state pays for county costs above the average statewide per capita (\$39.46 in FY 2016). In FY 2016 this provision provides 8 counties with a total of \$10,451,700 in relief.

In FY 2016, provisions 3 through 6 of the ALTCS formula result in the state providing a total of \$31,646,600 in relief to 11 counties.

Section 11 of the FY 2016 Health BRB continues to require AHCCCS to transfer any excess monies back to the counties on December 31, 2016 if the counties' portion of the state match exceeds the proportion allowed in order to comply with the Federal Affordable Care Act.

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 2016, the average capitation rate is expected to be approximately \$343 per member per month (or \$4,116 annually). Of that amount, an average of \$86 is from state match and \$257 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 3 programs: 1) federally-mandated services for Native Americans living on reservations; 2) temporary Fee-For-Service coverage for those who leave AHCCCS before enrolling

in a capitated plan; and 3) federally-mandated emergency services for unauthorized and qualified immigrants.

Prior to April 1, 2015, Federally Qualified Health Centers received the majority of their reimbursement on a Fee-For-Service basis. After this date, costs for these centers will be actuarially estimated within capitation payments made to HMO's.

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 75.0% of the estimated drug costs.

Tobacco Master Settlement Agreement

The budget requires AHCCCS to continue to transfer \$1,636,000 from the Traditional Medicaid Services line item in FY 2016 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:

Table 6

County	County Contributions							
	FY 2015				FY 2016			
	<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	\$ 111,500	\$ 268,800	\$ 87,300	\$ 616,900	\$ 114,800	\$ 268,800	\$ 87,300	\$ 618,900
Cochise	208,100	2,214,800	162,700	5,138,300	214,100	2,214,800	162,700	5,165,500
Coconino	205,300	742,900	160,500	1,851,400	211,200	742,900	160,500	1,858,500
Gila	84,300	1,413,200	65,900	2,107,400	86,700	1,413,200	65,900	2,117,900
Graham	59,900	536,200	46,800	1,442,600	61,700	536,200	46,800	1,336,700
Greenlee	15,400	190,700	12,000	76,200	15,800	190,700	12,000	79,700
La Paz	31,900	212,100	24,900	712,200	32,800	212,100	24,900	696,300
Maricopa	0	19,523,400	0	150,220,100	0	19,203,200	0	153,303,200
Mohave	239,600	1,237,700	187,400	7,972,700	246,600	1,237,700	187,400	8,033,700
Navajo	157,000	310,800	122,800	2,552,500	161,600	310,800	122,800	2,562,200
Pima	1,427,200	14,951,800	1,115,900	38,919,400	1,468,800	14,951,800	1,115,900	39,303,600
Pinal	279,200	2,715,600	218,300	15,294,300	287,400	2,715,600	218,300	15,539,700
Santa Cruz	66,000	482,800	51,600	1,914,800	67,900	482,800	51,600	1,942,200
Yavapai	263,800	1,427,800	206,200	8,314,700	271,500	1,427,800	206,200	8,416,600
Yuma	235,200	1,325,100	183,900	8,062,700	242,000	1,325,100	183,900	8,259,900
Subtotal	\$3,384,400	\$47,553,700	\$2,646,200	\$245,196,200	\$3,482,900	\$47,233,500	\$2,646,200	\$249,234,600
Total				\$298,780,500				\$302,597,200

- \$1,200,000 to the Attorney General for costs associated with tobacco settlement litigation.
- \$436,000 to the Department of Revenue to fund 6 positions that will perform luxury tax enforcement and audit duties.

This adjustment does not include the \$819,500 appropriation (\$84,900 General Fund and \$734,600 Consumer Protection-Consumer Fraud Revolving Fund) to the Attorney General for costs associated with tobacco settlement litigation. *(See the Attorney General - Department of Law section 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 automate the current manual data entry process, allow delinquent returns and account information to be tracked, and log data that DOR does not currently track for non-participating manufacturers, cigarette stamp inventory, and other tobacco sales data. *(See the Department of Revenue section in this report for more information.)*

