Arizona Health Care Cost Containment System

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
OPERATING BUDGET			
Full Time Equivalent Positions	2,214.3	2,326.3	2,326.3
Personal Services	34,936,100	46,346,800	46,346,800
Employee Related Expenditures	14,910,400	19,172,000	19,172,000
Professional and Outside Services	5,375,700	9,362,600	9,362,600
Travel - In State	64,800	78,500	78,500
Travel - Out of State	22,100	33,500	33,500
Other Operating Expenditures	21,589,600	16,285,000	16,285,000
Equipment	1,284,900	122,300	122,300
OPERATING SUBTOTAL	**78,183,600**	**91,400,700**	**91,400,700**
SPECIAL LINE ITEMS			
Administration			
DES Eligibility	72,084,100	54,874,500	54,874,500
Proposition 204 - AHCCCS Administration	11,199,900	12,639,000	12,639,000
Proposition 204 - DES Eligibility	38,269,500	38,358,700	38,358,700
Medical Services			
Traditional Medicaid Services	3,615,896,900	3,935,885,600	4,032,402,500
Proposition 204 Services	2,474,278,400	2,777,688,100	2,903,006,900
Adult Expansion Services	403,212,000	462,284,600	482,902,300
Children's Rehabilitative Services	250,423,100	275,375,700	270,673,900
KidsCare Services	2,050,800	1,955,000	111,961,100
ALTCS Services	1,300,784,400	1,439,864,300	1,486,262,700
Behavioral Health Services			
Medicaid Behavioral Health - Traditional Services	0	960,228,100	1,015,591,300
Medicaid Behavioral Health - Proposition 204 Services	0	612,844,800	649,608,300
Medicaid Behavioral Health - Comprehensive Medical and Dental Program	0	208,027,400	217,719,100
Medicaid Behavioral Health - Adult Expansion Services	0	77,702,300	77,403,100
Non-Medicaid Seriously Mentally Ill Services	0	78,846,900	78,846,900
Supported Housing	0	5,324,800	5,324,800
Crisis Services	0	16,391,300	16,391,300
Hospital Payments			
Disproportionate Share Payments	5,087,100	5,087,100	5,087,100
DSH Payments - Voluntary Match	38,855,100	19,896,000	0
Rural Hospitals	22,348,600	22,650,000	22,650,000
Graduate Medical Education	163,725,900	296,288,000	265,729,800
Safety Net Care Pool	118,584,600	137,000,000	75,000,000
AGENCY TOTAL	**8,594,984,000**	**11,530,612,900**	**11,913,834,000**
FUND SOURCES			
General Fund	1,145,016,100	1,750,941,400	1,794,980,300
Other Appropriated Funds			
Budget Neutrality Compliance Fund	2,612,200	3,563,300	3,655,300
Children's Health Insurance Program Fund	2,424,100	3,674,900	113,681,000
Prescription Drug Rebate Fund - State	105,718,100	113,778,900	113,778,900
Substance Abuse Services Fund	0	2,250,200	2,250,200
TPTF Emergency Health Services Account	18,162,200	18,747,200	19,244,300
TTHCF Medically Needy Account	34,498,500	72,998,200	72,998,200
SUBTOTAL - Other Appropriated Funds	163,415,100	215,012,700	325,607,900
SUBTOTAL - Appropriated Funds	**1,308,431,200**	**1,965,954,100**	**2,120,588,200**

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 BASELINE
Expenditure Authority Funds			
County Funds	299,153,500	299,667,700	306,417,000
Federal Medicaid Authority	6,140,839,600	8,383,725,800	8,484,116,600
Hospital Assessment Fund	224,197,600	252,329,100	284,761,900
Nursing Facility Provider Assessment Fund	18,031,200	27,589,400	32,989,400
Political Subdivision Funds	106,506,900	140,887,600	103,147,500
Prescription Drug Rebate Fund - In Lieu of Federal Funds	360,776,400	322,743,500	462,205,700
Third Party Liability and Recovery Fund	0	194,700	194,700
Tobacco Litigation Settlement Fund	98,906,900	100,000,000	79,000,000
TPTF Proposition 204 Protection Account	38,140,700	37,521,000	40,413,000
SUBTOTAL - Expenditure Authority Funds	7,286,552,800	9,564,658,800	9,793,245,800
SUBTOTAL - Appropriated/Expenditure Authority Funds	**8,594,984,000**	**11,530,612,900**	**11,913,834,000**
Other Non-Appropriated Funds	31,764,200	92,888,500	92,888,500
Federal Funds	66,182,800	155,248,600	156,625,300
TOTAL - ALL SOURCES	8,692,931,000	11,778,750,000	12,163,347,800

