Arizona Health Care Cost Containment System

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 BASELINE
OPERATING BUDGET			
Full Time Equivalent Positions	2,217.3	2,208.3	2,208.3
Personal Services	37,151,400	37,469,500	37,469,500
Employee Related Expenditures	16,424,700	16,709,600	16,709,600
Professional and Outside Services	3,785,000	5,130,900	5,212,100
Travel - In State	70,300	60,000	60,000
Travel - Out of State	24,000	33,400	33,400
Other Operating Expenditures	25,487,500	18,309,800	18,309,800
Equipment	728,600	80,300	80,300
OPERATING SUBTOTAL	**83,671,500**	**77,793,500**	**77,874,700**
SPECIAL LINE ITEMS			
Administration			
DES Eligibility	88,533,300	54,874,500	54,874,500
Proposition 204 - AHCCCS Administration	8,080,500	6,863,900	6,863,900
Proposition 204 - DES Eligibility	24,106,800	38,358,700	38,358,700
Medical Services			
Traditional Medicaid Services	3,236,881,500	3,896,186,400	3,955,185,600
Proposition 204 Services	1,306,266,400	1,948,717,900	2,635,851,300
Adult Expansion	45,032,600	227,369,700	194,521,100
Children's Rehabilitative Services	156,409,000	197,070,000	238,204,500
KidsCare Services	9,471,500	6,223,000	7,495,000
KidsCare II	46,110,700	0	0
ALTCS Services	1,241,873,200	1,358,648,600	1,346,083,700
Payments to Hospitals			
Disproportionate Share Payments	13,487,100	13,487,100	13,487,100
DSH Payments - Voluntary Match	25,806,900	32,455,700	34,359,700
Rural Hospitals	13,008,100	22,650,000	22,650,000
Graduate Medical Education	159,376,500	190,159,200	157,312,000
Safety Net Care Pool	487,953,300	137,000,000	137,000,000
AGENCY TOTAL	**6,946,068,900**	**8,207,858,200**	**8,920,121,800**
FUND SOURCES			
General Fund	1,173,476,700	1,274,403,200	1,272,328,700
Other Appropriated Funds			
Budget Neutrality Compliance Fund	3,303,900	3,384,400	3,482,900
Children's Health Insurance Program Fund	46,468,700	6,649,800	8,780,700
Healthcare Group Fund	850,000	0	0
Prescription Drug Rebate Fund - State	94,941,200	79,035,000	83,778,100
TPTF Emergency Health Services Account	18,535,500	18,202,400	17,331,400
TTHCF Medically Needy Account	32,864,700	34,178,800	31,180,000
SUBTOTAL - Other Appropriated Funds	196,964,000	141,450,400	144,553,100
SUBTOTAL - Appropriated Funds	**1,370,440,700**	**1,415,853,600**	**1,416,881,800**
Expenditure Authority Funds			
County Funds	293,921,500	295,396,100	300,049,800
Federal Medicaid Authority	4,695,580,900	5,801,463,600	6,489,470,400
Hospital Assessment Fund	0	204,597,700	245,180,700
Nursing Facility Provider Assessment Fund	16,528,300	21,657,300	5,841,700
Political Subdivision Funds	233,303,300	118,010,900	103,648,600
Prescription Drug Rebate Fund - Federal	196,563,800	212,459,300	222,458,100
Third Party Liability and Recovery Fund	0	194,700	194,700
Tobacco Litigation Settlement Fund	100,764,700	100,000,000	100,000,000
TPTF Proposition 204 Protection Account	38,965,700	38,225,000	36,396,000

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 BASELINE
SUBTOTAL - Expenditure Authority Funds	5,564,042,100	6,792,004,600	7,503,240,000
SUBTOTAL - Appropriated/Expenditure Authority Funds	**6,946,068,900**	**8,207,858,200**	**8,920,121,800**
Other Non-Appropriated Funds	114,250,100	29,574,800	29,571,100
Federal Funds	63,547,800	97,818,900	90,270,000
TOTAL - ALL SOURCES	7,123,866,800	8,335,251,900	9,131,565,500

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 2016 General Fund spending would decrease by $(2,074,500) or (0.2)%. The $(2,074,500) includes:

- $13,266,400 in formula base adjustments.
- $(15,340,900) in Mandatory Expansion adjustments, primarily due to a lower-than-expected child expansion enrollment and an enhanced federal match rate.

Below is an overview of the FY 2016 formula adjustments, a status update on the mandatory 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, and other funding changes.

Formula Adjustments

Formula adjustments are comprised of FY 2015 and FY 2016 changes to caseloads, FY 2016 changes in capitation rates, FY 2016 changes to the federal match rate, a prescription drug rebate increase, an ambulance rate increase, and a decline in tobacco tax collections. The sum of these adjustments increase the AHCCCS budget by $13,266,400 in FY 2016. *Table 1* summarizes the formula adjustments and other changes.

FY 2016 Caseload Growth

Formula adjustments include 2% caseload growth for Traditional acute care and Proposition 204 populations, 2% caseload growth for the Arizona Long Term Care System (ALTCS) population, and a (10)% decline in the KidsCare population in FY 2016. Population growth estimates were developed using historic caseload growth and expected programmatic changes. Formula adjustments do not include caseload growth for newly-eligible populations expanded under the ACA *(see next sections for additional information).* The FY 2016 formula adjustments incorporate an anticipated 7.1% caseload growth within the Traditional population in FY 2015. The 7.1% growth is primarily caused due to currently eligible but not enrolled individuals *(see Currently Eligible But Not Enrolled section for additional information).*

Table 1

AHCCCS General Fund Budget Spending Changes
($ in millions)

Formula Adjustments	
FY 2016 Caseload Growth	$ 12
FY 2016 3% Capitation Rate Increase	30
FY 2016 Federal Match Rate Increase	(28)
Prescription Drug Rebate Fund Increase	(5)
Ambulance Rate Increase	2
Tobacco Tax Decline	3
Subtotal [1/]	*$ 13*
Mandatory Expansion	
Child Expansion	$ (17)
Provider Rate Increase Phase Down	(6)
Health Insurer Fee	7
Currently Eligible But Not Enrolled [2/]	--
Subtotal [1/]	*$ (15)*
Optional Medicaid Expansion	
Childless Adults and Adult Expansion [3/]	*N/A*
Total Spending Change	**$ (2)**

1/ Numbers do not add due to rounding.
2/ Amounts are included in the formula adjustment above.
3/ The Baseline includes a $40.6 million increase in hospital assessment funding in FY 2016 which covers the General Fund portion of these populations and the remaining Proposition 204 populations.

