Arizona Health Care Cost Containment System

	FY 2013 ACTUAL	FY 2014 ESTIMATE	FY 2015 BASELINE
OPERATING BUDGET			
Full Time Equivalent Positions	2,217.3	2,217.3	2,203.3
Personal Services	35,431,600	38,964,400	38,380,300
Employee Related Expenditures	14,731,000	17,350,700	17,102,300
Professional and Outside Services	4,222,800	5,657,100	5,567,100
Travel - In State	57,000	63,900	63,900
Travel - Out of State	30,700	36,100	36,100
Other Operating Expenditures	24,498,100	14,427,600	14,259,500
Equipment	1,533,400	1,901,700	1,895,100
OPERATING SUBTOTAL	**80,504,600**	**78,401,500**	**77,304,300**
SPECIAL LINE ITEMS			
Administration			
DES Eligibility	60,941,200	54,867,700	54,867,700
Proposition 204 - AHCCCS Administration	9,201,000	6,863,100	6,863,100
Proposition 204 - DES Eligibility	17,854,500	38,354,100	38,354,100
Medical Services			
Traditional Medicaid Services	3,223,412,300	3,630,655,800	3,934,375,600
Proposition 204 Services	1,113,353,400	1,323,587,300 1/	1,829,631,300
Adult Expansion	0	65,931,900 1/	227,369,700
Children's Rehabilitative Services	114,789,800	111,736,400	197,070,000
KidsCare Services	18,577,600	12,081,300	6,223,000
KidsCare II	47,737,600	26,825,700	0
ALTCS Services	1,136,911,400	1,271,574,100	1,335,149,600
Payments to Hospitals			
Disproportionate Share Payments	10,300,600	13,487,100	13,487,100
DSH Payments - Voluntary Match	49,268,900	43,318,000 2/	19,373,400
Rural Hospitals	13,008,100	13,858,100	13,858,100
Graduate Medical Education	167,561,500	186,490,100 2/	165,918,500
Safety Net Care Pool	361,954,900	166,000,000	0
AGENCY TOTAL	**6,425,377,400**	**7,044,032,200**	**7,928,845,500**

	FY 2013 ACTUAL	FY 2014 ESTIMATE	FY 2015 BASELINE
FUND SOURCES			
General Fund	1,267,202,100	1,334,933,400	1,285,049,500
Other Appropriated Funds			
Budget Neutrality Compliance Fund	3,221,100	3,303,900	3,384,400
Children's Health Insurance Program Fund	53,782,300	32,139,100	6,649,300
Healthcare Group Fund	1,133,500	1,097,200	0
Prescription Drug Rebate Fund - State	53,989,300	95,010,900	79,035,000
TPTF Emergency Health Services Account	18,964,600	18,320,100	18,202,400
TTHCF Medically Needy Account	38,295,800	37,389,300	34,178,800
SUBTOTAL - Other Appropriated Funds	169,386,600	187,260,500	141,449,900
SUBTOTAL - Appropriated Funds	**1,436,588,700**	**1,522,193,900**	**1,426,499,400**
Expenditure Authority Funds			
County Funds	292,035,200	295,193,300	295,503,300
Federal Medicaid Authority	4,172,226,700	4,753,556,000 2/	5,592,043,700
Hospital Assessment Fund	0	0	188,627,300
Nursing Facility Provider Assessment Fund	0	17,698,000	17,171,800
Political Subdivision Funds	202,153,200	138,181,000 2/	58,121,000
Prescription Drug Rebate Fund - Federal	133,422,400	178,543,000	212,459,300

1/ Laws 2013, 1st Special Session, Chapter 10 appropriated "sufficient monies" from the Expenditure Authority fund source for the purposes of implementing A.R.S. § 36-2901.01 and A.R.S. § 36-2901.07. Includes an additional $275,619,700 in the Proposition 204 Services line item and $65,931,900 in the Adult Expansion line item.

2/ This amount has been adjusted from the amount in the *FY 2014 Appropriations Report (see Graduate Medical Education and DSH Payments – Voluntary Match for additional detail)*.

	FY 2013 ACTUAL	FY 2014 ESTIMATE	FY 2015 BASELINE
Third Party Liability and Recovery Fund	0	194,700	194.700
Tobacco Litigation Settlement Fund	149,125,400	100,000,000	100,000,000
TPTF Proposition 204 Protection Account	39,825,800	38,472,300	38,225,000
SUBTOTAL - Expenditure Authority Funds	4,988,788,700	5,521,838,300	6,502,346,100
SUBTOTAL - Appropriated/Expenditure Authority Funds	**6,425,377,400**	**7,044,032,200**	**7,928,845,500**
Other Non-Appropriated Funds	59,520,100	118,697,800	33,694,900
Federal Funds	89,956,600	75,130,600	67,295,300
TOTAL - ALL SOURCES	6,574,854,100	7,237,860,600	8,029,835,700

AGENCY DESCRIPTION — The Arizona Health Care Cost Containment System (AHCCCS) operates on a health maintenance organization model in which contracted providers receive a predetermined monthly capitation payment for the medical services cost of enrolled members. AHCCCS is the state's federally matched Medicaid program and provides acute and long-term care services.

AHCCCS' FY 2015 General Fund spending would decrease by $(49,883,900) or (3.7)%. The $(49,883,900) includes:

- $(23,149,900) for formula adjustments.
- $99,668,900 for the annualization of costs associated with mandatory federal health care legislation.
- $62,224,400 for the annualization of costs associated with Medicaid expansion and the childless adult restoration.
- $(188,627,300) for hospital assessment savings.

Below is an overview of FY 2015 formula adjustments, mandatory changes from federal health care legislation, and the childless adult restoration, adult expansion, and the hospital assessment.

Formula Adjustments

Formula adjustments are comprised of FY 2014 and FY 2015 changes to caseloads, FY 2015 changes in capitation rates, FY 2015 changes to the federal match rate, the shift of some behavioral health services for children in the Children's Rehabilitative Services (CRS) program from the Department of Health Services (DHS) to AHCCCS, an ambulance rate increase, and adjustments in other appropriated funds which result in an adjustment to the General Fund. *Table 1* summarizes the formula adjustments.

FY 2014 Balance and FY 2015 Caseload Growth
Aside from caseload growth due to federal health care legislation *(see Mandatory Changes Resulting from Federal Health Care Legislation),* Medicaid expansion, and the childless adult restoration *(see Childless Adult Restoration, Adult Expansion, and the Hospital Assessment),* Traditional acute care and Proposition 204 populations are projected to increase by 1.0%, Arizona Long Term Care System (ALTCS) populations are projected to increase by 2.5%, and KidsCare populations are expected to decline by (20)% in FY 2015.

Table 1

AHCCCS General Fund Baseline Spending Changes
($ in millions)

Formula Adjustments	
FY 2014 Balance and FY 2015 Caseload Growth	$ (64)
FY 2015 3% Capitation Rate Increase	27
FY 2015 Federal Match Rate Increase	(16)
CRS Integration	8
Ambulance Rate Increase	2
Prescription Drug Rebate Fund Decrease	16
Tobacco Tax Decline	4
Subtotal	*$ (23)*
Mandatory Federal Health Care Changes	
Child Expansion	$ 15
Currently Eligible But Not Enrolled	77
Provider Rate Increase	(2)
Health Insurer Fee	9
Subtotal 1/	*$ 100*
Optional Medicaid Expansion	
Childless Adult Restoration, 0-100% FPL	$ 62
Adult Expansion, 100-133% FPL	0
Subtotal	*$ 62*
Hospital Assessment Savings	*$(189)*

1/ Numbers do not add due to rounding.

