

## Department of Health Services

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	1,047.7	1,176.7	1,065.5 <sup>1/</sup>
Personal Services	21,373,600	28,235,900	19,144,900
Employee Related Expenditures	8,922,300	12,034,000	7,951,300
Professional and Outside Services	1,452,800	1,534,300	1,032,800
Travel - In State	363,400	355,400	336,800
Travel - Out of State	80,500	74,700	71,500
Other Operating Expenditures	28,298,100	20,609,600	18,261,200
Equipment	360,200	2,833,800	2,254,700
<b>OPERATING SUBTOTAL</b>	<b>60,850,900</b>	<b>65,677,700</b>	<b>49,053,200</b>
<b>SPECIAL LINE ITEMS</b>			
<b>Behavioral Health</b>			
Medicaid Behavioral Health - Traditional Services	847,628,600	918,223,800	0
Medicaid Behavioral Health - Proposition 204 Services	529,432,900	579,201,100	0
Medicaid Behavioral Health - Comprehensive Medical and Dental Program	175,012,100	185,855,600	0
Medicaid Behavioral Health - Adult Expansion Services	38,478,000	70,549,600	0
Proposition 204 Administration	5,622,500	6,446,700	0
Medicare Clawback Payments	14,100,700	14,228,600	0
Medicaid Insurance Premium Payments	34,505,300	33,167,700	0
Non-Medicaid Seriously Mentally Ill Services	74,241,300	78,846,900	0
Supported Housing	5,194,500	5,324,800	0
Crisis Services	16,308,500	16,391,100	0
Mental Health First Aid	184,100	0	0
<b>Arizona State Hospital</b>			
ASH-Operating	56,518,300	59,268,700	60,715,700 <sup>2/</sup>
ASH-Restoration to Competency	900,100	900,000	900,000 <sup>3/</sup>
ASH-Sexually Violent Persons	9,361,700	9,684,900	9,639,100 <sup>4/</sup>
One-Time Electronic Medical Records Start-Up	2,688,100	0	0
<b>Public Health/Family Health</b>			
Adult Cystic Fibrosis Care	105,200	105,200	105,200
AIDS Reporting and Surveillance	993,600	1,000,000	1,000,000
Alzheimer's Disease Research	2,375,000	1,125,000	2,125,000 <sup>5/</sup>
Biomedical Research Support	997,500	2,000,000	2,000,000 <sup>6/</sup>
Pediatric Autoimmune Neurological Disorders Research	0	0	250,000 <sup>7/</sup>
Breast and Cervical Cancer and Bone Density Screening	914,000	1,369,400	1,369,400
County Tuberculosis Provider Care and Control	485,900	590,700	590,700
Emergency Medical Services Local Allocation	0	442,000	442,000
Folic Acid Program	396,300	400,000	400,000
High Risk Perinatal Services	1,736,400	2,543,400	2,543,400
Newborn Screening Program	5,371,300	6,297,300	6,697,300
Nursing Care Special Projects	45,100	100,000	100,000
Poison Control Centers Funding	656,800	990,000	990,000
Nonrenal Disease Management	89,200	198,000	198,000 <sup>8/</sup>
Renal Dental Care and Nutrition Supplements	225,000	300,000	300,000
School-Based Prevention Education	17,800	0	0
<b>AGENCY TOTAL</b>	<b>1,885,436,700</b>	<b>2,061,228,200</b>	<b>139,419,000 <sup>9/10/</sup></b>
<b>FUND SOURCES</b>			
General Fund	611,180,000	602,738,500	86,551,700
<u>Other Appropriated Funds</u>			
Arizona State Hospital Fund	10,308,700	9,575,300	9,562,000

