

Arizona Health Care Cost Containment System

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,208.3	2,214.3	2,326.3 ^{1/}
Personal Services	36,283,700	36,862,000	45,102,100
Employee Related Expenditures	16,260,800	16,448,500	19,717,400
Professional and Outside Services	4,426,600	5,856,200	5,856,200
Travel - In State	69,100	58,100	58,100
Travel - Out of State	16,900	36,700	36,700
Other Operating Expenditures	24,072,800	18,292,100	19,457,200
Equipment	912,400	131,800	871,100
OPERATING SUBTOTAL	82,042,300	77,685,400	91,098,800
SPECIAL LINE ITEMS			
Administration			
DES Eligibility	54,874,500	54,874,500	54,874,500 ^{2/}
Proposition 204 - Acute Care Administration	7,794,800	6,832,800	6,807,000 ^{3/}
Proposition 204 - Behavioral Health Administration	0	0	5,832,000 ^{3/}
Proposition 204 - DES Eligibility	28,155,500	38,358,700	38,358,700 ^{3/}
Medical Services			
Traditional Medicaid Services	3,455,788,800	3,870,268,200	3,936,187,500 ^{4/5/}
Proposition 204 Services	2,307,122,900	2,640,060,600	2,777,688,100 ^{3/}
Adult Expansion Services	214,081,100	385,896,900	462,284,600
Children's Rehabilitative Services	219,112,500	252,046,500	275,375,700
KidsCare Services	7,075,600	6,295,200	1,955,000
ALTCS Services	1,355,349,200	1,383,177,300	1,422,354,600 ^{6/7/8/}
Behavioral Health Services			
Medicaid Behavioral Health - Traditional Services	0	0	960,228,100 ^{9/10/}
Medicaid Behavioral Health - Proposition 204 Services	0	0 ^{11/}	612,844,800 ^{3/9/10/}
Medicaid Behavioral Health - Comprehensive Medical and Dental Program	0	0	208,027,400 ^{9/10/}
Medicaid Behavioral Health - Adult Expansion Services	0	0	77,702,300 ^{9/10/}
Non-Medicaid Seriously Mentally Ill Services	0	0	78,846,900 ^{9/12/}
Supported Housing	0	0	5,324,800 ^{9/}
Crisis Services	0	0	16,391,300 ^{9/}
Hospital Payments			
Disproportionate Share Payments	13,487,100	5,087,100	5,087,100 ^{13/}
DSH Payments - Voluntary Match	30,392,000	18,784,700	19,896,000 ^{14/15/}
Rural Hospitals	22,115,700	22,650,000	22,650,000
Graduate Medical Education	156,310,600	186,539,100	162,992,600 ^{15/16/}
Safety Net Care Pool	175,134,500	137,000,000	137,000,000 ^{15/17/}
AGENCY TOTAL	8,128,837,100	9,085,557,000	11,379,807,800 ^{18/-23/}
FUND SOURCES			
General Fund	1,158,575,700	1,205,162,300	1,750,941,400
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	2,538,300	3,482,900	3,563,300
Children's Health Insurance Program Fund	6,340,300	7,674,400	3,674,900
Prescription Drug Rebate Fund - State	79,021,000	105,878,800	113,778,900
Substance Abuse Services Fund	0	0	2,250,200
TPTF - Emergency Health Services Account	19,284,300	18,162,200	18,747,200
TTHCF - Medically Needy Account	34,178,800	34,498,500	72,998,200
SUBTOTAL - Other Appropriated Funds	141,362,700	169,696,800	215,012,700
SUBTOTAL - Appropriated Funds	1,299,938,400	1,374,859,100	1,965,954,100

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
<u>Expenditure Authority Funds</u>			
County Funds	295,518,400	299,114,300	299,667,700
Federal Medicaid Authority	5,739,824,100	6,587,145,600	8,280,680,200
Hospital Assessment Fund	260,916,800	250,060,800	252,329,100
Nursing Facility Provider Assessment Fund	18,448,800	23,366,900	22,189,400
Political Subdivision Funds	118,828,600	108,546,300	98,528,100
Prescription Drug Rebate Fund - Federal	257,162,000	300,776,400	322,743,500
Third Party Liability and Recovery Fund	0	194,700	194,700
Tobacco Litigation Settlement Fund	99,975,000	100,000,000	100,000,000
TPTF - Proposition 204 Protection Account	38,225,000	41,492,900	37,521,000
SUBTOTAL - Expenditure Authority Funds	6,828,898,700	7,710,697,900	9,413,853,700
SUBTOTAL - Appropriated/Expenditure Authority Funds	8,128,837,100	9,085,557,000	11,379,807,800
Other Non-Appropriated Funds	39,245,500	34,408,100	96,206,900
Federal Funds	85,837,800	124,673,300	161,963,200
TOTAL - ALL SOURCES	8,253,920,400	9,244,638,400	11,637,977,900

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 care services, behavioral health services, and long-term care services.

- 1/ Includes 618.9 GF and 694.2 EA FTE Positions funded from Special Line Items in FY 2017.
- 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 state 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 - Acute Care Administration, Proposition 204 - Behavioral Health Administration, Proposition 204 - DES Eligibility, Proposition 204 Services and Medicaid Behavioral Health - 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 2017 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 2017 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 2017 nonfederal costs of providing long-term care system services is \$249,980,000. This amount is included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 8/ Any supplemental payments received in excess of \$71,950,100 for nursing facilities that serve Medicaid patients in FY 2017, including any federal matching monies, by the AHCCCS Administration are appropriated to the Administration in FY 2017. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. These payments are included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 9/ On or before December 31, 2016, and June 30, 2017, the AHCCCS Administration shall report to the Joint Legislative Budget Committee on the progress in implementing the *Arnold v. Sorn* lawsuit settlement. The report shall include at a minimum the Administration'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 for 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 Administration shall also report by fund source the amounts it plans to use to pay for expanded services. (General Appropriation Act footnote)
- 10/ It is the intent of the Legislature that the percentage attributable to administration and profit for the Regional Behavioral Health Authorities is 9% of the overall capitation rate. (General Appropriation Act footnote)
- 11/ The AHCCCS Administration shall transfer not more than \$3,352,200 to the Department of Health Services in FY 2016 for Medicaid Behavioral Health capitation payments for persons who are eligible for services pursuant to A.R.S. § 36-2901.01. (General Appropriation Act footnote)
- 12/ The AHCCCS Administration shall transfer \$1,200,000 from the Non-Medicaid Seriously Mentally Ill Services line item for FY 2017 to the Department of Health Services for the costs of prescription medications for persons with a serious mental illness at the Arizona State Hospital. (General Appropriation Act footnote)
- 13/ The \$5,087,100 appropriation for Disproportionate Share Payments (DSH) for FY 2017 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)

Summary

AHCCCS' FY 2017 General Fund spending increases by \$545,779,100 or a 45.3% increase from FY 2016. This amount includes:

- \$534,300,300 for the transfer of behavioral health services from the Department of Health Services (DHS) to AHCCCS.
- \$29,023,300 in formula adjustments.
- \$(17,544,500) in policy changes.

Net of the behavioral health transfer, AHCCCS' General Fund spending increases by \$11,478,800, or a 1.0% increase. Of the \$11,478,800, \$8,707,300 is for formula adjustments and other changes in acute care, and \$2,771,500 is for formula adjustments and other changes in behavioral health.

AHCCCS' FY 2017 Hospital Assessment spending increases by \$2,268,300, or a 0.9% increase. This increase is primarily due to caseload growth in the Proposition 204 population and a decrease in the federal match for the Adult Expansion population.

As part of the budget's 3-year spending plan, AHCCCS' General Fund costs are projected to increase by \$77,193,500 in FY 2018 above FY 2017 and by \$97,513,900 in FY 2019 above FY 2018. (See *Other Issues section for more information.*)

Below is an overview of the behavioral health transfer, FY 2017 formula adjustments, and policy changes. *Table 1* summarizes these changes.

Behavioral Health Transfer

Laws 2015, Chapters 19 and 195 transfer administration of Medicaid-funded and non-Medicaid funded behavioral health services from DHS to AHCCCS effective July 1, 2016. DHS will continue to operate the Arizona State Hospital.

The budget includes an increase of \$517,304,700 from the General Fund, \$1,351,394,000 from Federal Medicaid Authority, and \$141,057,100 from other appropriated and non-appropriated funds in AHCCCS in FY 2017 for the

- 14/ Any monies received for Disproportionate Share Hospital payments from political subdivisions of this state, tribal governments and any university under the jurisdiction of the Arizona Board of Regents, and any federal monies used to match those payments, in FY 2017 by the AHCCCS Administration in excess of \$19,896,000 are appropriated to the Administration in FY 2017. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. (General Appropriation Act footnote)
- 15/ 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 2017 costs of Graduate Medical Education, Disproportionate Share Payments - Voluntary Match and Safety Net Care Pool line items are included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 16/ Any monies for Graduate Medical Education received in FY 2017, including any federal matching monies, by the AHCCCS Administration in excess of \$162,992,600 are appropriated to the Administration in FY 2017. 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)
- 17/ Any monies received in excess of \$137,000,000 for the Safety Net Care Pool by the AHCCCS Administration in FY 2017, including any federal matching monies, are appropriated to the Administration in FY 2017. 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)
- 18/ The nonappropriated 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)
- 19/ 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)
- 20/ The AHCCCS Administration shall report to the Joint Legislative Budget Committee on or before March 1, 2017 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 change 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 impact analysis demonstrates that this change will result in additional state costs of \$500,000 or more for any fiscal year, the Administration shall submit the policy change for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 21/ On or before December 1, 2016, the AHCCCS Administration shall report to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on estimates of retroactive capitation rate changes to calendar year 2015 rates for reimbursement of the Affordable Care Act health insurer fee. These amendments to rates are not subject to Joint Legislative Budget Committee review. (General Appropriation Act footnote)
- 22/ On or before January 6, 2017, 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, 2016. On June 30, 2017, the Administration shall report the same information for all of FY 2017. (General Appropriation Act footnote)
- 23/ General Appropriation Act funds are appropriated as Operating Lump Sum with Special Line Items by Agency.

Table 1**AHCCCS General Fund Budget Spending Changes**
(\$ in millions)**Behavioral Health Services Transfer**

BHS Shift	\$ 517
BHS FY 2016 Supplemental Annualization	18
BHS Administrative Savings	(1)
<i>Subtotal</i>	\$ 534

Formula Adjustments^{1/2/}

FY 2017 Caseload Growth	\$ 46
FY 2017 1.5% Capitation Rate Increase	19
FY 2017 Federal Match Rate Increase	(33)
Tobacco Tax Increase	(4)
<i>Subtotal</i> ^{1/}	\$ 29

Policy Changes

ALTCS Dental Restoration	1
Reversal of FY 2016 (5)% Provider Rate Reduction	(12)
Cost Sharing Provisions	(1)
BHS Third Party Liability Recoveries	(5)
KidsCare Restoration ^{3/}	NA
<i>Subtotal</i> ^{1/}	\$ (18)

Non-BHS Transfer Changes \$ 11
Total Spending Change^{1/} **546**

- ^{1/} Numbers may not add due to rounding.
^{2/} Formula adjustments include Mandatory ACA changes and Optional ACA changes. (See *Other Issues* section for additional information.)
^{3/} Laws 2016, Chapter 112 requires AHCCCS to submit a request to the federal government to resume enrollment in KidsCare in FY 2017 (See *KidsCare Restoration* section for additional information.)

transfer, and includes a corresponding decrease from each of these fund sources in DHS.