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

Summary

AHCCCS' FY 2018 General Fund spending would increase by $44,038,900, or a 2.5% increase from FY 2017. This amount includes:

- $68,169,800 in formula adjustments.
- $(24,130,900) in other adjustments.

Of the $44,038,900 increase in FY 2018, $25,941,800 is for formula and other adjustments in physical care and $18,097,100 is for formula and other adjustments in behavioral health.

AHCCCS' FY 2018 Hospital Assessment spending would increase by $32,432,800, or a 12.9% increase. This increase is primarily due to a decrease in tobacco litigation settlement funding available to offset Hospital Assessment spending and a decrease in the federal match for the Adult Expansion population.

As part of the Baseline's 3-year spending plan, AHCCCS' General Fund costs are projected to increase by $109,090,300 in FY 2019 above FY 2018 and by $143,042,800 in FY 2020 above FY 2019. *(See Other Issues section for more information.)*

Below is an overview of FY 2018 formula adjustments and other adjustments. *Table 1* summarizes these changes.

The Baseline does not make any adjustments for increases to contractor spending that result from increases to the state minimum wage under Proposition 206. *(Please see the Other Issues section in the Department of Economic Security Narrative for additional information.)*

Table 1

AHCCCS General Fund Baseline Spending Changes
($ in millions)

Formula Adjustments	
FY 2018 Caseload Growth	$ 54
FY 2018 3.0% Capitation Rate Increase	47
FY 2018 Federal Match Rate Increase	(33)
Subtotal 1/	*$ 68*
Other Adjustments	
Health Insurer Fee Moratorium	(24)
KidsCare Restoration 1/	0
Subtotal	*$ (24)*
Total Spending Change	**$ 44**

1/ AHCCCS reopened the KidsCare program to new applicants in September 2016. The federal government funds all costs of the program in FY 2018. *(See the KidsCare Restoration section for additional information.)*

Formula Adjustments

Formula adjustments represent changes that occur under current law, including caseload, capitation and federal match rate revisions, as well as a decrease in tobacco tax collections. The Baseline includes $68,169,800 in FY 2018 for these adjustments.

FY 2018 Caseload Growth

Formula adjustments include 1.5% caseload growth for most AHCCCS populations. Adjustments also include growth of 2.0% for the Arizona Long Term Care System (ALTCS) Elderly and Physically Disabled population and 5.0% for seriously mentally ill members receiving integrated services. FY 2018 changes are expected to result in a General Fund increase of $54,433,200 in FY 2018. Caseloads, including expansions and the childless adult restoration, are shown in *Table 2.*

Table 2

JLBC Forecasted Member Months 1/

Population 2/3/	June 2016	June 2017	June 2018	'17-'18% Change
Traditional	1,054,521	1,080,783	1,097,674	1.6%
Prop 204 Childless Adults	308,994	318,264	323,038	1.5
Other Proposition 204	182,877	187,077	190,077	1.6
Adult Expansion 4/	83,337	85,837	87,125	1.5
KidsCare 5/	595	33,350	33,850	1.5
ALTCS - Elderly & Physically Disabled 6/7/	28,978	29,558	30,149	2.0
Emergency Services	115,834	122,938	124,840	1.5
Total Member Months	**1,775,136**	**1,857,807**	**1,886,753**	**1.6%**

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. The Comprehensive Medical and Dental Program is included in Traditional.
3/ The integrated SMI population is included in the Traditional, Proposition 204, and Adult Expansion line items.
4/ Parents and Childless Adults 100%-133% of the federal poverty level (FPL).
5/ Enrollment in the KidsCare program resumed in September 2016 *(See KidsCare Restoration section for more information.)*
6/ The ALTCS program funded in AHCCCS.
7/ In addition, approximately 29,800 people receive Medicaid services through the Department of Economic Security's Developmental Disabilities program as of December 1, 2016.