FY 2015 base adjustments and FY 2016 caseload changes are expected to result in a General Fund increase of $11,570,700 in FY 2016. Caseloads, including expansions and the childless adult restoration, are shown in *Table 2.*

Table 2

JLBC Forecasted Member Months [1/]

Population [2/]	June 2014	June 2015 [3/]	June 2016	'15-'16% Change
Traditional Acute Care	939,643	1,006,708	1,026,842	2.0%
Prop 204 Childless Adults	215,742	293,378	299,246	2.0
Other Proposition 204	158,109	172,785	176,241	2.0
Adult Expansion [4/]	19,789	39,792	40,588	2.0
KidsCare	2,008	1,807	1,626	(10.0)
ALTCS - Elderly & Physically Disabled [5/]	28,524	29,522	30,113	2.0
Emergency Services	78,799	93,458	96,261	3.0
Total Member Months [6/]	**1,442,614**	**1,637,450**	**1,670,917**	**2.0%**

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/ Represents revised forecast.
4/ Parents and Childless Adults 100%-133% FPL.
5/ The ALTCS program funded in AHCCCS.
6/ In addition, approximately 29,000 people will receive Medicaid services through the Department of Economic Security's Developmental Disabilities program.

FY 2016 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 2016 across most programs. The 3% capitation increase is budgeted to cost an additional $30,424,200 from the General Fund in FY 2016. The 3% capitation rate adjustment was developed after analyzing recent capitation reviews, utilization, and trends in medical inflation.

FY 2016 Federal Match Rate Increase
The Federal Medical Assistance Percentage (FMAP) is the rate at which the federal government matches state contributions to the Medicaid programs. These rates are set on a state-by-state basis and are revised each year. During FY 2016, the FMAP rates will adjust as follows:

- Traditional Medicaid will increase to 68.81% (0.65% increase).
- Proposition 204 Childless Adult rate will increase to 89.05% (3.57% increase).
- KidsCare and Child Expansion rates will increase to 94.48% (16.56% increase for KidsCare and 26.33% for child expansion) *(see Mandatory Changes Resulting from Federal Health Care Legislation for additional information).*
- Adult Expansion rate will remain at 100%.

The formula adjustments include a decrease of $(28,196,600) in General Fund spending to reflect savings from the regular federal rate increase.

Prescription Drug Rebate Fund Increase
The Baseline includes an increase of $5,279,800 from the state portion of the Prescription Drug Rebate Fund and a corresponding $(5,279,800) decrease from the General Fund in FY 2016 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.

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% to 74% in October 2014 and to 80% of the Department of Health Services (DHS)-set rate as of October 1, 2015. The budget includes an increase of $1,749,100 from the General Fund in FY 2016 to account for this increased rate.

Tobacco Tax Decline
The Baseline includes a decrease of $(2,998,800) from tobacco tax revenues and a corresponding $2,998,800 increase from the General Fund in FY 2016 from declining tobacco sales. These declines result in a (8.8)% decrease within the Tobacco Tax and Health Care Fund (TTHCF) Medically Needy Account in FY 2016.

FY 2015 Adjustments
The Baseline includes a $(33,232,900) ex-appropriation from the General Fund in FY 2015 associated with lower-than-expected Medicaid caseload growth within the Traditional line item population. In addition, the Baseline includes $376,665,400 in an Expenditure Authority supplemental associated with higher-than-expected Medicaid caseload growth for the Proposition 204 Childless Adult population. *(See FY 2015 Adjustments in Other Issues for Legislative Consideration section for more information.)*

Mandatory Changes Resulting from Federal Health Care Legislation

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 federal health care legislation are described below. The sum of these adjustments decrease the AHCCCS budget by $(15,340,900) in FY 2016. 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
Beginning on January 1, 2014, ACA required the expansion for children under age 19 to 133% of the Federal Poverty Level (FPL) ($31,700 for a family of 4) and provided a 2:1 federal match rate for all enrollees in FY 2015. 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.

Because Arizona opted to expand Medicaid eligibility under the ACA, on January 1, 2014, 26,300 KidsCare recipients with incomes up to 133% FPL were transferred to the Traditional population. These 26,300 members would continue to receive a 3:1 federal match rate while new members after January 1, 2014 would receive a 2:1 federal match rate. Due to these programmatic changes, the KidsCare II program officially ended on January 31, 2014. Current KidsCare I recipients with income between 133% to 200% FPL continue to receive coverage in KidsCare. As of December 1, 2014, the KidsCare program has approximately 1,900 remaining members.

The FY 2015 budget estimated that approximately 27,000 newly-eligible children would enroll by June 2014, with a total of 37,200 enrolled by June 2016. By June 2014, however, actual enrollment was 30,000, a difference of approximately 3,000 members.

The Baseline revises the FY 2015 budgeted estimate to a total of 36,900 new enrollees by June 2016. Beginning on October 1, 2015, federal legislation increases the state's KidsCare and child expansion match rate to 100%. The Baseline includes a decrease of $(16,819,400) in FY 2016 from the General Fund for the phased-in enrollment, annualization of these costs, and an enhanced FMAP.

Provider Rate Increase Phase Down
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.

The FY 2015 budget assumed a PCP payment of $12,319,700 in FY 2014 and $8,339,000 in FY 2015. However, due to a delay in payment processing and review within the Federal Centers for Medicare and Medicaid Services (CMS), AHCCCS made payments of $4,102,700 in FY 2014, and anticipates to pay $7,021,600 in FY 2015 and $2,373,900 in FY 2016.

The Baseline includes a decrease of $(5,965,100) from the General Fund in FY 2016 for the PCP rate increase to account for the change from the FY 2015 appropriation to the expected FY 2016 payments.

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. In their FY 2015 budget year request, AHCCCS estimated the fee will increase the cost of Medicaid managed care plans by 1.24%. Health insurer fee allocations are based on a percentage of the health insurer's revenues and will be made on a retroactive mass adjustment within the Traditional capitation rate.

On August 4, 2014, CMS approved AHCCCS' proposal for a new payment methodology for calculating future health insurer fee allocations in FY 2016. The Baseline includes an increase of $7,443,600 from the General Fund in FY 2016 for the allocation of these costs.

Currently Eligible But Not Enrolled
After January 1, 2014, individuals are required to have health insurance or pay a fine unless they meet certain criteria. Uninsured individuals also have access to health insurance through newly-created health insurance exchanges, and individuals under 400% FPL are eligible for premium subsidies.

Most individuals eligible for Medicaid but not enrolled are not subject to the ACA fine. Nonetheless, publicity surrounding the individual mandate and additional availability of health insurance may induce some who are currently eligible but not enrolled to sign up. As a result, the Baseline is forecasting a caseload growth of 7.1% in the Traditional population line item.

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, 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.

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, increased to 85.48% in FY 2015, and increases to 89.05% in FY 2016.