In addition to forecasted caseload changes, FY 2014 is expected to be overfunded since General Fund monies were not reduced to account for the hospital assessment. The FY 2014 balance, coupled with changes in the FY 2015 caseloads, results in General Fund savings of $(64,383,600) in FY 2015. Caseloads, including expansions and the childless adult restoration, are shown in *Table 2.*

Table 2

JLBC Forecasted Member Months [1/]

Population [2/]	**June 2013**	**June 2014** [3/]	**June 2015**	**'14-'15% Change**
Traditional Acute Care [4/]	886,795	967,161	1,039,030	7.4%
Prop 204 Childless Adults [5/]	75,650	136,164	234,673	72.3
Other Proposition 204	147,885	166,865	184,405	10.5
Adult Expansion [6/]	0	24,121	58,894	144.2
KidsCare [4/]	7,185	3,060	2,448	(20.0)
KidsCare II [4/ 7/]	36,026	0	0	--
ALTCS - Elderly & Physically Disabled [8/]	28,020	28,631	29,346	2.5
Emergency Services	67,563	68,968	72,417	5.0
Total Member Months [9/ 10/]	**1,249,124**	**1,394,970**	**1,621,213**	**16.2%**

1/ The figures represent June 1 estimates.
2/ Children in the Children's Rehabilitative Services program are included in the Traditional Acute Care, Other Proposition 204, KidsCare, and ALTCS populations.
3/ Represents revised forecast.
4/ Children on KidsCare and KidsCare II with incomes up to 133% of the Federal Poverty Level (FPL) are transferred to the Traditional program on January 1, 2014.
5/ Program frozen until January 1, 2014.
6/ Parents and Childless Adults 100%-133% FPL.
7/ Program ends on January 31, 2014.
8/ The Arizona Long Term Care System (ALTCS) program funded in AHCCCS.
9/ In addition, approximately 27,000 people will receive Medicaid services through the Department of Economic Security's Developmental Disabilities program.
10/ June 2014 amounts include 90,690 added as a result of mandatory federal health care legislation and 99,882 as a result of Medicaid expansion and childless adult restoration. By June 2015, these amounts are estimated to grow to 169,665 and 246,168, respectively.

FY 2015 3% Capitation Rate Increase
In comparison to caseload growth rates which vary significantly by population, capitation rate adjustments are assumed to be 3% above FY 2014 across most programs. The 3% capitation increase is budgeted to cost an additional $27,241,800 from the General Fund in FY 2015.

FY 2015 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 2015, the FMAP for Traditional Medicaid will increase to 68.15% (1.31% increase), the Proposition 204 Childless Adult rate will increase to 85.48% (1.86% increase), the KidsCare rate will increase to 77.71% (0.91% increase), and the Adult Expansion rate will remain at 100%. The formula adjustments include a decrease of $(16,209,500) in General Fund spending to reflect savings from the federal rate increase.

Children's Rehabilitative Services Integration (CRS)
On October 1, 2013, AHCCCS integrated care for most children in the CRS program. For children in the acute care programs, acute care and behavioral health services for children with CRS conditions are now provided through 1 CRS contractor. CRS children in the ALTCS Elderly and Physically Disabled (EPD) program now receive all of their CRS-related services through the ALTCS EPD program. While the integration is expected to be budget neutral, costs will be shifted between line items in the AHCCCS budget, and some behavioral health costs which were previously paid for in DHS will be shifted to AHCCCS. This cost shift is being addressed in FY 2014 through an interagency agreement. In FY 2015, the Baseline shifts these costs between line items. The Baseline also includes an increase of $8,250,000 from the General Fund in FY 2015 in AHCCCS and a corresponding decrease in DHS.

Ambulance Rate Increase
The FY 2014 Health and Welfare Budget Reconciliation Bill (BRB) (Laws 2013, 1st Special Session, Chapter 10) increases ambulance reimbursement rates from 68.59% to 74.74% of the DHS-set rate as of October 1, 2014. The Baseline includes an increase of $2,400,000 from the General Fund in FY 2015 to account for this increased rate. On October 1, 2015, the rates will increase to 80% of the DHS-set rates.

Prescription Drug Rebate Fund Decrease
The Baseline includes a decrease of $(15,975,900) from the state portion of the Prescription Drug Rebate Fund and a corresponding increase from the General Fund in FY 2015 based on AHCCCS estimates. Federal health care legislation requires drug manufacturers to provide rebates for drugs sold to Medicaid managed care plans. AHCCCS has been collecting these rebates since spring 2011.

Tobacco Tax Decline
The Baseline includes a decrease of $(3,575,500) from tobacco tax revenues and a corresponding increase from the General Fund in FY 2015 as a result of declining tobacco tax revenues.

Mandatory Changes Resulting from Federal Health Care Legislation

Federal health care legislation passed in 2010, known as the Affordable Care Act (ACA), has a number of impacts on the AHCCCS and DHS Medicaid budgets beginning on January 1, 2014. Mandatory changes resulting from federal health care legislation are described below. A summary of the AHCCCS portion of the mandatory costs appears in *Table 1* and the combined AHCCCS and DHS cost appears in *Table 3*.

Child Expansion
Federal health care legislation requires the expansion for children under age 19 to 133% of the Federal Poverty Level (FPL) ($31,300 for a family of 4) beginning on January 1, 2014. AHCCCS previously provided coverage for children under age 1 up to 140% FPL, children from 1-5 up to 133% FPL, and children from 6-18 up to 100% FPL at an approximate 2:1 match rate.

The Baseline assumes that on January 1, 2014, 2,700 children on KidsCare and 16,700 children on KidsCare II will transfer from their respective programs to the Traditional program, and these children will continue to receive an approximate 3:1 federal match rate. The Baseline includes the annualization of these costs for FY 2015.

In addition to the transfer of children, the Baseline assumes that the newly eligible children will enroll over a 12-month period; by June 2014, an additional 7,600 children will be added to the program. This number will grow to a total of 18,600 by June 2015.

In total, the Baseline includes an additional $15,196,700 from the General Fund for the annualization of these costs in FY 2015.

Currently Eligible But Not Enrolled
Beginning in 2014, individuals will be required to have health insurance or pay a fine unless they meet certain criteria. Uninsured individuals will also have access to health insurance through newly created health insurance exchanges, and individuals under 400% FPL will be eligible for premium subsidies.

Most individuals eligible for Medicaid but not enrolled will not be subject to the ACA fine. Nonetheless, publicity surrounding the individual mandate and additional availability of health insurance may induce some who are currently eligible but not enrolled to sign up. The Baseline assumes that 50% of the eligible non-participants will ultimately enroll, and it assumes these individuals enroll over a 15-month period; by June 2014, an estimated 66,000 currently eligible individuals will be added to the program, with a total of 133,500 by June 2015. The Baseline includes an additional $76,677,700 for the phased in enrollment and annualization of these costs in FY 2015. The federal government will provide the regular 2:1 match rate for these new enrollees.

Provider Rate Increase
Federal health care legislation requires that Medicaid reimburse primary care providers (PCPs) 100% of the Medicare rates in 2013 and 2014. The federal government will pay 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.

Although the provider rate increase was originally scheduled to be paid out in 2013 and 2014, a lengthy delay in federal approval has delayed these payments. AHCCCS expects that there will be a 2 quarter lag in the increased rate. Therefore, final payments will not be made until the last quarter of FY 2015. The Baseline includes a decrease of $(1,689,600) from the General Fund in FY 2015 for the PCP rate increase to account for the difference in FY 2014 and FY 2015 payments.

