

Arizona Health Care Cost Containment System

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,208.3	2,214.3	2,326.3
Personal Services	36,283,700	36,862,000	45,541,900
Employee Related Expenditures	16,260,800	16,448,500	20,292,700
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	19,413,900
Equipment	912,400	131,800	871,100
OPERATING SUBTOTAL	82,042,300	77,685,400	92,070,600
SPECIAL LINE ITEMS			
Administration			
DES Eligibility	54,874,500	54,874,500	54,874,500
Proposition 204 - Acute Care Administration	7,794,800	6,832,800	6,832,800
Proposition 204 - Behavioral Health Administration	0	0	6,114,000
Proposition 204 - DES Eligibility	28,155,500	38,358,700	38,358,700
Medical Services			
Traditional Medicaid Services	3,455,788,800	3,729,548,600	4,078,154,700
Proposition 204 Services	2,307,122,900	2,417,700,600	2,805,999,700
Adult Expansion Services	214,081,100	197,183,800	462,284,600
Children's Rehabilitative Services	219,112,500	234,866,700	275,375,700
KidsCare Services	7,075,600	6,295,200	1,955,000
ALTCS Services	1,355,349,200	1,386,588,900	1,414,303,900
Behavioral Health Services			
Medicaid Behavioral Health - Traditional Services	0	0	979,305,800
Medicaid Behavioral Health - Proposition 204 Services	0	0	617,186,300
Medicaid Behavioral Health - Comprehensive Medical and Dental Program	0	0	208,027,400
Medicaid Behavioral Health - Adult Expansion Services	0	0	77,702,300
Non-Medicaid Seriously Mentally Ill Services	0	0	78,846,900
Supported Housing	0	0	5,324,800
Crisis Services	0	0	16,391,300
Payments to Hospitals			
Disproportionate Share Payments	13,487,100	5,087,100	5,087,100
DSH Payments - Voluntary Match	30,392,000	18,784,700	19,896,000
Rural Hospitals	22,115,700	22,650,000	22,650,000
Graduate Medical Education	156,310,600	186,539,100	162,992,600
Safety Net Care Pool	175,134,500	137,000,000	137,000,000
AGENCY TOTAL	8,128,837,100	8,519,996,100	11,566,734,700
FUND SOURCES			
General Fund	1,158,575,700	1,205,162,300	1,801,131,600
<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	3,672,200
Prescription Drug Rebate Fund - State	79,021,000	83,778,800	113,778,800
Substance Abuse Services Fund	0	0	2,250,200
TPTF Emergency Health Services Account	19,284,300	17,331,400	17,867,200
TTHCF Medically Needy Account	34,178,800	31,180,000	68,128,800
SUBTOTAL - Other Appropriated Funds	141,362,700	143,447,500	209,260,500
SUBTOTAL - Appropriated Funds	1,299,938,400	1,348,609,800	2,010,392,100

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
<u>Expenditure Authority Funds</u>			
County Funds	295,518,400	299,114,300	298,550,600
Federal Medicaid Authority	5,739,824,100	6,165,751,200	8,416,152,600
Hospital Assessment Fund	260,916,800	215,558,800	260,462,700
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	222,458,100	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	36,396,000	37,521,000
SUBTOTAL - Expenditure Authority Funds	6,828,898,700	7,171,386,300	9,556,342,600
SUBTOTAL - Appropriated/Expenditure Authority Funds	8,128,837,100	8,519,996,100	11,566,734,700
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	8,679,077,500	11,824,904,800

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

Summary

AHCCCS' FY 2017 General Fund spending would increase by \$595,969,300, or a 49.5% increase from FY 2016. This amount includes:

- \$516,697,200 for the transfer of behavioral health services from the Department of Health Services (DHS) to AHCCCS.
- \$98,175,900 in formula adjustments.
- \$(18,903,800) in other adjustments.

Net of the behavioral health transfer, AHCCCS' General Fund spending would increase by \$79,272,100, or a 6.6% increase. Of the \$79,272,100, \$50,431,400 is for formula adjustments and other changes in acute care, and \$28,840,700 is for formula adjustments and other changes in behavioral health.

AHCCCS' FY 2017 Hospital Assessment spending would increase by \$44,903,900, or a 20.8% increase from FY 2016. 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 Baseline'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.)

Table 1

AHCCCS General Fund Budget Spending Changes
(\$ in millions)

Behavioral Health Services Transfer

BHS Shift	\$ 517
BHS Admin Savings	(1)
Subtotal	\$ 516

Formula Adjustments^{1/2/}

FY 2017 Caseload Growth	\$ 113
FY 2017 1.5% Capitation Rate Increase	21
FY 2017 Federal Match Rate Increase	(33)
Tobacco Tax Increase	(2)
Subtotal ^{1/}	\$ 98

Other Adjustments

Reversal of FY 2016 (5)% Provider Rate Reduction	\$ (12)
Cost Sharing Provisions	(1)
Third Party Liability Recoveries for Behavioral Health Services	(5)
Subtotal ^{1/}	\$ (19)

Non-BHS Transfer Changes \$ 79
Total Spending Change^{1/} **596**

^{1/} Numbers may not add due to rounding.

^{2/} Formula adjustments include Mandatory ACA changes and Optional ACA changes. (See *Mandatory Affordable Care Act Changes and the Optional Affordable Care Act Changes* sections for more information.)

Below is an overview of the behavioral health transfer, FY 2017 formula adjustments, and other adjustments. *Table 1* summarizes these changes. The overview also includes a status update on the mandatory and optional policy changes and caseload impacts since the implementation of the 2010 Federal health care legislation, known as the Affordable Care Act (ACA), that began on January 1, 2014.

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 Baseline includes a reduction of \$(517,304,700) from the General Fund, \$(1,239,020,700) from Federal Medicaid Authority, and \$(141,057,100) from other funds in DHS in FY 2017 for the transfer, and includes a corresponding increase from each of these fund sources in AHCCCS.

The transfer could also generate administrative savings in behavioral health services. One of the goals of the transfer was to simplify the administration of behavioral health services by having 1 state agency retain responsibility for these services instead of 2 separate agencies. AHCCCS reported \$(2,192,000) in administrative savings resulting from the transfer in FY 2017, which consists of \$(607,500) in General Fund savings and \$(1,584,500) in Federal Medicaid Authority savings. As a starting point for discussions on the appropriate level of administrative resources, the Baseline includes these savings. The JLBC Staff will continue to evaluate this issue. The Baseline adds administrative costs for behavioral health services to AHCCCS' operating budget, and to the Proposition 204 - Behavioral Health Administration line item transferred from DHS.

Table 2 shows the total resources that the Baseline transfers to AHCCCS for behavioral health services, net of the administrative savings. AHCCCS would have an increase of \$1,895,190,500 in total fund spending, including \$516,697,200 from the General Fund, \$1,237,436,200 from Federal Medicaid Authority, and \$141,057,100 from other funds.

As a result of the administrative savings, the Baseline includes a net decrease of (28.2) FTE Positions across AHCCCS and DHS. 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. The increase of 112 FTE Positions in AHCCCS is

based on a report issued jointly by AHCCCS and DHS indicating AHCCCS currently only intends to transfer 112 behavioral health services employees from DHS to AHCCCS.

Table 2	
Behavioral Health Transfer	
General Fund	\$516,697,200
TTHCF Medically Needy Account	34,767,000
Substance Abuse Services Fund	2,250,200
Federal Medicaid Authority	<u>1,237,436,200</u>
<i>Subtotal</i>	<i>\$1,791,150,600</i>
Non-Appropriated Funds	<u>104,039,900</u>
Total Funds	\$1,895,190,500

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. Mercy Maricopa Integrated Care, a partnership between Mercy Care and Maricopa Integrated Health System, was awarded the contract to provide these services. The Baseline 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 RBHA is Health Choice Integrated Care, a partnership between Northern Arizona RBHA and Health Choice Arizona. 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 Baseline 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 Baseline includes \$98,175,900 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 Baseline assumes the same caseload growth rates in acute care services and behavioral health services for these 4 populations. These adjustments also include 3% caseload growth in Children’s Rehabilitative Services (CRS) and a (20)% decline in the KidsCare population. For behavioral

health services, CMDP enrollment is assumed to grow by 6%, and integrated SMI enrollment is assumed to grow by 5%. FY 2017 caseload changes are expected to result in a General Fund increase of \$112,527,200 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 Baseline assumes the 1.5% capitation rate increase will result in an increase of \$20,739,400 from the General Fund in FY 2017 relative to the FY 2016 budget. The 1.5% capitation rate adjustment was assumed pursuant to Section 26 of the FY 2016 Health Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 14), which limited the capitation rate increase in FY 2017 and FY 2018 to 1.5%.