FY 2018 3.0% Capitation Rate Increase

In comparison to caseload growth rates which vary by population, capitation rate adjustments are assumed to be 3.0% above FY 2017 across all programs. The Baseline assumes the 3.0% capitation rate increase will result in an increase of $46,796,500 from the General Fund in FY 2018.

FY 2018 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 2018, the FMAP rates will adjust as follows:

- Traditional Medicaid rate will increase to 69.73% (0.57% increase).
- Proposition 204 Childless Adult rate will increase to 90.74% (0.46% increase).
- KidsCare and Child Expansion rates will remain at 100%.
- Adult Expansion rate will decrease to 94.5% (3.0% decrease).

The formula adjustments include a decrease of $(33,059,900) in General Fund spending to reflect savings from the regular federal rate increase.

FY 2017 Supplemental

The Baseline includes a $85,680,600 supplemental increase in FY 2017, including $59,225,800 in Other Funds and $26,454,800 in Expenditure Authority Funds. The $59,225,800 increase in Other Funds is associated with costs of restoring enrollment in the KidsCare program. A large portion of the Expenditure Authority increase is the result of higher-than-budgeted capitation rate increases for the Proposition 204 Childless Adult and Adult Expansion populations in FY 2017.

Although formula adjustments are expected to be associated with $12.5 million in higher-than-budgeted General Fund expenditures, the Baseline does not include a General Fund supplemental. AHCCCS has sufficient flexibility to address this level of General Fund supplemental. *(See the KidsCare Restoration and Other Issues sections for additional information.)*

Other Adjustments

The Baseline includes savings of $(24,130,900) from the General Fund in FY 2018 for other adjustments, including a 1-year moratorium on the Federal Affordable Care Act's (ACA) annual health insurer fee.

Health Insurer Fee Moratorium

The ACA placed an $8 billion nationwide annual fee on the health insurance industry in 2014 that 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. AHCCCS reimburses insurers for fees paid as a result of covering Medicaid enrollees.

The Federal Consolidated Appropriations Act of 2016 places a 1-year moratorium on the fee in calendar year (CY) 2017. As a result, AHCCCS will not provide reimbursement to Medicaid health insurers for the fee in FY 2018. The Baseline includes a decrease of $(24,130,900) from the General Fund in FY 2018 to reduce reimbursement. The federal government will resume levying the fee in CY 2018, which AHCCCS would reimburse in FY 2019.

KidsCare Restoration

The KidsCare program provides health coverage to children in families with incomes between 133% and 200% FPL. Enrollment in the program was frozen on January 1, 2010. Laws 2016, Chapter 112 required AHCCCS to lift the enrollment freeze and request additional federal funding to operate the program. In July 2016, the federal government approved AHCCCS' request to reopen KidsCare.

AHCCCS began accepting new enrollees to the program on September 1, 2016 and had 9,701 members as of December 1, 2016. The JLBC Staff projects that an estimated 33,350 members will be enrolled in the program by June 2017 when fully implemented. This number is projected to grow 1.5% in FY 2018, to a total of 33,850 by June 2018.

The Baseline includes an increase of $110,006,100 from the Children's Health Insurance Program (CHIP) Fund in FY 2018 to fund services of program enrollees. The Baseline does not include additional funding for administrative costs associated with restoring enrollment. Services and administrative costs of the KidsCare program qualify for a 100% federal match rate in FY 2018. *(See the KidsCare line item for additional information.)*

Operating Budget

The Baseline includes $91,400,700 and 1,013.2 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	$29,617,800
Children's Health Insurance Program (CHIP) Fund	1,719,900
Prescription Drug Rebate Fund (PDRF) - State	500,000
Federal Medicaid Authority (FMA)	59,563,000

These amounts are unchanged from FY 2017.

