

## Department of Health Services

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	1,176.7	1,176.7	1,176.7 <sup>1/</sup>
Personal Services	55,430,600	19,178,500	19,178,500
Employee Related Expenditures	22,479,800	8,160,100	7,976,700
Professional and Outside Services	13,405,300	2,004,700	2,004,700
Travel - In State	448,000	400,500	400,500
Travel - Out of State	70,900	70,300	70,300
Other Operating Expenditures	33,585,100	34,883,600	34,850,700
Equipment	600,900	1,194,800	1,194,800
<b>OPERATING SUBTOTAL</b>	<b>126,020,600</b>	<b>65,892,500</b>	<b>65,676,200</b>
<b>SPECIAL LINE ITEMS</b>			
<b>Behavioral Health</b>			
Medicaid Behavioral Health - Traditional	752,526,300	829,506,100	873,803,300 <sup>2/3/4/</sup>
Medicaid Behavioral Health - Proposition 204	365,207,500	530,986,000	533,810,200 <sup>2/3/4/5/</sup>
Medicaid Behavioral Health - Comprehensive Medical and Dental Program	155,731,500	179,831,300	174,324,200 <sup>2/3/4/</sup>
Medicaid Behavioral Health - Adult Expansion	0	73,805,900	41,459,300
Proposition 204 Administration	4,007,100	6,446,700	6,446,700
Medicare Clawback Payments	14,925,100	13,786,100	14,228,600
Medicaid Insurance Premium Payments	25,803,400	24,918,200	33,167,700
Non-Medicaid Seriously Mentally Ill Services	76,261,100	78,846,900	78,846,900
Supported Housing	5,249,500	5,324,800	5,324,800
Crisis Services	16,382,800	16,391,100	16,391,100
Mental Health First Aid	167,300	250,000	0
<b>Arizona State Hospital</b>			
ASH - Operating	0	58,366,200	59,268,700
ASH - Restoration to Competency	0	900,000	900,000 <sup>6/</sup>
ASH - Sexually Violent Persons	0	9,731,700	9,684,900 <sup>7/</sup>
<b>Public Health/Family Health</b>			
Adult Cystic Fibrosis	78,900	105,200	105,200
AIDS Reporting and Surveillance	902,700	1,000,000	1,000,000
Alzheimer's Disease Research	1,125,000	2,375,000	1,125,000 <sup>8/</sup>
Biomedical Research Support	0	2,000,000	2,000,000 <sup>9/</sup>
Breast and Cervical Cancer and Bone Density Screening	844,300	1,369,400	1,369,400
County Tuberculosis Provider Care and Control	522,300	590,700	590,700
Emergency and Trauma Services	300,000	0	0
Emergency Medical Services Local Allocation	0	0	442,000
Folic Acid	379,800	400,000	400,000
High Risk Perinatal Services	1,829,300	2,543,400	2,543,400
Newborn Screening Program	5,785,300	6,307,700	6,297,300
Nursing Care Special Projects	0	50,000	100,000
Poison Control Centers Funding	742,500	990,000	990,000
Nonrenal Disease Management	44,300	198,000	198,000 <sup>10/</sup>
Renal Dental Care and Nutrition Supplements	1,000	300,000	300,000
School-Based Prevention Education	0	300,000	0
<b>AGENCY TOTAL</b>	<b>1,554,837,600</b>	<b>1,913,512,900</b>	<b>1,930,793,600 <sup>11/15/</sup></b>

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
<b>FUND SOURCES</b>			
General Fund	562,482,400	619,489,200	602,738,300
<u>Other Appropriated Funds</u>			
Arizona State Hospital Fund	9,385,400	9,588,600	9,575,300
ASH Land Earnings Fund	623,700	650,000	650,000
Capital Outlay Stabilization Fund	1,559,800	1,559,800	1,559,900
Child Fatality Review Fund	69,400	94,800	95,000
Emergency Medical Services Operating Fund	4,257,100	5,122,400	5,368,800
Environmental Laboratory Licensure Revolving Fund	660,700	927,100	926,400
Federal Child Care and Development Fund Block Grant	830,400	879,400	876,100
Health Services Licensing Fund	8,616,100	9,275,100	9,264,200
Indirect Cost Fund	8,833,200	8,573,500	8,559,800
Newborn Screening Program Fund	5,785,300	6,739,600	6,738,300
Nursing Care Institution Resident Protection Revolving Fund	59,000	88,200	138,200
Substance Abuse Services Fund	2,250,000	2,250,000	2,250,200
TTHCF Health Research Account	1,000,000	3,000,000	3,000,000
TTHCF Medically Needy Account	35,147,800	35,467,000	35,467,000
Vital Records Electronic Systems Fund	2,456,000	3,635,500	3,629,000
SUBTOTAL - Other Appropriated Funds	81,533,900	87,851,000	88,098,200
<b>SUBTOTAL - Appropriated Funds</b>	<b>644,016,300</b>	<b>707,340,200</b>	<b>690,836,500</b>
<u>Expenditure Authority Funds</u>			
Federal Medicaid Services	910,821,300	1,206,172,700	1,239,957,100
SUBTOTAL - Expenditure Authority Funds	910,821,300	1,206,172,700	1,239,957,100
<b>SUBTOTAL - Appropriated/Expenditure Authority Funds</b>	<b>1,554,837,600</b>	<b>1,913,512,900</b>	<b>1,930,793,600</b>
Other Non-Appropriated Funds	125,647,800	128,886,600	128,886,600
Federal Funds	299,867,900	301,854,200	301,854,200
<b>TOTAL - ALL SOURCES</b>	<b>1,980,353,300</b>	<b>2,344,253,700</b>	<b>2,361,534,400</b>

**AGENCY DESCRIPTION** — The Department of Health Services (DHS) is responsible for the provision of most public health programs not administered by AHCCCS, most behavioral health programs, the Arizona State Hospital (ASH), emergency medical services, state laboratory support, vital records maintenance, disease control, and epidemiological monitoring.