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 Mandatory Affordable Care Act Changes section for additional information.)*
- Adult Expansion rate will decrease to 97.5% from 100%.

The formula adjustments include a decrease of \$(32,908,900) in General Fund spending to reflect savings from the regular federal rate increase.

Tobacco Tax Increase

The Baseline includes an increase of \$2,181,800 from tobacco tax revenues and a corresponding \$(2,181,800) 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 \$2,181,800 in FY 2017.

Other Adjustments

The Baseline includes a net savings of \$(18,903,800) from the General Fund in FY 2017 for 3 other adjustments. These adjustments include the reversal of a FY 2016 (5)%

Population ^{2/3/}	June 2015	June 2016	June 2017	'16-'17% Change
Traditional	977,236	1,084,312	1,111,420	2.5%
Prop 204 Childless Adults	279,077	313,777	321,621	2.5
Other Proposition 204	186,660	202,747	207,816	2.5
Adult Expansion ^{4/}	61,544	90,000	92,250	2.5
KidsCare	1,051	736	589	(20.0)
ALTCS - Elderly & Physically Disabled ^{5/}	29,075	29,802	30,547	2.5
CMDP	15,680	16,677	17,678	6.0
Emergency Services	103,729	115,090	117,967	2.5
Total Member Months ^{6/}	1,654,052	1,853,141	1,899,888	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/} The ALTCS program funded in AHCCCS.
^{6/} In addition, approximately 28,600 people receive Medicaid services through the Department of Economic Security’s Developmental Disabilities program as of December 1, 2015.

provider rate reduction, cost sharing provisions, and increased third party liability recoveries.

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 decreased capitation rates will offset \$(15,000,000).

The Baseline 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 offsets 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

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

- Collect a premium equal to 2% of income from adult Medicaid enrollees with incomes between 100%-133% of FPL. This provision is estimated to result in General Fund savings of \$(1,100,000) and \$(1,500,000) in FY 2017 and FY 2018 respectively. Non-General Fund savings are estimated to be \$(5,332,200) in FY 2017 and \$(7,271,200) in FY 2018. These savings are relative to FY 2016. The state share is funded by the hospital assessment for acute care and by the General Fund for behavioral health services.
- Collect co-pays of up to \$25 for non-emergency use of an emergency department by adult enrollees up to 133% of FPL. Adults below 100% of FPL, however, would be charged a co-payment of \$8 for a first incident and \$25 thereafter. This provision is

estimated to result in General Fund savings of \$(300,000) and non-General Fund savings of \$(1,278,700) in FY 2017 and FY 2018, respectively. These savings are relative to FY 2016.

- No longer fund costs of nonemergency medical transportation services for adults with incomes between 100% to 133% FPL. This provision is estimated to result in \$(3,800) in General Fund savings and \$(1,081,500) in non-General Fund savings in FY 2017 and FY 2018. Although suspension of NEMT was included in the FY 2016 Health BRB, the savings from this provision were not estimated for the FY 2016 budget due to data limitations. As a result of the availability of new data, the Baseline includes these savings.

In total, the Baseline includes General Fund savings of \$(1,403,800) in FY 2017 and \$(1,803,800) in FY 2018 for these 3 provisions. Non-General Fund savings are estimated to be \$(7,692,400) and \$(9,631,400) in FY 2017 and FY 2018, respectively. (*See the Other Issues section on the AHCCCS CARE plan for additional detail.*)

Third Party Liability Recovery for Behavioral Health Services

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 Baseline 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. 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. These savings are realized in the Medicaid Behavioral Health - Traditional line item and in the Medicaid Behavioral Health - Proposition 204 line item.

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 discussed above.

Child Expansion

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

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

On January 1, 2014, 26,300 KidsCare recipients with incomes up to 133% FPL were transferred to the Traditional population. The transferred KidsCare and child expansion populations receive a 94.48% federal match rate in FY 2016.

Due to these programmatic changes, the KidsCare II program officially ended on January 31, 2014. Pre-January 2014 KidsCare I recipients with income from 133% to 200% FPL continue to receive coverage in KidsCare. As of December 1, 2015, the KidsCare program had 826 remaining members.

The Baseline assumes a total of 82,100 enrollees in the child expansion program by June 2017. As of December 1, 2015, enrollment was approximately 76,100 members.

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

The child expansion population is funded by the Federal CHIP block grant. If expenditures on the child expansion population exceed the block grant allotment, any remaining expenditures would be funded at the regular 69.16% federal match rate in the Traditional Medicaid Services line item.

AHCCCS is currently projecting that the child expansion expenditures will exceed the Federal CHIP block grant allotment in March 2017. The Baseline does not include any additional funding for the potential shortage of the Federal CHIP block grant allotment because the federal government may approve supplemental expenditures for CHIP in federal fiscal year 2017 to address the shortfall. If the block grant allotment is not increased, the JLBC Staff estimates that the shortfall would result in additional

General Fund expenditures of \$4.9 million and Federal Medicaid Authority expenditures of \$11.5 million in FY 2017.

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 Baseline 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 Baseline 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 Budget Reconciliation Bill (BRB) (Laws 2013, 1st Special Session, Chapter 10) made a number of changes to Medicaid coverage, including the restoration of coverage for the childless adult population, the expansion of Medicaid coverage for adults to 133% FPL, and the implementation of a hospital assessment. These items are described in more detail below, along with an update on each program's enrollment since the restoration of Proposition 204 childless adults and the adult expansion beginning on January 1, 2014. *Table 4* summarizes the costs of these changes in FY 2016 and FY 2017.

The Baseline includes an increase of \$1,268,000 from the General Fund and an increase of \$7,530,600 from the

Hospital Assessment Fund in FY 2017 for the Childless Adult population. For the Adult Expansion population, the Baseline includes an increase of \$831,900 from the General Fund and \$6,261,500 from the Hospital Assessment Fund. These costs are included in the formula adjustments discussed above.

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 December 1, 2015, there were approximately 308,600 childless adult

enrollees in the Proposition 204 program. The Baseline assumes a June 2016 enrollment of 313,800 and a June 2017 enrollment of 321,600.

The Baseline includes an increase of \$1,268,000 from the General Fund for behavioral health services for the childless adult population to account for caseload changes and the increased federal match rate.

The Baseline also includes a \$7,530,600 increase in hospital assessment state match for the acute care costs of the childless adult population. Of this amount, \$10,362,200 is due to not implementing the (5)% provider rate reduction, since the PDRF revenues used to offset the cost of foregoing the reduction are allocated to the Traditional Medicaid Services line item. Another \$(2,831,600) is due to the increased federal match rate and other formula adjustments. (See the *Other Adjustments* section for additional details.)

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

Table 4

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

		<u>FY 2016 Appropriation</u>			<u>FY 2017 Baseline</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	\$ 197	\$ 0	\$ 6	\$ 456
	BHS	<u>0</u>	<u>0</u>	<u>42</u>	<u>1</u>	<u>0</u>	<u>78</u>
	Total	\$ 0	\$ 0	\$ 239	\$ 1	\$ 6	\$ 534
Proposition 204 – Childless Adults 0-100% FPL ^{2/}	Acute	\$ 0	\$ 171	\$1,540	\$ 0	\$ 178	\$1,831
	BHS	<u>35</u>	<u>0</u>	<u>285</u>	<u>37</u>	<u>0</u>	<u>341</u>
	Total	\$ 35	\$ 171	\$1,825	\$ 37	\$ 178	\$2,172
Proposition 204 – Parents 22-100% FPL ^{3/4/}	Acute	\$ 0	\$ 45	\$ 99	\$ 0	\$ 76	\$ 214
	BHS	<u>66</u>	<u>0</u>	<u>147</u>	<u>74</u>	<u>0</u>	<u>165</u>
	Total	\$ 66	\$ 45	\$ 246	\$ 74	\$ 76	\$ 379
Total Expenditures ^{5/6/}	Total	\$ 101	\$ 216	\$2,310	\$ 112	\$ 260	\$3,085

“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.

pay 100% of the cost of the Adult Expansion (parents and childless adults whose incomes are from 100% to 133% FPL) in calendar years 2014 to 2016. The federal share will gradually decline to 90% by 2020. The hospital assessment covers the state portion for this population'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 December 1, 2015, there were approximately 78,700 Adult Expansion enrollees.