As part of the transfer, the budget removes one-time non-General Fund expenditures for higher-than anticipated behavioral health caseload growth in FY 2016 and backfills these expenditures with General Fund monies. As a result, the behavioral health resources transferred to AHCCCS is increased in FY 2017 by an additional \$18,059,800 from the General Fund. (Please see *FY 2016 Supplemental* section in *DHS narrative* for additional information.)

The budget also includes \$(1,064,200) in General Fund savings and \$(2,041,100) in Federal Medicaid Authority savings in FY 2017 for reduced administrative costs of behavioral health services. These savings are primarily the result of a net decrease of (28.2) FTE Positions across AHCCCS and DHS in FY 2017 for behavioral health administrative positions currently in DHS that are not transferring to AHCCCS. That amount includes a decrease of (140.2) FTE Positions in DHS in FY 2017 as requested by DHS, as well as an increase of 112 FTE Positions in AHCCCS in FY 2017.

Table 2 shows the total resources that the budget transfers to AHCCCS for behavioral health services, net of the administrative savings. AHCCCS has an increase of \$2,024,710,300 in total fund spending, including \$534,300,300 from the General Fund, \$1,349,352,900 from Federal Medicaid Authority, and \$141,057,100 from other funds.

Table 2**Behavioral Health Transfer**

General Fund	\$534,300,300
TTHCF - Medically Needy Account	34,767,000
Substance Abuse Services Fund	2,250,200
Federal Medicaid Authority	<u>1,349,352,900</u>
<i>Subtotal</i>	\$1,920,670,400
Non-Appropriated Funds	<u>104,039,900</u>
Total Funds	\$2,024,710,300

The behavioral health transfer is an outgrowth of prior integration efforts. AHCCCS and DHS currently integrate acute care services and behavioral health services for Medicaid-eligible adults with a serious mental illness (SMI). 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. The budget assumes that integrated services will be provided to approximately 21,500 SMI clients in Maricopa County by June 2017.

DHS expanded integrated services for all Medicaid-eligible SMI adults outside Maricopa County through the Non-Maricopa Regional Behavioral Health Authority (RBHA) contracts on October 1, 2015. The Non-Maricopa RBHAs serve clients in 2 Geographic Service Areas (GSAs) outside of Maricopa County. The North GSA includes Apache, Coconino, Gila, Mohave, Navajo, and Yavapai Counties, as well as a small portion of Graham County. The South GSA includes Cochise, Graham, Greenlee, La Paz, Pima, Pinal, Santa Cruz, and Yuma Counties. The budget assumes that the Non-Maricopa RBHAs will provide integrated services to 20,800 clients by June 2017.

This integrated 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 average capitation rate paid to the RBHAs in FY 2017 for integrated SMI services is approximately \$1,900 per member per month, or approximately \$550 for acute care services and \$1,350 for behavioral health services. The acute care portion of the rate is included in the acute care line items, and the behavioral health portion of the rate is included in the behavioral health line items. (Please see

SMI Funding in Other Issues for more information on the costs associated with the SMI population.)

AHCCCS has also pursued integration of behavioral health and acute care with other populations. The Children’s Rehabilitative Services (CRS) contractor provides all acute care, behavioral health, and CRS services for most children enrolled in CRS. AHCCCS acute care contractors also began providing integrated acute care and behavioral health services to AHCCCS beneficiaries that have Medicare coverage and utilize general mental health services and/or substance abuse services on October 1, 2015.

Formula Adjustments

Formula adjustments represent changes that occur under current law, including caseload, capitation and federal match rate revisions, as well as an increase in tobacco tax collections. The budget includes \$29,023,300 in FY 2017 for these adjustments.

FY 2017 Caseload Growth

Formula adjustments include 2.5% caseload growth for most AHCCCS populations, including Traditional, Proposition 204, Adult Expansion, and ALTCS. The budget assumes the same caseload growth rates in acute care services and behavioral health services for these 4 populations. FY 2017 caseload changes are expected to result in a General Fund increase of \$46,452,700 in FY 2017. Caseloads, including expansions and the childless adult restoration, are shown in *Table 3*.

FY 2017 1.5% Capitation Rate Increase

In comparison to caseload growth rates which vary significantly by population, capitation rate adjustments are assumed to be 1.5% above FY 2016 across most programs. The budget assumes the 1.5% capitation rate increase will result in an increase of \$18,997,300 from the General Fund in FY 2017 relative to the FY 2016 budget.

Section 14 of the FY 2017 Health Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 122) repeals the FY 2016 Health BRB (Laws 2015, Chapter 14) provision limiting AHCCCS capitation rate increases to no more than 1.5% in FY 2017 and FY 2018. As a result, the actual capitation rate increase in FY 2017 could exceed the increase assumed by the FY 2017 budget.

FY 2017 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 2017, the FMAP rates will adjust as follows:

- Traditional Medicaid will increase to 69.16% (0.35% increase).
- Proposition 204 Childless Adult rate will increase to 90.28% (1.22% increase).
- KidsCare and Child Expansion rates will increase to 100% (*see Other Issues section for additional information*).
- Adult Expansion rate will decrease to 97.5% from 100%.

Table 3
JLBC Forecasted Member Months^{1/}

Population^{2/3/}	June 2015	June 2016	June 2017	'16-'17% Change
Traditional	977,236	1,041,285	1,067,318	2.5%
Prop 204 Childless Adults	279,077	313,777	321,621	2.5
Other Proposition 204	186,660	194,934	199,808	2.5
Adult Expansion ^{4/}	61,544	90,000	92,250	2.5
KidsCare ^{5/}	1,051	736	589	(20.0)
ALTCS - Elderly & Physically Disabled ^{6/7/}	29,075	29,802	30,547	2.5
Emergency Services	103,729	113,162	115,991	2.5
Total Member Months	1,638,372	1,783,696	1,828,123	2.5%

^{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/} The integrated SMI population is included in the Traditional, Proposition 204, and Adult Expansion line items.
^{4/} Parents and Childless Adults 100%-133% FPL.
^{5/} KidsCare enrollment projections do not include enrollment increases that could result from Laws 2016, Chapter 112. (*Please see Policy Changes for more information.*)
^{6/} The ALTCS program funded in AHCCCS.
^{7/} In addition, approximately 29,100 people receive Medicaid services through the Department of Economic Security’s Developmental Disabilities program as of May 1, 2015.

The formula adjustments include a decrease of \$(32,694,000) in General Fund spending to reflect savings from the regular federal rate increase.

Tobacco Tax Increase

The budget includes an increase of \$3,732,700 from tobacco tax revenues and a corresponding \$(3,732,700) decrease from the General Fund in FY 2017. The increase is the result of tobacco tax revenues that are projected to exceed the appropriation in the FY 2016 budget by \$3,318,500 in FY 2016 and by \$3,732,700 in FY 2017.

FY 2016 Adjustments

The budget includes a \$565,560,900 supplemental appropriation in FY 2016, including \$26,249,300 in Other Funds and \$539,311,600 in Expenditure Authority Funds. The supplemental appropriation is associated with the

reversal of a 5% provider rate reduction permitted by the FY 2016 budget as well as higher-than-anticipated caseload growth across most AHCCCS populations. The budget assumes that AHCCCS will continue to forego the provider rate reduction in FY 2017. *(Please see Policy Changes and Other Issues sections for additional information.)*

Policy Changes

The budget includes a net savings of \$(17,544,500) from the General Fund in FY 2017 for 4 policy changes. These adjustments include the restoration of dental coverage for ALTCS adults, the reversal of a FY 2016 (5)% provider rate reduction, cost sharing provisions, and increased third party liability recoveries.

ALTCS Dental Restoration

Section 12 of the FY 2017 Health BRB restores dental coverage for ALTCS adults. The budget includes an increase of \$1,359,300 from the General Fund in FY 2017 to fund the increase in ALTCS capitation payments associated with the dental benefit. ALTCS previously provided dental coverage for adults, but this benefit was eliminated in the enacted FY 2009 budget. The restored benefit will provide the same level of coverage as the previously eliminated dental benefit, including coverage for all medically necessary diagnostic, therapeutic, and preventive dental services with spending capped for each member at \$1,000 annually.

Reversal of FY 2016 (5)% Provider Rate Reduction

In June 2015, the Executive announced that AHCCCS would not be implementing a provider rate cut authorized in the FY 2016 budget. Section 16 of the FY 2016 Health BRB (Laws 2015, Chapter 14) permitted AHCCCS to reduce provider rates by a cumulative total of up to (5.0)%. The reduction was projected to produce General Fund savings of \$(37,100,000) in FY 2016 across AHCCCS and DHS.

AHCCCS has offset the cost of foregoing the provider rate reduction with higher-than-budgeted revenues from the Prescription Drug Rebate Fund (PDRF), as well as capitation rate savings from lower-than-projected utilization by AHCCCS enrollees. Of the \$(37,100,000) in budgeted savings in FY 2016, PDRF revenues will replace \$(22,100,000) and lower-than-budgeted capitation rates will offset \$(15,000,000).

The budget assumes that the provider rate reduction will not be implemented in FY 2017, increasing state costs by \$37,100,000 relative to the FY 2016 budget, but replaces the budgeted savings with \$(29,113,300) in PDRF revenues and \$(20,286,700) in reduced capitation

spending, producing a net savings of \$(12,300,000) in FY 2017.

Cost Sharing Provisions

The budget includes General Fund savings of \$(1,403,800) in FY 2017 and \$(1,803,800) in FY 2018, as well as Non-General Fund savings of \$(7,692,400) and \$(9,631,400) in FY 2017 and FY 2018, for cost sharing provisions for adult Medicaid enrollees. These amounts reflect the 3-year budget plan for the enacted FY 2016 budget.

Section 19 of the FY 2016 Health BRB requires the state to request authority from the federal government to impose several cost-sharing provisions on Medicaid enrollees. Pending federal approval, the state would collect a premium equal to 2% of income, charge co-pays of up to \$25 for non-emergency use of an emergency department, and suspend coverage of nonemergency medical transportation (NEMT) for adult Medicaid enrollees with incomes between 100%- 133% of FPL. *(See the Other Issues section on the AHCCCS CARE plan for additional detail.)*

Third Party Liability Recovery for Behavioral Health Services

The budget includes a decrease of \$(5,200,000) from the General Fund and a decrease of \$(13,775,400) from Federal Medicaid Authority in FY 2017 for increased third party liability recoveries in behavioral health services. These amounts reflect the 3-year budget plan for the enacted FY 2016 budget.

Third party liability recoveries are funds received by AHCCCS from health insurance companies for services provided to AHCCCS enrollees with other private or public insurance coverage. The FY 2016 budget assumed that the transfer of behavioral health services to AHCCCS would increase the amount of these recoveries, as AHCCCS has historically recovered more from insurance companies than DHS.