- 1/ Includes 665 GF and 60.1 OF FTE Positions funded from Special Line Items in FY 2016.
- 2/ On or before January 6, 2016, the Department of Health Services 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 department shall report the same information for all of FY 2016. (General Appropriation Act footnote)
- 3/ The Department of Health Services shall report to the Joint Legislative Budget Committee on or before December 31, 2015, and June 30, 2016 on the progress in implementing the *Arnold v. Sarn* lawsuit settlement. The report shall include at a minimum the department's progress toward meeting all criteria specified in the 2014 joint stipulation, including the development and estimated cost of additional behavioral health service capacity in Maricopa County as follows: supported housing services for 1,200 class members, supported employment services for 750 class members, 8 assertive community treatment teams and consumer operated services for 1,500 class members. The department shall also report the amounts, by fund source, it plans to use to pay for expanded services. (General Appropriation Act footnote)
- 4/ It is the intent of the Legislature that the percent attributable to administration/profit for the Regional Behavioral Health Authority in Maricopa County is 9% of the overall capitation rate. (General Appropriation Act footnote)
- 5/ The amounts included in the Proposition 204 Administration and Medicaid Behavioral Health - Proposition 204 line items include all available sources of funding consistent with A.R.S. § 36-2901.01B. (General Appropriation Act footnote)
- 6/ The Arizona State Hospital - Restoration to Competency line item includes monies for direct costs associated with the Restoration to Competency program. All other indirect costs are included in the Arizona State Hospital - Operating line item.
- 7/ The Arizona State Hospital - Sexually Violent Persons line item includes monies for direct costs associated with the Sexually Violent Person program. All other indirect costs are included in the Arizona State Hospital - Operating line item.
- 8/ Of the \$1,125,000 for Alzheimer's Disease Research, \$1,000,000 of that amount is from the Tobacco Tax and Health Care Fund - Health Research Account established by A.R.S. § 36-773. (General Appropriation Act footnote)
- 9/ Laws 2014, Chapter 18, Section 128 appropriated \$2,000,000 annually from the Health Research Fund established by A.R.S. § 36-275 from FY 2015 through FY 2019 to the Department of Health Services for allocation to a nonprofit medical research institute headquartered in this state that meets certain criteria. (Please see the *Biomedical Research Support* line item for more information.)
- 10/ The Department of Health Services may use up to 4% of the amounts appropriated for Nonrenal Disease Management for the administrative costs to implement the program. (General Appropriation Act footnote)

## Summary

DHS' FY 2016 General Fund spending decreases by \$(16,750,900), or (2.7)%, from FY 2015. The budget includes:

- \$9,531,000 for formula adjustments.
- \$(5,537,000) for the reduction of costs associated with mandatory Affordable Care Act adjustments.
- \$(8,429,700) for the reduction of costs associated with an increased federal match rate for the Childless Adult population.
- \$(11,400,000) for provider rate reductions.
- \$1,200,000 to increase the Arizona State Hospital (ASH) operating budget.
- \$(1,800,000) to eliminate funding for Alzheimer's Research, Mental Health First-Aid, and School-Based Prevention Education.
- \$(315,200) for statewide adjustments.

The budget also includes a \$6,127,100 increase from the General Fund in FY 2015 to reflect revisions to caseload projections. *(Please see Other Issues section for more information.)*

As part of the budget's 3-year spending plan, DHS General Fund costs are projected to increase by \$3,798,400 in FY 2017 above FY 2016 and by \$15,929,600 in FY 2018 above FY 2017.

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

## Operating Budget

The budget includes \$65,676,200 and 451.6 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	<b>FY 2016</b>
General Fund	\$23,936,000
Capital Outlay Stabilization Fund	1,559,900
Child Fatality Review Fund	95,000
Emergency Medical Services (EMS) Operating Fund	4,476,800
Environmental Laboratory Licensure Revolving Fund	926,400
Federal Child Care and Development Fund (CCDF) Block Grant	876,100
Health Services Licensing Fund	9,264,200
Indirect Cost Fund	8,559,800
Newborn Screening Program Fund	441,000
Nursing Care Institution Resident Protection Revolving Fund	38,200
Substance Abuse Services Fund	200
Vital Records Electronic Systems Fund	3,629,000
Federal Medicaid Authority (FMA)	11,873,600

These amounts fund the following adjustments:

### Emergency Medical Services Local Allocation Shift

The budget includes a decrease of \$(192,000) from the EMS Operating Fund in FY 2016 to shift costs associated with EMS Local Allocation distributions from DHS' operating budget to a new line item.

A corresponding increase of \$192,000 from the EMS Operating Fund can be found in the Emergency Medical Services Local Allocation line item. *(Please see Emergency Medical Services Local Allocation line item for more information.)*

<sup>11/</sup> In addition to the appropriation for the Department of Health Services, earnings on state lands and interest on the investment of the Permanent State Land Funds are appropriated to the Arizona State Hospital in compliance with the Enabling Act and the Constitution of Arizona. (General Appropriation Act footnote)

<sup>12/</sup> On or before November 1 of each year, the Department of Health Services shall report to the Joint Legislative Budget Committee the revenues, expenditures and ending balances of the department's Intergovernmental/Interagency Service Agreements Fund from the previous, current and subsequent fiscal years. (General Appropriation Act footnote)

<sup>13/</sup> The department 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 for any behavioral health line items, the Department of Health Services shall report its expenditure plan for review by the Joint Legislative Budget Committee. Before the department implements any changes in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the department shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal analysis demonstrates that these changes will result in additional state costs of \$500,000 or more for a given fiscal year, the department shall submit the policy changes for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

<sup>14/</sup> The Department of Health Services shall electronically forward a monthly report comparing total expenditures for the month and year-to-date as compared to prior year totals to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee on or before the 30th of the following month. The report shall include an estimate of potential shortfalls in programs, potential federal and other monies, such as the statewide assessment for indirect costs, that may be available to offset these shortfalls, and a plan, if necessary, for eliminating any shortfall without a supplemental appropriation and total expenditure authority of the month and year-to-date for federally matched services. (General Appropriation Act footnote)

<sup>15/</sup> General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

**Statewide Adjustments**

The budget includes a decrease of \$(24,300) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	15,800
Capital Outlay Stabilization Fund	100
Child Fatality Review Fund	200
EMS Operating Fund	(3,600)
Environmental Laboratory Licensure Revolving Fund	(700)
Federal CCDF Block Grant	(3,300)
Health Services Licensing Fund	(10,900)
Indirect Cost Fund	(13,700)
Newborn Screening Program Fund	9,100
Substance Abuse Services Fund	200
Vital Records Electronic Systems Fund	(6,500)
FMA	(11,000)

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

**Behavioral Health**

These line items fund 4 types of services: 1) Serious Mental Illness (SMI), 2) Children’s Behavioral Health (CBH), 3) General Mental Health and Substance Abuse (GMH/SA) and 4) Comprehensive Medical and Dental Program (CMDP). *(Please see Table 3 for more information.)*

**Formula Adjustments**

Formula adjustments represent changes that occur under current law, including caseload, capitation and federal match rate revisions. These adjustments totaling \$9,531,000 from the General Fund are comprised of FY 2016 changes to 1) caseloads, 2) capitation rates, 3) the federal match rate, and 4) Medicare Clawback payments. Formula adjustments do not include costs associated with federal health care expansion and new policy changes. *(Please see Table 1 for more information.)*

**FY 2016 Caseload Growth**

Most populations funded by the Traditional, Proposition 204, and Adult Expansion line items are projected to grow by 0.2% in FY 2016.

The SMI and CMDP populations are projected to experience higher rates of growth. The SMI population receiving integrated services in Maricopa County is projected to grow by 5% in FY 2016. This estimate is based on a 5-year annual growth average of 4.6%. The CMDP program enrollment is projected to grow 7% in FY 2016.

In the aggregate, the caseload growth is estimated to result in a \$7,908,900 General Fund cost increase in FY 2016.