Table 3

State and Federal Funds for Optional Medicaid Expansion and the Proposition 204 Parents

(in $ millions)

		FY 2015 Budgeted			FY 2016 Baseline		
		GF	HA [1]	FF	GF	HA [1]	FF
Adult Expansion 100-133% FPL [2]	AHCCCS	$ 0	$ 0	$ 227	$ 0	$ 0	$ 195
	DHS	0	0	74	0	0	40
	Total	**$ 0**	**$ 0**	**$ 301**	**$ 0**	**$ 0**	**$ 235**
Proposition 204 – Childless Adults 0-100% FPL [2/3]	AHCCCS	$ 0	$ 155	$1,043	$ 0	$ 188	$1,694
	DHS	37	0	244	36	0	291
	Total	**$ 37**	**$ 155**	**$1,287**	**$ 36**	**$ 188**	**$1,984**
Proposition 204 – Parents 22-100% FPL [3/4]	AHCCCS	$ 0	$ 49	$ 105	$ 0	$ 57	$ 125
	DHS	80	0	172	73	0	162
	Total	**$ 80**	**$ 49**	**$ 277**	**$ 73**	**$ 57**	**$ 287**
Total Expenditures [5]	**Total**	**$ 117**	**$ 205**	**$1,865**	**$ 109**	**$ 245**	**$2,506**

1/ Includes AHCCCS expenditures from the Hospital Assessment Fund for the Proposition 204 and Adult Expansion line items, beginning January 1, 2014. The Hospital Assessment Fund does not pay for behavioral health costs of these line items in the DHS budget.

2/ The federal government pays 100% of the cost of the adult expansion from 2014 to 2016 and 90.66% 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.

The FY 2015 budget assumed that approximately 138,900 childless adults who were not previously eligible would enroll in the program by June 2014, with a total of 247,800 enrolled by June 2016. By June 2014, actual enrollment was 215,700, a difference of approximately 76,800 members.

The Baseline revises the FY 2015 budgeted estimates to a total of 299,200 new childless adults by June 2016 and includes an increase of $32,737,800 in state match monies for the annualization of these costs in FY 2016. The state portion of the acute care costs for childless adults are paid for by the hospital assessment, which is described below.

Adult Expansion, 100%-133% FPL

ACA allowed states to expand Medicaid coverage for adults up to 133% FPL on and after January 1, 2014 and receive a higher match rate. The federal government will pay 100% of the cost of the Adult Expansion (parents and childless adults whose incomes are from 100% to 133% FPL) in calendar years 2014 to 2016. The federal share will gradually decline to 90% by 2020. The hospital assessment covers the state portion for this population *(see Hospital Assessment section for additional information).*

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 FY 2015 budget assumed that by June 2014 approximately 24,100 newly-eligible adults would enroll in the program, with a total of 60,700 enrolled by June 2016. By June 2014, actual enrollment was 19,800, a difference of approximately (4,300) members. Since newly-eligible adults are fully funded by the federal government through December 31, 2016 and then covered by the state portion through the hospital assessment thereafter, there is no change to the General Fund in FY 2016. The Baseline revises the FY 2015 budgeted estimate to a total of 40,600 new members by June 2016.

Table 4 displays June 2014 actual enrollment since January 1, 2014 for all population growth, including caseload growth related to the ACA and regular caseload growth, and future enrollment projections.

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 will be based on hospital discharges as reported on each hospital's 2011 Medicare Cost Report. The amounts differ based on types of providers.

Table 4

Total Medicaid Population Increase Since January 1, 2014 [1/]

	June 2014	June 2015	June 2016
Childless Adult Restoration	148,000	225,600	231,500
Adult Expansion 100%-133% FPL	19,800	39,800	40,600
Child Expansion 100%- 133% FPL	29,900	36,100	36,900
Other Enrollees [2/]	12,900	103,900	129,900
Total	**210,600**	**405,400**	**438,900**

1/ June 2014 figures are actual amounts while June 2015 and June 2016 are Baseline projections.
2/ Currently eligible but not enrolled individuals are included in Other Enrollees.

In FY 2014, AHCCCS collected $75,193,200 from the assessment, and was budgeted to collect $204,597,700 in FY 2015. FY 2015 expenditures from the Hospital Assessment Fund are projected to be $65.4 million above the appropriated amount. The balance is primarily the result of higher-than-expected enrollment of Proposition 204 childless adult enrollees, following the restoration of coverage beginning on January 1, 2014. *(Please see Other Issues for Legislative Consideration section for additional information.)*

Due to the higher-than-expected caseload, the Baseline assumes the assessment would need to be adjusted to $270,000,000 in FY 2015. The FY 2016 hospital assessment is projected to be $245,180,700 and would cover the cost of all Proposition 204 services in FY 2016.

Operating Budget

The Baseline includes $77,874,700 and 895.2 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	$25,779,100
Children's Health Insurance Program (CHIP) Fund	1,684,000
Prescription Drug Rebate Fund (PDRF) - State	197,300
Federal Medicaid Authority (FMA)	50,214,300

FY 2016 adjustments would be as follows:

Increased PDRF Rebate **OF** **81,200**

The Baseline includes an increase of $81,200 from the PDRF-State in FY 2016 due to an increase in prescription drug reimbursements pursuant to a contract adjustment.

Administration

DES Eligibility

The Baseline includes $54,874,500 and 885 FTE Positions in FY 2016 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 2015.

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

Proposition 204 - AHCCCS Administration

The Baseline includes $6,863,900 and 128 FTE Positions in FY 2016 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	2,320,900
Federal Medicaid Authority	4,543,000

These amounts are unchanged from FY 2015.

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 $38,358,700 and 300.1 FTE Positions in FY 2016 for Proposition 204 - DES Eligibility costs. These amounts consist of:

General Fund	17,239,300
Budget Neutrality Compliance Fund (BNCF)	3,482,900
Federal Medicaid Authority	17,636,500

FY 2016 adjustments would be as follows:

Statutory Adjustments **GF** **(98,500)**
OF **98,500**

The Baseline includes a decrease of $(98,500) from the General Fund and a corresponding increase of $98,500 from BNCF in FY 2016 due to reflect a statutory-required increase of county contributions in FY 2016 (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 $3,955,185,600 in FY 2016 for Traditional Medicaid Services. This amount consists of:

General Fund	950,048,900
County Funds	49,879,700
PDRF - State	78,105,000
TTHCF Medically Needy Account	31,180,000
Third Party Liability and Recovery Fund	194,700
Federal Medicaid Authority	2,637,893,400
PDRF - Federal	207,883,900

FY 2016 adjustments would be as follows:

Formula Adjustments	**GF**	**(11,524,600)**
	OF	**1,349,800**
	EA	**69,174,000**

The OF amount consists of $4,348,600 from the state portion of the PDRF and $(2,998,800) from the TTHCF Medically Needy Account. The Expenditure Authority (EA) amount consists of $60,171,500 in Federal Medicaid Authority, $(320,200) in County Funds, and $9,322,700 from the federal portion of the PDRF. The formula adjustments include:

- 2% enrollment growth.
- An increase in the federal match rate from 68.15% to 68.81%.
- 3% capitation rate increase.
- $(320,200) decrease in Maricopa County Acute Care contribution under A.R.S. § 11-292 with a corresponding General Fund increase.
- $4,348,600 increase to the state portion of the PDRF and a corresponding General Fund decrease.
- $9,322,700 increase to the federal portion of the PDRF and a corresponding Federal Medicaid Authority decrease.
- $(2,998,800) 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 1-18, 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 $2,635,851,300 in FY 2016 for Proposition 204 Services. This amount consists of:

Hospital Assessment Fund	245,180,700
Tobacco Litigation Settlement Fund	100,000,000
TPTF Proposition 204 Protection Account	36,396,000
TPTF Emergency Health Services Account	17,331,400
Federal Medicaid Authority	2,236,943,200

FY 2016 adjustments would be as follows:

Formula Adjustments	**OF**	**(871,000)**
	EA	**688,004,400**

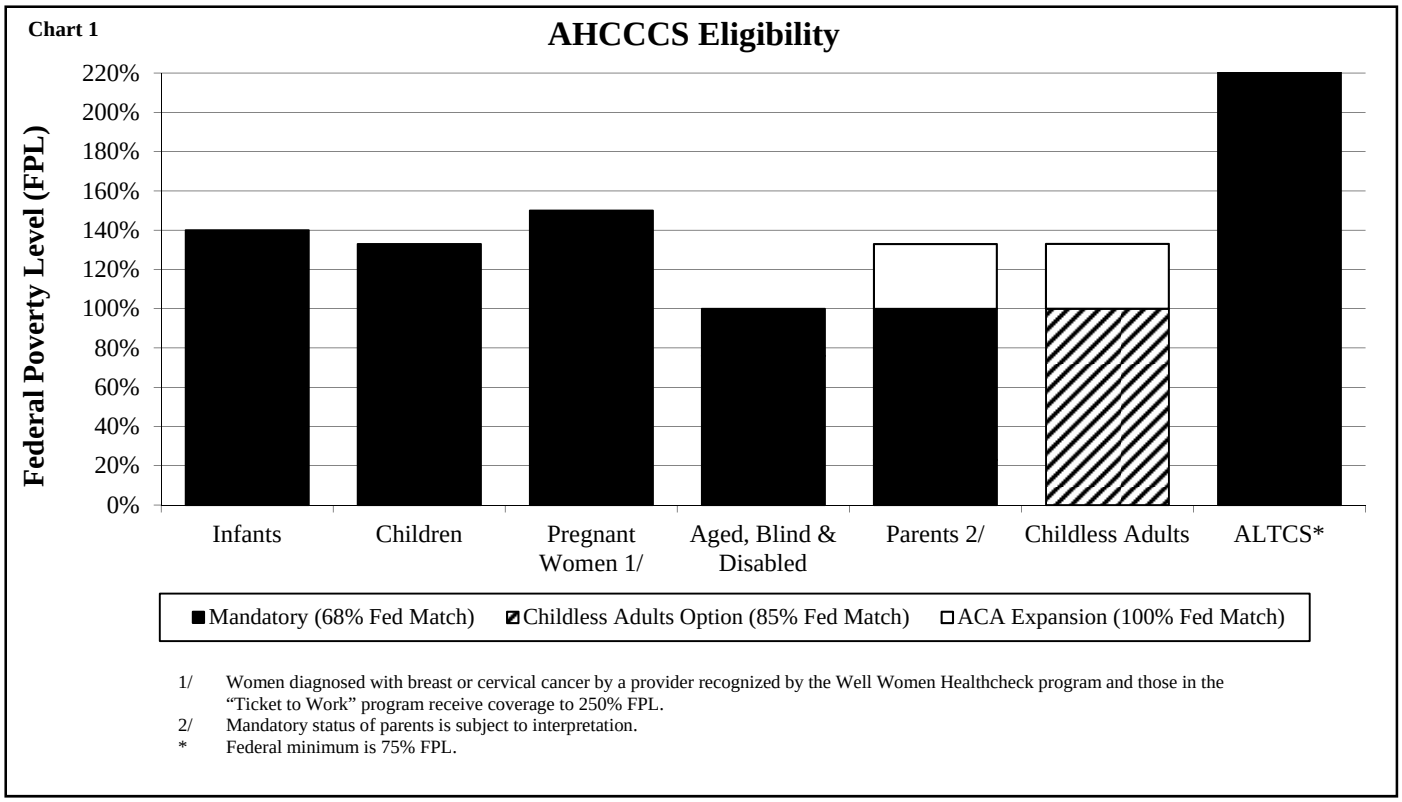
The OF consists of $(871,000) from the TPTF Emergency Health Services Account. EA consists of $(1,829,000) from the TPTF Proposition 204 Protection Account, $40,583,000 in Hospital Assessment Funds and $649,250,400 in Federal Medicaid Authority. The formula adjustments include:

- 2% enrollment growth.
- A change in the federal match rate for the non-childless adult population from 68.15% to 68.81%. A change in the federal match rate for childless adults from 85.48% to 89.05%.
- 3% capitation rate increase.
- $(1,829,000) decrease from the TPTF Proposition 204 Protection Account due to declining tobacco tax revenues and a $1,829,000 corresponding Hospital Assessment Fund increase.
- $(871,000) decrease from the Emergency Health Services Account due to declining tobacco tax revenues and a $871,000 corresponding Hospital Assessment 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 $194,521,100 from Federal Medicaid Authority in FY 2016 for the Adult Expansion. FY 2016 adjustments would be as follows:



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.
2/ Mandatory status of parents is subject to interpretation.
* Federal minimum is 75% FPL.

Formula Adjustments EA (32,848,600)

The formula adjustments include a decrease of $(32,848,600) of Federal Medicaid Authority in FY 2016 for the annualization and enrollment phase-in of this population. The decrease reflects lower-than-anticipated enrollment in FY 2015.

Background – Beginning on January 1, 2014, the Adult Expansion 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 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 $238,204,500 in FY 2016 for Children's Rehabilitative Services (CRS). This amount consists of:

General Fund	74,044,500
Federal Medicaid Authority	164,160,000

FY 2016 adjustments would be as follows:

Formula Adjustments GF 11,282,600
FMA 29,851,900

The formula adjustments include 3% enrollment growth, an increase to the federal match rate, a 3% capitation rate increase, a provider rate increase, reinsurance, and health insurance fees. This would result in approximately 28,000 members per month being served in June 2016.

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

KidsCare Services

The Baseline includes $7,495,000 in FY 2016 for KidsCare Services. This amount consists of:

General Fund	398,300
CHIP Fund	7,096,700

FY 2016 adjustments would be as follows:

Formula Adjustments GF (858,900)
CHIP 2,130,900

The formula adjustments include a (10)% enrollment decline, an increase to the federal match rate, and a 3% 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.

Beginning on October 1, 2015, KidsCare will receive a 100% federal match rate 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. The KidsCare program will receive a 3:1 federal match rate for the first quarter of the state FY 2016 (July 1, 2015 through September 30, 2015) and a 100% federal match rate beginning on October 1, 2015 thereafter, for a weighted blended FY 2016 rate of 94.48%.