KidsCare Restoration

The KidsCare program has had an enrollment freeze since January 1, 2010. Laws 2016, Chapter 112 would require AHCCCS to lift the enrollment freeze and request additional federal funding needed to operate the program if AHCCCS receives approval from the federal government to reopen the program on or before July 1, 2017. The bill requires AHCCCS to stop processing all KidsCare applications and notify contractors and members that the program will be terminated if the federal government eliminates funding for program as specified in 42 U.S.C. § 1397ee.

The JLBC Staff project that reopening KidsCare enrollment could result in 29,800 additional KidsCare enrollees and \$87.7 million in additional Children’s Health Insurance Program (CHIP) Fund expenditures annually. The CHIP Fund receives monies from the federal CHIP Block Grant and any associated state matching funds. The CHIP Block Grant provides Arizona with a capped annual allotment of funds to provide health insurance to children in low-income families who typically would not otherwise qualify for Medicaid. Chapter 112 does not include an adjustment for the CHIP Fund, so the AHCCCS budget may need to subsequently be amended to provide the agency with sufficient spending authority.

The KidsCare population and the mandatory Child Expansion population are both currently funded by the federal CHIP Block Grant and are eligible for 100% federal funding. However, if CHIP Fund expenditures exceed the Block Grant allotment, the Child Expansion population would instead be funded at the regular FMAP rate of 69.16% with the General Fund as the state match. In guidance issued in March 2016, the Centers for Medicare and Medicaid services stated that it “anticipates that federal matching funds would be available for all eligible expenditures associated with reopening enrollment in KidsCare for FY 2016 and FY 2017, including expenditures exceeding the CHIP allotment.” *(Please see KidsCare line item for additional information.)*

Operating Budget

The budget includes \$91,098,800 and 1,013.2 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$29,617,800
Children’s Health Insurance Program (CHIP) Fund	1,719,900
Prescription Drug Rebate Fund (PDRF) - State	198,100
Federal Medicaid Authority (FMA)	59,563,000

These amounts fund the following adjustments:

Behavioral Health Transfer

The budget includes an increase of \$15,539,600 and 112 FTE Positions in FY 2017 to shift operating costs for behavioral health services from the DHS budget to the AHCCCS budget. These amounts consist of:

General Fund	4,602,400
Federal Medicaid Authority	10,937,200

(See Behavioral Health Transfer section for additional information.)

Administrative Simplification

The budget includes a decrease of \$(2,490,600) in FY 2017 for the administrative simplification of behavioral health services. This amount consists of:

General Fund	(831,000)
Federal Medicaid Authority	(1,659,600)

(See Behavioral Health Transfer section for additional information.)

OIG Shift

The budget includes an increase of \$704,900 in FY 2017 to shift 6 existing FTE Positions in the Office of the Inspector General (OIG) from the Traditional Services line item to the operating budget. This amount consists of:

General Fund	217,400
Federal Medicaid Authority	487,500

Statewide Adjustments

The budget includes a decrease of \$(340,500) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(127,700)
CHIP Fund	2,700
PDRF - State	100
Federal Medicaid Authority	(215,600)

(Please see the Agency Detail and Allocations section.)

Administration

DES Eligibility

The budget includes \$54,874,500 and 885 FTE Positions in FY 2017 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 2016.

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

Proposition 204 - Acute Care Administration

The budget includes \$6,807,000 and 128 FTE Positions in FY 2017 for Proposition 204 - Acute Care Administration costs. These amounts consist of:

General Fund	2,296,000
Federal Medicaid Authority	4,511,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(25,800) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(11,700)
Federal Medicaid Authority	(14,100)

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

Proposition 204 - Behavioral Health Administration

The budget includes \$5,832,000 in FY 2017 for Proposition 204 - Behavioral Health Administration costs. This amount consists of:

General Fund	1,777,800
Federal Medicaid Authority	4,054,200

These amounts fund the following adjustments:

Behavioral Health Transfer

The budget includes an increase of \$6,446,700 in FY 2017 to shift the Proposition 204 - Behavioral Health Administration line item from the DHS budget to the AHCCCS budget. This amount consists of:

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

(See the Behavioral Health Transfer section for additional information.)

Administrative Simplification

The budget includes a decrease of \$(614,700) in FY 2017 for the administrative simplification of behavioral health services. This amount consists of:

General Fund	(233,200)
Federal Medicaid Authority	(381,500)

(See Behavioral Health Transfer section for additional information.)

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

Proposition 204 - DES Eligibility

The budget includes \$38,358,700 and 300.1 FTE Positions in FY 2017 for Proposition 204 - DES Eligibility costs.

These amounts consist of:

General Fund	17,158,900
Budget Neutrality Compliance Fund (BNCf)	3,563,300
Federal Medicaid Authority	17,636,500

These amounts fund the following adjustments:

Statutory Adjustments

The budget includes a decrease of \$(80,400) from the General Fund and a corresponding increase of \$80,400 from the BNCf in FY 2017 to reflect an increase of county contributions in FY 2017 as required by A.R.S. § 11-292. (See Table 10 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. *Chart 1* shows the income eligibility limits for each AHCCCS population in FY 2017. A description of program components can be found in the Other Issues section.

Traditional Medicaid Services

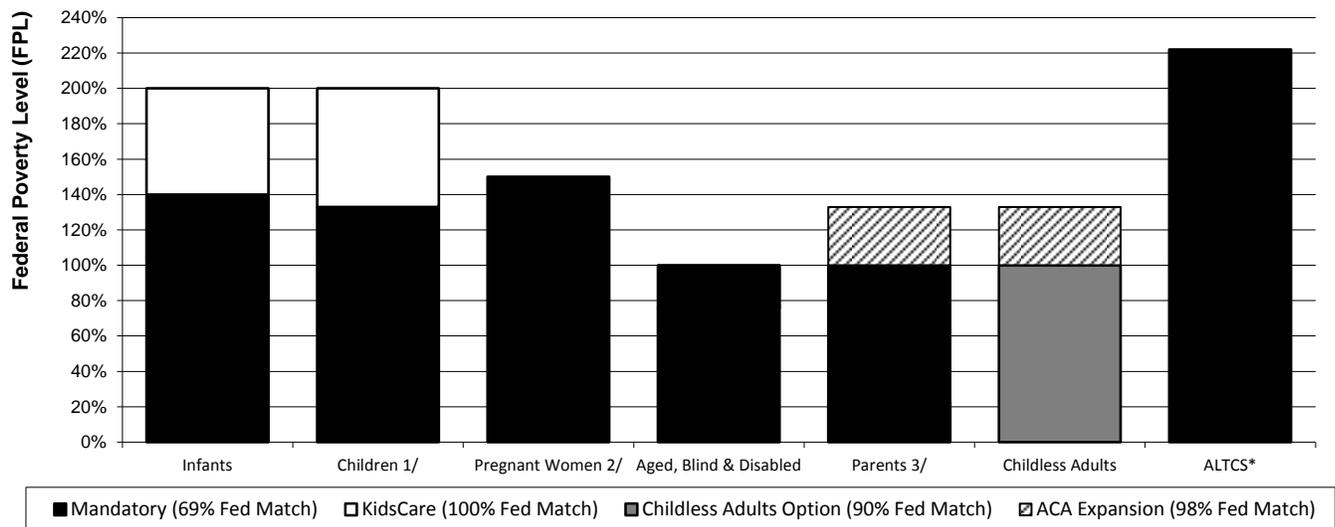
The budget includes \$3,936,187,500 in FY 2017 for Traditional Medicaid Services. This amount consists of:

General Fund	883,058,800
County Funds	49,687,700
PDRF - State	106,139,500
TTHCF - Medically Needy Account	37,432,400
Third Party Liability and Recovery Fund	194,700
PDRF - Federal	301,143,200
Federal Medicaid Authority	2,558,531,200

These amounts fund the following adjustments:

Chart 1

AHCCCS Eligibility



1/ Children in families with incomes between 100% FPL and 133% FPL are eligible to receive a 100% federal match if sufficient Children’s Health Insurance Program (CHIP) Block Grant monies available.
 2/ Women diagnosed with breast or cervical cancer by a provider recognized by the Well Women Healthcheck program and those in the “Ticket to Work” program receive coverage to 250% FPL.
 3/ Mandatory Status of Parents is subject to interpretation.
 * Federal minimum is 75% FPL.

Formula Adjustments

The budget includes an increase of \$67,596,900 in FY 2017 for formula adjustments. This amount consists of:

General Fund	125,600
County Funds	(192,000)
TTHCF - Medically Needy Account	2,933,900
Federal Medicaid Authority	64,729,400

The adjustments include:

- 2.5% enrollment growth.
- An increase in the federal match rate from 68.81% to 69.16%.
- 1.5% capitation rate increase.
- \$(192,000) decrease in Maricopa County Acute Care contribution (County Funds) under A.R.S. § 11-292 with a corresponding General Fund increase.
- \$2,933,900 increase from the TTHCF - Medically Needy Account due to higher-than-expected tobacco tax revenues and a corresponding General Fund decrease.

PDRF Increase

The budget includes an increase of \$7,382,400 from the state Prescription Drug Rebate Fund (PDRF) and a corresponding decrease from the General Fund in

FY 2017. The budget also includes a \$20,464,600 increase from the federal PDRF, and a corresponding decrease from Federal Medicaid Authority. These amounts consist of:

General Fund	(7,382,400)
PDRF - State	7,382,400
PDRF - Federal	20,464,600
Federal Medicaid Authority	(20,464,600)

The increase is due to higher-than-expected revenues in the PDRF. AHCCCS will use these funds to offset part of the cost associated with not implementing a (5)% provider rate cut. *(Please see Reversal of (5)% Provider Rate Reduction section for additional detail.)*

Cost Sharing Provisions

The budget includes a decrease of \$(972,700) in FY 2017 associated with copays for nonemergency use of the emergency room. This amount reflects the 3-year budget plan for the enacted FY 2016 budget. This amount consists of:

General Fund	(300,000)
Federal Medicaid Authority	(672,700)

(See Cost Sharing Provisions section for additional detail.)

OIG Shift

The budget includes a decrease of \$(704,900) in FY 2017 to shift funding for 6 existing FTE Positions in the Office of the Inspector General (OIG) to the operating budget. This amount consists of:

General Fund	(217,400)
Federal Medicaid Authority	(487,500)

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 \$2,777,688,100 in FY 2017 for Proposition 204 Services. This amount consists of:

Hospital Assessment Fund	246,067,600
Tobacco Litigation Settlement Fund	100,000,000
TPTF - Proposition 204 Protection Account	37,521,000
TPTF - Emergency Health Services Account	18,747,200
Federal Medicaid Authority	2,375,352,300

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$138,233,500 in FY 2017 for formula adjustments. This amount consists of:

Hospital Assessment Fund	(3,893,200)
TPTF - Proposition 204 Protection Account	(3,971,900)
TPTF - Emergency Health Services Account	585,000
Federal Medicaid Authority	145,513,600

The adjustments include:

- 2.5% enrollment growth.
- A change in the federal match rate for the non-childless adult population from 68.81% to 69.16%.
- A change in the federal match rate for childless adults from 89.06% to 90.28%.
- 1.5% capitation rate increase.