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
ASH Land Earnings Fund	585,100	650,000	880,100
Capital Outlay Stabilization Fund	1,559,800	1,559,900	1,559,900
Child Fatality Review Fund	91,700	95,000	94,700
Disease Control Research Fund	0	0	250,000
Emergency Medical Services Operating Fund	4,556,200	5,369,700	5,357,900
Environmental Laboratory Licensure Revolving Fund	720,500	926,400	924,200
Federal Child Care and Development Fund Block Grant	879,400	876,100	872,300
TTHCF - Health Research Account	1,997,500	3,000,000	4,000,000
Health Services Licensing Fund	8,789,300	9,264,200	9,232,300
Indirect Cost Fund	9,451,900	8,559,800	8,546,100
Newborn Screening Program Fund	5,774,500	6,738,500	7,130,100
Nursing Care Institution Resident Protection Revolving Fund	45,100	138,200	138,200
Prescription Drug Rebate Fund - State	0	8,824,500 <sup>11/</sup>	0
Substance Abuse Services Fund	2,250,000	2,250,200	0
TTHCF - Medically Needy Account	35,388,300	44,702,300	700,000
Vital Records Electronic Systems Fund	2,075,000	3,629,000	3,619,500
<b>SUBTOTAL - Other Appropriated Funds</b>	<b>84,473,000</b>	<b>106,159,100</b>	<b>52,867,300</b>
<b>SUBTOTAL - Appropriated Funds</b>	<b>695,653,000</b>	<b>708,897,800</b>	<b>139,419,000</b>
<u>Expenditure Authority Funds</u>			
Federal Medicaid Services	1,189,783,700	0	0
ISA Behavioral Health Services Fund	0	1,352,330,400	0
<b>SUBTOTAL - Expenditure Authority Funds</b>	<b>1,189,783,700</b>	<b>1,352,330,400</b>	<b>0</b>
<b>SUBTOTAL - Appropriated/Expenditure Authority Funds</b>	<b>1,885,436,700</b>	<b>2,061,228,200</b>	<b>139,419,000</b>
Other Non-Appropriated Funds	123,538,600	128,130,700	65,534,300
Federal Funds	295,902,400	291,116,300	249,596,000
<b>TOTAL - ALL SOURCES</b>	<b>2,304,877,700</b>	<b>2,480,475,200</b>	<b>454,549,300</b>

1/ Includes 694 GF and 60.1 OF FTE Positions funded from Special Line Items in FY 2017.

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

3/ The Arizona State Hospital - Restoration to Competency line item includes monies for direct costs associated with the Restoration to Competency program. All other indirect costs are included in the Arizona State Hospital - Operating line item.

4/ The Arizona State Hospital - Sexually Violent Persons line item includes monies for direct costs associated with the Sexually Violent Person program. All other indirect costs are included in the Arizona State Hospital - Operating line item.

5/ Of the \$1,125,000 for Alzheimer's Disease Research, \$1,000,000 is from the Tobacco Tax and Health Care Fund - Health Research Account established by A.R.S. § 36-773. (General Appropriation Act footnote)

6/ Laws 2014, Chapter 18, Section 128 appropriated \$2,000,000 annually from the Health Research Fund established by A.R.S. § 36-275 from FY 2015 through FY 2019 to the Department of Health Services for allocation to a nonprofit medical research institute headquartered in this state that meets certain criteria. This appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (Please see the Biomedical Research Support line item for more information.)

7/ Laws 2016, Chapter 207 appropriates \$250,000 from the Disease Control Research Fund in FY 2017 for Pediatric Autoimmune Neurological Disorders Research.

8/ The Department of Health Services may use up to 4% of the amounts appropriated for Nonrenal Disease Management for the administrative costs to implement the program. (General Appropriation Act footnote)

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

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

11/ Laws 2016, Chapter 117 provides a one-time appropriation \$8,824,500 from the Prescription Drug Rebate Fund - State to DHS in FY 2016 for higher-than-anticipated behavioral health caseload growth in FY 2016.

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

**Summary**

DHS' FY 2017 General Fund spending decreases by \$(516,186,800), or (85.6)%, from FY 2016.

The budget includes the transfer of behavioral health services from DHS to AHCCCS pursuant to Laws 2015, Chapters 19 and 195. Of the \$(517,304,700) being transferred, \$(418,991,900) is for Medicaid-funded behavioral health services and \$(98,312,800) is for non-Medicaid behavioral health services.

Net of the behavioral health transfer, DHS' General Fund spending increases by \$1,117,900 in FY 2017, including \$1,512,800 for increased staffing at the Arizona State Hospital, \$(394,700) for statewide adjustments, and \$(200) to remove one-time named claimants funding from FY 2016.

**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 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 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 1**

<b>Behavioral Health Transfer</b>	
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>	<i>\$1,920,670,400</i>
Non-Appropriated Funds	<u>104,039,900</u>
<b>Total Funds</b>	<b>\$2,024,710,300</b>

Table 1 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.

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 the AHCCCS 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.