ALTCS Services

The Baseline includes $1,346,083,700 in FY 2016 for ALTCS expenditures. This amount consists of:

General Fund	167,081,200
County Contributions	250,170,100
PDRF - State	5,475,800
Federal Medicaid Authority	902,940,700
PDRF - Federal	14,574,200
Nursing Facility Provider Assessment Fund	5,841,700

FY 2016 adjustments would be as follows:

Formula Adjustments	**GF**	**(701,100)**
	OF	**313,300**
	EA	**37,299,100**

The EA amount consists of $31,649,100 in Federal Medicaid Authority, $4,973,900 in County Funds and $676,100 from the federal portion of the PDRF in FY 2016. The formula adjustments include:

- 2% enrollment growth.
- A change in the federal match rate from 68.15% to 68.81%.
- 3% capitation rate increase.
- $313,300 increase to the state portion of the PDRF and corresponding decreases of $(141,300) in County Contributions and $(172,000) from the General Fund.
- $676,100 increase to the federal portion of the PDRF and a corresponding decrease of $(676,100) in Federal Medicaid Authority.

Discontinue Assessment EA (49,476,200)

The Baseline includes a $(49,476,200) decrease in expenditure authority consisting of $(15,815,600) in Federal Medicaid Authority and $(33,660,600) from the Nursing Facility Provider Assessment Fund in FY 2016 to discontinue the Nursing Facility Provider Assessment.

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 by nursing facilities that are not paid for by Medicare. Charges are used to obtain a federal match and make supplemental payments to facilities for covered AHCCCS expenditures. The Baseline discontinues the assessment after September 30, 2015, pursuant to Chapter 213.

The FY 2015 budget includes $53,918,700 in supplemental payments to nursing provider facilities. A footnote, however, appropriates any payments in excess of that amount. AHCCCS has informed JLBC that they expect to expend $67,997,800 in supplemental payments in FY 2015. On September 6, 2014, the assessment was increased from $7.50 to $10.50 per non-Medicare day of care for facilities with less than 43,500 Medicaid bed days per year. The assessment for facilities with more than 43,500 Medicaid bed days was increased from $1 to $1.40 per day. These adjustments would result in approximately 29,800 members per month being served in June 2016.

Background – ALTCS provides coverage for individuals up to 222% of the FPL, or $25,900 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 $8,752 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 2014, AHCCCS estimates that client contributions paid for 6.5% 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 2016 for Disproportionate Share Hospital (DSH) Payments. This amount is unchanged from FY 2015.

General Fund	2,885,700
Federal Medicaid Authority	10,601,400

FY 2016 adjustments would be as follows:

Formula Adjustments	**GF**	**(42,700)**
	EA	**42,700**

The Baseline includes a decrease of $(42,700) from the General Fund and a corresponding increase of $42,700 from Federal Medicaid Authority in FY 2016 due to a change in the federal 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.

Table 5
Disproportionate Share Hospital Program

Eligible Funding	FY 2015	FY 2016
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)	$ 57,328,000	$ 57,741,400
Federal DSH to GF (ASH)	19,493,900	19,624,900
Subtotal	$ 76,821,900	$ 77,366,300
County-Operated Hospitals	4,202,300	4,202,300
Private Hospitals	9,284,800	9,284,800
Total	**$ 90,309,000**	**$ 90,853,400**

The state only appropriates General Fund dollars for DSH payments to private hospitals ($9,284,800 in total funds in FY 2016). 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). *(Please see DSH Payments - Voluntary Match SLI below for additional information.)*

DSH Payments - Voluntary Match

The Baseline includes $34,359,700 in FY 2016 for DSH Payments - Voluntary Match. This amount consists of:

Political Subdivision Funds (PSF)	10,496,500
Federal Medicaid Authority	23,863,200

FY 2016 adjustments would be as follows:

Increased Funding	**PSF**	**260,000**
	FMA	**1,644,000**

The Baseline includes an increase of $1,904,000 in FY 2016 from a federal increase in the total amount of uncompensated care payments Arizona hospitals are permitted to receive.

Under the original ACA, DSH payments were expected to decline nationwide by $500 million in 2014 and $600 million in 2015, or about 5% of overall payments. In addition, the reductions were expected to increase to $5.6 billion by 2019, which was approximately 50% of the nationwide funding level. These reductions affected the expected voluntary DSH payments that can be provided to hospitals in FY 2015 and in years following. In anticipation of these reductions, DSH payments to AHCCCS' budget were decreased by $(23,944,600) in FY 2015 to $19,373,400 (a FY 2015 General Appropriation Act footnote appropriates any additional payments in excess of that amount).

Subsequent federal legislation ratified in April 2014 delayed these reductions to FY 2017 (with a phase-out of all payments in FY 2024). Due to these unforeseeable DSH extensions, AHCCCS has informed JLBC that they expect total voluntary DSH payments to increase to $32,455,700 in FY 2015. The FY 2015 amounts have been adjusted accordingly.

Background – Beginning in FY 2010, the state has allowed local governments, tribal governments and universities to provide voluntary DSH payments in order to receive a federal match. The FY 2015 Health and Welfare BRB made this permission permanent. In FY 2014, non-state entities contributed the state match for $25,806,900 in total DSH payments for the benefit of 11 hospitals.

Rural Hospitals

The Baseline includes $22,650,000 in FY 2016 for Rural Hospitals (which includes Critical Access Hospitals). This amount is unchanged from FY 2015.

General Fund	7,039,600
Federal Medicaid Authority	15,610,400

FY 2016 adjustments would be as follows:

Formula Adjustment	**GF**	**(131,300)**
	FMA	**131,300**

The Baseline includes a decrease of $(131,300) from the General Fund and a corresponding increase of $131,300 from Federal Medicaid Authority in FY 2016 due to a change in the federal 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. Funding is distributed according to a hospital's share of the cost in serving Medicaid enrollees during the prior year. In FY 2014, 21 hospitals qualified for funding from Rural Hospital Reimbursement and 11 from Critical Access Hospitals.

Graduate Medical Education

The Baseline includes $157,312,000 in FY 2016 for Graduate Medical Education (GME) expenditures. This amount consists of:

Political Subdivision Funds	50,099,900
Federal Medicaid Authority	107,212,100

FY 2016 adjustments would be as follows:

Decreased Funding	**PSF**	**(13,200,900)**
	FMA	**(19,646,300)**

The Baseline includes a decrease of $(32,847,200) in FY 2016 for a reduction in GME payments. Although the FY 2015 General Appropriation Act displays a $165,918,500 appropriation for FY 2015, a footnote appropriates any additional payments in excess of that amount. AHCCCS has informed JLBC that they expect to expend $190,159,100 in total GME payments in FY 2015. The FY 2015 amounts have been adjusted accordingly. The FY 2016 decrease is associated with a revised GME spending plan to reflect a payment reduction in 1 hospital.