- A \$(3,971,900) decrease from the TPTF - Proposition 204 Protection Account due to removal of one-time FY 2016 supplemental funding and a corresponding \$3,971,900 Hospital Assessment Fund increase.
- \$585,000 increase from the Emergency Health Services Account due to higher-than-expected tobacco tax revenues and a corresponding \$(585,000) Hospital Assessment Fund decrease.

Cost Sharing Provisions

The budget includes a decrease of \$(606,000) in FY 2017 associated with charging copayments for non-emergency use of the emergency room. This amount reflects the 3-year budget plan for the enacted FY 2016 budget. This amount consists of:

Hospital Assessment Fund	(100,000)
Federal Medicaid Authority	(506,000)

(See Cost Sharing Provisions section for additional information.)

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 Services

The budget includes \$462,284,600 in FY 2017 for Adult Expansion Services. This amount consists of:

Hospital Assessment Fund	6,261,500
Federal Medicaid Authority	456,023,100

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$82,653,200 in FY 2017 for formula adjustments. This amount consists of:

Hospital Assessment Fund	11,616,700
Federal Medicaid Authority	71,036,500

The adjustments include:

- 2.5% enrollment growth.
- A decrease in the federal match rate from 100% to 97.5%.
- 1.5% capitation rate increase.

Cost Sharing Provisions

The budget includes a decrease of \$(5,332,200) from the Hospital Assessment Fund in FY 2017 associated with implementing a 2% premium for the Adult Expansion

population. This amount reflects the 3-year budget plan for the enacted FY 2016 budget.

NEMT Suspension

The budget includes a decrease of \$(933,300) in FY 2017 to suspend funding for non-emergency medical transportation (NEMT) for the Adult Expansion population. This amount consists of:

Hospital Assessment Fund	(23,000)
Federal Medicaid Authority	(910,300)

(See Cost Sharing Provisions section for additional information.)

Background – Beginning on January 1, 2014, the Adult Expansion Services 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 \$275,375,700 in FY 2017 for Children’s Rehabilitative Services (CRS). This amount consists of:

General Fund	84,937,900
Federal Medicaid Authority	190,437,800

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$23,329,200 in FY 2017 for formula adjustments. This amount consists of:

General Fund	11,936,900
Federal Medicaid Authority	11,392,300

The adjustments include 3% enrollment growth, an increase to the federal match rate and a 1.5% capitation rate increase. This would result in approximately 26,200 members per month being served in June 2017.

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

KidsCare Services

The budget includes \$1,955,000 from the CHIP Fund in FY 2017 for KidsCare Services. This amount funds the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(4,340,200) in FY 2017 for formula adjustments. This amount consists of:

General Fund	(338,000)
CHIP Fund	(4,002,200)

The adjustments include a (20)% enrollment decline, an increase to the federal match rate to 100%, and a 1.5% 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.

On October 1, 2015, KidsCare began receiving a 100% federal match rate. The 100% federal match will continue 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. Laws 2016, Chapter 112 would require AHCCCS to lift the enrollment freeze and request additional federal funding needed to operate the program if AHCCCS receives approval from the federal government to reopen the program on or before July 1, 2017. *(See Policy Changes section for additional information.)*

ALTCS Services

The budget includes \$1,422,354,600 in FY 2017 for ALTCS services. This amount consists of:

General Fund	167,841,100
County Funds	249,980,000
PDRF - State	7,441,300
PDRF - Federal	21,600,300
Nursing Facility Provider Assessment Fund	22,189,400
Federal Medicaid Authority	953,302,500

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$31,126,600 in FY 2017 for formula adjustments. This amount consists of:

General Fund	3,885,000
County Funds	(138,100)
Nursing Facility Provider Assessment	(1,177,500)
Federal Medicaid Authority	28,557,200

The adjustments include:

- 2.5% enrollment growth.
- An increase in the federal match rate from 68.81% to 69.16%.
- 1.5% capitation rate increase.

ALTCS Adult Dental Restoration

The budget includes an increase of \$8,050,700 in FY 2017 to restore coverage of dental services for adults enrolled in ALTCS. This amount consists of:

General Fund	1,359,300
County Funds	1,117,100
Federal Medicaid Authority	5,574,300

The ALTCS dental benefit will provide coverage for medically necessary diagnostic, therapeutic, and preventive dental services for adults enrolled in ALTCS, with spending per member capped at \$1,000 annually. These are the same terms of coverage for the ALTCS adult dental benefit that was previously eliminated by the FY 2009 budget. ALTCS enrollees age 21 and under are currently eligible for dental services through Medicaid’s mandatory Early and Periodic Screening, Diagnostic, and Treatment (EPSDT) benefit.

PDRF Increase

The budget includes a net increase of \$0 in FY 2017 to reflect an increase in the State and Federal Prescription Drug Rebate Fund. The increase will be used by AHCCCS to partially offset the costs associated with not implementing the (5)% provider rate reduction enacted in the FY 2016 budget. This amount consists of:

General Fund	(284,000)
County Funds	(233,600)
PDRF - State	517,600
Federal Medicaid Authority	(1,502,500)
PDRF - Federal	1,502,500

(See (5)% Provider Rate Reduction section for additional information.)

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 2015, AHCCCS estimates that client contributions paid \$62,301,400, or about 6.0% of the cost of capitated ALTCS expenditures.

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.

Behavioral Health Services

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).

Medicaid Behavioral Health - Traditional Services

The budget includes \$960,228,100 in FY 2017 for Medicaid Behavioral Health - Traditional Services. This amount consists of:

General Fund	259,356,900
TTHCF - Medically Needy Account	35,565,800
Federal Medicaid Authority	665,305,400

These amounts fund the following adjustments:

Behavioral Health Transfer

The budget includes an increase of \$950,305,100 in FY 2017 to shift the Medicaid Behavioral Health - Traditional Services line item from the DHS budget to the AHCCCS budget. This amount consists of:

General Fund	253,451,400
TTHCF - Medically Needy Account	44,002,300
Federal Medicaid Authority	652,851,400

(See the Behavioral Health Transfer section for more information.)

Formula Adjustments

The budget includes an increase of \$22,892,900 in FY 2017 for formula adjustments. This amount consists of:

General Fund	670,200
TTHCF - Medically Needy Account	798,800
Federal Medicaid Authority	21,423,900

These adjustments include:

- 2.5% caseload growth.
- An increase in the federal match rate from 68.81% to 69.16%.
- A \$798,800 increase from the TTHCF - Medically Needy Account due to higher-than-anticipated tobacco tax revenues.
- 1.5% capitation rate increase.

Remove One-Time Supplemental Funding

The budget includes a net increase of \$0 in FY 2017 to remove one-time supplemental funding for higher than-anticipated caseload growth in FY 2016. This amount consists of:

General Fund	9,235,300
TTHCF - Medically Needy Account	(9,235,300)

(Please see FY 2016 Supplemental section in DHS narrative for additional information.)

Third Party Liability Recoveries

The budget includes a decrease of \$(12,969,900) in FY 2017 for increased third party liability recoveries. This amount consists of:

General Fund	(4,000,000)
Federal Medicaid Authority	(8,969,900)

These amounts reflect the 3-year budget plan for the enacted FY 2016 budget. (See the Policy Changes section for additional detail.)

Background – This line item provides behavioral health treatment to Medicaid eligible adults and children. In June 2017, there are projected to be 1,064,990 eligible individuals. Behavioral health caseload projections differ slightly from acute care caseload projections primarily because behavioral health eligibility classifications are

different from acute eligibility classifications for certain AHCCCS populations, including Developmentally Disabled individuals enrolled in ALTCS and CMDP Children. The RBHAs will receive a monthly capitation payment from AHCCCS for every individual eligible for Medicaid behavioral health services, although only an estimated 84,288 individuals, or approximately 7.9% of the eligible population, will utilize services. For the integrated SMI population, this line item only includes the portion of capitation for behavioral health services. The acute care costs of the SMI population are included in the Traditional Medicaid Services line item.

Medicaid Behavioral Health - Proposition 204 Services

The budget includes \$612,844,800 in FY 2017 for Medicaid Behavioral Health - Proposition 204 Services. This amount consists of:

General Fund	109,250,500
Federal Medicaid Authority	503,594,300

These amounts fund the following adjustments:

Behavioral Health Transfer

The budget includes an increase of \$590,107,400 in FY 2017 to shift the Medicaid Behavioral Health - Proposition 204 Services line item from the DHS budget to the AHCCCS budget. This amount consists of:

General Fund	103,461,000
PDRF - State	5,475,100
Federal Medicaid Authority	481,171,300

(Please see the Behavioral Health Transfer section for more information.)

Formula Adjustments

The budget includes an increase of \$28,742,900 in FY 2017 for formula adjustments. This amount consists of:

General Fund	1,514,400
Federal Medicaid Authority	27,228,500

The adjustments include:

- 2.5% caseload growth.
- An increase in the federal match rate for the non-Childless Adult population from 68.81% to 69.16%.
- An increase in the federal match rate for Childless Adults from 89.05% to 90.28%.
- 1.5% capitation rate increase.

Remove One-Time Supplemental Funding

The budget includes a net increase of \$0 in FY 2017 to remove one-time supplemental funding for higher than-anticipated caseload growth in FY 2016. This amount consists of:

General Fund	5,475,100
PDRF - State	(5,475,100)

(Please see FY 2016 Supplemental section in DHS narrative for additional information.)

Third Party Liability Recoveries

The budget includes a decrease of \$(6,005,500) in FY 2017 for increased third party liability recoveries. This amount consists of:

General Fund	(1,200,000)
Federal Medicaid Authority	(4,805,500)

These amounts reflect the 3-year budget plan for the enacted FY 2016 budget. *(Please see the Policy Changes section for additional detail.)*

Background – This line item provides behavioral health treatment to Proposition 204 - Medicaid eligible adults and children. In June 2017, there are projected to be 506,569 eligible individuals. The RBHAs will receive a monthly capitation payment from AHCCCS for every individual eligible for Medicaid behavioral health services, although only an estimated 61,435 individuals, or approximately 12.1% of the eligible population, will utilize services. For the integrated SMI population, this line item only includes the portion of capitation for behavioral health services. The acute care costs of the SMI population are included in the Proposition 204 Services line item.

Medicaid Behavioral Health - Comprehensive Medical and Dental Program

The budget includes \$208,027,400 in FY 2017 for Medicaid Behavioral Health - Comprehensive Medical and Dental Program (CMDP). This amount consists of:

General Fund	63,770,500
Federal Medicaid Authority	144,256,900

These amounts fund the following adjustments:

Behavioral Health Transfer

The budget includes an increase of \$189,417,200 in FY 2017 to shift the Medicaid Behavioral Health - Comprehensive Medical and Dental Program line item

from the DHS budget to the AHCCCS budget. This amount consists of:

General Fund	55,466,100
PDRF - State	3,349,400
Federal Medicaid Authority	130,601,700

(Please see the Behavioral Health Transfer section for more information.)