The Baseline assumes a June 2016 enrollment of 90,000 and a June 2017 enrollment of 92,200. This caseload growth, coupled with the decrease in the federal match rate for adult expansion from 100% to 97.5%, will increase the General Fund costs of behavioral health services by \$831,900 in FY 2017 relative to the FY 2016 budget.

The Baseline also includes a \$6,261,500 increase in hospital assessment state match for the acute care costs of the adult expansion population. Of this amount, \$11,616,700 is a result of the match rate dropping from 100% to 97.5% in FY 2017, and \$(5,355,200) is the result of cost-sharing provisions.

The FY 2016 budget projected that the total ACA population would reach 376,000 by June 2016. The Baseline assumes that the population will reach 607,500 by June 2016. By June 2017, enrollment is projected to grow to 654,300. *Table 5* 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.

In FY 2017, the Baseline increases Hospital Assessment collection to \$260,462,700 a \$44,903,900 increase above FY 2016. This increase consists of \$50,359,100 in formula adjustments and \$(5,455,200) in savings from proposed cost-sharing.

Table 5

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

	June <u>2015</u>	June <u>2016</u>	June <u>2017</u>
Childless Adult Restoration	211,300	246,000	253,900
Adult Expansion 100%-133% FPL	61,500	90,000	92,200
Child Expansion 100%-133% FPL	36,000	80,100	82,100
Other Enrollees	<u>99,600</u>	<u>191,400</u>	<u>226,100</u>
Total	408,500	607,500	654,300

^{1/} June 2015 figures are actual amounts while June 2016 and June 2017 are Baseline projections.

Operating Budget

The Baseline includes \$92,070,600 and 1,013.2 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$30,061,200
Children's Health Insurance Program (CHIP) Fund	1,717,200
Prescription Drug Rebate Fund (PDRF) - State	198,000
Federal Medicaid Authority (FMA)	60,094,200

FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	4,602,400
	EA	10,937,200

The Baseline 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	GF	(515,300)
	EA	(1,344,000)

The Baseline includes a decrease of \$(1,859,300) in FY 2017 for the administrative simplification of behavioral health services. This amount consists of:

General Fund	(515,300)
Federal Medicaid Authority	(1,344,000)

(See Behavioral Health Transfer section for additional information.)

OIG Shift	GF	217,400
	EA	487,500

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

General Fund	217,400
Federal Medicaid Authority	487,500

Administration

DES Eligibility

The Baseline 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 Baseline includes \$6,832,800 and 128 FTE Positions in FY 2017 for Proposition 204 - Acute Care Administration costs. These amounts consist of:

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

These amounts are unchanged from FY 2016.

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 Baseline includes \$6,114,000 in FY 2017 for Proposition 204 - Behavioral Health Administration costs. This amount consists of:

General Fund	1,918,800
Federal Medicaid Authority	4,195,200

FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	2,011,000
	EA	4,435,700

The Baseline 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	GF	(92,200)
	EA	(240,500)

The Baseline includes a decrease of \$(332,700) in FY 2017 for the administrative simplification of behavioral health services. This amount consists of:

General Fund	(92,200)
Federal Medicaid Authority	(240,500)

(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

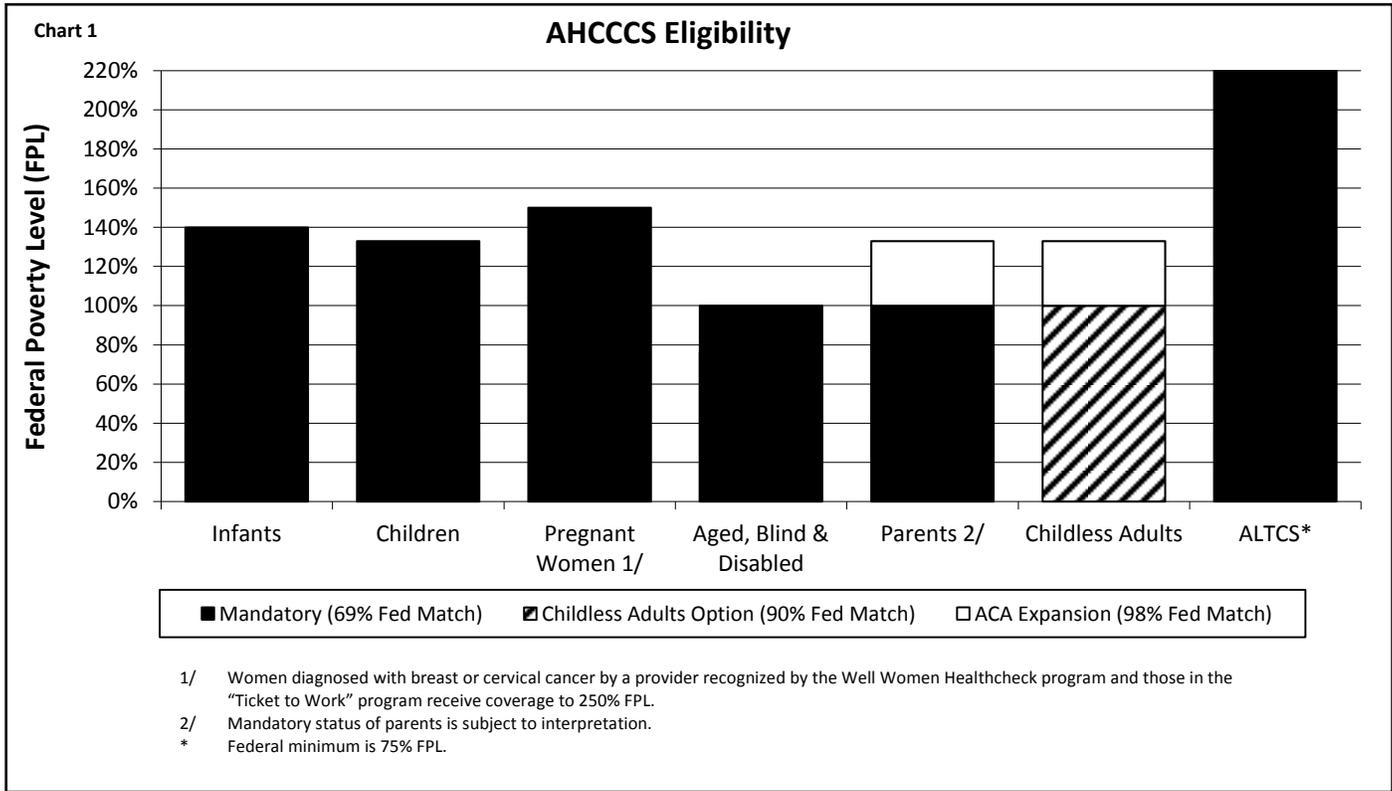
The Baseline includes \$38,358,700 and 300.1 FTE Positions in FY 2017 for Proposition 204 - DES Eligibility costs. These amounts consist of:

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

FY 2017 adjustments would be as follows:

Statutory Adjustments	GF	(80,400)
	OF	80,400

The Baseline 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 a statutorily-required increase of county contributions in FY 2017 (A.R.S. § 11-2920). (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.

FY 2017 adjustments would be as follows:

Formula Adjustments	GF	OF	EA
	63,721,700	2,181,800	284,380,200

The Baseline includes an increase of \$350,283,700 in FY 2017 for formula adjustments. This amount consists of:

Medical Services

AHCCCS oversees acute care and long term care services, as well as the Children’s Rehabilitative Services program. Overall formula adjustments are below. *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.

General Fund	63,721,700
County Funds	(192,000)
TTHCF Medically Needy Account	2,181,800
Federal Medicaid Authority	284,572,200

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.
- \$(192,000) decrease in Maricopa County Acute Care contribution (County Funds) under A.R.S. § 11-292 with a corresponding General Fund increase.
- \$2,181,800 increase from the TTHCF Medically Needy Account due to higher-than-expected tobacco tax revenues and a corresponding General Fund decrease.

Traditional Medicaid Services

The Baseline includes \$4,078,154,700 in FY 2017 for Traditional Medicaid Services. This amount consists of:

General Fund	926,002,800
County Funds	49,687,700
PDRF - State	106,139,500
TTHCF Medically Needy Account	33,361,800
Third Party Liability and Recovery Fund	194,700
Federal Medicaid Authority	2,661,625,000
PDRF - Federal	301,143,200

PDRF Increase	GF	(28,034,500)
	OF	28,034,500
	EA	0

The Baseline includes an increase of \$28,034,500 from the state Prescription Drug Rebate Fund and a corresponding decrease from the General Fund in FY 2017. The Baseline also includes a \$93,259,300 increase from the federal Prescription Drug Rebate Fund, and a corresponding decrease from Federal Medicaid Authority. The increase is due to higher-than-expected revenues in the Prescription Drug Rebate Fund. AHCCCS will use these funds to offset part of the cost associated with not implementing a (5)% provider rate cut. These amounts consist of:

General Fund	(28,034,500)
Prescription Drug Rebate Fund - State	28,034,500
Prescription Drug Rebate Fund - Federal	93,259,300
Federal Medicaid Authority	(93,259,300)

(See Reversal of (5)% Provider Rate Reduction section for additional detail.)