In June 2016, there are projected to be 1,514,592 individuals eligible for Medicaid Behavioral Health services. DHS receives a monthly capitation payment from AHCCCS for every eligible individual, although only an estimated average of 8.9%, or 134,535, of the eligible population will utilize services. *(Please see Table 2 for more information.)*

**Table 1**

**DHS General Fund Budget Spending Changes**  
(\$ in millions)

**Formula Adjustments**

FY 2016 Caseload Growth	\$ 8
FY 2016 3% Capitation Rate Increase	10
FY 2016 Federal Match Rate Increase	(9)
Clawback Payment Increase	0
<i>Subtotal</i> <sup>1/</sup>	<u>\$ 10</u>

**Mandatory ACA Changes**

Child Expansion	\$ (2)
Health Insurer Fee	(3)
Currently Eligible But Not Enrolled <sup>2/</sup>	--
<i>Subtotal</i> <sup>1/</sup>	<u>\$ (6)</u>

**Optional Medicaid Expansion**

Childless Adults and Adult Expansion	\$ (8)
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**Policy Changes**

FY 2016 (5)% Provider Rate Reduction	\$ (11)
1.5% Capitation Rate Limit - FY 2017 and FY 2018 <sup>3/</sup>	0
Cost-Sharing Provisions - FY 2017 and FY 2018 <sup>3/</sup>	0
ASH Operating Increase	1
One-Time Funding for Alzheimer’s Research, School-Based Prevention Education and Mental Health First Aid	(2)
<i>Subtotal</i>	<u>\$ (12)</u>

**Total Spending Change**

**\$ (17)**

<sup>1/</sup> Numbers do not add due to rounding.  
<sup>2/</sup> Amounts are included in the formula adjustment above.  
<sup>3/</sup> First year of impact is FY 2017. *(Please see Formula Adjustments narrative for more information.)*

**FY 2016 3% Capitation Rate Increase**

Capitation rate growth is assumed to be 3% above FY 2015 for all Medicaid Behavioral Health programs. This assumption reflects recent state capitation trends in the program and national trends in the consumer price index for Medical Care and Medicaid per enrollee spending. The 3% capitation rate increase is estimated to cost the General Fund \$9,707,800 in FY 2016. Capitation rates include a risk corridor to limit profits and losses of the Regional Behavioral Health Authorities (RBHA) that administer Medicaid Behavioral Health services. *(Please see Risk Corridor in Other Issues section for more information.)*

**Table 2**  
**JLBC Forecasted Eligibility and Service Use**  
(June 1, 2016)

<b>By Line Item</b>	<b>Eligible <sup>1/</sup></b>	<b>No. Using Services</b>	<b>Rate of Use</b>
Traditional	1,002,035	72,767	7.3%
Proposition 204	454,147	47,374	10.4
CMDP	16,721	10,023	59.9
Adult Expansion <sup>2/</sup>	41,689	4,371	10.5
<b>Total Member Months</b>	<b>1,514,592</b>	<b>134,535</b>	<b>8.9%</b>

  

<b>By Service Type</b>	<b>Eligible <sup>1/</sup></b>	<b>No. Using Services</b>	<b>Rate of Use</b>
CBH	671,810	37,897	5.6%
SMI <sup>3/</sup>		32,244	
GMH/SA <sup>3/</sup>	826,061	54,371	10.5
CMDP	16,721	10,023	59.9
<b>Total Member Months</b>	<b>1,514,592</b>	<b>134,535</b>	<b>8.9%</b>

<sup>1/</sup> Projections in this table differ from total enrollment projections in the AHCCCS agency section as some populations enrolled in AHCCCS are not eligible to enroll in DHS. Additionally, some individuals receive all of their care through AHCCCS on an integrated basis.  
<sup>2/</sup> Parents and Childless Adults from 100%-133% of the federal poverty level (FPL).  
<sup>3/</sup> Each adult enrollee is eligible for both SMI and GMH/SA services.

**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. The federal government provides an approximate 2:1 match for the traditional Medicaid program. During FY 2016, the base FMAP for Medicaid will increase to 68.81% (0.66% increase). The formula adjustments include a decrease of \$(8,528,200) in General Fund spending reflecting savings from the federal rate increase.

Adjustments to Medicare Clawback payments will increase General Fund costs by \$442,500.

The budget includes a \$6,127,100 supplemental from the General Fund in FY 2015 to cover shortfalls associated with higher-than-expected Medicaid caseload growth. The budget also permits AHCCCS to transfer up to an additional \$10,000,000 of its FY 2015 General Fund appropriation to DHS if the \$6,127,100 is insufficient. (Please see *Other Issues* for more information.)

**Mandatory ACA Changes**

Federal health care legislation, known as the Affordable Care Act (ACA), expanded mandatory levels of Medicaid coverage beginning on January 1, 2014. The General Fund cost of this expanded coverage is estimated to decrease by \$(5,537,000) in FY 2016. Of this amount, \$(2,240,800) is the result of an FMAP increase for the mandatory expansion. The remaining decrease of \$(3,296,200) reflects a lower health insurer fee.

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 assumes a FY 2015 enrollment growth of 4.2% in the Traditional and Proposition 204 population line items. 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.

*(Please see Mandatory Affordable Care Act Changes in the AHCCCS section of this report.)*

**Optional Medicaid Expansion**

The FY 2014 Health and Welfare Budget Reconciliation Bill (BRB) (Laws 2013, 1<sup>st</sup> Special Session, Chapter 10) made a number of changes to Medicaid coverage, including the restoration of coverage for Childless Adults from 0% to 100% and expansion of coverage for adults up to 133% of the Federal Poverty Level (FPL).

Chapter 10 removed the enrollment freeze that had been in effect since FY 2012 and restored coverage for the Childless Adult population. The FY 2016 budget includes a higher match rate than the standard 2:1 match for the Childless Adult population between 0% and 100% FPL. The increased match was 85.48% in FY 2015 and will increase to 89.05% in FY 2016. In AHCCCS, the state match for Childless Adults is paid by the Hospital Assessment. In DHS, however, this cost is paid by the General Fund.

The FY 2016 budget also includes the federal government paying 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 General Fund cost of Medicaid Restoration and Expansion is estimated to decrease by \$(8,429,700) in FY 2016. This decrease is the result of the enhanced federal match. (Please see *Childless Adult Restoration, Adult Expansion, and the Hospital Assessment in the AHCCCS section for additional information.*)

<b>Table 3</b>			
<b>General Fund Medicaid Behavioral Health Appropriations</b>			
	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2016 Above</b>
	<b><u>Appropriated</u></b>	<b><u>Appropriated</u></b>	<b><u>FY 2015</u></b>
Medicare Clawback Payments	\$ 13,786,100	\$ 14,228,600	\$ 442,500
Medicaid Insurance Premium Payments	8,701,100	8,669,800	(31,300)
<b><u>State Match for Medicaid</u><sup>1/</sup></b>			
CBH	91,862,700	90,500,300	(1,362,400)
SMI	128,848,700	129,456,500	607,800
GMH/SA	49,154,000	48,545,200	(608,800)
<b><u>State Match for Proposition 204</u></b>			
CBH	707,200	676,700	(30,500)
SMI	68,722,900	59,786,700	(8,936,200)
GMH/SA	45,717,900	40,926,100	(4,791,800)
State Match for CMDP	<u>55,438,500</u>	<u>54,355,600</u>	<u>(1,082,900)</u>
<b>Total</b>	<b><u>\$462,939,100</u></b>	<b><u>\$447,145,500</u></b>	<b><u>\$(15,793,600)</u></b> <sup>2/</sup>
<sup>1/</sup> Base amounts include \$34,767,000 from the Medically Needy Account of the Tobacco Tax and Health Care Fund.			
<sup>2/</sup> The \$(642,100) difference between this total and the overall DHS General Fund change from the FY 2015 Appropriation to the FY 2016 Appropriation is related to the elimination of \$(1,800,000) from the Alzheimer's Research, Mental Health First Aid, and School-Based Prevention Education line items, an increase of \$1,200,000 for the ASH - Operating line item, and a decrease of \$(42,100) for an FMAP change to the Proposition 204 Administrative line item.			