**Operating Budget**

The budget includes \$49,053,200 and 311.4 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	<b>FY 2017</b>
General Fund	\$19,267,300
Capital Outlay Stabilization Fund	1,559,900
Child Fatality Review Fund	94,700
Emergency Medical Services (EMS)	4,465,900
Operating Fund	
Environmental Laboratory Licensure	924,200
Revolving Fund	
Federal Child Care and Development	872,300
Fund (CCDF) Block Grant	
Health Services Licensing Fund	9,232,300
Indirect Cost Fund	8,546,100
Newborn Screening Program Fund	432,800
Nursing Care Institution Resident	38,200
Protection Revolving Fund	
Vital Records Electronic Systems Fund	3,619,500

These amounts fund the following adjustments:

**Behavioral Health Transfer**

The budget includes a decrease of \$(15,539,800) and (140.2) FTE Positions in FY 2017 from the operating budget to shift operating expenses for behavioral health services from the DHS budget to the AHCCCS budget. This amount consists of:

General Fund	(4,602,400)
Substance Abuse Services Fund	(200)
Federal Medicaid Authority	(10,937,200)

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

**Licensing Decrease**

The budget includes a decrease of \$(936,400) in Federal Medicaid Authority in FY 2017 from the operating budget as requested by the agency to eliminate Medicaid funding for DHS licensing operations. DHS receives Federal Medicaid Authority funds to license long term care facilities used by AHCCCS enrollees pursuant to an interagency service agreement (ISA) with AHCCCS. DHS continues to license these facilities, but this ISA is no longer in effect.

**One-Time Named Claimants Funding**

The budget includes a decrease of \$(1,292.19) in FY 2017 for the elimination of one-time funding of prior year unpaid claims. This amount consists of:

General Fund	(157.00)
EMS Operating Fund	(908.04)
Newborn Screening Program Fund	(227.15)

*(Please see the Named Claimants discussion in ADOA Other Issues.)*

**Statewide Adjustments**

The budget includes a decrease of \$(146,800) in FY 2017 from the operating budget for statewide adjustments. This amount consists of:

General Fund	(66,300)
Child Fatality Review Fund	(300)
EMS Operating Fund	(10,900)
Environmental Laboratory Licensure	(2,200)
Revolving Fund	
Federal CCDF Block Grant	(3,800)
Health Services Licensing Fund	(31,900)
Indirect Cost Fund	(13,700)
Newborn Screening Program Fund	(8,200)
Vital Records Electronic Systems Fund	(9,500)

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

**Behavioral Health**

Through FY 2016, these line items funded 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 no funding in FY 2017 for Medicaid Behavioral Health - Traditional Services. This amount funds the following adjustments:

#### **Behavioral Health Transfer**

The budget includes a decrease of \$(918,223,800) 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	(233,735,000)
Tobacco Tax and Health Care Fund - Medically Needy Account	(44,002,300)
Federal Medicaid Authority	(640,486,500)

*Background* – This line item provided behavioral health treatment to Medicaid eligible adults and children. DHS currently administers Traditional behavioral health services, but this responsibility will shift to AHCCCS beginning July 1, 2016. (See Behavioral Health Transfer section for additional detail.)

### **Medicaid Behavioral Health - Proposition 204 Services**

The budget includes no funding in FY 2017 for Medicaid Behavioral Health - Proposition 204 Services. This amount funds the following adjustments:

#### **Behavioral Health Transfer**

The budget includes a decrease of \$(579,201,100) 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	(101,389,500)
Prescription Drug Rebate Fund - State	(5,475,100)
Federal Medicaid Authority	(472,336,500)

*Background* – This line item provided behavioral health treatment to Proposition 204 - Medicaid eligible adults and children. DHS currently administers Proposition 204 behavioral health services, but this responsibility will shift to AHCCCS beginning July 1, 2016. (See Behavioral Health Transfer section for additional detail.)

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

The budget includes no funding in FY 2017 for Medicaid Behavioral Health - Comprehensive Medical and Dental Program (CMDP). This amount funds the following adjustments:

### **Behavioral Health Transfer**

The budget includes a decrease of \$(185,855,600) in FY 2017 to shift the Medicaid Behavioral Health - CMDP line item from the DHS budget to the AHCCCS budget. This amount consists of:

General Fund	(54,355,600)
Prescription Drug Rebate Fund - State	(3,349,400)
Federal Medicaid Authority	(128,150,600)

*Background* – This line item provided behavioral health treatment to CMDP eligible children. CMDP is the health plan responsible for providing health services for children in foster care. DCS currently administers the acute care services for this population. DHS currently administers CMDP behavioral health services, but this responsibility will shift to AHCCCS beginning July 1, 2016. (See Behavioral Health Transfer section for additional detail.)