Administration

DES Eligibility

The Baseline includes $54,874,500 and 885 FTE Positions in FY 2018 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 2017.

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

Proposition 204 - AHCCCS Administration

The Baseline includes $12,639,000 and 128 FTE Positions in FY 2018 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	4,073,800
Federal Medicaid Authority	8,565,200

These amounts are unchanged from FY 2017.

Proposition 204 expanded AHCCCS eligibility. The FY 2017 budget included separate line items for acute care and behavioral health administration costs of the Proposition 204 program. The FY 2018 Baseline combines that funding under the Proposition 204 - AHCCCS Administration line and shows the combined funding for FY 2016 and FY 2017.

Proposition 204 - DES Eligibility

The Baseline includes $38,358,700 and 300.1 FTE Positions in FY 2018 for Proposition 204 - DES Eligibility costs. These amounts consist of:

General Fund	17,066,900
Budget Neutrality Compliance Fund (BNCF)	3,655,300
Federal Medicaid Authority	17,636,500

FY 2018 adjustments would be as follows:

Statutory Adjustments	**GF**	**(92,000)**
	OF	**92,000**

The Baseline includes a decrease of $(92,000) from the General Fund and a corresponding increase of $92,000

from the BNCF in FY 2018 to reflect an increase of county contributions in FY 2018 as required by A.R.S. § 11-292. *(See Table 7 for contributions by county.)*

Background – The BNCF is comprised of contributions from Arizona counties for administrative costs of the implementation of Proposition 204. Prior to the proposition, the counties funded and administered the health care program for some of the Proposition 204 population. This line item contains funding for eligibility costs in DES for the Proposition 204 program.

Medical Services

AHCCCS oversees acute care and long term care services, as well as the Children's Rehabilitative Services program.

Chart 1 shows the income eligibility limits for each AHCCCS population in FY 2018. A description of program components can be found in the Other Issues section.

Traditional Medicaid Services

The Baseline includes $4,032,402,500 in FY 2018 for Traditional Medicaid Services. This amount consists of:

General Fund	902,893,000
County Funds	49,459,600
PDRF - State	105,837,600
TTHCF - Medically Needy Account	37,432,400
Third Party Liability and Recovery Fund	194,700
PDRF - In Lieu of Federal Funds	426,099,500
Federal Medicaid Authority	2,510,485,700

FY 2018 adjustments would be as follows:

Formula Adjustments	**GF**	**34,729,500**
	EA	**109,713,100**

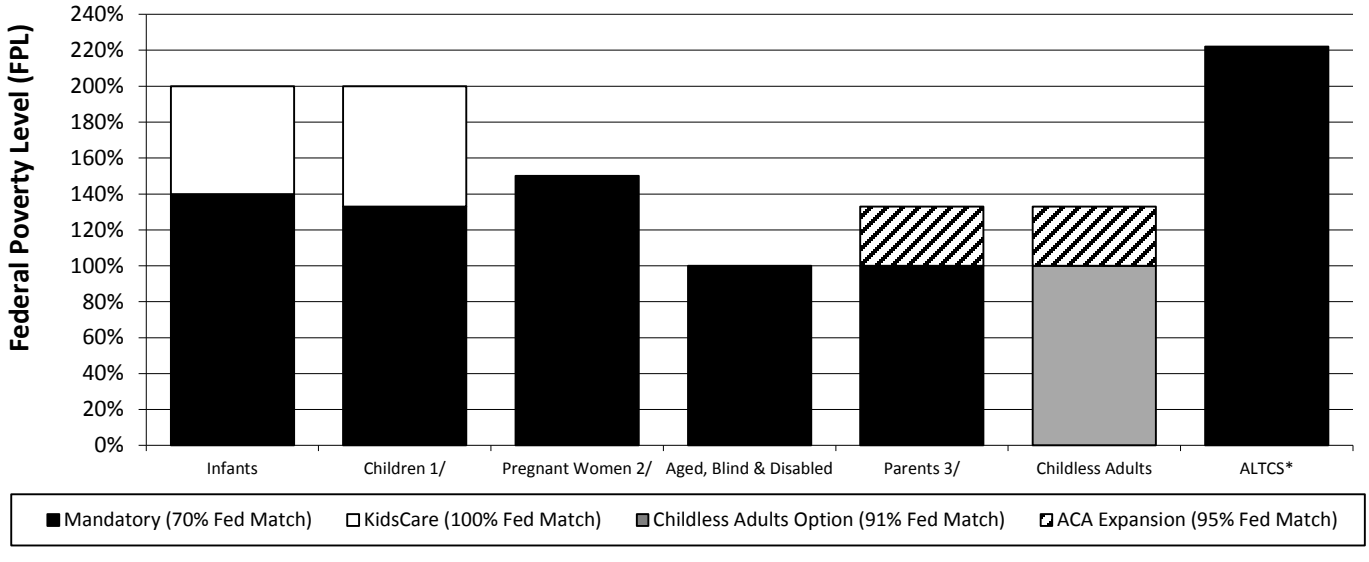
The Baseline includes an increase of $144,442,600 in FY 2018 for formula adjustments. This amount consists of:

General Fund	34,729,500
County Funds	(228,100)
Federal Medicaid Authority	109,941,200

The adjustments include:

- 1.6% average enrollment growth across all populations.
- An increase in the federal match rate from 69.16% to 69.73%.
- 3.0% capitation rate increase.
- $(228,100) decrease in the Maricopa County Acute Care contribution (County Funds) under A.R.S. § 11-292 with a corresponding General Fund increase.

Chart 1



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

PDRF Increase EA 0

The Baseline includes a $124,956,300 increase from the Prescription Drug Rebate Fund (PDRF) - In Lieu of Federal Funds and a corresponding decrease from Federal Medicaid Authority in FY 2018. The increase is due to higher-than-expected revenues in PDRF. *(See Other Issues section for information about higher-than-expected state PDRF revenues.)*

Health Insurer Fee Moratorium GF (14,895,300)
EA (33,030,400)

The Baseline includes a decrease of $(47,925,700) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. These amounts consist of:

General Fund	(14,895,300)
Federal Medicaid Authority	(33,030,400)

(See the Health Insurer Fee Moratorium section for additional detail.)

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 $2,903,006,900 in FY 2018 for Proposition 204 Services. This amount consists of:

Hospital Assessment Fund	259,054,100
Tobacco Litigation Settlement Fund	79,000,000
TPTF - Proposition 204 Protection Account	40,413,000
TPTF - Emergency Health Services Account	19,244,300
Federal Medicaid Authority	2,505,295,500

FY 2018 adjustments would be as follows:

Formula Adjustments OF 497,100
EA 143,055,900

The Baseline includes an increase of $143,553,000 in FY 2018 for formula adjustments. This amount consists of:

Hospital Assessment Fund	(4,655,000)
TPTF - Proposition 204 Protection Account	2,892,000
TPTF - Emergency Health Services Account	497,100
Federal Medicaid Authority	144,818,900

The adjustments include:

- 1.6% average enrollment growth across all populations.
- An increase in the federal match rate for the non-childless adult population from 69.16% to 69.73%.
- An increase in the federal match rate for childless adults from 90.28% to 90.74%.
- 3.0% capitation rate increase.
- A $2,892,000 increase from the TPTF - Proposition 204 Protection Account due to higher-than-expected tobacco tax revenues and a corresponding $(2,892,000) Hospital Assessment Fund decrease.
- $497,100 increase from the Emergency Health Services Account due to higher-than-expected tobacco tax revenues and a corresponding $(497,100) Hospital Assessment Fund decrease.

Settlement Funding Reduction EA 0

The Baseline includes a decrease of $(21,000,000) from the Tobacco Litigation Settlement Fund in FY 2018 and a corresponding increase of $21,000,000 in the Hospital Assessment Fund. As recognition of Arizona's lead role in negotiating a Master Settlement Agreement with tobacco companies in 1998, the state was entitled to additional settlement payments above regular annual amounts. Under the agreement, the additional payments will end after FY 2017.