Cost Sharing Provisions	GF	(300,000)
	EA	(672,700)

The Baseline 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	GF	(217,400)
	EA	(487,500)

The Baseline includes a decrease of \$(704,900) in FY 2017 to shift funding for 6 existing FTE Positions in the Office of the Inspector General 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 Baseline includes \$2,805,999,700 in FY 2017 for Proposition 204 Services. This amount consists of:

Hospital Assessment Fund	254,201,200
Tobacco Litigation Settlement Fund	100,000,000
TPTF Proposition 204 Protection Account	37,521,000
TPTF Emergency Health Services Account	17,867,200
Federal Medicaid Authority	2,396,410,300

FY 2017 adjustments would be as follows:

Formula Adjustments	OF	535,800
	EA	388,369,300

The Baseline includes an increase of \$388,905,100 in FY 2017 for formula adjustments. This amount consists of:

Hospital Assessment Fund	38,742,400
TPTF Proposition 204 Protection Account	1,125,000
TPTF Emergency Health Services Account	535,800
Federal Medicaid Authority	348,501,900

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.
- \$1,125,000 increase from the TPTF Proposition 204 Protection Account due to higher-than-expected tobacco tax revenues and a corresponding \$(1,125,000) Hospital Assessment Fund decrease.
- \$535,800 increase from the Emergency Health Services Account due to higher-than-expected tobacco tax revenues and a corresponding \$(535,800) Hospital Assessment Fund decrease.

Cost Sharing Provisions	EA	(606,000)
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The Baseline 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 Baseline includes \$462,284,600 for Adult Expansion Services in FY 2017. This amount consists of:

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

FY 2017 adjustments would be as follows:

Formula Adjustments EA 271,366,300

The Baseline includes an increase of \$271,366,300 in FY 2017 for formula adjustments. This amount consists of:

Hospital Assessment Fund	11,616,700
Federal Medicaid Authority	259,749,600

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 EA (5,332,200)

The Baseline 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 EA (933,300)

The Baseline 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 Baseline 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

FY 2017 adjustments would be as follows:

Formula Adjustments GF 11,936,900 EA 28,572,100

The Baseline includes an increase of \$40,509,000 in FY 2017 for formula adjustments. This amount consists of:

General Fund	11,936,900
Federal Medicaid Authority	28,572,100

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.

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

KidsCare Services

The Baseline includes \$1,955,000 from the CHIP Fund in FY 2017 for KidsCare Services. FY 2017 adjustments would be as follows:

Formula Adjustments GF (338,000) CHIP (4,002,200)

The Baseline 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. *(See Mandatory Affordable Care Act Changes section for additional information about this program.)*

ALTCS Services

The Baseline includes \$1,414,303,900 in FY 2017 for ALTCS services. This amount consists of:

General Fund	166,481,800
County Funds	248,862,900
PDRF - State	7,441,300
Federal Medicaid Authority	947,728,200
PDRF - Federal	21,600,300
Nursing Facility Provider Assessment Fund	22,189,400

FY 2017 adjustments would be as follows:

Formula Adjustments	GF	4,679,800
	EA	23,035,200

The Baseline includes an increase of \$27,715,000 in FY 2017 for formula adjustments. This amount consists of:

General Fund	4,679,800
County Funds	515,000
Nursing Facility Provider Assessment	(1,177,500)
Federal Medicaid Authority	23,697,700

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.

PDRF Increase	GF	(1,078,800)
	OF	1,965,500
	EA	(886,700)

The Baseline includes a net increase of \$0 to reflect an increase in the State and Federal Prescription Drug Rebate Fund in FY 2017. 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	(1,078,800)
County Funds	(886,700)
Prescription Drug Rebate Fund - State	1,965,500
Federal Medicaid Authority	(7,026,100)
Prescription Drug Rebate Fund - Federal	7,026,100

(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 Baseline includes \$979,305,800 in FY 2017 for Medicaid Behavioral Health - Traditional Services. This amount consists of:

General Fund	266,039,300
TTHCF Medically Needy Account	34,767,000
Federal Medicaid Authority	678,499,500

FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	253,451,400
	OF	34,767,000
	EA	617,666,200

The Baseline includes an increase of \$905,884,600 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	34,767,000
Federal Medicaid Authority	617,666,200

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

Formula Adjustments	GF	16,587,900
	EA	69,803,200

The Baseline includes an increase of \$86,391,100 in FY 2017 for Medicaid Behavioral Health - Traditional Services formula adjustments. This amount consists of:

General Fund	16,587,900
Federal Medicaid Authority	69,803,200

These adjustments include:

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

Third Party Liability Recoveries	GF	(4,000,000)
	EA	(8,969,900)

The Baseline 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 Other Adjustments 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 1,106,344 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 83,542 individuals, or approximately 7.6% 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 Baseline includes \$617,186,300 in FY 2017 for Medicaid Behavioral Health - Proposition 204 Services. This amount consists of:

General Fund	110,577,500
Federal Medicaid Authority	506,608,800

FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	103,461,000
	EA	441,255,500

The Baseline includes an increase of \$544,716,500 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
Federal Medicaid Authority	441,255,500

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

Formula Adjustments	GF	8,316,500
	EA	70,158,800

The Baseline includes an increase of \$78,475,300 in FY 2017 for Medicaid Behavioral Health - Proposition 204 Services formula adjustments. This amount consists of:

General Fund	8,316,500
Federal Medicaid Authority	70,158,800

The adjustments include:

- 2.5% caseload growth.
- 1.5% capitation rate increase.
- 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%.

Third Party Liability Recoveries	GF	(1,200,000)
	EA	(4,805,500)

The Baseline 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 Other Adjustments 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 514,725 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 53,886 individuals, or approximately 10.5% 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 Baseline 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

FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	55,466,100
	EA	122,419,700

The Baseline includes an increase of \$177,885,800 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
Federal Medicaid Authority	122,419,700

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

Formula Adjustments	GF	8,304,400
	EA	21,837,200

The Baseline includes an increase of \$30,141,600 in FY 2017 for formula adjustments. This amount consists of:

General Fund	8,304,400
Federal Medicaid Authority	21,837,200

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.

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. DCS currently administers the acute care services for this population.

The Baseline 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 11,853 individuals, or 67.1% 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 the Department of Child Safety 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 Baseline 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

FY 2017 adjustments would be as follows:

Behavioral Health Transfer	EA	42,306,400
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The Baseline includes an increase of \$42,306,400 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	GF	1,935,700
	EA	34,712,200

The Baseline includes an increase of \$36,647,900 in FY 2017 for formula adjustments. This amount consists of:

General Fund	1,935,700
Federal Medicaid Authority	34,712,200

These adjustments include:

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

Cost-Sharing Provisions	GF	(1,100,000)
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The Baseline 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	GF	(3,800)
	EA	(148,200)

The Baseline 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 Baseline 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 9,571 individuals, or approximately 10.5%, 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 Baseline includes \$78,846,900 from the General Fund in FY 2017 for Non-Medicaid Seriously Mentally Ill (SMI) Services. FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	78,846,900
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The Baseline 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 Baseline includes \$5,324,800 from the General Fund in FY 2017 for Supported Housing. FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	5,324,800
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The Baseline 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 Baseline 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

FY 2017 adjustments would be as follows:

Behavioral Health Transfer	GF	14,141,100
	OF	2,250,200

The Baseline 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.

Payments to Hospitals

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

Disproportionate Share Hospital Payments Overview

The DSH program provides supplemental payments of federal and state dollars to hospitals that serve a large, or disproportionate, number of low-income patients. The total amount of eligible funding is adjusted annually for changes in prices and the federal match rate. The Baseline 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 6*. 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 Baseline 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 Baseline 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 publically operated hospitals are Maricopa Integrated Health System (MIHS) and DHS' Arizona State Hospital (ASH).