Health Insurer Fee
Federal health care legislation places an $8 billion annual fee on the health insurance industry nationwide beginning in 2014. The fee grows to $14.3 billion in 2018 and is indexed to inflation thereafter. The fee will be allocated to qualifying health insurers based on their respective market share of premium revenue in the previous year. AHCCCS estimates the fee will increase the cost of Medicaid managed care plans by 1.24% in 2015. The Baseline includes an increase of $9,484,100 from the General Fund for the annualization of these costs in FY 2015.

Young Adults Formerly in the Foster Care System
Federal health care legislation requires states to provide Medicaid coverage for children who were in foster care and who qualified for Medicaid as of their eighteenth birthday until age 26. The cost associated with this change is incorporated into the overall budget.

Modified Adjusted Gross Income and Income Disregards
Prior to 2014, the rules for counting eligibility for Medicaid varied from state to state and also can differ based on the eligibility category. Beginning in 2014, the ACA requires states to calculate income for most eligibility categories based on modified adjusted gross income (MAGI) and standardizes income disregards. Income disregards refer to what is included in calculating one's income. These changes will ultimately have some impact on who qualifies for AHCCCS, but it is not yet clear how these changes will impact the cost of the AHCCCS program and is not incorporated into the Baseline.

Disproportionate Share Hospital Payments
Federal health care legislation reduces Medicaid Disproportionate Share Hospital (DSH) payments nationwide by $500 million in 2014 and $600 million in 2015, or about 5% of overall payments. The reductions increase to $5.6 billion by 2019, which is about 50% of the current nationwide funding level. This is expected to reduce the maximum amount of voluntary payments which can be provided to hospitals in FY 2015 *(see DSH Payments - Voluntary Match SLI for additional information).*

Childless Adult Restoration, Adult Expansion, and the Hospital Assessment

The FY 2014 Health and Welfare BRB 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.

Table 3

General Fund and Federal Funds Medicaid Expansion and Childless Adult Cost Estimates Above FY 2013 1/

($ in millions)

		FY 2014 2/		FY 2015		FY 2016	
		GF	FF 3/	GF	FF	GF	FF
Mandatory Expansion – 133% FPL Children, and increase from eligible but not enrolled 4/	AHCCCS	$ 59	$ 250	$ 158	$ 526	$ 163	$ 410
	DHS	16	34	53	117	59	139
	Total	**$ 75**	**$ 284**	**$ 211**	**$ 643**	**$ 222**	**$ 549**
Full Expansion to 133% FPL and Childless Adult Restoration 5/6/	AHCCCS	$ (4)	$ 342	$ 63	$1,050	$ 49	$1,349
	DHS	(1)	54	16	289	12	371
	Total	**$ (5)**	**$ 396**	**$ 79**	**$1,339**	**$ 61**	**$1,720**
Estimated Assessment 6/7/	Total	63	-	189	-	174	-
GF Savings With Assessment 8/	**Total**	**(58)**	-	**(110)**	-	**(113)**	-
Mandatory and Full Expansion, net of Assessment Savings	**Total**	**17**	**-**	**111**	**-**	**109**	**-**

1/ Estimates include the following assumptions: 1) 50% of those who are eligible but not enrolled will enroll and 2) the enrollment phase-in is completed in FY 2015.

2/ The expansion and restoration began on January 1, 2014.

3/ Includes Federal Medicaid Authority and the federal match for KidsCare.

4/ Includes the mandatory costs that result from federal health care legislation. Mandatory expansion costs were projected to receive a 68.15% match in FY 2015 and FY 2016.

5/ Costs are in addition to the mandatory costs. The federal government pays 100% of the cost of the adult expansion from 2014 to 2016 and 85.48% of the childless adults up to 100% FPL in 2015. These percentages converge to 90% by 2020.

6/ Represents JLBC Staff estimates. The FY 2014 budget was not adjusted for expansion/restoration and the hospital assessment. FY 2015 estimates are adjusted for the expansion, restoration and hospital assessment.

7/ The FY 2014 budget included a hospital assessment that would cover the cost of the full expansion plus offset the current AHCCCS Proposition 204 General Fund cost, beginning January 1, 2014.

8/ Excludes the mandatory cost of federal health care legislation. The FY 2014 budget was not adjusted to reflect the net FY 2014 savings. The Baseline does reflect net FY 2015 savings.

Childless Adult Restoration, 0-100% FPL

The childless adult population has had an enrollment freeze since July 2011. As a condition of expanding Medicaid, coverage for the childless adult population needed to be restored. While the childless adult population from 0-100% FPL will not receive the 100% match rate, it will receive a higher match rate than the standard 2:1 match. The increased match starts at 83.62% in 2014 and increases to 85.48% in FY 2015.

The Baseline assumes that childless adults who were not previously eligible due to the freeze will enroll in the program over a 12-month period; by June 2014, an additional 76,000 adults will be added to the program. This number will grow to a total of 187,000 by June 2015. The Baseline includes an increase of $62,224,400 in state match monies for the annualization of these costs in FY 2015. The state portion of the cost will be paid for by the hospital assessment, which is described below.

Adult Expansion, 100%-133% FPL

Federal health care legislation allows states to expand Medicaid coverage for adults up to 133% FPL beginning on January 1, 2014 and receive a higher match rate. The federal government will pay 100% of the cost of the Adult Expansion (parents and childless adults whose incomes are from 100% to 133% FPL) in 2014 to 2016. The federal share will gradually decline to 90% by 2020.

While the FY 2014 Health and Welfare BRB expands eligibility for this population, the expansion is discontinued if any of the following occur: 1) the federal matching rate for adults from 100%-133% FPL or childless adults falls below 80%; 2) the maximum amount that can be generated from the hospital assessment is insufficient to pay for the newly eligible populations *(see Hospital Assessment section)*, or 3) the Federal ACA is repealed.

The Baseline assumes that the newly eligible adults will enroll over a 12-month period; by June 2014, an additional 24,000 adults will be added to the program. This number will grow to a total of 59,000 by June 2015 as displayed in *Table 4*. Since this is fully funded by the federal government in FY 2015, this will not increase General Fund costs.

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 beginning January 1, 2014. For FY 2014, the assessment will be based on hospital discharges as reported on each hospital's 2011 Medicare Cost Report. The amounts differ based on types of providers.

In FY 2014, AHCCCS is expected to collect $75,445,200 from the assessment. Since these monies can only be expended on the Proposition 204 population in 2014, AHCCCS is limited in its expenditure to expenses which would have previously been paid for from the General Fund. The JLBC Staff estimates these expenses will be $62,513,700 in FY 2014 and the $12,931,500 balance will remain in the fund to offset future Proposition 204 expenditures.

The Baseline assumes the assessment will grow to $188,627,300 in FY 2015 and will cover the cost of all Proposition 204 services in FY 2015, thereby reducing General Fund costs by a corresponding amount. While the FY 2014 budget displayed the Hospital Assessment Fund as a non-appropriated fund, the FY 2015 Baseline converts this to the regular budget structure as expenditure authority.

Table 4

Total Medicaid Population Increase [1/]

	June 2014	June 2015	June 2016
Mandatory Expansion	91,000	170,000	175,000
Childless Adult Restoration	76,000	187,000	197,000
Adult Expansion 100%-133% FPL	24,000	59,000	61,000
Total	**191,000**	**416,000**	**433,000**

1/ Population changes which would have occurred absent federal legislation are not included.

Operating Budget

The Baseline includes $77,304,300 and 890.2 FTE Positions in FY 2015 for the operating budget. These amounts consist of:

	FY 2015
General Fund	$28,735,000
Children's Health Insurance Program (CHIP) Fund	1,683,500
Prescription Drug Rebate Fund (PDRF) - State	116,100
Federal Medicaid Authority (FMA)	46,769,700

FY 2015 adjustments would be as follows:

Discontinue Healthcare Group OF (1,097,200)

The Baseline includes a decrease of $(1,097,200) and (14) FTE Positions from the Healthcare Group Fund in FY 2015 to discontinue Healthcare Group.