### **Medicaid Behavioral Health - Adult Expansion Services**

The budget includes no funding in FY 2017 for Medicaid Behavioral Health - Adult Expansion Services. This amount funds the following adjustments:

#### **Behavioral Health Transfer**

The budget includes a decrease of \$(70,549,600) 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.

The Adult Expansion provided behavioral health treatment for adults from 100%-133% FPL who were not eligible for another Medicaid program. DHS currently administers Adult Expansion behavioral health services, but this responsibility will shift to AHCCCS beginning July 1, 2016. (See Behavioral Health Transfer section for additional detail.)

### **Proposition 204 Administration**

The budget includes no funding in FY 2017 for Proposition 204 Administration. This amount funds the following adjustments:

#### **Behavioral Health Transfer**

The budget includes a decrease of \$(6,446,700) in FY 2017 to shift the Proposition 204 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)

This line item provided funding for the administrative component of the Proposition 204 population. DHS currently administers Proposition 204 behavioral health services, but this responsibility will shift to AHCCCS beginning July 1, 2016. *(See Behavioral Health Transfer section for additional detail.)*

**Medicare Clawback Payments**

The budget includes no funding in FY 2017 for Medicare Clawback Payments. This amount funds the following adjustments:

**Behavioral Health Transfer**

The budget includes a decrease of \$(14,228,600) from the General Fund in FY 2017 to shift funding for Medicare Clawback Payments from the DHS budget to the AHCCCS budget.

As part of the Medicare Modernization Act (MMA) effective January 1, 2006, DHS was not required to pay for prescription drug costs for members who are also eligible for Medicare. Instead, DHS was required to make “Clawback” payments to Medicare based on a certain percent (75.0% in 2016) of the estimated drug costs. DHS currently makes behavioral health Clawback payments to the federal government, but this responsibility will shift to AHCCCS beginning July 1, 2016. *(See Behavioral Health Transfer section for additional detail.)*

**Medicaid Insurance Premium Payments**

The budget includes no funding in FY 2017 for Medicaid Insurance Premium Payments. This amount funds the following adjustments:

**Behavioral Health Transfer**

The budget includes a decrease of \$(33,167,700) in FY 2017 to shift Medicaid Insurance Premium Payments from the DHS budget to the AHCCCS budget. This amount consists of:

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

This line item provided funding necessary for insurance premium tax payments by DHS. The department was required to pay a 2% tax on the capitation payments it paid to RBHAs. DHS currently pays Medicaid insurance premium taxes for the RBHAs, but this responsibility will shift to AHCCCS beginning July 1, 2016. *(See Behavioral Health Transfer section for additional detail.)*

**Non-Medicaid Seriously Mentally Ill Services**

The budget includes no funding in FY 2017 for Non-Medicaid Seriously Mentally Ill (SMI) Services. This amount funds the following adjustments:

**Behavioral Health Transfer**

The budget includes a decrease 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.

*Background* – This line item provided 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. An exit agreement from the litigation requires the state to provide assertive community treatment, supported housing, supported employment, crisis services, and family and peer support services to individuals with a serious mental illness. DHS is currently responsible for providing these services, but this responsibility will shift to AHCCCS beginning July 1, 2016. *(See the Behavioral Health Transfer section for additional detail.)*

**Supported Housing**

The budget includes no funding in FY 2017 for Supported Housing. This amount funds the following adjustments:

**Behavioral Health Transfer**

The budget includes a decrease 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.

*Background* – This line item funded housing services that enabled individuals to live in the community. These funds served Medicaid and 100% state funded recipients. DHS currently funds supported housing for SMI clients, but this responsibility will shift to AHCCCS beginning July 1, 2016. *(See the Behavioral Health Transfer section for additional detail.)*

**Crisis Services**

The budget includes no funding in FY 2017 for Crisis Services. This amount funds the following adjustments:

**Behavioral Health Transfer**

The budget includes a decrease of \$(16,391,100) 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	(2,250,000)

*Background* – This line item provided funding for persons in need of emergency behavioral health assistance. These included 24-hour crisis telephone lines, crisis mobile teams, and facility based crisis services and served 100% state funded recipients. DHS currently funds crisis services, but this responsibility will shift to AHCCCS beginning July 1, 2016. (See the Behavioral Health Transfer section for additional detail.)