Section 10 of the FY 2016 Health BRB set the eligible funding for MIHS at \$113,818,500 in FY 2016. The Baseline continues this amount, and assumes the state will retain \$74,605,600 in Federal Funds in FY 2017 for deposit to the General Fund. The Baseline 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 would 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 Baseline 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 Baseline 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 Baseline 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 Baseline 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

FY 2017 adjustments would be as follows:

Formula Adjustments	GF	(2,800)
	EA	2,800

The Baseline 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 Baseline 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 Baseline 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

FY 2017 adjustments would be as follows:

DSH Allotment Increase	EA	1,111,300
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The Baseline includes an increase of \$1,111,300 in FY 2017 for a federal increase in the total amount of 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. The Baseline continues provisions from the FY 2016 Health BRB that give priority to eligible rural hospitals when allocating voluntary match DSH payments and that 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.

Table 6

Disproportionate Share Payments

	FY 2016	FY 2017
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 Baseline continues a footnote that appropriates any additional payments in excess of \$19,896,000 for DSH Voluntary Payments in FY 2017

Rural Hospitals

The Baseline 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

FY 2017 adjustments would be as follows:

Formula Adjustment	GF	(72,500)
	EA	72,500

The Baseline 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.

Subject to federal approval, section 4 of the FY 2016 Health BRB permits political subdivisions, tribal governments or universities to provide a state match contribution for additional federal funding for Critical Access Hospitals (CAHs). Section 18 of the Health BRB requires AHCCCS to report any voluntary payments paid to CAHs in FY 2016. The Baseline 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.

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 Baseline does not adjust GME for these potential increases, but a long-standing footnote appropriates additional monies with JLBC review.

Graduate Medical Education

Safety Net Care Pool

The Baseline 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

The Baseline 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

FY 2017 adjustments would be as follows:

FY 2017 adjustments would be as follows:

Decreased Funding	EA	(23,546,500)
The Baseline 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)	

Formula Adjustments	EA	0
The Baseline 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.		

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

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.

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.

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.

* * *

AHCCCS is submitting a proposal to the federal government to change the method for distributing Graduate Medical Education funds to training hospitals.

FORMAT — Operating Lump Sum with Special Items by Agency

FOOTNOTES

Standard Footnotes

Operating Budget

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.

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.

Medical Services and Behavioral Health Services

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.

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 change in capitation rates, the AHCCCS Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. Before the Administration implements any changes in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the Administration shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal 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.

The non-appropriated portion of the Prescription Drug Rebate Fund established by A.R.S. § 36-2930 is included in the federal portion of the Expenditure Authority fund source.

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.

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.

The AHCCCS Administration shall report to the Joint Legislative Budget Committee on or before December 31, 2016, and June 30, 2017 on the progress in implementing the *Arnold v. Sarn* 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 as follows: supported housing services for 1,200 class members, supported employment services for 750 class members, 8 assertive community treatment teams and consumer operated services for 1,500 class members. The administration shall also report the amounts, by fund source, it plans to use to pay for expanded services. (*Transferred from DHS.*)

It is the intent of the Legislature that the percent attributable to administration/profit for the Regional Behavioral Health Authority in Maricopa County AUTHORITIES is 9% of the overall capitation rate. (*Transferred from DHS, and modified to include all RBHAs instead of just the Maricopa RBHAs because the Greater Arizona RBHAs are now providing integrated SMI services.*)

Long-Term Care

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.

Pursuant to A.R.S. § 11-292B the county portion of the FY 2017 nonfederal costs of providing long-term care services is \$248,862,900. This amount is included in the Expenditure Authority fund source.

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. ~~If the nursing facility provider assessment is not extended past September 30, 2015, the AHCCCS Administration shall revert \$56,384,400 of expenditure authority for FY 2016, including \$38,859,200 of Federal Medicaid Authority and \$17,525,200 of Nursing Facility Provider Assessment Funding. (Laws 2015, Chapter 39 extended the Nursing Facility Assessment through September 30, 2023.)~~

Payments to Hospitals

The \$5,087,100 appropriation for Disproportionate Share Payments 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.

Any monies received for disproportionate share 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.

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 March and Safety Net Care Pool line items are included in the Expenditure Authority fund source.

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.

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.

Other

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.

New Footnotes

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 seriously mentally ill patients at the Arizona State Hospital. *(DHS has used excess non-Medicaid SMI monies to pay for the prescription medications of some patients at ASH.)*

Other

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 or before December 1, 2016 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. *(Removes requirement for AHCCCS to have separate JLBC reviews for the impact of the health insurer fee on capitation rates.)*

Deletion of Prior Year Footnotes

The Baseline would delete a one-time footnote regarding a supplemental appropriation from AHCCCS to DHS for behavioral health services in FY 2015.

The Baseline would delete a footnote requiring AHCCCS to report quarterly on its progress in implementing automation interaction with the ACA health insurance exchange. This report is no longer necessary, as AHCCCS has fully implemented the automation interaction.

STATUTORY CHANGES

The Baseline would:

Rates and Services

- As session law, continue the FY 2010 risk contingency rate reduction for all managed care organizations. Continue to impose a reduction of funding for all

managed care organizations administrative funding levels.

- As session law, state that it is the intent of the Legislature that AHCCCS not increase capitation rates more than 1.5% in FY 2017 and FY 2018.

Counties

- As session law, continue to exclude Proposition 204 administration costs from county expenditure limitations.
- As session law, continue 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 session law, set FY 2017 county Arizona Long Term Care System (ALTCs) contributions at \$248,862,900.
- As session law, set the County Acute Care contribution at \$47,041,500. This amount includes an inflation indexing of the Maricopa County contribution as required by Laws 2005, Chapter 238.
- As session law, continue to require the collection of \$2,646,200 in the Disproportionate Uncompensated Care pool contributions from counties other than Maricopa. Exclude these contributions from county expenditure limitations.

Hospitals

- As session law, establish FY 2017 disproportionate share (DSH) distributions to the Maricopa Special Healthcare District, the Arizona State Hospital, private qualifying disproportionate share hospitals, and Yuma Regional Medical Center.
- As session law, continue to require AHCCCS to give priority to rural hospitals in the Pool 5 distribution, and allow MIHS to be eligible for Pool 5 allocations. Permit local jurisdictions to provide additional local match for Pool 5 distributions.
- As session law, continue to require that AHCCCS report any Critical Access Hospital Payments made by political subdivisions.

Erroneous Payments

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

Reports

- As session law, continue to require AHCCCS to submit a report by December 1, 2016 on the use of emergency departments for non-emergency use by AHCCCS enrollees.

- As session law, continue to require AHCCCS and DHS to submit a joint report by January 1, 2017 on hospital cost and charges.
- As session law, require AHCCCS to submit a report on efforts to increase third-party liability payments for behavioral health services by December 31, 2016.
- As session law, require AHCCCS to report on or before January 2, 2017 on the availability of inpatient psychiatric treatment for children and adolescents enrolled in Arizona's Regional Behavioral Health Authorities. The report would include the following information on treatment for individuals aged 21 or younger: 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; and 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. (*See Inpatient Psychiatric Treatment for Children section in Other Issues for additional information.*)

Substance Abuse Services

- As permanent law, require AHCCCS to establish services for alcohol and drug abuse pursuant to A.R.S. § 36-2001.
- As permanent law, grant 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, designate 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, provide AHCCCS with the authority to administer the Substance Abuse Services Fund pursuant to A.R.S. § 36-2005.

Deleted Provisions

The Baseline would not continue the following one-time provisions:

- Authorization for AHCCCS to reduce provider rates by up to (5)%. AHCCCS is not implementing the reduction.
- A requirement that AHCCCS request cost-sharing measures in the waiver negotiations with the federal government.

Other Issues

This section includes information on the following topics:

- FY 2016 Adjustments
- Long-Term Budget Impacts
- Medicare Part B Premiums
- AHCCCS CARE Proposal
- Inpatient Psychiatric Treatment for Children
- SMI Funding
- Risk Corridor
- County Contributions
- Program Components
- Tobacco Master Settlement Agreement
- Tobacco Tax Allocations

FY 2016 Adjustments

The Baseline includes a FY 2016 supplemental increase of \$562,208,700. *Table 7* below shows the supplemental appropriation included in the Baseline by fund source. Of the \$562,208,700, \$26,249,300 is from appropriated funds and \$535,959,400 is from Expenditure Authority Funds, including \$34,502,000 from the Hospital Assessment Fund.

General Fund	\$0
<u>Appropriated Funds</u>	
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>
<u>Expenditure Authority Funds</u>	
Hospital Assessment	\$34,502,000
TPTF Proposition 204 Protection	1,744,700
Federal Medicaid Authority	421,394,400
PDRF-Federal	<u>78,318,300</u>
<i>Subtotal</i>	<i><u>\$535,959,400</u></i>
Total Funds	<u>\$562,208,700</u>

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 Budget Reconciliation Bill (BRB). The Baseline 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 Baseline includes an additional \$461,790,400 in supplemental funds as a result of higher-than-anticipated caseload growth across most AHCCCS populations.