The FY 2014 Health and Welfare BRB repeals Healthcare Group on January 1, 2014, and the FY 2014 budget included funding for half of the year. This decrease would fully eliminate funding for Healthcare Group in FY 2015.

Healthcare Group was designed to provide access to community-rated healthcare insurance for the small business community. Federal health care legislation creates health care exchanges that provide health insurance beginning in 2014. The exchanges are expected to provide a marketplace for uninsured individuals to obtain health insurance as well as provide community-rated health insurance for small business owners. Beginning on January 1, 2014, AHCCCS assumes that currently enrolled members in Healthcare Group will shift into health insurance offered in the healthcare exchange, making Healthcare Group no longer necessary.

Administration

DES Eligibility

The Baseline includes $54,867,700 and 885 FTE Positions in FY 2015 for Department of Economic Security (DES) Eligibility services. These amounts consist of:

General Fund	25,487,800
Federal Medicaid Authority	29,379,900

These amounts are unchanged from FY 2014.

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

Proposition 204 - AHCCCS Administration

The Baseline includes $6,863,100 and 128 FTE Positions in FY 2015 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	2,320,500
Federal Medicaid Authority	4,542,600

These amounts are unchanged from FY 2014.

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

Proposition 204 - DES Eligibility

The Baseline includes $38,354,100 and 300.1 FTE Positions in FY 2015 for Proposition 204 - DES Eligibility costs. These amounts consist of:

General Fund	17,335,500
Budget Neutrality Compliance Fund	3,384,400
Federal Medicaid Authority	17,634,200

FY 2015 adjustments would be as follows:

Statutory Adjustment	**GF**	**(80,500)**
	BNCF	**80,500**

The Baseline includes a decrease of $(80,500) from the General Fund and a corresponding increase from the Budget Neutrality Compliance Fund (BNCF) in FY 2015 to reflect a statutorily-required increase of county contributions in FY 2015 (A.R.S. § 11-292O). *(Please see Table 6 for contributions by county.)*

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

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

Medical Services

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

Traditional Medicaid Services

The Baseline includes $3,943,375,600 in FY 2015 for Traditional Medicaid Services. This amount consists of:

General Fund	975,054,900
County Funds	50,307,100
PDRF - State	73,756,400
TTHCF Medically Needy Account	34,178,800
Third Party Liability and Recovery Fund	194,700
Federal Medicaid Authority	2,611,322,500
PDRF - Federal	198,561,200

FY 2015 adjustments would be as follows:

Formula Adjustments	**GF**	**61,995,500**
	OF	**(17,851,600)**
	EA	**268,575,900**

The Expenditure Authority (EA) amount consists of $236,523,300 in Federal Medicaid Authority, $(190,100) in County Funds, and $32,242,700 from the federal portion of the Prescription Drug Rebate Fund (PDRF). The OF amount consists of $(14,641,100) from the state portion of the PDRF and $(3,210,500) from the TTHCF Medically Needy Account. The formula adjustments include:

- 1.0% enrollment growth after the continuation of the FY 2014 caseload savings.
- A change in the federal match rate from 66.84% to 68.15%.
- 3% capitation rate increase.
- The annualization of costs associated with federal health care legislation.
- The shift of acute care services for children with CRS conditions to the CRS line item.
- $(297,300) decrease in Maricopa County Acute Care contribution under A.R.S. § 11-292 with a corresponding General Fund increase.
- $(14,641,100) decrease to the state portion of the PDRF and a corresponding General Fund increase.
- $32,242,700 increase to the federal portion of the PDRF and a corresponding Federal Medicaid Authority decrease.
- $(3,210,500) decrease from the TTHCF Medically Needy Account due to declining tobacco tax revenues and a corresponding General Fund increase.

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

- Children less than 1, up to 140% FPL.
- Children aged 1-5, up to 133% FPL.
- Children aged 6-18, up to 100% FPL through December 31, 2013 and up to 133% FPL thereafter.
- 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 $1,829,631,300 in FY 2015 for Proposition 204 Services. This amount consists of:

Hospital Assessment Fund	188,627,300
Tobacco Litigation Settlement Fund	100,000,000
TPTF Proposition 204 Protection Account	38,225,000
TPTF Emergency Health Services Account	18,202,400
Federal Medicaid Authority	1,484,576,600

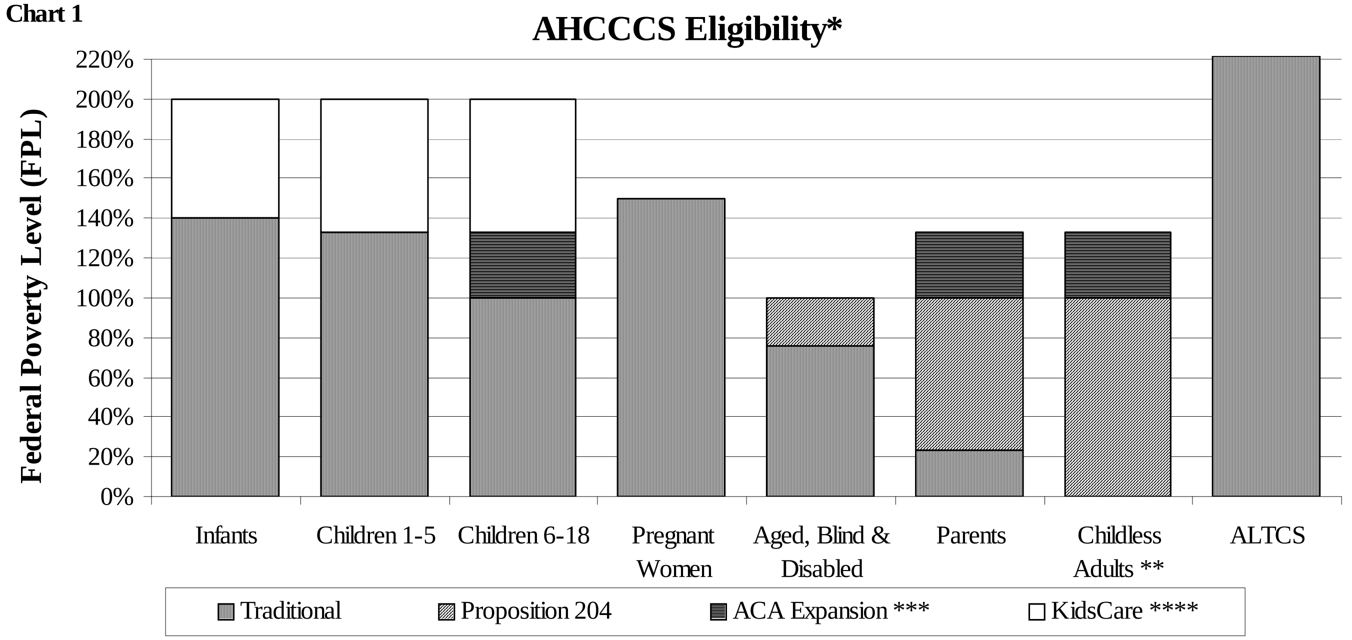
FY 2015 adjustments would be as follows:

Formula Adjustments	**GF**	**(138,506,000)**
	OF	**(117,700)**
	EA	**644,667,700**

The EA amount consists of $188,627,300 from the Hospital Assessment Fund, $(247,300) from the TPTF Proposition 204 Protection Account, and $456,287,700 in Federal Medicaid Authority. The formula adjustments include:

- 1.0% enrollment growth after the continuation of the FY 2014 caseload savings.
- A change in the federal match rate for the non-childless adult population from 66.84% to 68.15%. A

Chart 1



* Women diagnosed with breast or cervical cancer by a provider recognized by the Well Women Healthcheck program and those in the "Ticket to Work" program receive coverage to 250% FPL.
** The Childless Adult Program has had an enrollment freeze since July 8, 2011. The freeze will be lifted on January 1, 2014.
*** Beginning January 1, 2014.
**** The KidsCare program has had an enrollment freeze since January 1, 2010. From May 1, 2012 to December 31, 2013, the KidsCare II program will average approximately 25,000 per month.

change in the federal match rate for childless adults from 83.62% to 85.48%.
- 3% capitation rate increase.
- The annualization of costs associated with federal health care legislation and childless adult restoration.
- The continued shift of expenditures from the General Fund to the Hospital Assessment Fund. Beginning on January 1, 2014, Proposition 204 service expenditures paid from the General Fund will be shifted to the Hospital Assessment Fund.
- The conversion of the Hospital Assessment Fund to expenditure authority under the regular budget structure. In FY 2014, the Hospital Assessment Fund was listed as non-appropriated.
- $(247,300) decrease from the TPTF Proposition 204 Protection Account due to declining tobacco tax revenues and a corresponding General Fund increase.
- $(117,700) decrease from the Emergency Health Services Account due to declining tobacco tax revenues and a corresponding General Fund increase.

Background – The Proposition 204 program serves individuals with incomes that exceed the income limits for the Traditional population, but are below 100% FPL *(see Chart 1)*. The Childless Adult program had an enrollment freeze from July 8, 2011 through January 1, 2014.

Adult Expansion

The Baseline includes $227,369,700 from Federal Medicaid Authority in FY 2015 for the Adult Expansion. FY 2015 adjustments would be as follows:

Formula Adjustments EA 161,437,800

The formula adjustments include the annualization and phase-in of this population.

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 in 2014 to 2016. The federal share will gradually decline to 90% by 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 $197,070,000 in FY 2015 for Children's Rehabilitative Services (CRS). This amount consists of:

General Fund	62,761,900
Federal Medicaid Authority	134,308,100

FY 2015 adjustments would be as follows:

Formula Adjustments	**GF**	**(1,395,700)**
	FMA	**3,828,100**

The formula adjustments include 4.5% enrollment growth, an increase to the federal match rate, and a 3% capitation rate increase. This would result in approximately 25,600 members per month being served in June 2015.

CRS Integration	**GF**	**27,108,600**
	EA	**55,792,600**

The Baseline includes an increase of $82,901,200 in FY 2015 to shift acute care and behavioral health services to the CRS line item. Included in this amount is a $25,229,400 total fund shift from the Department of Health Services (DHS). A corresponding decrease can be found in DHS.

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

KidsCare Services

The Baseline includes $6,223,000 in FY 2015 for KidsCare Services. This amount consists of:

General Fund	1,257,200
CHIP Fund	4,965,800

FY 2015 adjustments would be as follows:

Formula Adjustments	**GF**	**(1,292,500)**
	CHIP	**(4,565,800)**

The formula adjustments include a (20)% enrollment decline, an increase to the federal match rate, a 3% capitation rate increase, and the annualization of costs associated with federal health care legislation.

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. The KidsCare program receives an approximate 3:1 match rate. 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.

KidsCare II

The Baseline includes no funding for KidsCare II in FY 2015. FY 2015 adjustments would be as follows:

Expiration of Program	**PSF**	**(5,901,700)**
	CHIP	**(20,924,000)**

The Baseline includes a decrease of $(26,825,700) in FY 2015 for the KidsCare II program. The program was initially scheduled to end on December 31, 2013, but the program has been extended for 1 month in order to provide additional time to transition to the federal health care exchange.

The KidsCare II program expands access to KidsCare from May 1, 2012 to January 31, 2014. KidsCare II was funded by voluntary payments made by political subdivisions and city hospital assessments which were then matched by federal monies. The majority of the payments collected from these measures were used for the Safety Net Care Pool *(see Safety Net Care Pool section)*. On January 1, 2014 children with incomes up to 133% FPL will shift to the Traditional program, and those with incomes from 133%-200% will be eligible for a subsidy to purchase health insurance through the new federal health insurance exchange.

ALTCS Services

The Baseline includes $1,335,149,600 in FY 2015 for Arizona Long Term Care System (ALTCS) expenditures. This amount consists of:

General Fund	164,797,400
County Contributions	245,196,200
PDRF - State	5,162,500
Federal Medicaid Authority	888,923,600
PDRF - Federal	13,898,100
Nursing Facility Provider Assessment Fund	17,171,800

FY 2015 adjustments would be as follows:

Formula Adjustments	**GF**	**2,571,300**
	OF	**(1,334,800)**
	EA	**62,339,000**

The EA amount consists of $60,691,500 in Federal Medicaid Authority, $500,100 in County Funds, $1,673,600 from the federal portion of the Prescription Drug Rebate Fund and $(526,200) from the Nursing Facility Provider Assessment Fund. The formula adjustments include:

- 2.5% enrollment growth.
- A change in the federal match rate from 66.84% to 68.15%.
- 3% capitation rate increase.
- The annualization of costs associated with federal health care legislation.
- The shift of CRS-related services for children in the ALTCS program to this line item.
- $(1,334,800) decrease to the state portion of the PDRF and corresponding increases of $601,600 in County Contributions and $733,200 from the General Fund.
- $1,673,600 increase to the federal portion of the PDRF and a corresponding Federal Medicaid Authority decrease.
- $(526,200) decrease from the Nursing Facility Provider Assessment Fund and an increase of $2,877,400 in Federal Medicaid Authority for supplemental payments to nursing facilities.

These adjustments would result in approximately 29,300 members per month being served in June 2015. *(See Table 1.)*

Background – ALTCS provides coverage for individuals up to 222% of the FPL, or $25,508 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 $8,618 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 2013, AHCCCS estimates that client contributions paid for 6.8% of care.

Payments to Hospitals

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

Disproportionate Share Payments

The Baseline includes $13,487,100 in FY 2015 for Disproportionate Share Hospital (DSH) Payments. This amount consists of:

General Fund	2,928,400
Federal Medicaid Authority	10,558,700

FY 2015 adjustments would be as follows:

Formula Adjustments	**GF**	**(114,200)**
	FMA	**114,200**

The formula adjustment represents a change in the match rate.

Background – This line item represents supplementary payments to hospitals that serve a large, or disproportionate, number of low-income patients. *Table 5* displays the allocation of Disproportionate Share Funding.

The state only appropriates General Fund dollars for DSH payments to private hospitals ($9,284,800 in total funds in FY 2015). Publicly operated hospitals are required to document uncompensated care costs to the federal government through a Certified Public Expenditure (CPE) process. Those CPEs result in the drawdown of Federal Funds. Typically, the state retains all of the Federal Funds with the exception of $4,202,300 which is allocated to Maricopa Integrated Health System (MIHS).