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 2014, 10 hospitals received a total of $159,376,500 for Graduate Medical Education.

Safety Net Care Pool

The Baseline includes $137,000,000 in FY 2016 for the Safety Net Care Pool (SNCP) program. This amount consists of:

Political Subdivision Funds	43,052,200
Federal Medicaid Authority	93,947,800

FY 2016 adjustments would be as follows:

Formula Adjustments	**PSF**	**(1,421,400)**
	FMA	**1,421,400**

The Baseline includes a decrease of $(1,421,400) from the Political Subdivision Funds and a corresponding increase of $1,421,400 from Federal Medicaid Authority in FY 2016 due to a change in the federal match rate.

Although the FY 2015 General Appropriation Act displays a $68,500,000 appropriation for FY 2015, a footnote appropriates any additional payments in excess of that amount. AHCCCS has informed JLBC that they expect to expend $137,000,000 in total SNCP payments in FY 2015 and FY 2016 considering that the federal government has approved the continuation of the program for Phoenix Children's Hospital (PCH) through December 31, 2015. The FY 2015 amounts have been adjusted accordingly. FY 2015 and FY 2016 SNCP payments have been delayed due to an unanticipated review and processing payments within CMS. Due to these delays, the first 6 months of calendar year 2015 will not be paid until FY 2016. The FY 2015 amounts have been adjusted accordingly.

Background – The SNCP program funds unreimbursed costs incurred by hospitals in caring for uninsured and AHCCCS recipients. Local governments or public universities provide the state match, and the voluntary contributions receive an approximate 2:1 match from the federal government.

In April 2012, AHCCCS received federal approval to establish the SNCP program. While this program was originally expected to end on December 31, 2013, the FY 2014 Health and Welfare BRB allowed the PCH to continue to participate in the SNCP program through December 31, 2017 if approved by the federal government.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Operating Budget

The amounts appropriated for the Department of Economic Security Eligibility line item must 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 line items include all available sources of funding consistent with A.R.S. § 36-2901.01B.

Medical 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 of each year on the preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum may not be more than 2%. Before implementation of any changes in capitation rates, the AHCCCS Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. Before the Administration implements any 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 more for a given fiscal year, the Administration shall submit the policy changes for review by the Joint Legislative Budget Committee.

The non-appropriated portion of the Prescription Drug Rebate Fund 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 2016 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 2016 to the Attorney General for costs associated with tobacco settlement litigation.

Long-Term Care

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 do not count against the long-term care expenditure authority above.

Pursuant to A.R.S. § 11-292B the county portion of the FY 2016 nonfederal portion of the costs of providing long-term care services is $250,170,100. This amount is included in the Expenditure Authority fund source.

Any supplemental payments received in excess of $18,521,700 for nursing facilities that serve Medicaid patients in FY 2016, including any federal matching monies, by the AHCCCS Administration 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. These payments are included in the Expenditure Authority fund source.

Payments to Hospitals

The $13,487,100 appropriation for Disproportionate Share Payments for FY 2016 made pursuant to A.R.S. § 36-2903.01O includes $4,202,300 for the Maricopa County Health Care 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 2016 by the AHCCCS Administration in excess of $34,857,100 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.

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 2016 costs of Graduate Medical Education, Disproportionate Share Payments - Voluntary Match and Safety Net Care Pool line items are included in the Expenditure Authority fund source.

Any monies for Graduate Medical Education received in FY 2016, including any federal matching monies, by the AHCCCS Administration in excess of $157,312,000 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.

Any monies received in excess of $137,000,000 for the Safety Net Care Pool 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.

Other

On or before January 6, 2016, 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, 2015. On June 30, 2016, the Administration shall report the same information for all of FY 2016.

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.

Deletion of Prior Year Footnotes

The Baseline would delete completed one-time provisions related to:

- Transfer of funding to the Automation Project Fund for tobacco tax processing and accounting system improvements at the Department of Revenue.
- 2% provider rate increase for skilled nursing facilities.
- AHCCCS reporting on an interagency agreement with DHS.
- Review of any transfer up to $13 million of General Fund money from AHCCCS' balance in FY 2015 to cover a DHS shortfall.
- JLBC and Executive Staff reporting on Medicaid estimates using a common format.

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, FY 2017, and FY 2018.

Counties
- As session law, continue to exclude Proposition 204 administration costs from county expenditure limitations.
- As session law, require AHCCCS to transfer any excess monies back to the counties on December 31, 2016 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 2016 county Arizona Long Term Care System (ALTCS) contributions at $250,170,100.
- As session law, set the County Acute Care contribution at $47,233,500. This amount includes an inflation indexing of the Maricopa County contribution as required by Laws 2005, Chapter 328.
- 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 2016 disproportionate share (DSH) distributions to the Maricopa Special Healthcare District, the Arizona State Hospital, private qualifying disproportionate share hospitals, and Yuma Regional Medical Center.

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, 2015 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, 2016 on hospital costs and charges.

Deleted Provisions

The Baseline would not continue the session law provision that retroactively revises DSH distributions to the Arizona State Hospital. No revision to the FY 2015 distribution is necessary.

The Baselines discontinues a session law provision stating the Legislature's intent that AHCCCS comply with the Federal False Claims Act. The state is already required to adhere to this federal law.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

This section includes information on the following topics:

- FY 2015 Adjustments
- Long-Term Budget Impacts
- Hospital Assessment Fund
- Hepatitis C Prescription Costs
- CMDP Appropriation Shift to DCS
- Integration of Health Services
- County Contributions
- Program Components
- Tobacco Master Settlement Agreement
- Tobacco Tax Allocations

FY 2015 Adjustments

General Fund

FY 2015 General Fund expenditures are projected to be $(33,232,900) less than appropriated. The Baseline ex-appropriates these monies. The balance is primarily the result of lower-than-expected enrollment growth in the Traditional population. The FY 2015 budget assumed that publicity surrounding the federal health care individual mandate and additional availability of health insurance would induce currently eligible but not enrolled membership greater than previously budgeted.

Expenditure Authority

The FY 2015 Expenditure Authority expenditures are projected to be $376,665,400 more than appropriated. Of this shortfall, $65,402,300 is in the Hospital Assessment

Fund and $311,263,100 is in Federal Medicaid Authority money. The Baseline provides a supplemental for these amounts in FY 2015. *(Please see Hospital Assessment Fund section below for more information.)*

Long-Term Budget Impacts

Beyond FY 2016 Baseline changes for AHCCCS, JLBC Staff estimates that AHCCCS' statutory caseload changes will require an additional $66.9 million in FY 2017 above FY 2016 and an additional $75.4 million in FY 2018 above FY 2017 for acute services. This estimate assumes 2% enrollment growth and 3% capitation rate growth.