Formula Adjustments

The budget includes an increase of \$18,610,200 in FY 2017 for formula adjustments. This amount consists of:

General Fund	4,955,000
Federal Medicaid Authority	13,655,200

The adjustments include:

- 6% enrollment growth.
- Increase in the federal match rate from 68.81% to 69.16%.
- Increase in the federal match rate from 94.48% to 100% for the child expansion population.
- 1.5% capitation rate increase.

Remove One-Time Supplemental Funding

The budget includes a net increase of \$0 in FY 2017 to remove one-time supplemental funding for higher than-anticipated caseload growth in FY 2016. This amount consists of:

General Fund	3,349,400
PDRF - State	(3,349,400)

(Please see FY 2016 Supplemental section in DHS narrative for additional information.)

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. The Department of Child Safety (DCS) currently administers the acute care services for this population.

The budget assumes there will be 17,678 eligible individuals in June 2017. The RBHAs will receive a monthly capitation payment from AHCCCS for every individual eligible for CMDP in FY 2017, and it is estimated that 11,355 individuals, or 64.2% of the eligible population, will utilize services.

Laws 2013, Chapter 220 require 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 recommended that DCS assume responsibility for administering physical health and behavioral health for the CMDP population beginning FY 2019. *(Please see CMDP Integration in the Department of Child Safety section for additional information regarding administration of CMDP.)*

Medicaid Behavioral Health - Adult Expansion Services

The budget includes \$77,702,300 in FY 2017 for Medicaid Behavioral Health - Adult Expansion Services. This amount consists of:

General Fund	831,900
Federal Medicaid Authority	76,870,400

These amounts fund the following adjustments:

Behavioral Health Transfer

The budget includes an increase of \$71,396,700 in Federal Medicaid Authority in FY 2017 to shift the Medicaid Behavioral Health - Adult Expansion Services line item from the DHS budget to the AHCCCS budget. *(See the Behavioral Health Transfer section for more information.)*

Formula Adjustments

The budget includes an increase of \$7,557,600 in FY 2017 for formula adjustments. This amount consists of:

General Fund	1,935,700
Federal Medicaid Authority	5,621,900

These adjustments include:

- 2.5% enrollment growth.
- A decrease in the federal match rate from 100% to 97.5%.
- 1.5% capitation rate increase.

Cost-Sharing Provisions

The budget includes a decrease of \$(1,100,000) from the General Fund in FY 2017 for premiums equal to 2% of income. These savings reflect the 3-year budget plan for the enacted FY 2016 budget. *(See Cost Sharing Provisions section for additional information.)*

NEMT Suspension

The budget includes a decrease of \$(152,000) in FY 2017 to suspend funding for non-emergency transportation for the Adult Expansion population. This amount consists of:

General Fund	(3,800)
Federal Medicaid Authority	(148,200)

(See Cost Sharing Provisions section for additional information.)

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 91,427 individuals will be enrolled in June 2017. The RBHAs receive a monthly capitation payment from AHCCCS for every individual eligible for the Adult Expansion, and it is estimated that 11,088 individuals, or approximately 12.1%, of the eligible population will utilize services. For the integrated SMI population, this line item only includes the portion of capitation for behavioral health services. The acute care costs of the SMI population are included in the Adult Expansion Services line item.

Non-Medicaid Seriously Mentally Ill Services

The budget includes \$78,846,900 from the General Fund in FY 2017 for Non-Medicaid Seriously Mentally Ill (SMI) Services. This amount funds the following adjustments:

Behavioral Health Transfer

The budget includes an increase of \$78,846,900 from the General Fund in FY 2017 to shift the Non-Medicaid Seriously Mentally Ill Services line item from the DHS budget to the AHCCCS budget. *(Please see the Behavioral Health Transfer section for additional information.)*

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 the Behavioral Health footnotes for more information on service targets established by the exit agreement, 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 2017 for Supported Housing. This amount funds the following adjustments:

Behavioral Health Transfer

The budget includes an increase of \$5,324,800 from the General Fund in FY 2017 to shift the Supported Housing line item from the DHS budget to the AHCCCS budget. (Please see the Behavioral Health Transfer section for additional information.)

Background – 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 1,948 clients per month in FY 2015.

Crisis Services

The budget includes \$16,391,300 in FY 2017 for Crisis Services. This amount consists of:

General Fund	14,141,100
Substance Abuse Services Fund	2,250,200

These amounts fund the following adjustments:

Behavioral Health Transfer

The budget includes an increase of \$16,391,300 in FY 2017 to shift the Crisis Services line item from the DHS budget to the AHCCCS budget. This amount consists of:

General Fund	14,141,100
Substance Abuse Services Fund	2,250,200

(Please see the Behavioral Health Transfer section for additional information.)

Background – 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.

Hospital Payments

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 budget includes \$163,074,200 of eligible DSH funding, of which \$119,304,700 is distributed according to the allocations described below and listed in *Table 4*. The remaining \$43,769,500 of eligible funding represents existing expenditures used as part of the state match.

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 \$1,111,300 in FY 2017 for this adjustment to increase total eligible funding for DSH payments from \$161,962,900 in FY 2016 to \$163,074,200 in FY 2017. The budget assumes the full amount will be available for the voluntary payments program.

General Fund Distributions

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 publicly-operated hospitals are Maricopa Integrated Health System (MIHS) and DHS' Arizona State Hospital (ASH).

Section 18 of the FY 2017 Health BRB sets the eligible funding for MIHS at \$113,818,500 in FY 2017, and assumes the state will retain \$74,605,600 in Federal Funds in FY 2017 for deposit to the General Fund. The budget also continues the state's current retention of all Federal Funds drawn down for ASH, which totals \$19,716,000 in FY 2017. In total, the Federal Funds drawn down from MIHS and ASH add \$94,321,600 to the General Fund in FY 2017.

MIHS Distribution

While the state retains \$74,605,600 of the MIHS federal match as General Fund revenue, the budget includes an appropriation of \$4,202,300 of the federal draw down for distribution to MIHS. This distribution to MIHS is appropriated in the Disproportionate Share Payments line.

Private Hospital Distribution

The state appropriates General Fund dollars, which receive a drawdown of federal dollars, for DSH payments to private hospitals. The budget includes an \$884,800 total funds appropriation for this distribution in the

Disproportionate Share Payments line, including \$272,200 from the General Fund and \$612,600 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 budget includes a \$19,896,000 total funds appropriation for this distribution in the DSH Payments - Voluntary Match line, including \$6,120,000 of local voluntary payments and \$13,776,000 in federal expenditure authority.

Disproportionate Share Payments

The budget includes \$5,087,100 in FY 2017 for Disproportionate Share Payments. This amount consists of:

General Fund	272,200
Federal Medicaid Authority	4,814,900

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(2,800) from the General Fund and a corresponding increase of \$2,800 from Federal Medicaid Authority in FY 2017 due to a change in the federal match rate.

Of the \$5,087,100 of total funds appropriated by the budget in the Disproportionate Share Payments line, \$884,800 represents distributions to private hospitals including \$272,200 from the General Fund and \$612,600 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 \$19,896,000 in FY 2017 for DSH Payments - Voluntary Match. This amount consists of:

Political Subdivision Funds	6,120,000
Federal Medicaid Authority	13,776,000

These amounts fund the following adjustments:

DSH Allotment Increase

The budget includes an increase of \$1,111,300 in FY 2017 for a federal increase in the total amount of

Table 4

Disproportionate Share Payments

	<u>FY 2016</u>	<u>FY 2017</u>
Eligible Funding ^{1/}		
MIHS - CPE	\$113,818,500	\$113,818,500
ASH - CPE	28,474,900	28,474,900
Private Hospitals	884,800	884,800
DSH Voluntary Match ^{2/}	<u>18,784,700</u>	<u>19,896,000</u>
Total Funding	\$161,962,900	\$163,074,200
Net Distribution - Disproportionate Share Payments		
<u>General Fund</u>		
Retain FF of CPE (via MIHS)	\$ 74,241,400	\$ 74,605,600
Retain FF of CPE (via ASH)	<u>19,624,900</u>	<u>19,716,000</u>
Subtotal - General Fund	\$ 93,866,300	\$ 94,321,600
<u>Other Entities</u>		
State MIHS	\$ 4,202,300	\$ 4,202,300
Private Hospitals	<u>884,800</u>	<u>884,800</u>
Subtotal - Other Entities	\$ 5,087,100	\$ 5,087,100
Total DSH Distributions	\$ 98,953,400	\$ 99,408,700
Match	\$ 18,784,700	\$ 19,896,000
Total Distributions	\$117,738,100	\$119,304,700

^{1/} Amounts include state and federal match funding.

^{2/} The budget continues a footnote that appropriates any additional payments in excess of \$19,896,000 for DSH Voluntary Payments in FY 2017

uncompensated care payments Arizona hospitals are permitted to receive. This amount consists of:

Political Subdivision Funds	326,500
Federal Medicaid Authority	784,800

This line item provides DSH payments to hospitals with matching funds provided by political subdivisions. Section 18 of the FY 2017 Health BRB continues to give priority to eligible rural hospitals when allocating voluntary match DSH payments, and continues to permit AHCCCS to include MIHS in allocations of voluntary match DSH payments if MIHS' CPE and matching Federal Funds exceed \$113,818,500 in FY 2017. In FY 2014 there were 19 hospitals that received voluntary match DSH payments.

Rural Hospitals

The budget includes \$22,650,000 in FY 2017 for Rural Hospitals (which includes Critical Access Hospitals). This amount consists of:

General Fund	6,967,100
Federal Medicaid Authority	15,682,900

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(72,500) from the General Fund and a corresponding increase of \$72,500 from Federal Medicaid Authority in FY 2017 due to a change in the federal match rate.

Section 25 of the FY 2017 Health BRB requires AHCCCS to report any voluntary payments paid to Critical Access Hospitals (CAHs) by political subdivisions, tribal governments or universities to provide a state match contribution for additional federal funding in FY 2017. The budget does not include a specific appropriation for voluntary payments because the federal government has yet to approve matching payments from political subdivisions for CAHs.

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 2015, 21 hospitals qualified for funding from Rural Hospital Reimbursement and 11 from CAH.

Graduate Medical Education

The budget includes \$162,992,600 in FY 2017 for Graduate Medical Education (GME) expenditures. This amount consists of:

Political Subdivision Funds	50,266,900
Federal Medicaid Authority	112,725,700

These amounts fund the following adjustments:

Decreased Funding

The budget includes a decrease of \$(23,546,500) in FY 2017 for a reduction in GME payments. This amount consists of:

Political Subdivision Funds	(9,433,700)
Federal Medicaid Authority	(14,112,800)

Although the FY 2016 General Appropriation Act displays a \$157,312,000 appropriation for FY 2016, a footnote appropriates any additional payments in excess of that amount. AHCCCS has informed JLBC that it expects to expend \$186,539,100 in total GME payments in FY 2016. Of the \$186,539,100, St. Joseph’s Hospital will receive a one-time GME payment of \$23,546,500 for medical education costs incurred in calendar year 2014. The

budget decrease is associated with removing this one-time payment.