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**Arizona State Hospital**

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**ASH - Operating**

The budget includes \$60,715,700 and 616.5 FTE Positions in FY 2017 for the ASH operating budget. These amounts consist of:

General Fund	54,169,200
ASH Fund	5,666,400
ASH Land Earnings Fund	880,100

These amounts fund the following adjustments:

**ASH Staffing Increase**

The budget includes an increase of \$1,512,800 and 29 FTE Positions from the General Fund in FY 2017 for 14 additional nurses and 15 additional campus security officers at ASH. (Please see Other Issues for more information.)

**One-Time ASH Equipment Purchases**

The budget includes an increase of \$230,100 from the ASH Land Earnings Fund in FY 2017 for one-time purchases of new camera and recording equipment to improve monitoring of patients at ASH. (Please see Other Issues for more information.)

**Statewide Adjustments**

The budget includes a decrease of \$(295,900) from the General Fund in FY 2017 for statewide adjustments.

This line item provides funding for inpatient psychiatric hospitalization services for adult SMI residents. ASH residents that are subject to court-ordered treatment are treated in ASH’s civil hospital and residents charged with or serving a sentence for committing a crime are treated in ASH’s forensic hospital. In FY 2015, ASH had an average monthly census of 109 patients in its civil commitment unit, 121 patients in its forensic unit, and 92 Sexually Violent Persons (SVP), for a total of 322 patients.

**ASH - Restoration to Competency**

The budget includes \$900,000 from the ASH Fund in FY 2017 for ASH - Restoration to Competency. This amount is unchanged from FY 2016.

The FY 2017 Health Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 122) continues to require counties to pay 100% of the daily cost of care for Restoration to Competency (RTC) patients treated at ASH.

*Background* – ASH provides treatment to restore to competency individuals who are found incompetent to stand trial. Prior to 1997, counties paid 100% of the cost of restoring patients to competency. In FY 1997, the state assumed the full cost of RTC treatment. In FY 2002, the state began requiring cities and counties to pay 86% of the costs of the program. The state continued to vary the required reimbursement rate over the next several years. Beginning in FY 2010, budget-related session laws have required all counties to pay 100% of the daily cost of care for RTC patients treated at ASH. In FY 2015, there was an average monthly census of 4 RTC patients treated at ASH. RTC patients are treated in ASH’s forensic unit.

**ASH - Sexually Violent Persons**

The budget includes \$9,639,100 and 112.5 FTE Positions in FY 2017 for ASH - Sexually Violent Persons. These amounts consist of:

General Fund	6,643,500
ASH Fund	2,995,600

These amounts fund the following adjustments:

**Statewide Adjustments**

The budget includes a decrease of \$(45,800) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(32,500)
ASH Fund	(13,300)

After serving their prison sentence, some persons convicted of sexually violent crimes may be remanded by the courts for further confinement and treatment. These individuals are housed at the Arizona State Hospital. In FY 2015, ASH had an average monthly census of 92 Sexually Violent Persons (SVPs).

Since FY 2010, counties that have sent SVPs to ASH are responsible for a portion of the daily cost of care. The FY 2017 Health BRB continues to require counties to pay 31% of their total SVP costs in FY 2017. Of the total amount appropriated for SVP care in FY 2017, counties would pay

\$2,988,100. The BRB provision also clarifies that counties must pay their share of SVP costs throughout the entire commitment process, including pre-adjudication proceedings.

**Public Health/Family Health**

**Adult Cystic Fibrosis Care**

The budget includes \$105,200 from the General Fund in FY 2017 for Adult Cystic Fibrosis Care. This amount is unchanged from FY 2016.

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

**AIDS Reporting and Surveillance**

The budget includes \$1,000,000 from the General Fund in FY 2017 for AIDS Reporting and Surveillance. This amount is unchanged from FY 2016.

The line item provides \$100,000 for a database system administered by Maricopa and Pima Counties to track the incidence of Acquired Immune Deficiency Syndrome (AIDS) and AIDS-related conditions. The program also receives \$850,000 to provide medications under the Arizona AIDS Drug Assistance Program (ADAP), which also receives Federal Funds for the medications. The ADAP program served approximately 1,451 clients in FY 2015.

**Alzheimer’s Disease Research**

The budget includes \$2,125,000 in FY 2017 for Alzheimer’s Disease Research. This amount consists of:

General Fund	125,000
TTHCF - Health Research Account	2,000,000

These amounts fund the following adjustments:

**One-Time Alzheimer’s Research Funding Increase**

The budget includes an increase of \$1,000,000 from the TTHCF - Health Research Account in FY 2017 for a one-time increase in Alzheimer’s research funding.