Hospital Assessment Fund

The projected FY 2015 expenditures from the Hospital Assessment Fund are projected to be $270.0 million, more than $65.4 million above the appropriated amount. The balance is primarily the result of higher-than-expected enrollment of Proposition 204 childless adult enrollees, following the restoration of coverage beginning on January 1, 2014.

The FY 2015 budget estimated that by June 2015 approximately 240,600 childless adults would be enrolled in the program. By December 2014, actual enrollment had reached 276,600, exceeding the initial year-end projection by 36,000 enrollees. Statute allows AHCCCS to modify hospitals payments and the assessment's payment methodology for the purpose of funding the state match portion of the Medicaid expansion (adults 100%-133% FPL) and the entire Proposition 204 population.

The Baseline revises the FY 2015 budgeted estimate to a total of 293,400 childless adults by June 2015 and includes an increase of $32.7 million in state match monies for revised caseload estimates in FY 2016.

The FY 2016 hospital assessment is projected to be $245.2 million and would cover the cost of all Proposition 204 services in FY 2016. The decrease from $270.0 million to $245.2 million is primarily the result of a higher federal match rate for Proposition 204 childless adults (from 85.48% in FY 2015 to 89.05% in FY 2016).

Hepatitis C Prescription Costs

In December 2013, the Federal Drug Administration (FDA) approved a new drug, Sovaldi, for the treatment of Hepatitis C. The drug has been found to significantly improve outcomes for certain Hepatitis C-positive individuals but can cost anywhere from $80,000 to $150,000 per individual depending on the number of weeks of treatment. In FY 2015, funding for Sovaldi resulted in an overall capitation rate increase of 0.58% across the entire Medicaid program. Federal law requires states to cover prescription drugs from makers that participate in Medicaid's drug rebate program, which includes the company that manufactures and sells Sovaldi. In October 2014, the FDA approved Harvoni, a Hepatitis C drug made by the same drug manufacturer as Sovaldi. Like other state Medicaid programs, AHCCCS has implemented specific eligibility criteria before a provider can prescribe Hepatitis C drugs to a member. The exact cost to the state is still unknown, Harvoni could generate a fiscal impact to the FY 2016 budget.

CMDP Appropriation Shift to DCS

The Comprehensive Medical and Dental Program (CMDP) is the health plan responsible for providing health services for children in foster care. The program will primarily be administered by the Department of Child Safety (DCS) beginning in FY 2015. Currently AHCCCS is appropriated its share of acute care services in the Traditional Medicaid Services line item. AHCCCS requests shifting the Medicaid acute care portion of services in CMDP from AHCCCS to DCS. The shift in appropriation would result in a decrease of $(16.0) million in AHCCCS, followed by a corresponding increase of $16.0 million in DCS.

Laws 2013, Chapter 220 requires AHCCCS, the 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 coverage.

By June 2016, there are projected to be 16,726 eligible individuals within CMDP. DHS receives a monthly capitation payment from AHCCCS for every individual eligible for CMDP. *(See the Department of Health Services or Department of Child Safety narrative for additional information regarding this proposed line item transfer.)*

Integration of Health Services

AHCCCS and DHS currently integrate acute care services and behavioral health services for Medicaid-eligible Seriously Mentally Ill (SMI) adults in Maricopa County. DHS' FY 2016 budget request seeks to expand integration services for all Medicaid-eligible SMI adults outside Maricopa County through the Non-Maricopa Regional Behavioral Health Authority (RHBA) contracts. Under the current budget proposal and to implement both the Maricopa and Non-Maricopa RBHA contracts, AHCCCS would permanently shift the acute care appropriation of $227.8 million in total funds ($47.2 million General Fund, $16.7 million in Proposition 204 Tobacco Tax Protection Account monies, and $163.8 million Federal Funds) from AHCCCS to DHS.

In addition to the SMI integration services shift in appropriation, AHCCCS and DHS seek to permanently shift the General Mental Health funding for the "dual

Table 6

County Contributions

	FY 2015				FY 2016			
County	**BNCF**	**Acute**	**DUC**	**ALTCS**	**BNCF**	**Acute**	**DUC**	**ALTCS**
Apache	$ 111,500	$ 268,800	$ 87,300	$ 616,900	$ 114,800	$ 268,800	$ 87,300	$ 625,000
Cochise	208,100	2,214,800	162,700	5,138,300	214,100	2,214,800	162,700	5,184,400
Coconino	205,300	742,900	160,500	1,851,400	211,200	742,900	160,500	1,875,400
Gila	84,300	1,413,200	65,900	2,107,400	86,700	1,413,200	65,900	2,125,500
Graham	59,900	536,200	46,800	1,442,600	61,700	536,200	46,800	1,341,800
Greenlee	15,400	190,700	12,000	76,200	15,800	190,700	12,000	80,200
La Paz	31,900	212,100	24,900	712,200	32,800	212,100	24,900	698,900
Maricopa	0	19,523,400	0	150,220,100	0	19,203,200	0	153,859,500
Mohave	239,600	1,237,700	187,400	7,972,700	246,600	1,237,700	187,400	8,063,100
Navajo	157,000	310,800	122,800	2,552,500	161,600	310,800	122,800	2,585,600
Pima	1,427,200	14,951,800	1,115,900	38,919,400	1,468,800	14,951,800	1,115,900	39,447,500
Pinal	279,200	2,715,600	218,300	15,294,300	287,400	2,715,600	218,300	15,596,600
Santa Cruz	66,000	482,800	51,600	1,914,800	67,900	482,800	51,600	1,949,200
Yavapai	263,800	1,427,800	206,200	8,314,700	271,500	1,427,800	206,200	8,447,300
Yuma	235,200	1,325,100	183,900	8,062,700	242,000	1,325,100	183,900	8,290,100
Subtotal	**$3,384,400**	**$47,553,700**	**$2,646,200**	**$245,196,200**	**$3,482,900**	**$47,233,500**	**$2,646,200**	**$250,170,100**
Total				**$298,780,500**				**$303,532,700**

eligible" population from DHS to AHCCCS. This request would permanently shift $16.6 million in total funds ($3.1 million General Fund, $2.1 million in Proposition 204 Tobacco Tax Protection Account monies, and $11.4 million Federal Funds) from DHS to AHCCCS. The dual eligible population consists of low-income individuals who qualify for both Medicare and Medicaid at the same time. The shift in appropriation for the both the SMI and dual eligible integration of health services is not included in the Baseline.

The JLBC Staff recommends that prior to deciding whether to move funding between agencies, the Legislature should consider studying the broader issue of integrating additional services provided by AHCCCS and DHS. *(See Other Issues for Legislative Consideration in the Department of Health Services' narrative for more information on these proposed budget line item transfers.)*

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.
2. The counties' portion is allocated among the counties based on their FY 2014 ALTCS utilization.
3. Each county's contribution is then limited to 90¢ per $100 of net assessed property value. In FY 2016, this provision provides 3 counties with a total of $5,998,600 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 2016, this provision provides 3 counties with a total of $15,236,000 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 2016 no counties qualify for this relief.
6. The state pays for county costs above the average statewide per capita ($39.60 in FY 2016). In FY 2016 this provision provides 8 counties with a total of $10,466,400 in relief.