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 calendar year 2014, 11 hospitals received a total of \$151,356,400 for Graduate Medical Education.

AHCCCS is submitting a proposal to the federal government to change the method for distributing Graduate Medical Education funds to training hospitals. AHCCCS currently uses 2 formulas to disburse these funds, and hospitals receive funds according to whichever formula provides the lesser amount of funds. The rules changes would instead allow hospitals to receive funds according to which formula provides the greater amount of funds. AHCCCS estimates that, if approved, this rules change could increase the total funds for GME by \$81 million annually. The budget does not adjust GME for these potential increases, but a long-standing footnote appropriates additional monies with JLBC review.

Safety Net Care Pool

The budget includes \$137,000,000 in FY 2017 for the Safety Net Care Pool (SNCP) program. This amount consists of:

Political Subdivision Funds	42,141,200
Federal Medicaid Authority	94,858,800

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(911,000) from Political Subdivision Funds and a corresponding increase of \$911,000 from Federal Medicaid Authority in FY 2017 due to a change in the federal match rate.

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 Phoenix Children's Hospital (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 September 30, 2016.

AHCCCS has informed JLBC that they expect to expend \$137,000,000 in total SNCP payments in FY 2016 and FY 2017, assuming that the federal government approves the continuation of the program for PCH beyond September 30, 2016.

Additional Legislation

FY 2017 Health BRB

In addition to the previously mentioned items, the FY 2017 Health BRB includes the following provisions:

Rates and Services

As session law, Section 24 continues the FY 2010 risk contingency rate reduction for all managed care organizations by 50% and continues to impose a 5.88% reduction of funding for all managed care organizations administrative funding levels.

As permanent law, Sections 9 and 10 restore coverage of podiatry services rendered by a licensed podiatrist for AHCCCS adult enrollees. Coverage for podiatry services was previously eliminated by the FY 2011 Health BRB.

As permanent law, Section 11 requires AHCCCS and AHCCCS contractors to reimburse providers participating in the federal 340B drug discount program at the lesser of the 340B discount price or the actual acquisition cost for drug claims submitted on behalf of AHCCCS enrollees. Hospitals and certain outpatient facilities would be exempt. AHCCCS is also required to report by November 1, 2016 on the feasibility of expending this requirement to additional entities. As session law, Section 33 exempts AHCCCS from statutory rulemaking requirements for one year to implement 340B pricing changes.

As session law, Section 14 repeals the FY 2016 Health BRB provision limiting AHCCCS capitation rate increases to no more than 1.5% in FY 2017 and FY 2018.

Counties

As session law, Section 23 continues to exclude Proposition 204 administration costs from county expenditure limitations.

As session law, Section 19 continues to require AHCCCS to transfer any excess monies back to the counties on December 31, 2017 if the counties' portion of the state

match exceeds the proportion allowed in order to comply with the Federal Affordable Care Act.

As permanent law, Sections 1 and 11 transfer the Intergovernmental Agreements for County Behavioral Health Services Fund from DHS to AHCCCS.

Erroneous Payments

As session law, Section 26 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

As session law, Section 34 continues to state that it is the intent of the Legislature that AHCCCS implement a program within its available appropriation.

As permanent law, Section 3 permits the use of TTHCF - Medically Needy Account monies to pay for behavioral health services for the Traditional population.

As permanent law, Section 11 establishes the Delivery System Reform Incentive Payment (DSRIP) Fund within AHCCCS. DSRIP is a federal program to make incentive payments to providers to improve the delivery of health care. AHCCCS is required to submit an expenditure plan to JLBC for its review before any monies are deposited in the fund. *(Please see Other Issues section for additional information.)*

Reports

As session law, Section 30 continues to require AHCCCS to submit a report to JLBC and the Governor's Office of Strategic Planning and Budgeting (OSP) by December 1, 2016 on the use of emergency departments for non-emergency use by AHCCCS enrollees.

As session law, Section 31 continues to require AHCCCS and DHS to submit a joint report to the Legislature and the Governor by January 1, 2017 on hospital cost and charges.

As session law, Section 13 requires AHCCCS to submit a report to JLBC and OSPB on efforts to increase third-party liability payments for behavioral health services by December 31, 2016.

As session law, Section 32 requires AHCCCS to report to JLBC on or before January 2, 2017 on the availability of inpatient psychiatric treatment for children and adults enrolled in Arizona's Regional Behavioral Health

Authorities. The report will include the following information:

- The total number of inpatient psychiatric beds available and the occupancy rate for those beds.
- Expenditures on inpatient psychiatric treatment.
- The total number of individuals in Arizona sent out of state for inpatient psychiatric care.
- The prevalence of “psychiatric boarding,” or the holding of psychiatric patients in emergency rooms for at least 24 hours before transferring them to a psychiatric facility.

As session law, Section 29 requires AHCCCS to submit a report for review by JLBC on or before December 1, 2016 that includes an analysis of the state fiscal implications of recently federal policy guidance that expanded the scope of Medicaid services furnished to Native Americans that may qualify for a 100% federal match rate.

(Please see Other Issues section for additional information.)

Substance Abuse Services Administration

As permanent law, Section 4 requires AHCCCS to establish services for alcohol and drug abuse pursuant to A.R.S. § 36-2001.

As permanent law, Section 5 repeals the Interagency Coordinating Council established in A.R.S. § 36-2002. The Council assisted in implementation of drug abuse control policies in this state, but expired in July 1973.

As permanent law, Section 6 grants AHCCCS all powers and duties associated with administering substance abuse services, including the authority to accept grants, matching funds, or direct payments from public or private agencies for substance abuse programs pursuant to A.R.S. § 36-2003.

As permanent law, Section 7 designates AHCCCS as the single state agency responsible for developing and implementing the state plan to address alcohol and drug abuse pursuant to A.R.S. § 36-2004.

As permanent law, Section 8 provides AHCCCS with the authority to administer the Substance Abuse Services Fund pursuant to A.R.S. § 36-2005.

Behavioral Health Services for Foster Children

Laws 2016, Chapter 71 is an emergency measure that allows the adoptive parents or other out-of-home providers for foster children that are Medicaid-eligible to directly contact a Regional Behavioral Health Authority (RBHA) for a screening and evaluation of a child if the

child’s caretaker identifies an urgent need to receive behavioral health services. The bill requires the RBHAs to dispatch an assessment team within 72 hours of the child entering an out-of-home placement, and within 2 hours if the child is identified as having urgent behavioral health needs.

Within 7 days of the initial screening, the RBHA is now required to complete an evaluation of the child’s needs, and if the evaluation determines that additional services are necessary, the RBHA must provide an initial behavioral health appointment within 21 days of the initial screening. If the RBHA fails to provide an appointment within 21 days, the foster child’s caretaker will be permitted to access services from any AHCCCS-registered provider, even if that provider does not have a contract with the RBHA.

The bill also allows caretakers of foster children to contact the RBHAs directly to coordinate crisis services for a child if the crisis services provider is not responsive. If the foster child’s caretaker requests from the RBHA behavioral health residential treatment for the child as a result of the child displaying threatening behavior, the RBHA is required to respond to the request within 72 hours. If the child is hospitalized because the RBHA fails to find a safe and appropriate placement, the RBHA is required to reimburse the hospital for any inpatient services rendered.

AHCCCS is required to track and report annually on the number of times each of the bill’s provisions are used, and on or before July 1, 2017, AHCCCS must complete a network adequacy study for behavioral health service providers that render services to CMDP children.

AHCCCS Coverage for Ex-Inmates

The FY 2017 Criminal Justice BRB (Laws 2016, Chapter 119) requires the Arizona Department of Corrections (ADC) to enter into an agreement to suspend coverage for state prison inmates sentenced to 12 months or less of incarceration if such inmates were enrolled in AHCCCS at the time of incarceration, so that coverage is reinstated immediately upon release. The bill also requires ADC to submit a pre-release application for AHCCCS coverage for all prisoners not covered under an enrollment suspense agreement.

The bill also allows ADC to share a prisoner’s health care information with AHCCCS and the RBHAs to facilitate access to medically necessary behavioral health and physical health services after release. ADC is permitted to establish care teams managed by the RBHAs and AHCCCS to ensure that prisoners have access to services needed

to safely transition into the community, such as housing and supported employment.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- FY 2016 Adjustments
- Federal Funding for Native Americans
- Delivery System Reform Incentive Payments
- Medicare Part B Premiums
- AHCCCS CARE Proposal
- Inpatient Psychiatric Treatment
- SMI Funding
- Risk Corridor
- Mandatory Affordable Care Act Changes
- Optional Affordable Care Act Changes
- County Contributions
- Program Components
- Tobacco Master Settlement Agreement
- Tobacco Tax Allocations

Long-Term Budget Impacts

As part of the budget’s 3-year spending plan, statutory caseload and policy changes are projected to increase AHCCCS’s General Fund spending by \$77.2 million in FY 2018 above FY 2017 and \$97.5 million in FY 2019 above FY 2018.

These estimates are based on:

- Enrollment growth of 2.7% in FY 2018 and 2.6% in FY 2019.
- Capitation rate growth of 1.5% in FY 2018 and 3% in FY 2019.
- An increase in the federal match rate (from 69.16% in FY 2016 to 69.39% in FY 2018 and 69.5% FY 2019).
- Savings of \$(1.8) million in FY 2018 and FY 2019 from federal approval of cost-sharing provisions.

FY 2016 Adjustments

The budget includes a FY 2016 supplemental increase of \$565,560,900. *Table 5* below shows the supplemental appropriation included in the budget by fund source. Of the \$565,560,900, \$26,249,300 is from appropriated funds and \$539,311,600 is from Expenditure Authority Funds, including \$34,502,000 from the Hospital Assessment Fund.

General Fund	\$0
Appropriated Funds	
PDRF-State	\$22,100,000
TPTF Emergency Health Services	830,800
TTHCF Medically Needy	<u>3,318,500</u>
<i>Subtotal</i>	<i>\$26,249,300</i>
Expenditure Authority Funds	
Hospital Assessment	\$34,502,000
TPTF Proposition 204 Protection ^{1/}	5,096,900
Federal Medicaid Authority	421,394,400
PDRF-Federal	<u>78,318,300</u>
<i>Subtotal</i>	<i><u>\$539,311,600</u></i>
Total Funds	\$565,560,900

^{1/} AHCCCS may transfer up to \$3,352,200 from the TPTF Proposition 204 Protection Account to DHS for higher-than-anticipated behavioral health caseload growth in the Proposition 204 population.

A portion of the supplemental appropriation is a result of the Executive’s decision to forego a (5)% provider rate reduction authorized by the FY 2016 Health BRB. The budget includes an increase of \$100,418,300 from the Prescription Drug Rebate Fund (PDRF) to offset the foregone savings, including \$22,100,000 from the state portion of PDRF and \$78,318,300 from the federal portion of PDRF. (See *Reversal of (5)% Provider Rate Reduction section for additional detail.*)

The budget includes an additional \$465,142,600 in supplemental funds as a result of higher-than-anticipated caseload growth across most AHCCCS populations. *Table 6* below shows the differences in caseload projections between the FY 2016 enacted budget and the FY 2017 budget. The FY 2017 budget is projecting additional enrollment of 175,654 in June 2016 relative to the FY 2016 budget assumption.