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

The FY 2017 Health BRB continues to permit the department to use TTHCF - Health Research Account monies for Alzheimer’s disease research.

**Biomedical Research Support**

The budget includes \$2,000,000 from the TTHCF - Health Research Account in FY 2017 for Biomedical Research Support. This amount is unchanged from FY 2016.

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

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

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

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

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

**Pediatric Autoimmune Neurological Disorders Research**

Laws 2016, Chapter 207 appropriates \$250,000 from the Disease Control Research Fund in FY 2017 to DHS to distribute competitive grants for pediatric autoimmune neurological disorders research.

Pediatric Acute-onset Neuropsychiatric Syndrome (PANS) involves the rapid development of neuropsychiatric symptoms in children, such as Obsessive Compulsive Disorder, anxiety, and difficulty concentrating. In some children, these symptoms could be the result of autoimmune responses to infectious disease. For example, Pediatric Autoimmune Neurological Disorders Associated with Streptococcal Infections (PANDAS) is a specific type of PANS triggered by a strep infection.

DHS will distribute monies in this line item to the Arizona Biomedical Research Commission. The commission will evaluate research grant applications related to PANS and PANDAS.

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

The budget includes \$1,369,400 and 1 FTE Position from the General Fund in FY 2017 for Breast and Cervical Cancer and Bone Density Screening. These amounts are unchanged from FY 2016.

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

**County Tuberculosis Provider Care and Control**

The budget includes \$590,700 from the General Fund in FY 2017 for County Tuberculosis Provider Care and Control. This amount is unchanged from FY 2016.

This line item provides reimbursement to hospitals and physicians for the care of hospitalized tuberculosis patients and for assistance to all county health departments for local tuberculosis control programs.

**Emergency Medical Services Local Allocation**

The budget includes \$442,000 from the EMS Operating Fund in FY 2017 for the Emergency Medical Services Local Allocation line item. This amount is unchanged from FY 2016.

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

**Folic Acid Program**

The budget includes \$400,000 from the TTHCF - Medically Needy Account in FY 2017 for the Folic Acid Program. This amount is unchanged from FY 2016.

This line item provides funding for the distribution of folic acid to women of child bearing age to help prevent birth defects. In FY 2015, 30,105 women received folic acid education and multivitamins.

**High Risk Perinatal Services**

The budget includes \$2,543,400 in FY 2017 for High Risk Perinatal Services. This amount consists of:

General Fund	2,093,400
EMS Operating Fund	450,000

These amounts are unchanged from FY 2016.

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

**Newborn Screening Program**

The budget includes \$6,697,300 and 24.1 FTE Positions from the Newborn Screening Program Fund in FY 2017 for the Newborn Screening Program. These amounts fund the following adjustments:

**Annualize Equipment Contract Costs**

The budget includes an increase of \$400,000 from the Newborn Screening Program Fund in FY 2017 to annualize the cost of DHS's contract for rented laboratory equipment used by the Newborn Screening program.

*Background* – This line item funds the centralized testing of all newborns in the state for a standard set of 29 disorders plus Chapter 171 provisions described below. In FY 2015, the program provided screening for 85,978 newborns. The program also provides for follow-up counseling for the parents of affected newborns. The State Health Laboratory is the designated laboratory for testing.

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

In October 2014, the Newborn Screening Advisory Committee recommended DHS include the screening test for SCID. The department determined that the testing fee would need to be increased by \$10 to pay for new equipment and other related costs. In June 2015, DHS established new rules for newborn screening that allow the department to screen for SCID if sufficient funding becomes available, but the screen does not include SCID as of May 2016.

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

The budget includes \$100,000 from the Nursing Care Institution Resident Protection Revolving Fund in FY 2017 for special projects related to long-term care facilities. This amount is unchanged from FY 2016.

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

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

The budget includes \$990,000 from the General Fund in FY 2017 for Poison Control Centers. This amount is unchanged from FY 2016.

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

A.R.S. § 32-1907 allows the Board of Pharmacy to transfer up to \$1,000,000 from the Arizona State Board of Pharmacy Fund to the University of Arizona Poison

Control Information Center. However, this amount is not reflected in the table at the beginning of this narrative. The Board of Pharmacy transferred \$200,000 to the Poison Controls Centers in FY 2015.