<i>Tobacco Tax Allocations</i>

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

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
Medically Needy Account			
<u>Funds Available</u>			
Balance Forward	\$ 4,754,200	\$ 5,214,800	\$ 5,214,800
Transfer In - Tobacco Tax and Health Care Fund	43,375,300	45,072,600	43,588,200
Transfer In - Tobacco Products Tax Fund	25,095,700	24,573,200	23,613,900
Interest & Refunds	2,100	0	0
Total Funds Available	\$ 73,227,300	\$ 74,860,600	\$ 72,416,900
<u>Allocations</u>			
<i>AHCCCS</i>			
AHCCCS State Match Appropriation	\$ 32,864,700	\$ 34,178,800	\$ 31,180,000
Administrative Adjustments	0	0	0
Total AHCCCS Allocations	\$ 32,864,700	\$ 34,178,800	\$ 31,180,000
<i>DHS</i>			
Behavioral Health GF Offset	\$ 34,767,000	\$ 34,767,000	\$ 34,767,000
Folic Acid	379,800	400,000	400,000
Renal, Dental Care, and Nutrition Supplements	1,000	300,000	300,000
Total DHS Allocations	35,147,800	35,467,000	35,467,000
Balance Forward	\$ 5,214,800	\$ 5,214,800	\$ 5,769,900
AHCCCS Proposition 204 Protection Account			
<u>Funds Available</u>			
Balance Forward	\$ 6,200	\$ 0	\$ 0
Transfer In - Tobacco Products Tax Fund	41,946,100	38,225,000	36,396,000
Total Funds Available	\$ 41,952,300	\$ 38,225,000	\$ 36,396,000
<u>Allocations</u>			
AHCCCS State Match Appropriation	\$ 38,965,700	38,225,000	36,396,000
Administrative Adjustments	2,986,600	0	0
Balance Forward	\$ 0	\$ 0	\$ 0
AHCCCS Emergency Health Services Account			
<u>Funds Available</u>			
Balance Forward	\$ 2,900	\$ 2,900	\$ 2,900
Transfer In - Tobacco Products Tax Fund	18,862,300	18,202,400	17,331,400
Total Funds Available	\$ 18,865,200	\$ 18,205,300	\$ 17,334,300
<u>Allocations</u>			
AHCCCS State Match Appropriation	\$ 18,535,500	\$ 18,202,400	\$ 17,331,400
Administrative Adjustments	326,800	0	0
Balance Forward ^{1/}	\$ 2,900	\$ 2,900	\$ 2,900
DHS Health Education Account			
<u>Funds Available</u>			
Balance Forward	\$ 8,223,600	\$ 9,772,600	\$ 6,593,400
Transfer In - Tobacco Tax and Health Care Fund	16,268,700	14,479,800	14,210,600
Transfer In - Tobacco Products Tax Fund	1,859,200	1,766,000	1,733,100
Total Funds Available	\$ 26,351,500	\$ 26,018,400	\$ 22,537,100
<u>Allocations</u>			
Tobacco Education and Prevention Program	\$ 14,458,500	\$ 17,250,000	\$ 17,250,000
Leading Causes of Death - Prevention and Detection	2,120,400	2,175,000	2,175,000
Balance Forward	\$ 9,772,600	\$ 6,593,400	\$ 3,112,100
Health Research Account			
<u>Funds Available</u>			
Balance Forward	\$ 2,352,800	\$ 2,570,600	\$ 2,180,300
Transfer In - Tobacco Tax and Health Care Fund	3,289,700	3,147,800	3,089,300
Transfer In - Tobacco Products Tax Fund	4,648,000	4,414,900	4,332,900
Total Funds Available	\$ 10,290,500	\$ 10,133,300	\$ 9,602,500
<u>Allocations</u>			
Biomedical Research Support ^{2/}	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
Alzheimer's Disease Research	1,000,000	1,000,000	1,000,000
Biomedical Research Commission	4,719,900	4,953,000	4,953,000
Balance Forward	\$ 2,570,600	\$ 2,180,300	\$ 1,649,500

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

^{2/} Laws 2014, Chapter 18 appropriates \$2,000,000 from the Health Research Account to DHS annually from FY 2015 to FY 2019 to distribute to a nonprofit medical research institute headquartered in Arizona. DHS distributes this to the Translational Genomics Research Institute (TGen).