	FY 2016	FY 2017	Net
	Budget	Budget	Change
Traditional	980,630	1,041,285	60,655
Prop 204 Childless Adults	286,198	313,777	27,579
Other Prop 204	169,942	194,934	24,992
Adult Expansion	41,435	90,000	48,565
KidsCare	1,446	736	(710)
ALTCS E&PD	29,967	29,802	(165)
Emergency Services	<u>98,424</u>	<u>113,162</u>	<u>14,738</u>
Total	1,608,042	1,783,696	175,654

Federal Funding for Native Americans

The federal government provides a higher match rate for certain Medicaid services provided to Native Americans. States may receive 100% federal funding for Medicaid services provided to Native Americans if such services are

provided by an Indian Health Services (IHS) facility, whereas services rendered by non-IHS providers qualify for the regular 2-to-1 federal match rate.

In February 2016, the Centers for Medicare and Medicaid Services (CMS) issued new guidance that permits states to also receive a 100% federal match rate for services rendered to Native Americans by any participating Medicaid provider, as long as such services are provided under a written care coordination agreement with an IHS provider. The goal of the guidance is to improve Native American population health by expanding access to care and coordination of care for Native Americans enrolled in Medicaid.

AHCCCS likely will realize savings from the higher match rate, as Native Americans enrollees typically represent approximately 9%-10% of the AHCCCS population. The magnitude of the savings is uncertain because federal law prohibits AHCCCS from requiring providers to develop care coordination agreements that are required to qualify for the 100% match rate. The FY 2017 Health BRB requires AHCCCS to report on the fiscal implications of the guidance on or before December 1, 2016.

Delivery System Reform Incentive Payments

AHCCCS is seeking approval from the federal government for a proposal to create a Delivery System Reform Incentive Payment (DSRIP) program. DSRIP programs allow state Medicaid agencies to use existing state and federal funds to implement provider-led projects that improve Medicaid population health. Projects are associated with performance benchmarks, and provider reimbursement is tied to the benchmarks. There are currently 8 other states that implement DSRIP programs.

The FY 2017 Health BRB creates a non-appropriated DSRIP Fund that will receive any monies to implement the program if it is approved by the federal government. AHCCCS is required to submit an expenditure plan for review by the Joint Legislative Budget Committee before any monies are deposited into the DSRIP Fund.

Medicare Part B Premiums

In 2015, the federal Social Security Administration projected that Medicare Part B premiums would increase from \$104.90 per month to \$159.30 for certain Medicare beneficiaries in calendar year 2016, a 52% increase. Because AHCCCS pays for the Medicare premiums of low-income Medicare beneficiaries, higher Medicare premiums increase AHCCCS' costs.

In anticipation of the premium increase, AHCCCS froze enrollment in the Qualified Individuals (QI) program on October 9, 2015. The QI program is 100% funded by a federal block grant, and pays for the Medicare premiums for individuals with incomes 120%-135% FPL. AHCCCS projected that without the freeze, expenditures on the QI program would exceed the federal block grant allotment by \$13.1 million in calendar year 2016.

In November 2015, Congress adopted legislation to reduce the magnitude of the Part B premium increase, after which AHCCCS reopened enrollment in the QI program. The federal legislation lowers the premium increase in 2016 to \$121.80 instead of \$159.30, and requires Medicare beneficiaries to pay a monthly \$3 premium surcharge over the next 5 years. The \$121.80 premium includes the \$3 surcharge, and amounts to a 16.1% increase compared to calendar year 2015. Relative to the FY 2016 budget, the premiums increase AHCCCS' General Fund spending by \$3.1 million in FY 2016, and \$7.2 million in FY 2017. The FY 2017 budget incorporates the \$7.2 million increase.

AHCCCS CARE Proposal

In August 2015, the Executive announced its plan to renew the Section 1115 Waiver that covers Arizona's Medicaid program. The plan, called AHCCCS CARE, builds on the requirements for cost-sharing established in Laws 2015, Chapter 14. The plan includes the following provisions for able-bodied adults:

- A 2% premium.
- Selected copays that may reach 3% of household income.
- Health targets such as smoking cessation.
- Suspension of funding for non-emergency medical transportation.
- A requirement to work, actively seek work, or participate in a job training program.
- A lifetime limit of 5 years for Medicaid enrollment.

Some provisions of AHCCCS CARE are likely to reduce the savings from cost-sharing in the 3-year budget plan associated with the enacted FY 2016 budget. For example, the FY 2016 budget included savings from the 2% premiums, but the Executive has specified that these premiums will not be used to offset AHCCCS costs. Instead, premiums will be deposited into an AHCCCS CARE account. Enrollees can only use funds in their AHCCCS CARE account to pay for services not covered by AHCCCS, such as dental, vision, or chiropractic services.

The FY 2016 budget included \$(1.4) million in General Fund savings in FY 2017 and \$(1.8) million in FY 2018 for

savings associated with premiums as well as copays for inappropriate emergency room utilization. The AHCCCS CARE plan would reduce General Fund savings associated with premiums and copays to \$(100,000).

Any changes to the AHCCCS Section 1115 Waiver must be approved by the federal government. The FY 2017 budget presumes the originally budgeted level of savings, and includes an additional \$(3,800) in General Fund savings from the suspension of non-emergency medical transportation for the adult expansion population. (See *Cost Sharing Provisions section for additional detail.*)

Inpatient Psychiatric Treatment

The FY 2017 Health BRB requires AHCCCS to submit a report to JLBC that examines the potential shortage in inpatient psychiatric beds for children as well as adults. This report was an outgrowth of concerns raised by stakeholders about the availability of inpatient psychiatric beds in Arizona, especially for children and adolescents with significant behavioral health needs.

Laws 2016, Chapter 71 includes provisions to improve access to inpatient psychiatric treatment for foster children. The bill requires the RBHAs to respond to requests for behavioral health residential treatment made by caregivers of Medicaid-eligible foster children displaying threatening behavior within 72 hours of the request being made. The bill also requires a network adequacy study of behavioral health providers contracted with CMDP. (Please see the *Additional Legislation section for more information.*)

SMI Funding

Table 7 shows the total Medicaid funding in FY 2017 for behavioral health services for the integrated SMI population is \$686.8 million for 42,358 recipients. State and federal funding for behavioral health services for this population is located in the Traditional, Proposition 204, and Adult Expansion line items of the behavioral health services portion of the AHCCCS budget.

	<u>State Match</u>	<u>Federal Match</u>	<u>Total Funds</u>	<u>Enrollees</u>
Integrated SMI				
Maricopa	\$118,141,300	\$320,532,100	\$438,673,400	21,531
Integrated SMI				
Greater AZ	<u>64,604,600</u>	<u>183,487,700</u>	<u>248,092,300</u>	<u>20,827</u>
Total 1/	\$182,745,900	\$504,019,800	\$686,765,700	42,358

1/ These estimates reflect Medicaid capitation spending for the SMI population. They do not include any services used that were funded by non-Medicaid state funds, federal grant funds, or county funds.

In FY 2017, an estimated \$28.9 million in additional total Medicaid funds will be spent on SMI services for non-integrated SMI clients. Of that amount, \$5.7 million is state matching funds, and \$23.2 million is federal matching funds.

Risk Corridor

RBHAs are community-based organizations that DHS has contracted with to administer behavioral health services. AHCCCS will continue contracting with the RBHAs following the transfer of behavioral health services. The RBHAs contract with a network of medical providers to deliver these services. DHS currently 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." The budget assumes that AHCCCS will continue to use risk corridors for the RBHAs.

Currently, the risk corridor for all RBHAs is 4% - their profits or losses, as a percentage of annual services revenues, are limited to 4%. The risk corridor was increased from 3% to 4% for the Maricopa County RBHA when it began delivering integrated care to the SMI population. Similarly, the risk corridor was increased from 3% to 4% for the 2 Greater Arizona RBHAs when they began delivering integrated care on October 1, 2015. In addition to the risk corridor, RBHA contracts also allow 9% of health capitation rates be used for administrative costs and risk contingency.

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 decreases the AHCCCS budget by \$(8,118,100) in FY 2017. These costs are included in the formula adjustments.

Child Expansion

Beginning on January 1, 2014, ACA required the expansion of coverage to children under age 19 to 133% of the Federal Poverty Level (FPL) (\$32,300 for a family of 4). These child enrollees, known as the child expansion population, are included in the Traditional population. As of May 1, 2016, there were approximately 77,500 child expansion enrollees.

Prior to the ACA, child expansion enrollees were eligible for coverage through KidsCare. 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.

Beginning on October 1, 2015, federal legislation increased the state's KidsCare and child expansion match rate to 100%. The budget includes a decrease of \$(5,102,100) in FY 2017 from the General Fund for this increase in the federal match rate.

Provider Rate Increase Phase-Out

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 PCP rate increase was originally supposed to only apply to FY 2014 and FY 2015, but due to delays in processing by the federal government, AHCCCS expects to spend \$2,373,900 in FY 2016 from the General Fund for the rate increase. The budget includes a decrease of \$(2,373,900) from the General Fund in FY 2017 for the elimination of the PCP rate increase.

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 a decrease of \$(642,100) (from \$24,773,000 to \$24,130,900) from the General Fund in FY 2017 for the allocation of these costs. The decrease is primarily due to a lower number of insurers being subject to the fee than was originally projected in the FY 2016 budget.

Optional Affordable Care Act Changes

The FY 2014 Health and Welfare 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 in the following sections, 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 8* summarizes the costs of these changes in FY 2016 and FY 2017. In total, the FY 2017 budget includes \$3.05 billion in Total Fund expenditures for ACA enrollees, including \$110 million from the General Fund and \$253 million from the Hospital Assessment Fund.

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, and will gradually converge to the adult expansion rate of 90% in calendar year 2020. In FY 2017 the match rate will be 90.28%. The hospital assessment covers the state portion for this population's acute costs, and the General Fund covers this population's behavioral health costs.

The original FY 2016 budget assumed that 285,700 childless adults who were not previously eligible would enroll in the program by June 2015, with a total of 286,200 enrolled by June 2016. As of May 1, 2015, there were approximately 307,500 childless adult enrollees in the Proposition 204 program. The budget assumes a June 2017 enrollment of 321,600.