Health Insurer Fee Moratorium EA (18,234,200)

The Baseline includes a decrease of $(18,234,200) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. These amounts consist of:

Hospital Assessment Fund	(3,358,500)
Federal Medicaid Authority	(14,875,700)

(See the Health Insurer Fee Moratorium section for additional detail.)

Background – The Proposition 204 program serves individuals with incomes that exceed the income limits for the Traditional population, but are below 100% FPL *(see Chart 1)*.

Adult Expansion Services

The Baseline includes $482,902,300 in FY 2018 for Adult Expansion Services. This amount consists of:

Hospital Assessment Fund	25,707,800
Federal Medicaid Authority	457,194,500

FY 2018 adjustments would be as follows:

Formula Adjustments EA 24,495,700

The Baseline includes an increase of $24,495,700 in FY 2018 for formula adjustments. This amount consists of:

Hospital Assessment Fund	19,446,300
Federal Medicaid Authority	5,049,400

FY 2018 adjustments would be as follows:

- 1.5% enrollment growth.
- A decrease in the federal match rate from 97.5% to 94.5%.
- 3.0% capitation rate increase.

Health Insurer Fee Moratorium EA (3,878,000)

The Baseline includes a decrease of $(3,878,000) of Federal Medicaid Authority in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. *(See the Health Insurer Fee Moratorium section for additional detail.)*

Background – Beginning on January 1, 2014, the Adult Expansion Services line item funds Medicaid services for adults from 100% to 133% FPL who are not eligible for another Medicaid program. The federal government paid 100% of the cost of this population in calendar years (CY) 2014 to 2016. The federal share will gradually decline to 90% by CY 2020.

Coverage of this population is discontinued if any of the following occur: 1) the federal matching rate for adults in this category or childless adults falls below 80%; 2) the maximum amount that can be generated from the hospital assessment is insufficient to pay for the newly-eligible populations; or 3) the Federal ACA is repealed.

Children's Rehabilitative Services

The Baseline includes $270,673,900 in FY 2018 for Children's Rehabilitative Services (CRS). This amount consists of:

General Fund	81,939,800
Federal Medicaid Authority	188,734,100

FY 2018 adjustments would be as follows:

Formula Adjustments GF (1,436,900)
EA 1,758,200

The Baseline includes an increase of $321,300 in FY 2018 for formula adjustments. This amount consists of:

General Fund	(1,436,900)
Federal Medicaid Authority	1,758,200

These adjustments include:

- 1.5% enrollment growth.
- An increase in the federal match rate from 69.16% to 69.73%.
- 3.0% capitation rate increase.

Health Insurer Fee Moratorium GF (1,561,200)
EA (3,461,900)

The Baseline includes a decrease of $(5,023,100) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. These amounts consist of:

General Fund	(1,561,200)
Federal Medicaid Authority	(3,461,900)

(See the Health Insurer Fee Moratorium section for additional detail.)

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

KidsCare Services

The Baseline includes $111,961,100 from the CHIP Fund in FY 2018 for KidsCare Services. FY 2018 adjustments would be as follows:

KidsCare Restoration OF 110,049,300

The Baseline includes an increase of $110,049,300 from the Children's Health Insurance Program (CHIP) Fund in FY 2018 for restoration of the program. The adjustment includes a projected increase in enrollment, from 9,701 in December 2016 to 33,850 by June 2018, and 3.0% capitation rate growth in FY 2018.

Health Insurer Fee Moratorium OF (43,200)

The Baseline includes a decrease of $(43,200) from the CHIP Fund in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. *(See the Health Insurer Fee Moratorium section for additional detail.)*

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. Families of KidsCare members are charged a monthly premium of $10 to $70, depending on level of family income and number of children enrolled in the program.

An enrollment freeze was instituted for the program on January 1, 2010. Laws 2016, Chapter 112 required AHCCCS to lift the enrollment freeze and request additional federal funding needed to operate the program. AHCCCS resumed enrollment in the program on September 1, 2016.