#### **Nonrenal Disease Management**

The budget includes \$198,000 from the General Fund in FY 2017 for Nonrenal Disease Management. This amount is unchanged from FY 2016.

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

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

The budget includes \$300,000 from the TTHCF - Medically Needy Account in FY 2017 for Renal Dental Care and Nutrition Supplements. This amount is unchanged from FY 2016.

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

#### **Other Issues**

This section includes information on the following topics:

- Fund Transfers
- FY 2016 Supplemental
- Additional Legislation
- Arizona State Hospital Plan of Correction
- Arizona State Hospital Fund Deficit
- Proposition 123

#### **Fund Transfers**

The budget includes a total fund transfer of \$3,350,000 from the Health Services Lottery Monies Fund in FY 2017 for purposes specified in the FY 2017 General Appropriation Act. Of this amount, \$2,400,000 is for DHS to reduce a projected shortfall in the ASH Fund (*see ASH Fund Shortfall section below*), \$700,000 is for additional funding for Area Agencies on Aging in the Department of Economic Security budget, and \$250,000 for a felony pretrial intervention program in Maricopa County. These transfers will result in a one-time reduction of the balance of the fund from \$11,681,700 to \$8,331,700 by the end of FY 2017.

## FY 2016 Supplemental

The budget includes a FY 2016 supplemental appropriation of \$130,433,100 for DHS in FY 2016 for higher-than-projected caseload growth across Traditional, Proposition 204, and Adult Expansion populations. The appropriation includes one-time fund sources for the \$18,059,800 in state match, which consists of \$9,235,300 from the TTHCF - Medically Needy Account, and \$8,824,500 from the Prescription Drug Rebate Fund. Section 112 of the FY 2017 General Appropriation Act also permits AHCCCS to transfer up \$3,352,200 from the Tobacco Products Tax Fund (TPTF) - Proposition 204 Protection Account to DHS for any additional supplemental funding needs for the Proposition 204 population.

Table 2 shows the differences in behavioral health caseload projections between the FY 2016 enacted budget and the FY 2017 budget. The FY 2017 budget is projecting additional enrollment of 171,257 by June 1, 2016 relative to the FY 2016 budget.

	FY 2016 Budget	FY 2017 Budget	Net Change
Traditional	1,002,035	1,078,270	76,235
Prop 204	454,147	501,726	47,579
CMDP	16,721	16,677	(44)
Adult Expansion	41,689	89,176	47,487
<b>Total</b>	<b>1,514,592</b>	<b>1,685,849</b>	<b>171,257</b>

Laws 2016, Chapter 45 provides a FY 2016 supplemental appropriation to DHS for the payment of prior year unpaid claims, including \$157.00 from the General Fund, \$908.04 from the EMS Operating Fund, and \$227.15 from the Newborn Screening Fund. (Please see Named Claimants discussion in ADOA Other Issues.)

## Additional Legislation

### FY 2017 Health BRB

In addition to the previously mentioned items, The FY 2017 Health BRB (Laws 2016, Chapter 122) includes the following additional provisions:

- As permanent law, Sections 1, 2, and 35 retain the ISA for Behavioral Health Services Fund in DHS until the fund is repealed on September 1, 2020. The bill prohibits DHS from spending the monies in the fund for any purpose except to pay for behavioral health services claims incurred on or before June 30, 2016. As session law, Section 22 allows any unexpended or unencumbered monies in the fund to revert to the General Fund on July 1 of FY 2018, FY 2019, and FY

2020 after any adjustments are approved by AHCCCS and reviewed by JLBC.

- As session law, Section 27 notwithstanding A.R.S. § 36-108.01 and § 5-572C to appropriate monies from the Health Services Lottery Monies Fund for purposes specified in the FY 2017 General Appropriation Act. (Please see Fund Transfers section for additional information.)

### Non-Restorable Dangerous Defendants

As session law, the FY 2017 Criminal Justice BRB (Laws 2016, Chapter 119) establishes a study committee on incompetent, nonrestorable and dangerous defendants. Such defendants are individuals that have been charged with a crime for which they were found incompetent to stand trial, and after receiving treatment from a restoration to competency program, have been deemed nonrestorable by the court. Under current law, nonrestorable defendants may be remanded to DHS for civil commitment proceedings, appointed a guardian, or released.

The study committee is required to research and offer recommendations related to the treatment and long-term supervision of dangerous and non-restorable defendants, and must submit a report on its findings on or before December 15, 2016. The Director of DHS and the CEO of the Arizona State Hospital are members of the committee.