In FY 2016, provisions 3 through 6 of the ALTCS formula result in the state providing a total of $31,701,000 in relief to 11 counties.

Program Components

Traditional Medicaid, Proposition 204, Adult Expansion, 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 2016, the average capitation rate is expected to be approximately $335 per member per month (or $4,022 annually). Of that amount, an average of $85 is from state match and $250 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 Master Settlement Agreement

The Baseline requires AHCCCS to continue to transfer $1,636,500 from the Traditional Medicaid Services line item in FY 2016 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 Department of Revenue (DOR) to the Attorney General for costs associated with tobacco settlement litigation.
- $436,500 to the DOR to fund 6 positions that will perform luxury tax enforcement and audit duties.

This adjustment does not include the $600,000 appropriation from the Consumer Protection-Consumer Fraud Revolving Fund to the Attorney General for costs associated with tobacco settlement litigation. *(Please 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. *(Please see the Department of Revenue section in this report for more information.)*

Tobacco Tax Allocations

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

Medically Needy Account	**FY 2014**	**FY 2015**
Funds Available		
Balance Forward	$ 4,754,200	$ 5,214,800
Transfer In - Tobacco Tax and Health Care Fund	43,375,300	45,072,600
Transfer In - Tobacco Products Tax Fund	25,095,700	24,573,200
Interest & Refunds	2,100	0
Total Funds Available	**$ 73,227,300**	**$ 74,860,600**
Allocations		
AHCCCS		
AHCCCS State Match Appropriation	$ 32,864,700	$ 34,178,800
Administrative Adjustments	0	0
Total AHCCCS Allocations	$ 32,864,700	$ 34,178,800
DHS		
Behavioral Health GF Offset	$ 34,767,000	$ 34,767,000
Folic Acid	379,800	400,000
Renal, Dental Care, and Nutrition Supplements	1,000	300,000
Total DHS Allocations	35,147,800	35,467,000
Balance Forward	**$ 5,214,800**	**$ 5,214,800**
AHCCCS Proposition 204 Protection Account		
Funds Available		
Balance Forward	$ 6,200	$ 0
Transfer In - Tobacco Products Tax Fund	41,946,100	38,225,000
Total Funds Available	**$ 41,952,300**	**$ 38,225,000**
Allocations		
AHCCCS State Match Appropriation	$ 38,965,700	38,225,000
Administrative Adjustments	2,986,600	0
Balance Forward	**$ 0**	**$ 0**
AHCCCS Emergency Health Services Account		
Funds Available		
Balance Forward	$ 2,900	$ 2,900
Transfer In - Tobacco Products Tax Fund	18,862,300	18,202,400
Total Funds Available	**$ 18,865,200**	**$ 18,205,300**
Allocations		
AHCCCS State Match Appropriation	$ 18,535,500	$ 18,202,400
Administrative Adjustments	326,800	0
Balance Forward 1/	**$ 2,900**	**$ 2,900**
DHS Health Education Account		
Funds Available		
Balance Forward	$ 8,223,600	$ 9,772,600
Transfer In - Tobacco Tax and Health Care Fund	16,268,700	14,479,800
Transfer In - Tobacco Products Tax Fund	1,859,200	1,766,000
Total Funds Available	**$ 26,351,500**	**$ 26,018,400**
Allocations		
Tobacco Education and Prevention Program	$ 14,458,500	$ 17,250,000
Leading Causes of Death - Prevention and Detection	2,120,400	2,175,000
Balance Forward	**$ 9,772,600**	**$ 6,593,400**
Health Research Account		
Funds Available		
Balance Forward	$ 2,352,800	$ 1,217,000
Transfer In - Tobacco Tax and Health Care Fund	3,289,700	3,147,800
Transfer In - Tobacco Products Tax Fund	4,648,000	4,414,900
Total Funds Available	**$ 10,290,500**	**$ 8,779,700**
Allocations		
Biomedical Research	$ 8,073,500	$ 8,001,500
Alzheimer's Disease Research	1,000,000	1,000,000
Balance Forward	**$ 1,217,000**	**$ (221,800)** 2/

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

2/ Actual balances will not be negative.

SUMMARY OF FUNDS	FY 2014 Actual	FY 2015 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	3,303,900	3,384,400
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 expired on December 31, 2013. The eligibility level was originally set at 175% FPL, but it was later expanded to 200% FPL.

Funds Expended	46,468,700	6,649,800
Year-End Fund Balance	1,352,400	1,352,400

County Funds (HCA2120 Acute Care/HCA2223 Long Term Care/ A.R.S. § 36-2912 Acute 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	293,921,500	295,396,100
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	6,500	6,500
Year-End Fund Balance	4,800	2,800

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	24,719,400	48,065,400
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	209,200	1,019,200
Year-End Fund Balance	47,100	0

SUMMARY OF FUNDS	FY 2014 Actual	FY 2015 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	38,619,200	48,734,300
Year-End Fund Balance	0	0

Federal Medicaid Authority (HCA2120/HCA2223 Long Term Care/ A.R.S. § 36-2913 Acute 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. Any monies received in excess of the FY 2015 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 2015, including any federal matching monies, 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 these provisions.

Funds Expended	4,695,580,900	5,801,463,600
Year-End Fund Balance	23,922,700	0

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 was repealed on January 1, 2014, and the Healthcare Group Fund is repealed on January 1, 2015.

Appropriated Funds Expended	850,000	0
Non-Appropriated Funds Expended	10,623,500	0
Year-End Fund Balance	7,257,200	7,257,200

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

Expenditure Authority Funds Expended	0	204,597,700
Non-Appropriated Funds Expended	74,964,400	0
Year-End Fund Balance	228,800	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

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	7,117,100	8,000,000
Year-End Fund Balance	2,092,100	1,395,600

SUMMARY OF FUNDS	FY 2014 Actual	FY 2015 Estimate

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 2015 budgeted appropriation for the Nursing Facility Provider Assessment program by the AHCCCS Administration in FY 2015, including any federal matching monies, 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.

Funds Expended	16,528,300	21,657,300
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. Any monies received in excess of the FY 2015 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 2015, including any federal matching monies, 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 these provisions.

Funds Expended	233,303,300	118,010,900
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	94,941,200	79,035,000
Federal Funds Expended	196,563,800	212,459,300
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	21,521,700	21,558,300
Year-End Fund Balance	15,333,400	15,295,100

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	16,900	10,000
Year-End Fund Balance	1,601,300	1,601,300

SUMMARY OF FUNDS	FY 2014 Actual	FY 2015 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	100,764,700	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 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 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 the 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 are non-appropriated and must be spent before any other state monies on the Proposition 204 program.

**See Table 7*