Table 5

Disproportionate Share Hospital Program

Eligible Funding	**FY 2014**	**FY 2015**
Public Hospitals	$ 89,877,700	$ 89,877,700
Arizona State Hospital (ASH)	28,474,900	28,474,900
Private Hospitals	9,284,800	9,284,800
Total Allocations	**$127,637,400**	**$127,637,400**
Distribution of Funding		
Federal DSH to GF (Maricopa)	$ 56,222,500	$ 57,328,000
Federal DSH to GF (ASH)	19,798,200	19,493,900
Subtotal	$ 76,020,700	$ 76,821,900
County-Operated Hospitals	4,202,300	4,202,300
Private Hospitals	9,284,800	9,284,800
Total	**$ 89,507,800**	**$ 90,309,000**

DSH Payments - Voluntary Match

The Baseline includes $19,373,400 in FY 2015 for DSH Payments - Voluntary Match. This amount consists of:

Political Subdivision Funds (PSF)	5,280,100
Federal Medicaid Authority	14,093,300

FY 2015 adjustments would be as follows:

Reduced Funding	**PSF**	**(8,915,200)**
	FMA	**(15,029,400)**

The Baseline includes a decrease of $(23,944,600) in FY 2015 for a reduction in DSH payments imposed by federal health care legislation *(see Mandatory Changes Resulting from Federal Health Care Legislation for additional information).* Although the *FY 2014 Appropriations Report* displays a $28,457,100 appropriation for FY 2014, a footnote appropriates any additional payments in excess of that amount. AHCCCS has informed JLBC that they expect to expend $43,318,000 in total voluntary DSH payments in FY 2014.

Background – Beginning in FY 2010, the Health and Welfare BRB has allowed local governments, tribal governments and universities to provide voluntary DSH payments in order to receive a federal match. In FY 2013, 11 hospitals contributed the state match for $49,268,900 in total DSH payments.

Rural Hospitals

The Baseline includes $13,858,100 in FY 2015 for Rural Hospitals. This amount consists of:

General Fund	4,370,900
Federal Medicaid Authority	9,487,200

FY 2015 adjustments would be as follows:

Formula Adjustment	**GF**	**(170,400)**
	FMA	**170,400**

The formula adjustment represents a change in match rate.

Background – This line item is comprised of 2 programs. The Rural Hospital Reimbursement program increases inpatient reimbursement rates for qualifying rural hospitals. The Critical Access Hospitals program provides increased reimbursement to small rural hospitals that are federally designated as critical access hospitals. In FY 2013, 21 hospitals qualified for funding from Rural Hospital Reimbursement and 10 from Critical Access Hospitals.

Graduate Medical Education

The Baseline includes $165,918,500 in FY 2015 for Graduate Medical Education (GME) expenditures. This amount consists of:

Political Subdivision Funds	52,840,900
Federal Medicaid Authority	113,077,600

FY 2015 adjustments would be as follows:

Decreased Funding	**PSF**	**(8,271,900)**
	FMA	**(12,299,700)**

The Baseline includes a decrease of $(20,571,600) in FY 2015 for a reduction in GME payments. Although the *FY 2014 Appropriations Report* displays a $160,184,900 appropriation for FY 2014, a footnote appropriates any additional payments in excess of that amount. AHCCCS has informed JLBC that they expect to expend $186,490,100 in total GME payments in FY 2014.

Background – The GME program reimburses hospitals with graduate medical education programs for the additional costs of treating AHCCCS members with graduate medical students. While AHCCCS no longer provides any General Fund monies to this program, A.R.S. § 36-2903.01 allows local, county, and tribal governments, along with public universities to provide state match for GME, and entities may designate the recipients of such funds. In FY 2013, 10 hospitals received a total of $167,561,500 for Graduate Medical Education.

Safety Net Care Pool

The Baseline includes no funding in FY 2015 for the Safety Net Care Pool (SNCP) program. FY 2015 adjustments would be as follows:

Expiration of Program	**PSF**	**(56,971,200)**
	FMA	**(109,028,800)**

The Baseline includes a decrease of $(166,000,000) in FY 2015 for the SNCP program which ended on December 31, 2013.

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. As a federal condition of participating in the program, some of the monies must be used for coverage expansion of the KidsCare and the childless adult population.

In April 2012, AHCCCS received federal approval to establish the SNCP program. The program was expanded a year later using monies collected from a City of Phoenix hospital assessment. In June 2013, this resulted in an additional 36,026 children covered through KidsCare II program and 1,588 additional persons covered through the childless adult program.

While this program was originally expected to end on December 31, 2013, the FY 2014 Health and Welfare BRB allows Phoenix Children's Hospital to continue to participate in the SNCP program through December 31, 2017 if approved by the federal government. If the continuation is approved, additional expenditure authority monies will need to be added to the AHCCCS budget.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

<u>Operating Budget</u>
The amounts appropriated for the Department of Economic Security Eligibility line item shall be used for intergovernmental agreements with the Department of Economic Security for the purpose of eligibility determination and other functions. The General Fund share may be used for eligibility determination for other programs administered by the Division of Benefits and Medical Eligibility based on the results of the Arizona Random Moment Sampling Survey.

The amounts included in the Proposition 204 - AHCCCS Administration, Proposition 204 - DES Eligibility, and Proposition 204 Services Special Line Items includes all available sources of funding consistent with A.R.S. § 36-2901.01B.

<u>Medical Services</u>
Before making fee-for-service program or rate changes that pertain to fee-for-service rate categories, the Arizona Health Care Cost Containment System Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee.

The Arizona Health Care Cost Containment System Administration shall report to the Joint Legislative Budget Committee by March 1 of each year on preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum shall be no more than 2%. Before implementation of any changes in capitation rates, the Arizona Health Care Cost Containment System Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. Before the Administration implements any changes in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the Administration shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal analysis demonstrates that these changes will result in additional state costs of $500,000 or greater for a given fiscal year, the Administration shall submit the policy changes for review by the Joint Legislative Budget Committee.

Any Federal Funds that the AHCCCS Administration passes through to the Department of Economic Security for use in long-term administration care for the developmentally disabled shall not count against the long-term care expenditure authority above.

Pursuant to A.R.S. § 11-292B the county portion of the FY 2015 nonfederal portion of the costs of providing long-term care services is $245,196,200. This amount is included in the Expenditure Authority fund source.

The non-appropriated portion of the Prescription Drug Rebate Fund is included in the federal portion of the Expenditure Authority fund source.

The Expenditure Authority fund source includes voluntary payments made from political subdivisions for Medicaid coverage of certain children and for payments to hospitals that operate a graduate medical education program or treat low-income patients. The political subdivision portions of the FY 2015 costs of Graduate Medical Education and Disproportionate Share Payments - Voluntary Match line items are included in the Expenditure Authority fund source.

Any supplemental payments received in excess of $53,918,700 for nursing facilities that serve Medicaid patients in FY 2015, including any federal matching monies, by the AHCCCS Administration are appropriated to the Administration in FY 2015. 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.

The Arizona Health Care Cost Containment System Administration shall transfer up to $1,200,000 from the Traditional Medicaid Services line item for FY 2014 to the Attorney General for costs associated with tobacco settlement litigation.

<u>Payments to Hospitals</u>

The $13,487,100 appropriation for Disproportionate Share Payments for FY 2015 made pursuant to A.R.S. § 36-2903.01O, includes $4,202,300 for the Maricopa County Healthcare District and $9,284,800 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, that are received in FY 2015 by the AHCCCS Administration in excess of $19,373,400 are appropriated to the Administration in FY 2015. 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 for Graduate Medical Education received in FY 2015, including any federal matching monies, by the AHCCCS Administration in excess of $165,918,500 are appropriated to the Administration in FY 2015. 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.

<u>Other Reports</u>

On or before January 6, 2015, the AHCCCS Administration shall report to the Director of the Joint Legislative Budget Committee the total amount of Medicaid reconciliation payments and penalties received by that date since July 1, 2014. On June 30, 2015, the Administration shall report the same information for all of FY 2015.

The AHCCCS Administration shall report 30 days after the end of each calendar quarter to the Directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on the implementation of its required automation interaction with the health insurance exchange and eligibility modifications.