### **Policy Changes**

#### *FY 2016 (5)% Provider Rate Reduction*

Section 17 of the FY 2016 Health BRB (Laws 2015, Chapter 14) authorizes DHS 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. DHS 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 DHS may use those savings to reduce the provider rate reductions. The budget includes a \$(11,400,000) General Fund reduction in FY 2016 for implementation of the provider rate decrease.

#### *1.5% Capitation Rate Limit - FY 2017 and FY 2018*

Section 27 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 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 \$(5.1) million in FY 2017 and \$(12.2) 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 General Fund savings of \$(1.1) million and \$(1.5) million in FY 2017 and FY 2018, respectively. 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.
- 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. The cost impacts of this provision have been allocated to the AHCCCS spending plan in FY 2017 and FY 2018.
- 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 \$(1.1) million and \$(1.5) million in DHS for these cost-sharing provisions in FY 2017 and FY 2018, respectively. The 3-year budget plan additionally 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 for these provisions in the AHCCCS budget in FY 2017 and FY 2018, respectively. *(Please see the AHCCCS agency section for more information.)*

The budget includes General Fund savings of \$(1.8) million to reduce funding for the Alzheimer’s Disease Research line item and eliminate funding for the Mental Health First Aid and School-Based Prevention Education line items. The budget also increases ASH’s operating budget, costing the General Fund an additional \$1.2 million. *(Please see the respective line items for more information.)*

**Medicaid Behavioral Health - Traditional**

The budget includes \$873,803,300 in FY 2016 for Medicaid Behavioral Health - Traditional. This amount consists of:

General Fund	233,735,000
Tobacco Tax and Health Care Fund	34,767,000
Medically Needy Account	
Federal Medicaid Authority	605,301,300

These amounts fund the following adjustments:

**Formula Adjustments and Policy Changes**

The budget includes an increase of \$44,297,200 in FY 2016 for Medicaid Behavioral Health - Traditional formula adjustments and policy changes. This amount consists of:

General Fund	(1,363,400)
Federal Medicaid Authority	45,660,600

The adjustments include:

- 0.2% enrollment growth.
- A change in the federal match rate from 68.15% to 68.81%.
- 3% capitation rate increase.
- (5)% provider rate reduction.

*Background* – This line item provides behavioral health treatment to Medicaid eligible adults and children. In June 2016, there are projected to be 1,002,035 eligible individuals. DHS receives a monthly capitation payment

from AHCCCS for every individual eligible for Medicaid behavioral health services, although only an estimated average 7.3%, or 72,767, of the eligible population will utilize services. A summary of projections for eligibility and service utilization appears in *Table 2*.

**Medicaid Behavioral Health - Proposition 204**

The budget includes \$533,810,200 in FY 2016 for Medicaid Behavioral Health - Proposition 204. This amount consists of:

General Fund	101,389,500
Federal Medicaid Authority	432,420,700

These amounts fund the following adjustments:

**Formula Adjustments and Policy Changes**

The budget includes an increase of \$2,824,200 in FY 2016 for Medicaid Behavioral Health - Proposition 204 formula adjustments and policy changes. This amount consists of:

General Fund	(13,758,500)
Federal Medicaid Authority	16,582,700

The adjustments include:

- 0.2% enrollment growth.
- An increase in the federal match rate for the non-Childless Adult population from 68.15% to 68.81%.
- An increase in the federal match rate for Childless Adults from 85.48% to 89.05%.
- 3% capitation rate increase.
- (5)% provider rate reduction.

*Background* – This line item provides behavioral health treatment to Proposition 204 - Medicaid eligible adults and children. In June 2016, there are projected to be 454,147 eligible individuals. DHS receives a monthly capitation payment from AHCCCS for every individual eligible for Medicaid behavioral health services, although only an estimated average 10.4%, or 47,374, of the eligible population will utilize services. A summary of projections for eligibility and service utilization appears in *Table 2*.

**Medicaid Behavioral Health - Comprehensive Medical and Dental Program**

The budget includes \$174,324,200 in FY 2016 for Medicaid Behavioral Health - Comprehensive Medical and Dental Program (CMDP). This amount consists of:

General Fund	54,355,600
Federal Medicaid Authority	119,968,600

These amounts fund the following adjustments:

**Formula Adjustments and Policy Changes**

The budget includes a decrease of \$(5,507,100) in FY 2016 for Medicaid Behavioral Health - CMDP formula adjustments and policy changes. This amount consists of:

General Fund	(1,082,900)
Federal Medicaid Authority	(4,424,200)

The adjustments include 7% enrollment growth, an increase to the federal match rate, a 3% capitation rate increase and a (5)% provider rate reduction.

*Background* – This line item provides behavioral health treatment to CMDP eligible children. CMDP is the health plan responsible for providing health services for children in foster care. DES administered acute care services for this population until this responsibility was transferred to DCS in FY 2015. DHS administers CMDP behavioral health services. Prior to FY 2014, DHS administered these services through its CBH program.

The budget assumes there will be 16,721 eligible individuals in June 2016. DHS receives a monthly capitation payment from AHCCCS for every individual eligible for CMDP, and it is estimated that an average of 59.9%, or 10,023, of the eligible population will utilize services. A summary of projections for eligibility and service utilization appears in *Table 2*.

Laws 2013, Chapter 220 requires AHCCCS, DES and DHS to determine and report on the most effective method for delivering medical, dental and behavioral health services to children who qualify for CMDP, considering the possibility of an administratively integrated system. The report is due by October 1, 2015. *(Please see Behavioral Health Transfer in Other Issues for a broader discussion of integration.)*

**Medicaid Behavioral Health - Adult Expansion**

The budget includes \$41,459,300 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 a decrease of \$(32,346,600) in FY 2016 for Medicaid Behavioral Health - Adult Expansion for formula adjustment and policy changes.

The adjustments include 0.2% enrollment growth in FY 2016, and a 3% capitation rate increase.

*Background* – Beginning on January 1, 2014, the Adult Expansion provides 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 from 2014 to 2016. The federal share will gradually decline to 90% by 2020.

The budget assumes that 41,689 individuals will be enrolled in June 2016. DHS receives a monthly capitation payment from AHCCCS for every individual eligible for the Adult Expansion, and it is estimated that an average of 10.5%, or 4,371, of the eligible population will utilize services. A summary of projections for eligibility and service utilization appears in *Table 2*.