The Governor vetoed other legislation, SB 1510, that would have made changes to competency examinations, court-ordered evaluation, and court-ordered treatment for incompetent and non-restorable defendants. In his veto letter, the Governor cited concerns about how the bill would have impacted the licensure of the Arizona State Hospital.

### DHS Building Renovation

The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) requires the Arizona Department of Administration (ADOA) to allocate \$4,200,000 from its building renewal appropriation to renovate the 1740 West Adams building used by the Department of Health Services. (Please see ADOA Capital Outlay section for additional information.)

## Arizona State Hospital Plan of Correction

In May 2015, the Centers for Medicare and Medicaid Services (CMS) initiated an investigation into ASH following allegations of patient abuse. CMS identified several deficiencies in the quality of care at ASH, including failure to adequately monitor patients, insufficient nurse staffing, and a lack of an overall quality improvement plan. Without correcting these problems, ASH risked

losing its CMS certification, which would disqualify ASH from drawing down Disproportionate Share Hospital payments to the General Fund.

In July 2015, CMS approved the plan of correction submitted by the Hospital, and in a follow-up inspection in September 2015, CMS confirmed that ASH is no longer at immediate risk of losing certification. To support the continued implementation of the plan of correction, the budget includes \$1,512,800 from the General Fund for 14 additional nurses and 15 campus security officers to address staffing needs at ASH, as well as \$230,100 from the ASH Land Earnings Fund for new cameras and recording equipment to improve monitoring of patients.

**Arizona State Hospital Fund Deficit**

DHS reports that the ASH Fund has ongoing expenses that are higher than its ongoing revenues. *Table 3* below shows actual ASH Fund revenues and spending from FY 2013 to FY 2015. The fund receives payments from counties for the RTC program and the SVP program, as well as a limited amount of reimbursement from Medicaid and Medicare. DHS had originally projected that ASH Fund disbursements would exceed ASH Fund revenues by \$4.6 million in FY 2016.

In past years, DHS has offset this deficit by transferring ASH Fund expenses for prescription medications to the Non-Medicaid Seriously Mentally Ill Services line item, but AHCCCS will be administering this line item following the behavioral health transfer. The budget includes a footnote that requires AHCCCS to transfer \$1,200,000 from the Non-Medicaid Seriously Mentally Ill line item to DHS in FY 2017 to help cover the prescription medication costs of ASH patients. The budget also transfers \$2,400,000 from the Health Services Lottery Monies Fund to the ASH Fund in FY 2016.

**Proposition 123**

As a beneficiary of the Arizona State Land Trust, the Arizona State Hospital receives monies generated from lease revenues as well as the proceeds from trust land sales that are invested into a “permanent fund,” pursuant to Article X, Section 7 of the Arizona Constitution.

In addition to lease revenues, the Arizona State Hospital received \$138,400 in monies distributed by the Treasurer from its permanent fund in FY 2015.

As approved by the voters in May 2016, Proposition 123 will increase the Treasurer’s annual distribution rate from the State Land Trust Permanent Fund from 2.5% to 6.9% from FY 2016 through FY 2025.

As a result, the Arizona State Hospital will receive \$274,900 in additional revenue from the Treasurer’s distributions in FY 2016 and a total of \$477,300 from the Treasurer’s distributions in FY 2017. Since Arizona State Hospital land funds are subject to appropriation, the Arizona State Hospital will require an additional appropriation before expending any of the new revenues generated by Proposition 123. *(Please see the Department of Education - Endowment Earnings section for more information.)*

**Table 3**  
**ASH Fund Actual Revenues and Expenditures**  
(\$ in millions)

	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
Beginning Balance	\$3.2	\$4.7	\$4.5
Actual Revenue	<u>8.7</u>	<u>6.9</u>	<u>4.7</u>
Total Available	\$11.9	\$11.7	\$9.3
Actual Spending <sup>1/</sup>	<u>\$10.5</u>	<u>\$ 9.4</u>	<u>\$8.6</u>
Ending Balance <sup>2/</sup>	<b>\$ 1.5</b>	<b>\$ 2.3</b>	<b>\$0.7</b>

<sup>1/</sup> FY 2015 Actual Spending includes an administrative adjustment of \$(1.7) million.  
<sup>2/</sup> According to DHS, the Ending Balance does not match the Beginning Balance in the succeeding fiscal year due to transfers of Non-Medicaid SMI monies to the ASH Fund.