Table 8 below shows the differences in caseload projections between the FY 2016 enacted budget and the FY 2017 Baseline. The Baseline is projecting additional enrollment of 228,422 relative to the FY 2016 budget.

Although this higher-than-anticipated caseload growth is expected to be associated with \$7.9 million in additional General Fund expenditures, the Baseline does not include a General Fund supplemental. AHCCCS has sufficient flexibility to address this level of General Fund supplemental through cashflow, and any small changes in caseload could eliminate the need for any additional General Fund expenditures.

	FY 2016 Budget	FY 2017 Baseline	Net Change
Traditional	980,630	1,084,312	103,682
Prop 204 Childless Adults	286,198	313,777	27,579
Other Prop 204	169,942	202,747	32,805
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>115,090</u>	<u>16,666</u>
Total	<u>1,608,042</u>	<u>1,836,464</u>	<u>228,422</u>

Long-Term Budget Impacts

The Baseline estimates that AHCCCS’ statutory caseload and policy changes will require a net additional \$77.2 million in FY 2018 above FY 2017 and a net additional \$97.5 million in FY 2019 above FY 2018.

These estimates are based on:

- Enrollment growth of 2.5% in FY 2018 and FY 2019, respectively.
- 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.

Medicare Part B Premiums

The federal Social Security Administration recently 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, and serves 18,250 individuals as of November 1, 2015. 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. Current beneficiaries can maintain their participation in QI program until at least December 31, 2015.

In November 2015, Congress adopted legislation to reduce the magnitude of the Part B premium increase. The fix lowers the premium increase in 2016 to \$120 instead of \$159.30, and requires Medicare beneficiaries to pay a monthly \$3 premium surcharge over the next 5 years. The \$120 premium, coupled with the \$3 surcharge, amounts to a 17.3% increase compared to calendar year 2015. Relative to the FY 2016 budget, the \$123 premiums increase AHCCCS' General Fund spending by \$3.3 million in FY 2016, and \$7.7 million in FY 2017. The FY 2017 amount has been incorporated into the Baseline.

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 adults.
- 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 across AHCCCS and DHS for savings associated with premiums as well as copays for inappropriate emergency room utilization. The AHCCCS CARE plan would reduce savings associated with premiums and copays to \$(100,000) from the General Fund. Any changes to the AHCCCS Section 1115 Waiver must be approved by the federal government. The FY 2017 Baseline 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 for Children

Behavioral health providers in Arizona have recently raised concerns about the availability of inpatient psychiatric beds for children and adolescents with severe behavioral health issues. Providers have alleged that some children with severe behavioral health issues wait in hospital emergency departments for more than 24 hours to be transferred to a psychiatric facility due to a shortage of inpatient psychiatric beds. DHS has also reported that some child enrollees in the RBHAs are sent out of state to receive inpatient psychiatric treatment due to the shortage of beds or the lack of availability of appropriate treatment. To address this potential shortage, DHS has issued a Request for Information (RFI) to assess interest among providers in expanding inpatient psychiatric care options for children. The Baseline includes a session law provision that requires AHCCCS to submit a report that examines the potential shortage in inpatient psychiatric beds for children.

SMI Funding

Table 9 shows the total Medicaid funding in FY 2017 for behavioral health services for the integrated SMI population is \$686.6 million for 42,358 recipients. State and federal funding for behavioral health services for this population is located in the Traditional, Proposition 204,

	State Match	Federal Match	Total Funds	Enrollees
Integrated SMI Maricopa	\$118,017,300	\$320,524,300	\$438,541,600	21,531
Integrated SMI Greater AZ	<u>64,536,800</u>	<u>183,483,300</u>	<u>248,020,100</u>	<u>20,827</u>
Total ^{1/}	\$182,554,100	\$504,007,600	\$686,561,700	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.

and Adult Expansion line items of the behavioral health services portion of the AHCCCS budget.

In FY 2017, an estimated \$29.5 million in additional total Medicaid funds will be spent on SMI services for non-integrated SMI clients. Of that amount, \$5.9 million is state matching funds, and \$23.6 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 Baseline 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.

County Contributions

County governments make 4 different payments to defray the AHCCCS budget’s costs, as summarized in *Table 10*. 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 \$6,454,300 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 \$14,665,900 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.

Table 10

County Contributions

County	FY 2016				FY 2017			
	BNCF	Acute	DUC	ALTCS	BNCF	Acute	DUC	ALTCS
Apache	\$114,800	\$268,800	\$87,300	\$618,900	\$117,400	\$268,800	\$87,300	\$622,500
Cochise	214,100	2,214,800	162,700	5,165,500	219,100	2,214,800	162,700	4,967,900
Coconino	211,200	742,900	160,500	1,858,500	216,100	742,900	160,500	1,869,200
Gila	86,700	1,413,200	65,900	2,117,900	88,800	1,413,200	65,900	2,103,400
Graham	61,700	536,200	46,800	1,336,700	63,100	536,200	46,800	1,296,700
Greenlee	15,800	190,700	12,000	79,700	16,200	190,700	12,000	33,000
La Paz	32,800	212,100	24,900	696,300	33,600	212,100	24,900	592,500
Maricopa	0	19,203,200	0	153,303,200	0	19,011,200	0	154,476,500
Mohave	246,600	1,237,700	187,400	8,033,700	252,300	1,237,700	187,400	7,913,600
Navajo	161,600	310,800	122,800	2,562,200	165,300	310,800	122,800	2,576,900
Pima	1,468,800	14,951,800	1,115,900	39,303,600	1,502,600	14,951,800	1,115,900	39,070,400
Pinal	287,400	2,715,600	218,300	15,539,700	294,000	2,715,600	218,300	14,839,300
Santa Cruz	67,900	482,800	51,600	1,942,200	69,500	482,800	51,600	1,922,300
Yavapai	271,500	1,427,800	206,200	8,416,600	277,700	1,427,800	206,200	8,354,200
Yuma	242,000	1,325,100	183,900	8,259,900	247,600	1,325,100	183,900	8,224,500
Subtotal	\$3,482,900	\$47,233,500	\$2,646,200	\$249,234,600	\$3,563,300	\$47,041,500	\$2,646,200	\$248,862,900
Total				\$302,597,200				\$302,113,900

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 \$9,776,300 in relief.

In FY 2017, provisions 3 through 6 of the ALTCS formula result in the state providing a total of \$30,896,500 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 \$342 per member per month (or \$4,104 annually). Of that amount, an average of \$81 is from state match and \$261 from Federal Medicaid Authority. For behavioral health, the average capitation rate is expected to be \$92 per member per month (or \$1,104 annually), with an average of \$23 for state match and \$69 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 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 Baseline requires AHCCCS to continue to transfer \$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:

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

This adjustment does not include the \$819,500 appropriation (\$84,900 General Fund and \$734,600 Consumer Protection-Consumer Fraud Revolving Fund) to the Attorney General for costs associated with tobacco settlement litigation. *(See the Attorney General - Department of Law section for more information.)*