On or before August 1, 2014, the AHCCCS Administration shall provide to the Joint Legislative Budget Committee for review a report on the interagency agreement with the Department of Health Services for providing acute care services for persons enrolled in the Maricopa Integrated Regional Health Authority unless the Administration already provided the report in FY 2014.

New Footnotes

The Hospital Assessment Fund is included in the Expenditure Authority fund source.

Deletion of Prior Year Footnotes
The Baseline would delete the footnotes on KidsCare II, the Safety Net Care Pool Program, and the City of Phoenix Access to Care Assessment expenditures since the programs end in FY 2014.

STATUTORY CHANGES

The Baseline would:

Rates and Services:
- As session law, continue to reduce the risk contingency rate setting for all managed care organizations by 50% and impose a 5.88% reduction on funding for all managed care organizations administrative funding levels.
- As session law, state that it is the intent of the Legislature that AHCCCS not increase capitation rates more than 3% in FY 2016 and FY 2017.
- As session law, continue to allow AHCCCS to notwithstand coverage exclusions in permanent law in order to cover outpatient health services, medical supplies, durable medical equipment, orthotics, and prosthetic devices if the preferred treatment option is consistent with Medicare guidelines and are less expensive than all other treatment options or surgical procedures to treat the same diagnosed condition.

Counties
- As session law, set county Arizona Long Term Care System (ALTCS) contributions at $245,196,200 *(see Table 6)*.
- As session law, set the County Acute Care contribution at $47,553,700 *(see Table 6)*.
- As session law, continue the collection of $2,646,200 in DUC pool contributions from all counties other than Maricopa County *(see Table 6)*.
- As session law, continue to exclude Proposition 204 administrative costs from county expenditure limitations.
- As session law, require AHCCCS to transfer any excess monies back to the counties by December 31, 2015 if the counties' proportion of state match exceeds the proportion allowed in order to comply with the Federal Affordable Care Act.

Hospitals
- As session law, establish FY 2015 disproportionate share distributions to the Maricopa County Hospital District, the Arizona State Hospital, private qualifying disproportionate share hospitals, and Yuma Regional Medical Center (does not continue to allow Maricopa Special Healthcare District to use uncompensated care expenditures above $89.9 million for SNCP since SNCP expires in FY 2014.)
- As permanent law, continue to permit local governments, tribal governments, and universities to contribute state match monies for disproportionate share hospital payments, subject to legislative appropriation.

Erroneous Payments
- As session law, continue to state that it is the intent of the Legislature that AHCCCS comply with the Federal False Claims Act, achieve the maximum savings as possible under the federal act, and to consider best available technologies to reduce fraud.
- 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. 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, require AHCCCS to submit a report by December 1, 2014 on the use of emergency departments for non-emergency use by AHCCCS enrollees.
- As session law, require AHCCCS, in conjunction with DHS, to submit a report by January 1, 2015 on hospital costs and charges.

Other
- As session law, require AHCCCS to pursue the maximum cost sharing allowable under federal law for AHCCCS enrollees. If approved by the federal government, charge the adult expansion population a premium of up to 2% of their income, and a $200 co-pay for non-emergency use of the emergency room. Exempt AHCCCS from rulemaking for 1 year.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

FY 2014 Balance

AHCCCS' estimated FY 2014 expenditures are projected to be $(73) million less than appropriated. The balance is primarily the result of shifting the cost of Proposition 204 services to the Hospital Assessment Fund. While the FY 2014 budget included the establishment of a hospital assessment to fund Proposition 204 services, when it was added, a corresponding General Fund amount was not reduced from the budget. A portion of AHCCCS' overfunded amount could potentially be used to address $18 million in underfunding projected for DHS in FY 2014.

County Contributions

County governments make 4 different payments to defray the AHCCCS budget's costs, as summarized in *Table 6*.

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.

Table 6

County Contributions

	FY 2014				FY 2015			
County	**BNCF**	**Acute**	**DUC**	**ALTCS**	**BNCF**	**Acute**	**DUC**	**ALTCS**
Apache	$ 108,900	$ 268,800	$ 87,300	$ 613,500	$ 111,500	$ 268,800	$ 87,300	$ 616,900
Cochise	203,100	2,214,800	162,700	5,179,900	208,100	2,214,800	162,700	5,138,300
Coconino	200,400	742,900	160,500	1,841,200	205,300	742,900	160,500	1,851,400
Gila	82,300	1,413,200	65,900	2,126,000	84,300	1,413,200	65,900	2,107,400
Graham	58,500	536,200	46,800	1,427,300	59,900	536,200	46,800	1,442,600
Greenlee	15,000	190,700	12,000	128,800	15,400	190,700	12,000	76,200
La Paz	31,200	212,100	24,900	691,300	31,900	212,100	24,900	712,200
Maricopa	0	19,820,700	0	149,698,100	0	19,523,400	0	150,220,100
Mohave	233,900	1,237,700	187,400	7,952,700	239,600	1,237,700	187,400	7,972,700
Navajo	153,300	310,800	122,800	2,538,600	157,000	310,800	122,800	2,552,500
Pima	1,393,200	14,951,800	1,115,900	39,129,200	1,427,200	14,951,800	1,115,900	38,919,400
Pinal	272,600	2,715,600	218,300	15,246,800	279,200	2,715,600	218,300	15,294,300
Santa Cruz	64,400	482,800	51,600	1,908,200	66,000	482,800	51,600	1,914,800
Yavapai	257,500	1,427,800	206,200	8,382,500	263,800	1,427,800	206,200	8,314,700
Yuma	229,600	1,325,100	183,900	7,832,000	235,200	1,325,100	183,900	8,062,700
Subtotal	**$3,303,900**	**$47,851,000**	**$2,646,200**	**$244,696,100**	**$3,384,400**	**$47,553,700**	**$2,646,200**	**$245,196,200**
Total				**$298,497,200**				**$298,780,500**

2. The counties' portion is allocated among the counties based on their FY 2013 ALTCS utilization.
3. Each county's contribution is then limited to 90¢ per $100 of net assessed property value. In FY 2015, this provision provides 3 counties with a total of $5,941,500 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 2015, this provision provides 3 counties with a total of $15,765,700 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 2015 no counties qualify for this relief.
6. The state pays for county costs above the average statewide per capita ($39.30 in FY 2015). In FY 2015 this provision provides 7 counties with a total of $10,180,600 in relief.

In FY 2015, provisions 3 through 6 of the ALTCS formula result in the state providing a total of $31,887,800 in relief to 10 counties.

Program Components

Traditional Medicaid, Proposition 204, KidsCare, CRS, and ALTCS services include the following costs:

Capitation

The majority of AHCCCS payments are made through monthly capitated payments. This follows a health maintenance organization (HMO) model in which capitated providers accept a predetermined rate for each member. In FY 2015, the average capitation rate is expected to be approximately $321 per member per month (or $3,856 annually). Of that amount, $93 is from state match and $228 from Federal Medicaid Authority.

Reinsurance

Reinsurance is a stop-loss program for health plans and program contractors for patients with unusually high costs. The health plan is responsible for paying all of a member's costs until an annual deductible has been met.

Fee-For-Service

Rather than using Capitation, Fee-For-Service payments are made for 4 programs: 1) federally-mandated services for Native Americans living on reservations; 2) rural Federally Qualified Health Centers (FQHC); 3) temporary Fee-For-Service coverage for those who leave AHCCCS before enrolling in a capitated plan; and 4) 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 a certain percent (75.0% in 2015) of the estimated drug costs.

Tobacco Tax Allocation

Table 7 is a summary of the tobacco tax allocations.