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. In FY 2017 the match rate will be 97.5%. The hospital assessment covers the state portion for this population's acute costs, and the General Fund covers this population's behavioral health costs. (*See Hospital Assessment section for additional information.*)

While the FY 2014 Health and Welfare BRB expands eligibility for the adult expansion 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 2016 budget assumed that 41,400 Adult Expansion enrollees who were not previously eligible would enroll in the program by June 2016. As of May 1,

Table 8

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

		<u>FY 2016 Revised</u>			<u>FY 2017 Budget</u>		
		<u>GF</u>	<u>HA</u> ^{1/}	<u>FF</u>	<u>GF</u>	<u>HA</u> ^{1/}	<u>FF</u>
Adult Expansion 100-133% FPL ^{2/}	Acute	\$ 0	\$ 0	\$ 386	\$ 0	\$ 6	\$ 456
	BHS	<u>0</u>	<u>0</u>	<u>71</u>	<u>1</u>	<u>0</u>	<u>77</u>
	Total	\$ 0	\$ 0	\$ 457	\$ 1	\$ 6	\$ 533
Proposition 204 – Childless Adults 0-100% FPL ^{2/}	Acute	\$ 0	\$ 187	\$1,690	\$ 0	\$ 179	\$1,824
	BHS	<u>35</u>	<u>0</u>	<u>318</u>	<u>37</u>	<u>0</u>	<u>341</u>
	Total	\$ 35	\$ 187	\$2,008	\$ 37	\$ 179	\$2,165
Proposition 204 – Parents 22-100% FPL ^{3/4/}	Acute	\$ 0	\$ 63	\$ 181	\$ 0	\$ 68	\$ 194
	BHS	<u>66</u>	<u>0</u>	<u>153</u>	<u>72</u>	<u>0</u>	<u>162</u>
	Total	\$ 66	\$ 63	\$ 334	\$ 72	\$ 68	\$ 356
Total Expenditures^{5/}	Total	\$ 101	\$ 250	\$2,799	\$ 110	\$ 253	\$3,054

“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. The Hospital Assessment Fund does not pay for behavioral health costs of these line items.
- 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 9

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

	<u>June 2015</u>	<u>June 2016</u>	<u>June 2017</u>
Childless Adult Restoration	211,300	246,000	253,900
Adult Expansion 100%-133% FPL	61,500	90,000	92,300
Child Expansion 100%-133% FPL	36,000	80,100	82,100
Other Enrollees	<u>97,500</u>	<u>135,500</u>	<u>167,900</u>
Total	406,300	551,600	596,200

1/ June 2015 figures are actual amounts while June 2016 and June 2017 are projections.

2016, there were approximately 86,100 Adult Expansion enrollees. The budget assumes June 2017 enrollment of 92,300.

The FY 2016 budget projected that the total ACA population would reach 376,000 by June 2016. The FY 2017 budget assumes that the population will reach 596,100 in June 2017. *Table 9* displays population growth since the ACA start date of January 1, 2014.

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 is based on hospital discharges as reported on each hospital’s Medicare Cost Report. The amounts differ based on types of providers. The FY 2017 budget increases Hospital Assessment collection to \$252,329,100, a \$2,268,300 increase above FY 2016.

County Contributions

County governments make 4 different payments to defray the AHCCCS budget’s costs, as summarized in *Table 10*. FY 2017 payments listed in the table are specified in sections 15, 20, and 21 of the FY 2017 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 2015 ALTCS utilization.
3. Each county's contribution is then limited to 90¢ per \$100 of net assessed property value. In FY 2017, this provision provides 3 counties with a total of \$6,543,100 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 2017, this provision provides 3 counties with a total of \$14,666,900 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 2017 no counties qualify for this relief.
6. The state pays for county costs above the average statewide per capita (\$38.74 in FY 2017). In FY 2017 this provision provides 6 counties with a total of \$9,807,600 in relief.

In FY 2017, provisions 3 through 6 of the ALTCS formula result in the state providing a total of \$31,017,600 in relief to 9 counties.

Program Components

Traditional Medicaid, Proposition 204, Adult Expansion, KidsCare, CRS, ALTCS, and CMDP 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 2017, the average capitation rate for acute care is expected to be approximately \$345 per member per month (or \$4,138 annually). Of that amount, an average of \$81 is from state match and \$264 from Federal Medicaid Authority. For behavioral health, the average capitation rate is expected to be \$93 per member per month (or \$1,119 annually), with an average of \$23 for state match and \$70 for the federal match.

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.

Medicare Premiums

AHCCCS provides funding for the purchase of Medicare Part B (supplemental medical insurance) and Part A (hospital insurance). Purchasing supplemental coverage

Table 10

County Contributions

County	FY 2016				FY 2017			
	<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	\$114,800	\$268,800	\$87,300	\$618,900	\$117,400	\$268,800	\$87,300	\$625,200
Cochise	214,100	2,214,800	162,700	5,165,500	219,100	2,214,800	162,700	4,995,000
Coconino	211,200	742,900	160,500	1,858,500	216,100	742,900	160,500	1,877,300
Gila	86,700	1,413,200	65,900	2,117,900	88,800	1,413,200	65,900	2,112,600
Graham	61,700	536,200	46,800	1,336,700	63,100	536,200	46,800	1,303,500
Greenlee	15,800	190,700	12,000	79,700	16,200	190,700	12,000	33,500
La Paz	32,800	212,100	24,900	696,300	33,600	212,100	24,900	595,600
Maricopa	0	19,203,200	0	153,303,200	0	19,011,200	0	155,173,500
Mohave	246,600	1,237,700	187,400	8,033,700	252,300	1,237,700	187,400	7,948,800
Navajo	161,600	310,800	122,800	2,562,200	165,300	310,800	122,800	2,588,200
Pima	1,468,800	14,951,800	1,115,900	39,303,600	1,502,600	14,951,800	1,115,900	39,243,800
Pinal	287,400	2,715,600	218,300	15,539,700	294,000	2,715,600	218,300	14,899,800
Santa Cruz	67,900	482,800	51,600	1,942,200	69,500	482,800	51,600	1,930,900
Yavapai	271,500	1,427,800	206,200	8,416,600	277,700	1,427,800	206,200	8,391,300
Yuma	242,000	1,325,100	183,900	8,259,900	247,600	1,325,100	183,900	8,261,000
Subtotal	\$3,482,900	\$47,233,500	\$2,646,200	\$249,234,600	\$3,563,300	\$47,041,500	\$2,646,200	\$249,980,000
Total				\$302,597,200				\$303,231,000

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 up to \$1,636,000 from the Traditional Medicaid Services line item in FY 2017 to assist in the enforcement of a multi-year settlement reached between tobacco companies and the state over the Master Settlement Agreement (MSA). This transfer amount consists of:

- Up to \$1,200,000 to the Attorney General 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 came 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.)*

Tobacco Tax Allocations

Table 11 is a summary of the tobacco tax allocations.

Table 11

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

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
Medically Needy Account			
<u>Funds Available</u>			
Balance Forward	\$ 4,963,800	\$ 9,570,700	\$ 335,400
Transfer In - Tobacco Tax and Health Care Fund	48,002,100	45,446,500	48,389,500
Transfer In - Tobacco Products Tax Fund	<u>26,171,900</u>	<u>24,519,000</u>	<u>25,308,700</u>
Total Funds Available	\$ 79,137,800	\$ 79,536,200	\$ 74,033,600
<u>Allocations</u>			
<i>AHCCCS</i>			
AHCCCS State Match Appropriation	\$ 34,178,800	\$ 34,498,500	\$ 72,998,200
Total AHCCCS Allocations	\$ 34,178,800	\$ 34,498,500	\$ 72,998,200
<i>DHS</i>			
Behavioral Health GF Offset ^{1/}	\$ 34,767,000	\$ 44,002,300	\$ 0
Folic Acid	396,300	400,000	400,000
Renal, Dental Care, and Nutrition Supplements	<u>225,000</u>	<u>300,000</u>	<u>300,000</u>
Total DHS Allocations	<u>35,388,300</u>	<u>44,702,300</u>	<u>700,000</u>
Balance Forward	\$ 9,570,700	\$ 335,400	\$ 335,400
AHCCCS Proposition 204 Protection Account			
<u>Funds Available</u>			
Balance Forward	\$ 2,986,600	\$ 3,352,200	\$ 0
Transfer In - Tobacco Products Tax Fund	<u>41,577,200</u>	<u>38,140,700</u>	<u>37,521,000</u>
Total Funds Available	\$ 44,563,800	\$ 41,492,900	\$ 37,521,000
<u>Allocations</u>			
AHCCCS State Match Appropriation	38,225,000	41,492,900	37,521,000
Administrative Adjustments	<u>2,986,600</u>	<u>0</u>	<u>0</u>
Balance Forward	\$ 3,352,200	\$ 0	\$ 0
AHCCCS Emergency Health Services Account			
<u>Funds Available</u>			
Balance Forward	\$ 56,900	\$ 0	\$ 0
Transfer In - Tobacco Products Tax Fund	<u>19,284,300</u>	<u>18,162,200</u>	<u>18,747,200</u>
Total Funds Available	\$ 19,341,200	\$ 18,162,200	\$ 18,747,200
<u>Allocations</u>			
AHCCCS State Match Appropriation	\$ 19,284,300	\$ 18,162,200	18,747,200
Administrative Adjustments	<u>56,900</u>	<u>0</u>	<u>0</u>
Balance Forward ^{2/}	\$ 0	\$ 0	\$ 0
DHS Health Education Account			
<u>Funds Available</u>			
Balance Forward	\$ 10,237,400	\$ 7,607,300	\$ 5,351,000
Transfer In - Tobacco Tax and Health Care Fund	15,775,100	16,159,300	16,159,300
Transfer In - Tobacco Products Tax Fund	<u>1,938,700</u>	<u>1,928,300</u>	<u>1,928,300</u>
Total Funds Available	\$ 27,951,200	\$ 25,694,900	\$ 23,438,600
<u>Allocations</u>			
Tobacco Education and Prevention Program	\$ 17,878,200	\$ 17,878,200	\$ 17,878,200
Leading Causes of Death - Prevention and Detection	<u>2,465,700</u>	<u>2,465,700</u>	<u>2,465,700</u>
Balance Forward	\$ 7,607,300	\$ 5,351,000	\$ 3,094,700
Health Research Account			
<u>Funds Available</u>			
Balance Forward	\$ 4,098,800	\$ 9,035,700	\$ 11,065,500
Transfer In - Tobacco Tax and Health Care Fund	3,428,600	3,443,200	3,443,200
Transfer In - Tobacco Products Tax Fund	<u>4,846,700</u>	<u>4,861,400</u>	<u>4,861,400</u>
Total Funds Available	\$ 12,374,100	\$ 17,340,300	\$ 19,370,100
<u>Allocations</u>			
Biomedical Research Support ^{3/}	\$ 997,500	\$ 2,000,000	\$ 2,000,000
Alzheimer's Disease Research ^{4/}	1,000,000	1,000,000	2,000,000
Biomedical Research Commission	<u>1,340,900</u>	<u>3,274,800</u>	<u>3,274,800</u>
Balance Forward	\$ 9,035,700	\$ 11,065,500	\$ 12,095,300

^{1/} Laws 2016, Chapter 117 appropriates \$9,235,300 from the Medically Needy Account to DHS in FY 2016 to provide one-time funding for higher-than-anticipated behavioral health caseload growth in FY 2016.

^{2/} Any unencumbered funds in Emergency Health Services Account are transferred to Proposition 204 Protection Account at the end of each year.

^{3/} 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).

^{4/} Laws 2016, Chapter 117 appropriates \$1,000,000 from the Health Research Account in FY 2017 for a one-time funding increase for Alzheimer's disease research.