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

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

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

Medically Needy Account	FY 2015	FY 2016
<u>Funds Available</u>		
Balance Forward	\$ 4,963,800	\$ 9,570,700
Transfer In - Tobacco Tax and Health Care Fund	48,002,100	45,446,500
Transfer In - Tobacco Products Tax Fund	26,171,900	24,519,000
Total Funds Available	\$ 79,137,800	\$ 79,536,200
<u>Allocations</u>		
<i>AHCCCS</i>		
AHCCCS State Match Appropriation	\$ 34,178,800	\$ 31,180,000
Total AHCCCS Allocations	\$ 34,178,800	\$ 31,180,000
<i>DHS</i>		
Behavioral Health GF Offset	\$ 34,767,000	\$ 34,767,000
Folic Acid	396,300	400,000
Renal, Dental Care, and Nutrition Supplements	225,000	300,000
Total DHS Allocations	35,388,300	35,467,000
Balance Forward	\$ 9,570,700	\$ 12,889,200
AHCCCS Proposition 204 Protection Account		
<u>Funds Available</u>		
Balance Forward	\$ 2,986,600	\$ 3,352,200
Transfer In - Tobacco Products Tax Fund	41,577,200	38,140,700
Total Funds Available	\$ 44,563,800	\$ 41,492,900
<u>Allocations</u>		
AHCCCS State Match Appropriation	38,225,000	36,396,000
Administrative Adjustments	2,986,600	0
Balance Forward	\$ 3,352,200	\$ 5,096,900
AHCCCS Emergency Health Services Account		
<u>Funds Available</u>		
Balance Forward	\$ 56,900	\$ 0
Transfer In - Tobacco Products Tax Fund	19,284,300	18,162,200
Total Funds Available	\$ 19,341,200	\$ 18,162,200
<u>Allocations</u>		
AHCCCS State Match Appropriation	\$ 19,284,300	\$ 17,331,400
Administrative Adjustments	56,900	0
Balance Forward ^{1/}	\$ 0	\$ 830,800
DHS Health Education Account		
<u>Funds Available</u>		
Balance Forward	\$ 10,237,400	\$ 7,607,300
Transfer In - Tobacco Tax and Health Care Fund	15,775,100	16,159,300
Transfer In - Tobacco Products Tax Fund	1,938,700	1,928,300
Total Funds Available	\$ 27,951,200	\$ 25,694,900
<u>Allocations</u>		
Tobacco Education and Prevention Program	\$ 17,878,200	\$ 17,878,200
Leading Causes of Death - Prevention and Detection	2,465,700	2,465,700
Balance Forward	\$ 7,607,300	\$ 5,351,000
Health Research Account		
<u>Funds Available</u>		
Balance Forward	\$ 4,098,800	\$ 9,035,700
Transfer In - Tobacco Tax and Health Care Fund	3,428,600	3,443,200
Transfer In - Tobacco Products Tax Fund	4,846,700	4,861,400
Total Funds Available	\$ 12,374,100	\$ 17,340,300
<u>Allocations</u>		
Biomedical Research Support ^{2/}	\$ 997,500	\$ 2,000,000
Alzheimer's Disease Research	1,000,000	1,000,000
Biomedical Research Commission	1,340,900	3,274,800
Balance Forward	\$ 9,035,700	\$ 11,065,500

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

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

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Budget Neutrality Compliance Fund (HCA2478/A.R.S. § 36-2928)		Appropriated
Source of Revenue: County contributions.		
Purpose of Fund: To provide administrative funding for costs associated with the implementation of the Proposition 204 expansion. Proposition 204 shifted some county administrative functions to the state, for which the counties now compensate the state.		
Funds Expended	2,538,300	3,482,900
Year-End Fund Balance	9,500	11,300
Children's Health Insurance Program Fund (HCA2409/A.R.S. § 36-2995)		Appropriated
Source of Revenue: Includes Medicaid matching monies for Arizona's State Children's Health Insurance Program (CHIP), called KidsCare. General Fund monies are used to leverage federal monies for KidsCare and are not included in the reported CHIP Fund expenditures.		
Purpose of Fund: To provide health insurance for low-income children 19 years of age and under. The eligibility limit for the KidsCare program has been set at 200% of the Federal Poverty Level (FPL), which is approximately \$47,100 for a family of 4.		
Funds Expended	6,340,300	7,674,400
Year-End Fund Balance	1,615,200	1,615,200
County Funds (HCA2120 Acute Care/HCA2223 Long Term Care/A.R.S. § 36-2913)		Expenditure Authority
Source of Revenue: Statutorily prescribed county contributions.		
Purpose of Fund: For the provision of acute medical and long term care services to Arizona Health Care Costs Containment System (AHCCCS) eligible populations. County contributions and state General Fund appropriations serve as the state match for federal Medicaid dollars.		
Funds Expended	295,518,400	299,114,300
Year-End Fund Balance	0	0
Employee Recognition Fund (HCA2025/A.R.S. § 36-2903)		Non-Appropriated
Source of Revenue: Private donations.		
Purpose of Fund: To be used for the agency's employee recognition program.		
Funds Expended	5,000	3,000
Year-End Fund Balance	1,900	1,400
Federal - Medicaid Direct Services (HCA2120/A.R.S. § 36-2913)		Non-Appropriated
Source of Revenue: Federal funding through the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services.		
Purpose of Fund: To reimburse schools participating in the Direct Services Claiming program for services provided to children with disabilities who are Medicaid eligible. All federal Medicaid monies must flow through AHCCCS, therefore, these monies are obtained by AHCCCS and then passed on to the participating schools.		
Funds Expended	36,504,900	62,068,700
Year-End Fund Balance	0	0
Federal Funds (HCA2000 Acute Care/A.R.S. § 36-2913)		Non-Appropriated
Source of Revenue: Federal grant monies.		
Purpose of Fund: To provide federal match for non-appropriated state expenditures.		
Funds Expended	498,100	3,860,100
Year-End Fund Balance	56,800	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Federal Grants - American Recovery and Reinvestment Act (ARRA) (HCA2999/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
Purpose of Fund: Federal Funds to assist Medicaid providers in adopting electronic medical records.		
Funds Expended	48,834,800	58,744,500
Year-End Fund Balance	0	0
Federal Medicaid Authority (HCA2120 Acute Care/HCA2223 Long Term Care/ A.R.S. § 36-2913)		Expenditure Authority
Source of Revenue: Federal funding through the U.S. Department of Health & Human Services, Centers for Medicare and Medicaid Services.		
Purpose of Fund: For AHCCCS' administrative costs and for the provision of acute and long term services to eligible populations. Any monies received in excess of the FY 2016 budgeted appropriations for the Nursing Facility Provider Assessment, Disproportionate Share Hospital (DSH) Voluntary Match Payments, Graduate Medical Education (GME), or Safety Net Care Pool (SNCP) program by the AHCCCS administration in FY 2016, including any federal matching monies, are appropriated to the Administration in FY 2016. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under these provisions.		
Funds Expended	5,739,824,100	6,165,751,200
Year-End Fund Balance	39,184,300	0
Healthcare Group Fund (HCA3197/A.R.S. § 36-2912.01 [repealed])		Partially-Appropriated
Source of Revenue: Premiums paid by employers and employees enrolled in Healthcare Group, including monies to fund the administration of the Healthcare Group program.		
Purpose of Fund: The Healthcare Group program was repealed on January 1, 2014, and the Healthcare Group Fund was repealed on January 1, 2015. Healthcare Group was operated by AHCCCS and was a premium based health insurance program available to small businesses and self-employed persons. A portion of this fund was appropriated to fund the administrative costs of Healthcare Group. The rest of the fund was non-appropriated and used to pay medical claims for members of Healthcare Group. When this fund was repealed, the fund's remaining balance of \$7,256,800 was transferred to the General Fund.		
Appropriated Funds Expended	0	0
Non-Appropriated Funds Expended	0	0
Year-End Fund Balance	0	0
Hospital Assessment Fund (HCA9692/ A.R.S. § 36-2901.09)		Expenditure Authority
Source of Revenue: An assessment on hospital revenues, discharges, or beds days.		
Purpose of Fund: For funding the non-federal share of Proposition 204 services and the adult population who became eligible for AHCCCS services on January 1, 2014.		
Funds Expended	260,916,800	215,558,800
Year-End Fund Balance	0	0
Hospital Loan Residency Fund (HCA2532/A.R.S. § 36-2921)		Non-Appropriated
Source of Revenue: Received a \$1,000,000 deposit from the General Fund in FY 2007. In future years, will also include any repaid loan money received from the participating hospitals.		
Purpose of Fund: To provide interest free loans to fund start-up and ongoing costs for residency programs in accredited hospitals, with priority given to rural areas.		
Funds Expended	0	0
Year-End Fund Balance	900,000	900,000