Table 7

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

	FY 2013	FY 2014
Medically Needy Account		
Funds Available		
Balance Forward	$ 4,120,900	$ 387,000
Transfer In - Tobacco Tax and Health Care Fund	46,966,400	42,747,000
Transfer In - Tobacco Products Tax Fund	25,607,000	24,732,200
Interest & Refunds	2,100	0
Total Funds Available	**$ 76,696,400**	**$ 67,866,200**
Allocations		
AHCCCS		
AHCCCS State Match Appropriation	$ 38,295,800	$ 37,389,300
Administrative Adjustments	2,930,600	0
Total AHCCCS Allocations	$ 41,226,400	$ 37,389,300
DHS		
Behavioral Health GF Offset	$ 34,767,000	$ 34,767,000
Folic Acid	316,000	400,000
Renal, Dental Care, and Nutrition Supplements	0	300,000
Total DHS Allocations	35,083,000	35,467,000
Balance Forward	**$ 387,000**	**$ (4,990,100)** 1/
AHCCCS Proposition 204 Protection Account		
Funds Available		
Balance Forward	$ 0	$ 0
Transfer In - Tobacco Products Tax Fund	39,831,900	38,472,300
Total Funds Available	**$ 39,831,900**	**$ 38,472,300**
Allocations		
AHCCCS State Match Appropriation	$ 39,825,800	38,472,300
Administrative Adjustments	6,100	0
Balance Forward	**$ 0**	**$ 0**
AHCCCS Emergency Health Services Account		
Funds Available		
Balance Forward	$ 0	$ 0
Transfer In - Tobacco Products Tax Fund	18,967,600	18,320,100
Total Funds Available	**$ 18,967,600**	**$ 18,320,100**
Allocations		
AHCCCS State Match Appropriation	$ 18,964,600	$ 18,320,100
Administrative Adjustments	3,000	0
Balance Forward 2/	**$ 0**	**$ 0**
DHS Health Education Account		
Funds Available		
Balance Forward	$ 7,741,000	$ 7,731,700
Transfer In - Tobacco Tax and Health Care Fund	15,575,300	14,045,400
Transfer In - Tobacco Products Tax Fund	1,896,800	1,832,000
Total Funds Available	**$ 25,213,100**	**$ 23,609,100**
Allocations		
Tobacco Education and Prevention Program	$ 14,141,100	$ 16,200,000
Leading Causes of Death - Prevention and Detection	3,340,300	2,400,000
Balance Forward	**$ 7,731,700**	**$ 5,009,100**
Health Research Account		
Funds Available		
Balance Forward	$ 3,395,100	$ 1,573,500
Transfer In - Tobacco Tax and Health Care Fund	3,249,500	3,053,400
Transfer In - Tobacco Products Tax Fund	4,874,300	4,580,000
Total Funds Available	**$ 11,518,900**	**$ 9,206,900**
Allocations		
Biomedical Research	$ 8,945,400	$ 7,910,400
Alzheimer's Disease Research	1,000,000	1,000,000
Balance Forward	**$ 1,573,500**	**$ 296,500**

1/ Actual balances will not be negative.

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

SUMMARY OF FUNDS	FY 2013 Actual	FY 2014 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	3,221,100	3,303,900
Year-End Fund Balance	7,700	7,700

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 and KidsCare II. General Fund monies are used to leverage federal monies for KidsCare and contributions from political subdivisions are used to leverage federal monies for KidsCare II. General Fund monies and political subdivision contributions 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. KidsCare II expires on December 31, 2013. The eligibility level for KidsCare II was originally set at 175% FPL, but it was later expanded to 200% FPL.

Funds Expended	53,782,300	32,139,100
Year-End Fund Balance	2,028,500	2,028,500

County Funds (HCA2120 Acute Care/HCA2223 Long Term Care/ A.R.S. § 36-2912 Acute Care/ A.R.S. § 36-2953 Long Term Care) **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	292,035,200	295,193,300
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	9,300	9,300
Year-End Fund Balance	9,200	8,400

Federal - Medicaid Direct Services (HCA2120/A.R.S. § 36-2913) **Non-Appropriated**

Source of Revenue: Federal funding through the U.S. Department of Health & 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	20,551,100	36,320,100
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	6,422,000	198,000
Year-End Fund Balance	1,675,300	0

SUMMARY OF FUNDS	FY 2013 Actual	FY 2014 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	62,983,500	38,612,500
Year-End Fund Balance	0	0

Federal Medicaid Authority (HCA2120/HCA2223 Long Term Care/ A.R.S. § 36-2913 Acute Care/ A.R.S. § 36-2953 Long Term Care) **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.

Funds Expended	4,172,226,700	4,753,556,000
Year-End Fund Balance	41,644,500	41,644,500

Healthcare Group Fund (HCA3197/A.R.S. § 36-2912.01) **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: A portion of this fund is appropriated to fund the administrative costs of Healthcare Group. The rest of the fund is non-appropriated and used to pay medical claims for members of Healthcare Group. Healthcare Group is operated by AHCCCS and is a premium based health insurance program available to small businesses and self-employed persons. The Healthcare Group program is repealed on January 1, 2014, and the Healthcare Group Fund is repealed on January 1, 2015.

Appropriated Funds Expended	1,133,500	1,097,200
Non-Appropriated Funds Expended	24,415,700	10,855,100
Year-End Fund Balance	9,894,200	6,092,900

Hospital Assessment Fund (HCA9692/A.R.S. § 36-2901.09) **Non-Appropriated**

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 becomes eligible for AHCCCS services on January 1, 2014. This amount is displayed as Expenditure Authority in FY 2015.

Funds Expended	0	75,339,400
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	600,000	900,000

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	6,624,400	8,000,000
Year-End Fund Balance	2,071,000	1,376,500

SUMMARY OF FUNDS	FY 2013 Actual	FY 2014 Estimate

Nursing Facility Provider Assessment Fund (HCA2567/A.R.S. § 36-2999.53) **EA/Non-Appropriated**

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. Beginning in FY 2014, these funds are listed as Expenditure Authority.

Expenditure Authority Funds Expended	0	17,698,000
Non-Appropriated Funds Expended	7,165,800	0
Year-End Fund Balance	0	0

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 or to increase enrollment for KidsCare or Proposition 204.

Funds Expended	202,153,200	138,181,000
Year-End Fund Balance	0	0

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 are listed as Expenditure Authority. All other monies are appropriated.

State Funds Expended	53,989,300	95,010,900
Federal Funds Expended	133,422,400	178,543,000
Year-End Fund Balance	0	0

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	21,267,000	24,454,700
Year-End Fund Balance	15,277,100	15,292,600

Temporary Transaction Privilege and Use Tax - 1% Fund (HCA1032/Article IX, Section 12.1 of State Constitution) **Non-Appropriated**

Source of Revenue: Temporary 3-year 1-cent sales and use tax authorized by voters during the May 2010 special election. The tax expires after May 31, 2013.

Purpose of Fund: To provide funding for primary and secondary education, health and human services and public safety. Expenditures are not displayed to avoid double counting General Fund.

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	37,900	39,300
Year-End Fund Balance	1,555,900	1,521,900

SUMMARY OF FUNDS	FY 2013 Actual	FY 2014 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	149,125,400	100,000,000
Year-End Fund Balance	0	0

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 Account (70%), the Arizona Department of Health Services (DHS) for the Health Education Account (23%), the Health Research Account (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 unexpended 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 Accounts* **Partially-Appropriated**
(HCA1306/A.R.S. § 36-774)

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. These taxes were enacted in Proposition 200 and approved by voters in the 1994 General Election.

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 DHS for statutorily established services, grants and pilot programs.

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

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* **Expenditure Authority**
(HCA1303/A.R.S. § 36-778)

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 must be spent before any other state monies on the Proposition 204 program.

**See Table 7*