**Proposition 204 Administration**

The budget includes \$6,446,700 in FY 2016 for Proposition 204 Administration. This amount consists of:

General Fund	2,011,000
Federal Medicaid Authority	4,435,700

These amounts fund the following adjustments:

**Formula Adjustments**

The budget includes a decrease of \$(42,100) from the General Fund and a corresponding increase of \$42,100 from Federal Medicaid Authority in FY 2016 due to a change in the federal match rate.

This line item provides funding for the administrative component of the Proposition 204 population.

**Medicare Clawback Payments**

The budget includes \$14,228,600 from the General Fund in FY 2016 for Medicare Clawback Payments. This amount funds the following adjustments:

**Formula Adjustments**

The budget includes an increase of \$442,500 from the General Fund in FY 2016 for formula growth associated with Medicare Clawback Payments.

As part of the Medicare Modernization Act (MMA) effective January 1, 2006, DHS is not required to pay for prescription drug costs for members who are also eligible for Medicare. Instead, DHS is required to make "Clawback" payments to Medicare based on a certain percent (75.0% in 2016) of the estimated drug costs.

### **Medicaid Insurance Premium Payments**

The budget includes \$33,167,700 in FY 2016 for Medicaid Insurance Premium Payments. This amount consists of:

General Fund	8,669,800
Federal Medicaid Authority	24,497,900

These amounts fund the following adjustments:

#### **Formula Adjustments**

The budget includes an increase of \$8,249,500 in FY 2016 for Medicaid Insurance Premium Payments related to caseload growth and FMAP adjustments. This amount consists of:

General Fund	(31,300)
Federal Medicaid Authority	8,280,800

This line item provides funding necessary for insurance premium tax payments by DHS. The department is required to pay a 2% tax on the capitation payments it pays to RBHAs.

### **Non-Medicaid Seriously Mentally Ill Services**

The budget includes \$78,846,900 from the General Fund in FY 2016 for Non-Medicaid Seriously Mentally Ill (SMI) Services. This amount is unchanged from FY 2015.

*Background* – This line item provides funding for Non-Medicaid SMI clients. The state had been a longstanding defendant in the *Arnold v. Sarn* litigation concerning the level of services provided to the SMI population.

In January 2014, an exit agreement from the litigation was signed by Arizona’s Governor, Maricopa County, and the plaintiffs in the case. The Maricopa County Superior Court approved the agreement in February 2014. The exit agreement requires the state to begin meeting requirements by June 2016 for providing assertive community treatment, supported housing, supported employment, crisis services, and family and peer support services to individuals with a serious mental illness.

*(Please see Footnote 3 for more information on service targets established by the exit agreement; see the Non-Medicaid Behavioral Health Services Funding in Other Issues section for more information on total funding available to non-Medicaid behavioral health services; and see the FY 2015 Appropriations Report for a history of the case.)*

### **Supported Housing**

The budget includes \$5,324,800 from the General Fund in FY 2016 for Supported Housing. This amount is unchanged from FY 2015.

This line item funds housing services that will enable individuals to live in the community. These funds may serve Medicaid and 100% state funded recipients. Medicaid, however, does not provide a match for housing assistance. The program served an average of 1,539 clients per month in FY 2014.

### **Crisis Services**

The budget includes \$16,391,100 in FY 2016 for Crisis Services. This amount consists of:

General Fund	14,141,100
Substance Abuse Services Fund	2,250,000

These amounts are unchanged from FY 2015.

This line item provides funding for persons in need of emergency behavioral health assistance. These services may include 24-hour crisis telephone lines, crisis mobile teams, and facility-based crisis services. These funds serve 100% state funded recipients. The program served an average of 2,590 clients per month in FY 2014.

### **Mental Health First Aid**

The budget includes no funding in FY 2016 for Mental Health First Aid. This amount funds the following adjustments:

#### **Eliminate Funding**

The budget includes a decrease of \$(250,000) from the General Fund in FY 2016 to eliminate funding for training and materials for the Mental Health First Aid program.

This line item provided training for Mental Health First Aid instructors. The Mental Health First Aid program is a public education effort to teach the public to identify, understand, and respond to signs of mental illnesses and substance abuse. In FY 2014 and FY 2015, DHS allocated \$134,500 and \$160,500, respectively, to RBHAs to provide training and materials in their regions and an additional \$79,000 and \$74,000, respectively, to train people to teach Mental Health First Aid classes.

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**Arizona State Hospital**

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**ASH - Operating**

The budget includes \$59,268,700 and 587.5 FTE Positions in FY 2016 for ASH - Operating. These amounts consist of:

General Fund	52,952,300
ASH Fund	5,666,400
ASH Land Earnings Fund	650,000

These amounts fund the following adjustments:

**ASH - Operating Increase**

The budget includes an increase of \$1,200,000 from the General Fund in FY 2016 to fund increased operating costs at ASH.

**Statewide Adjustments**

The budget includes a decrease of \$(297,500) from the General Fund in FY 2016 for statewide adjustments.

This line item provides funding for inpatient psychiatric hospitalization services for adult seriously mentally ill residents. Over the 13-month period from January 2014 through January 2015, ASH had an average monthly census of 237 patients.

**ASH - Restoration to Competency**

The budget includes \$900,000 from the ASH Fund in FY 2016 for ASH - Restoration to Competency. This amount is unchanged from FY 2015.

The FY 2016 Health BRB continues to require counties to pay 100% of the daily cost of care for Restoration to Competency (RTC) patients treated at ASH.

*Background* – ASH provides treatment to restore to competency individuals who are found incompetent to stand trial. Prior to 1997, counties paid 100% of the cost of restoring patients to competency. In FY 1997, the state assumed the full cost of RTC treatment. In FY 2002, the state began requiring cities and counties to pay 86% of the costs of the program. The state continued to vary the required reimbursement rate over the next several years. Beginning in FY 2010, budget-related session laws have required all counties to pay 100% of the daily cost of care for RTC patients treated at ASH. Over the 13-month period from January 2014 through January 2015, there was an average monthly census of 5 RTC patients treated at ASH.

**ASH - Sexually Violent Persons**

The budget includes \$9,684,900 and 112.5 FTE Positions in FY 2016 for ASH - Sexually Violent Persons. These amounts consist of:

General Fund	6,676,000
ASH Fund	3,008,900

These amounts fund the following adjustments:

**Statewide Adjustments**

The budget includes a decrease of \$(46,800) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(33,500)
Arizona State Hospital Fund	(13,300)

After serving their prison sentence, some persons convicted of sexually violent crimes may be remanded by the courts for further confinement and treatment. These individuals are housed at the Arizona State Hospital. Since FY 2010, counties that have sent Sexually Violent Persons (SVP) to ASH are responsible for a portion of the daily cost of care. The FY 2010 Health and Welfare BRB (Laws 2009, 3<sup>rd</sup> Special Session, Chapter 10) initially required counties to pay 25% of the daily cost of care. The FY 2012 Health BRB (Laws 2011, Chapter 31) increased the county share to 50% of daily SVP costs. The FY 2014 Health and Welfare BRB permitted DHS to set the percentage rate at a level that would increase the state share of the cost by \$1.8 million in FY 2014. The FY 2015 Health and Welfare BRB requires that the counties' cost of care percentage for SVP treatment not increase from the FY 2014 levels. DHS determined that counties paid 33% of daily SVP costs in FY 2014 and estimates that counties will be billed at 32% of daily costs in FY 2015.