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
IGA for County Behavioral Health Services Fund (HCA4503/A.R.S. § 36-108.01)		Non-Appropriated
Source of Revenue: County funds.		
Purpose of Fund: To fund the delivery of behavioral health services to seriously mentally ill (SMI) individuals, some mental health services for non-SMI individuals, and the administration of Local Alcohol Reception Centers to treat substance abuse. In FY 2016, the fund will receive \$55.2 million from Maricopa County and \$3.1 million from Pima County. These monies were included in the IGA/County Contributions Fund in FY 2015. This fund will be transferred from DHS to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195. The FY15 and FY 16 expenditures for this fund are displayed in the DHS Summary of Funds.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Intergovernmental Service Fund (HCA2438/A.R.S. § 36-2927)		Non-Appropriated
Source of Revenue: Monies collected from the State of Hawaii.		
Purpose of Fund: To be used for costs associated with information technology services provided by AHCCCS to the State of Hawaii for the design, development, implementation, operation, and maintenance of a Medical Management Information System.		
Funds Expended	7,376,400	8,000,000
Year-End Fund Balance	2,671,400	1,972,900
Nursing Facility Provider Assessment Fund (HCA2567/A.R.S. § 36-2999.53)		Expenditure Authority
Source of Revenue: Assessment on health care items and services provided by some nursing facilities, nursing facility penalties, grants, gifts, and contributions from public or private sources.		
Purpose of Fund: To qualify for federal matching funds for supplemental payments for nursing facility services, to reimburse the Medicaid sharer of the assessment, to provide Medicaid supplemental payments to fund covered nursing facility services for Medicaid beneficiaries, and to pay up to a 1% in administrative expenses incurred by AHCCCS for administering this fund. Any monies received in excess of the FY 2016 budgeted appropriation for the Nursing Facility Provider Assessment program by the AHCCCS administration in FY 2016, including any federal matching monies, are appropriated to the administration in FY 2016. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision.		
Funds Expended	18,448,800	23,366,900
Year-End Fund Balance	6,728,000	1,617,000
Political Subdivision Funds (HCA1111/A.R.S. § 36-2927)		Expenditure Authority
Source of Revenue: Monies voluntarily given to AHCCCS from local governments, tribal communities, or Arizona public universities in order to obtain a federal match.		
Purpose of Fund: To expand funding for hospitals. Any monies received in excess of the FY 2016 budgeted appropriations for the Disproportionate Share Hospital (DSH) Voluntary Match Payments, Graduate Medical Education (GME), or Safety Net Care Pool (SNCP) program by the AHCCCS administration in FY 2016, including any federal matching monies, are appropriated to the Administration in FY 2016. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under these provisions.		
Funds Expended	118,828,600	108,546,300
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Prescription Drug Rebate Fund (HCA2546/A.R.S. § 36-2930)		EA/Appropriated
Source of Revenue: Prescription drug rebate collections, interest from prescription drug rebate late payments and Federal monies made available to this state for the operation of the AHCCCS Prescription Drug Rebate Program.		
Purpose of Fund: To pay for the administrative costs of the Prescription Drug Rebate Program, for payments to contractors or providers in the administration's medical services programs, and to offset General Fund costs for Medicaid programs. Also used to return the federal share of Prescription Drug Rebate collections and interest from late payments to the federal Centers for Medicare and Medicaid Services by offsetting future federal draws. Federal monies in this fund are subject to expenditure authority; all other monies are appropriated.		
State Funds Expended	79,021,000	83,778,800
Federal Funds Expended	257,162,000	222,458,100
Year-End Fund Balance	86,965,000	68,199,500
Proposition 202 - Trauma and Emergency Services Fund (HCA2494/A.R.S. § 36-2903.07)		Non-Appropriated
Source of Revenue: Gaming monies received from the Arizona Benefits Fund.		
Purpose of Fund: For unrecovered trauma center readiness and emergency services costs.		
Funds Expended	31,004,500	25,057,800
Year-End Fund Balance	6,390,700	6,428,700
Seriously Mentally Ill Housing Trust Fund (HCA2555/A.R.S. § 41-3955.01)		Partially-Appropriated
Source of Revenue: Receives \$2,000,000 from the proceeds of the sales of unclaimed property and interest income. A.R.S. § 44-313 states that the first \$2,000,000 in unclaimed property revenues are distributed to the Seriously Mentally Ill Housing Trust Fund. The second \$2,500,000 in unclaimed property revenues are distributed to the Housing Trust Fund, which is administered by the Department of Housing.		
Purpose of Fund: To fund housing projects as well as rental assistance for the seriously mentally ill. The appropriated portion pays for administration expenses, and may not exceed 10% of the Seriously Mentally Ill Housing Trust monies. The non-appropriated portion of the fund is used for rental assistance for seriously mentally individuals, as well as the operation, construction or renovation of a facility that houses seriously mentally ill individuals. This fund will be transferred from DHS to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195. The FY 2015 and FY 2016 expenditures for this fund are displayed in the DHS Summary of Funds.		
Appropriated Funds Expended	0	0
Non-Appropriated Funds Expended	0	0
Year-End Fund Balance	0	0
Substance Abuse Services Fund (HCA2227/A.R.S. § 36-2005)		Appropriated
Source of Revenue: The fund receives 23.6% of monies collected from Medical Services Enhancement Fund, which is a 13% penalty levied on criminal offenses, motor vehicle civil violations, and game and fish violations. Monies are deposited into 2 subaccounts.		
Purpose of Fund: To provide alcohol and other drug screening, education or treatment for persons court-ordered to attend and who do not have the financial ability to pay for the services, to contract for preventive or rehabilitative and substance abuse services, and to provide priority for treatment services to pregnant substance abusers. This fund will be transferred to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195. The FY 2015 and FY 2016 expenditures for this fund are displayed in the DHS Summary of Funds.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Third Party Liability and Recovery Fund (HCA3791 Acute Care/HCA3019 Long Term Care/A.R.S. § 36-2913)		EA/Non-Appropriated
Source of Revenue: Collections from third-party payers and revenues from lien and estate recoveries.		
Purpose of Fund: To provide acute medical services to AHCCCS members.		
Expenditure Authority Funds Expended	0	194,700
Non-Appropriated Funds Expended	859,600	1,347,300
Year-End Fund Balance	1,341,900	604,900

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Tobacco Litigation Settlement Fund (TRA2561/A.R.S. § 36-2901.02)		Expenditure Authority
Source of Revenue: Monies received from tobacco companies as part of a lawsuit settlement.		
Purpose of Fund: Established by Proposition 204 (enacted in the 2000 General Election) to provide funding to expand the AHCCCS program to 100% of the Federal Poverty Level and for 6 public health programs.		
Funds Expended	99,975,000	100,000,000
Year-End Fund Balance	0	0

Tobacco Products Tax Fund - Emergency Health Services Account* (HCA1304/A.R.S. § 36-776) **Appropriated**

Source of Revenue: This account receives 20¢ of each dollar deposited into the Tobacco Products Tax Fund, administered by the Department of Revenue.

Purpose of Fund: For primary care services, reimbursement of uncompensated care costs, and trauma center readiness costs.

Tobacco Products Tax Fund - Proposition 204 Protection Account* (HCA1303/A.R.S. § 36-778) **Expenditure Authority**

Source of Revenue: This account receives 42¢ of each dollar deposited into the Tobacco Products Tax Fund, administered by the Department of Revenue.

Purpose of Fund: To fund state match costs in AHCCCS for the Proposition 204 program. These monies are non-appropriated and must be spent before any other state monies on the Proposition 204 program.

Tobacco Tax and Health Care Fund* (RVA1306/A.R.S. § 36-771) **Non-Appropriated**

Source of Revenue: The fund consists of certain tax monies collected on cigarettes, cigars, smoking tobacco, plug tobacco, snuff and other forms of tobacco, and all interest earned on these monies.

Purpose of Fund: To AHCCCS for the Medically Needy Accounts (70%), the Arizona Department of Health Services (DHS) for the Health Education Account (23%), the Health Research Accounts (5%), and the State Department of Corrections (DOC) for the Corrections Fund Adjustment Account (2%). Under A.R.S. § 36-775, the amount transferred to the Corrections Fund Account is to reflect only the actual amount needed to offset decreases in the Corrections Fund resulting from lower tax revenues. Any unexpected Corrections Fund Adjustment Account amounts are to be transferred out proportionally to the other 3 accounts. These taxes were enacted in Proposition 200 and approved by voters in the 1994 General Election.

Tobacco Tax and Health Care Fund - Medically Needy Account* (HCA1306/A.R.S. § 36-774) **Partially-Appropriated**

Source of Revenue: The account receives 70¢ of each dollar deposited in the Tobacco Tax and Health Care Fund, administered by the Department of Revenue, and 27¢ of each dollar deposited into the Tobacco Products Tax Fund, also administered by the Department of Revenue. The fund also receives a portion of the monies reverting from the Corrections Fund Adjustment Account and an allocation from the Healthcare Adjustment Account.

Purpose of Fund: For health care services including, but not limited to, preventive care, transplants and the treatment of catastrophic illness or injury. Eligible recipients include persons statutorily determined to be medically indigent, medically needy, or low-income children. A portion of the monies is transferred to the DHS for statutorily established services, grants and pilot programs. These taxes were enacted in Proposition 200 and approved by voters in the 1994 General Election. Any monies in this fund used to pay for behavioral health services will be transferred from DHS to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195. Of the \$35,467,000 estimated to be expended from this account in DHS in FY 2016, \$34,767,000 will be transferred to AHCCCS for behavioral health services in FY 2017, with \$700,000 remaining in DHS for public health programs.

*See Table 11