The FY 2016 Health BRB requires counties to pay 31% of their total SVP costs in FY 2016, slightly lower than estimated FY 2015 cost-sharing. Of the total amount appropriated for SVP care in FY 2016, counties would pay \$3,022,200. The BRB provision also clarifies that counties must pay their share of SVP costs throughout the entire commitment process, including pre-adjudication proceedings.

Over the 7-month period from July 2014 through January 2015, ASH had an average monthly census of 92 SVPs.

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**Public Health/Family Health**

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**Adult Cystic Fibrosis**

The budget includes \$105,200 from the General Fund in FY 2016 for Adult Cystic Fibrosis. This amount is unchanged from FY 2015.

This line item provides contracted care and treatment services through Phoenix Children's Hospital for 20 individuals with cystic fibrosis.

**AIDS Reporting and Surveillance**

The budget includes \$1,000,000 from the General Fund in FY 2016 for AIDS Reporting and Surveillance. This amount is unchanged from FY 2015.

The line item provides \$100,000 for a database system administered by Maricopa and Pima Counties to track the incidence of Acquired Immune Deficiency Syndrome (AIDS) and AIDS-related conditions. The program also receives \$850,000 to provide medications under the Arizona AIDS Drug Assistance Program, which also receives Federal Funds for the medications. The program served an average of 35 clients per month in FY 2014.

**Alzheimer's Disease Research**

The budget includes \$1,125,000 in FY 2016 for Alzheimer's Disease Research. This amount consists of:

General Fund	125,000
TTHCF Health Research Account	1,000,000

These amounts fund the following adjustments:

**Remove One-Time Funding**

The budget includes a decrease of \$(1,250,000) from the General Fund in FY 2016 to eliminate one-time funding for Alzheimer's disease research.

DHS distributes funding in the line item to the Arizona Alzheimer's Consortium (AAC). The AAC provides dollar-for-dollar matching grants to universities, hospitals, and research centers for research on the causes of Alzheimer's disease.

The FY 2016 Health BRB continues to permit the department to use Tobacco Tax and Health Care Fund-Health Research Account monies for Alzheimer's disease research.

**Biomedical Research Support**

The budget includes \$2,000,000 from the Tobacco Tax and Health Care Fund-Health Research Account in FY 2016 for Biomedical Research Support. This amount is unchanged from FY 2015.

This line item is funded by Section 128 of the FY 2015 General Appropriation Act (Laws 2014, Chapter 18). Section 128 appropriates \$2,000,000 annually in FY 2015 through FY 2019 from the Tobacco Tax and Health Care Fund-Health Research Account. As a result of the Chapter 18 funding, these monies do not appear in subsequent year General Appropriation Acts.

This line item is to provide funding to a nonprofit medical research institute headquartered in Arizona that specializes in biomedical research, conducts molecular epidemiological analyses to assist with disease outbreak investigations, and collaborates with universities, hospitals, and other public and private bioscience and related industries in this state. Section 128 requires the recipient of monies in this line item to submit an annual audit of expenditures of these monies to DHS by February 1 of each year.

DHS distributed monies from this line in FY 2015 to the Translational Genomics Research Institute (TGen), a nonprofit medical research institution headquartered in Arizona. In addition to these monies, Chapter 18 appropriated \$3,000,000 from the General Fund in FY 2015 through FY 2019 to Northern Arizona University (NAU) for biotechnology. NAU allocated its FY 2015 appropriation to TGen. *(Please see the NAU narrative for more information.)*

In FY 2013 and FY 2014, respectively, DHS allocated \$4,100,000 and \$2,000,000 to TGen from non-appropriated Health Research Account monies. At that time, however, there was no funding through NAU.

The appropriation from this line item is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations.

**Breast and Cervical Cancer and Bone Density Screening**

The budget includes \$1,369,400 and 1 FTE Position from the General Fund in FY 2016 for Breast and Cervical Cancer and Bone Density Screening. These amounts are unchanged from FY 2015.

The Well Woman Healthcheck program provides contracted cancer screenings for women over age 40 who lack health insurance and have incomes less than 250% of the FPL. Women who are diagnosed with breast and cervical cancer

through this program are eligible to receive treatment through AHCCCS.

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

The budget includes \$590,700 from the General Fund in FY 2016 for County Tuberculosis Provider Care and Control. This amount is unchanged from FY 2015.

This line item provides General Fund reimbursement to hospitals and physicians for the care of hospitalized tuberculosis patients and for assistance to all county health departments for local tuberculosis control programs. At this time, DHS has not provided information on the amount distributed to each county in FY 2014.

#### **Emergency Medical Services Local Allocation**

The budget includes \$442,000 from the EMS Operating Fund in FY 2016 for a new Emergency Medical Services Local Allocation line item. This amount funds the following adjustments:

##### **Emergency Medical Services Local Allocation Shift**

The budget includes an increase of \$192,000 from the EMS Operating Fund in FY 2016 to shift costs associated with EMS Local Allocation distributions from DHS' operating budget to a new line item. A corresponding decrease of \$(192,000) from the EMS Operating Fund can be found in the DHS' operating budget.

##### **Emergency Medical Services Local Allocation Statutory Conformity**

The budget includes an increase of \$250,000 from the EMS Operating Fund in FY 2016 to conform the EMS Local Allocation distribution amount with current law, which requires DHS to distribute 8% of EMS Operating Fund revenue to EMS Councils. Previously, DHS distributed 8% of the monies appropriated from the EMS Operating Fund.

This line item provides funding to 4 regional EMS Councils that distribute funding for EMS training and equipment to cities and towns with a population of fewer than 90,000 people.

#### **Folic Acid**

The budget includes \$400,000 from the Tobacco Tax and Health Care Fund-Medically Needy Account in FY 2016 for Folic Acid. This amount is unchanged from FY 2015.

This line item provides funding for the distribution of folic acid to women of child bearing age to help prevent birth

defects. In FY 2014, 33,317 women received folic acid education and multivitamins.

#### **High Risk Perinatal Services**

The budget includes \$2,543,400 in FY 2016 for High Risk Perinatal Services. This amount consists of:

General Fund	2,093,400
Emergency Medical Services Operating Fund	450,000

These amounts are unchanged from FY 2015.

This line item provides contracted transport services for high risk expectant mothers and contracted physician follow-up services for uninsured newborns in intensive care centers. It also provides funding for 4 visits per year to families who have babies born at risk of having developmental problems (i.e. speech problems, poor motor skills, delay in walking, etc.). The purpose of the visits is to have children developmentally ready to enter school by age 5.

#### **Newborn Screening Program**

The budget includes \$6,297,300 and 24.1 FTE Positions from the Newborn Screening Program Fund in FY 2016 for the Newborn Screening Program. These amounts fund the following adjustments:

##### **Statewide Adjustments**

The budget includes a decrease of \$(10,400) from the Newborn Screening Program Fund in FY 2016 for statewide adjustments.

This line item funds the centralized testing of all newborns in the state for a standard set of 29 disorders plus Chapter 171 provisions described below. In FY 2014, the program provided screening for approximately 84,593 newborns. The program also provides for follow-up counseling for the parents of affected newborns. The State Health Laboratory is the designated laboratory for testing.

Laws 2014, Chapter 171 requires DHS to perform hearing tests on all newborns and screen them for critical congenital heart defects (CCHD). Chapter 171 also permits DHS to adopt tests for Severe Combined Immunodeficiencies (SCID) and Krabbe Disease if the department performs a cost benefit analysis and seeks stakeholder input. The law also allows DHS to designate other laboratories as testing facilities for conditions or tests added to the screening program. Prior to the enactment of this law, DHS was required to contract only with the State Health Laboratory.

In October 2014, the Newborn Screening Advisory Committee recommended DHS include the screening test for SCID. The department determined that the testing fee would need to be increased by \$10 to pay for new equipment and other related costs. In March 2015, DHS received approval from the Governor's Office to establish new rules regarding CCHD and SCID. Those rules are expected to be finalized by July 1, 2015.

### ***Nursing Care Special Projects***

The budget includes \$100,000 from the Nursing Care Institution Resident Protection Revolving Fund in FY 2016 for special projects related to long-term care facilities. This amount funds the following adjustments:

#### **Establish Nursing Care Special Projects**

The budget includes a net increase of \$50,000 from the Nursing Care Institution Resident Protection Revolving Fund in FY 2016 to establish and implement special projects related to long-term care facilities. This net increase includes a reduction of \$(50,000) to eliminate a FY 2015 nursing facility study and an increase of \$100,000 for new projects that are yet to be determined.

The Nursing Care Institution Resident Protection Revolving Fund receives deposits from civil penalties paid by nursing care institution administrators and assisted living facility managers for violations of their licenses or certifications. Historically, DHS' operating budget has included an ongoing appropriation of \$38,000 from this fund for emergency patient relocation and patient personal property replacement. Additional amounts have been appropriated to fund specific projects in past fiscal years, including the recently eliminated nursing facility study.

### ***Poison Control Centers Funding***

The budget includes \$990,000 from the General Fund in FY 2016 for Poison Control Centers. This amount is unchanged from FY 2015.

A.R.S. § 36-1161 requires 2 poison control centers to be maintained in Arizona. DHS allocated \$647,300 to the University of Arizona Poison Information Center and \$342,700 to the Banner Poison Control Center in FY 2015.

A.R.S. § 32-1907 allows the Board of Pharmacy to transfer up to \$1,000,000 from the Arizona State Board of Pharmacy Fund to the University of Arizona Poison Control Information Center. However, this amount is not reflected in the table at the beginning of this narrative.

### ***Nonrenal Disease Management***

The budget includes \$198,000 from the General Fund in FY 2016 for Nonrenal Disease Management. This amount is unchanged from FY 2015.

This line item provides funding for medication and other transplant-related services for nonrenal transplant patients who are ineligible for other public assistance programs.

### ***Renal Dental Care and Nutrition Supplements***

The budget includes \$300,000 from the Tobacco Tax and Health Care Fund-Medically Needy Account in FY 2016 for Renal Dental Care and Nutrition Supplements. This amount is unchanged from FY 2015.

This line item provides pre-operative dental care and ongoing nutritional assistance for low-income renal disease patients. Funding in this line item treats kidney disease and associated kidney damage.

### ***School-Based Prevention Education***

The budget includes no funding in FY 2016 for School-Based Prevention Education. This amount funds the following adjustments:

#### **Eliminate Funding**

The budget includes a decrease of \$(300,000) from the General Fund in FY 2016 to eliminate funding for prevention education programs in middle and high schools.

This line item provided funding to organizations that implement school-based prevention education programs promoting positive life choices and focusing on the topics of substance abuse, mental health, violence, and other risky behaviors.

### ***Additional Legislation***

This section includes information on the following topics:

- IGA/ISA Fund Creation and Reporting
- Third-Party Liability Payments for Behavioral Health
- Seriously Mentally Ill Housing Trust Fund
- Homeland Security Reporting

#### ***IGA/ISA Fund Creation and Reporting***

To provide greater transparency and ensure that restricted monies are not inappropriately comingled, the FY 2016 Health BRB establishes 4 new funds for monies received through intergovernmental or interagency agreements (IGA/ISA) shown below:

- The ISA for Behavioral Health Services Fund consisting of state and federal monies received by DHS to provide behavioral health services;
- The IGA for County Behavioral Health Services Fund consisting of county monies received by DHS to provide behavioral health services to persons identified through agreements with counties;
- The Health Services Lottery Fund consisting of monies transferred from the state lottery for teenage pregnancy prevention programs, the health start program and the federal women, infants, and children food program;
- The IGA/ISA Fund consisting of all monies received by DHS through IGAs/ISAs and transfers between DHS and other state and local entities.

Beginning November 1, 2015, DHS is required to annually report to the JLBC on these funds' revenues, expenditures, and ending balances from the previous, current, and subsequent fiscal years.

**Third-Party Liability Payments for Behavioral Health**

When a person receives behavioral health services from DHS and also has health insurance, then the insurance company is responsible for paying the provider. The FY 2016 Health BRB requires DHS to report by December 31, 2016 to the Directors of JLBC and OSPB on efforts to increase third-party liability payments for behavioral health services. The 3-year budget plan associated with the enacted FY 2016 budget estimates \$5.2 million in savings from increased third-party liability payments in FY 2017 and FY 2018.

**Seriously Mentally Ill Housing Trust Fund**

Laws 2015, Chapter 312 permits monies in the Seriously Mentally Ill Housing Trust Fund established in A.R.S. § 41-3955.01 to be used for rental assistance for persons with a serious mental illness (SMI). Prior to this law, monies in this fund could only be used to buy properties to house persons with SMI.

Additionally, Laws 2015, Chapter 195 transfers the administration of this fund from DHS to AHCCCS in FY 2016 as part of the larger behavioral health services transfer, effective July 1, 2016. *(Please see Behavioral Health Transfer in Other Issues section for more information.)*

**Homeland Security Reporting**

The FY 2016 Health BRB deletes a DHS homeland security allocation and expenditure reporting requirement because DHS has not received homeland security monies since FY 2008.

**Other Issues**

This section includes information on the following topics:

- FY 2015 Supplemental
- Long-Term Budget Impacts
- Behavioral Health Transfer
- SMI Funding
- Risk Corridor
- Non-Medicaid Behavioral Health Services Funding

**FY 2015 Supplemental**

The budget includes an increase of \$6,127,100 from the General Fund in FY 2015 to fund shortfalls in the Medicaid Traditional and Insurance Premium Payments line items. The overall shortfall is the result of higher-than-projected caseload growth. The budget also permits AHCCCS to transfer up to an additional \$10,000,000 of its FY 2015 General Fund appropriation if the \$6,127,100 is insufficient. Prior to implementation, AHCCCS shall submit the proposed transfer to the Joint Legislative Budget Committee for review.

**Long-Term Budget Impacts**

The budget's 3-year spending plan assumes that DHS' statutory caseload and policy changes will require a net additional \$3.8 million in FY 2017 above FY 2016 and a net additional \$15.9 million in FY 2018 above FY 2017 for Medicaid behavioral health services.

These estimates are based on:

- 2% and 0.1% enrollment growth in FY 2017 and FY 2018, respectively;
- Capping capitation rate growth at 1.5%;
- Annualization savings of the (5)% provider rate reduction on October 1, 2015;
- Federal approval of cost-sharing provisions;
- Decrease in the federal match rate for the Adult Expansion population; and
- Increase in the federal match rates for Childless Adults and all other enrollees.

The FY 2017 and FY 2018 estimates do not yet reflect the July 1, 2016 behavioral health transfer from DHS to AHCCCS, as authorized by Laws 2015, Chapters 19 and 195.

## 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. AHCCCS and DHS currently integrate acute care services and behavioral health services for Medicaid-eligible SMI adults in Maricopa County. Beginning October 1, 2015, DHS will expand integrated services for all Medicaid-eligible SMI adults outside Maricopa County through the Non-Maricopa RBHA contracts. In both of these circumstances, the funding continues to be appropriated separately to AHCCCS and DHS.

### Maricopa Integrated SMI Health Services

In April 2014, AHCCCS and DHS entered into an agreement to integrate acute care services and behavioral health services for Medicaid-eligible SMI adults in Maricopa County. These dual services are provided to approximately 19,000 people by Mercy Maricopa Integrated Care (MMIC), the RBHA for Maricopa County.

This integrated pilot program, unlike services provided to most Medicaid-eligible populations, uses an integrated capitation rate paid to one contractor (i.e., the acute care and behavioral health costs are combined into 1 rate as opposed to having 2 separate rates paid to 2 separate contractors by 2 separate agencies). The capitation rate for these services is paid on Medicaid-eligible SMI adults who live in Maricopa County. *(Please see SMI Funding in Other Issues for more information on the costs associated with the SMI population.)*

**Table 4**

### JLBC Projected FY 2016 Behavioral Health Funding for SMI Services

<u>By Fund</u>	<u>Integrated SMI (Maricopa County)<sup>1/</sup></u>	<u>All Other Adult Enrollees<sup>2/</sup></u>	<u>Total</u>
State Match	\$115,654,300	\$78,649,400	\$194,303,700
Federal Match	<u>302,807,700</u>	<u>265,343,200</u>	<u>568,150,900</u>
<b>Total Expenditures</b>	<b>\$418,462,000</b>	<b>\$343,992,600</b>	<b>\$762,454,600</b>
<b>June 1, 2016 Enrollees</b>	<b>18,956</b>	<b>13,287</b>	<b>32,243</b>

<sup>1/</sup> Excludes SMI enrollees who will receive integrated services outside of Maricopa County, beginning October 1, 2015. *(Please see Behavioral Health Transfer/Current Integration of Health Services in Other Issues.)*

<sup>2/</sup> An SMI capitation rate is paid for all other adult enrollees, whether or not they use services.

### Non-Maricopa Integrated SMI Health Services

DHS is expanding integrated services for all Medicaid-eligible SMI adults outside Maricopa County through the Non-Maricopa RBHA contracts. There will be 2 Geographic Service Areas (GSAs) for which a RBHA would administer and coordinate integrated services for eligible persons. The North GSA would include Apache, Coconino, Gila, Mohave, Navajo, and Yavapai Counties, as well as a small portion of Graham County. The South GSA would include Cochise, Graham, Greenlee, La Paz, Pima, Pinal, Santa Cruz, and Yuma Counties.

DHS awarded the North GSA contract to Health Choice Integrated Care, a partnership between Northern Arizona RBHA and Health Choice Arizona, and the South GSA contract to Cenpatico Integrated Care, a partnership between Cenpatico of Arizona and the University of Arizona Health Network. These contracts will begin on October 1, 2015.

### SMI Funding

As shown in *Table 4* the total funding in FY 2016 for SMI behavioral health services is \$762.5 million to cover a projected 32,243 recipients. State and federal funding for this population is located in the Traditional, Proposition 204, and Adult Expansion line items of the DHS budget.

The General Fund cost for Medicaid-eligible SMI adults in Maricopa County is projected to be \$115.7 million in FY 2016, covering 18,956 recipients. This group receives integrated behavioral health and acute care services.

The General Fund cost for Medicaid-eligible SMI adults who live outside of Maricopa County is projected to be \$78.6 million in FY 2016, covering 13,287 recipients. This group will begin to receive integrated services in October 2015.

Funding for acute care is located in the Traditional, Proposition 204, and Adult Expansion line items in the AHCCCS budget.

### Risk Corridor

DHS contracts with community-based organizations, known as RBHAs, to administer behavioral health services. In turn, each RBHA contracts with a network of medical providers to deliver these services. DHS limits the service profit or loss of a RBHA to a percentage of the annual service revenue. If a RBHA exceeds the profit limit, then DHS can request the return of those excess profits. Conversely, if a RBHA experiences excess losses, then DHS will reimburse the RBHA. The profit/loss margin is called a "risk corridor."

Currently, the risk corridor for all RBHAs is 3% - their profits or losses, as a percentage of annual services revenues, are limited to 3%. The RBHA responsible for Maricopa County has a 4% risk corridor. Below is the list of RBHAs, by Geographic Service Area (GSA), and their risk corridors:

- GSA 1 (Apache, Coconino, Mohave, Navajo, and Yavapai) – Northern Arizona RBHA: 3%
- GSA 2 (La Paz, Yuma) – Cenpatico: 3%
- GSA 3 (Cochise, Graham, Greenlee, Santa Cruz), – Cenpatico: 3%
- GSA 4 (Gila, Pinal) – Cenpatico: 3%
- GSA 5 (Pima) – Community Partnership of Southern Arizona: 3%
- GSA 6 (Maricopa) – Mercy Maricopa Integrated Care: 4%

Effective October 1, 2015, the RBHAs serving GSAs 1-5 will be replaced by 2 integrated RBHAs that cover the Northern and Southern regions of the state. These integrated contracts, like Mercy Maricopa Integrated Care’s contract, have 4% risk corridors. *(Please see Non-Maricopa Integrated SMI Health Services above for more information about these new RBHAs.)*

In addition to the risk corridor, RBHA contracts also allow 9% of health capitation rates be used for administrative costs and risk contingency.

**Non-Medicaid Behavioral Health Services Funding**

The FY 2016 budget includes \$100,562,800 for Non-Medicaid behavioral health services, which are funded in the Non-Medicaid SMI Services, Supported Housing, and Crisis Services line items. This is the same funding level as in FY 2015. *(Please see the Non-Medicaid Seriously Mentally Ill Services, Supported Housing, and Crisis Services line items for more information and the FY 2015 Appropriations Report for more history on line item shifts.)*