On October 1, 2015, KidsCare began receiving a 100% federal match rate. The 100% federal match will continue through September 30, 2019. The federal monies are deposited into the CHIP Fund, and the CHIP Fund is then appropriated, along with the General Fund match, to fund the KidsCare program. Laws 2016, Chapter 112 requires AHCCCS to stop processing all KidsCare applications and notify contractors and members that the program will be terminated if the federal government eliminates funding for the program as specified in 42 U.S.C. § 1397ee. *(See Long-Term Budget Impacts section for additional information.)*

ALTCS Services

The Baseline includes $1,486,262,700 in FY 2018 for ALTCS services. This amount consists of:

General Fund	175,414,000
County Funds	256,957,400
PDRF - State	7,441,300
PDRF - In Lieu of Federal Funds	36,106,200
Nursing Facility Provider Assessment Fund	32,989,400
Federal Medicaid Authority	977,354,400

FY 2018 adjustments would be as follows:

Formula Adjustments **GF 7,753,800**
EA 21,854,400

The Baseline includes an increase of $29,608,200 in FY 2018 for formula adjustments. This amount consists of:

General Fund	7,753,800
County Funds	7,122,200
Federal Medicaid Authority	14,732,200

These adjustments include:

- 2.0% enrollment growth.
- An increase in the federal match rate from 69.16% to 69.73%.
- 3.0% capitation rate increase.

PDRF Increase **EA 0**

The Baseline includes a $14,505,900 increase from the Prescription Drug Rebate Fund (PDRF) - In Lieu of Federal Funds and a corresponding decrease from Federal Medicaid Authority in FY 2018. The increase is due to higher-than-expected revenues in PDRF. *(See Other Issues section for information about higher-than-expected state PDRF revenues.)*

Health Insurer Fee Moratorium **GF (180,900)**
EA (866,900)

The Baseline includes a decrease of $(1,047,800) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. These amounts consist of:

General Fund	(180,900)
County Funds	(144,800)
Federal Medicaid Authority	(722,100)

(See the Health Insurer Fee Moratorium section for additional detail.)

Nursing Facility Payments **EA 17,838,000**

The Baseline includes an increase of $17,838,000 in FY 2018 to annualize a January 1, 2017 increase in supplemental payments to nursing facilities. This amount consists of:

Nursing Facility Provider Assessment Fund	5,400,000
Federal Medicaid Authority	12,438,000

The increase to supplemental payments is funded through an increase to the nursing facility assessment on January 1, 2017. AHCCCS increased the assessment rate from $1.40 to $1.80 for facilities with more than 43,500 Medicaid bed days per year (approximately 119 bed facilities) and from $10.50 to $15.63 for facilities with less than 43,500 Medicaid bed days per year.

The FY 2017 budget includes $71,950,100 in supplemental payments to nursing facilities. A footnote, however, appropriates any payments in excess of that amount. AHCCCS has informed JLBC that they expect to expend $89,459,800 in supplemental payments in FY 2017, using added funding from the January 1, 2017 increase to assessment rates.

Background – ALTCS provides coverage for individuals up to 222% of the FPL, or $26,374 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 $8,910 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 2016, AHCCCS estimates that client contributions paid for 5.5% of care.

From October 1, 2012 to September 30, 2015, Laws 2012, Chapter 213 permits AHCCCS to set the amount of and charge a provider assessment on health items and services provided to ALTCS enrollees by nursing facilities that are not paid for by Medicare. Laws 2015, Chapter 39 continues the assessment through September 30, 2023. The assessment equals $15.63 per non-Medicare day of care for facilities with less than 43,500 Medicaid bed days per year and $1.80 per day of care for facilities with more than 43,500 Medicaid bed days. Pursuant to A.R.S. § 36-2999.52, AHCCCS may not increase rates to a level that generates assessment revenues in excess of 3.5% of facilities' net patient revenues.

Behavioral Health Services

These line items fund 4 types of services: 1) Serious Mental Illness (SMI), 2) Children's Behavioral Health (CBH), 3) General Mental Health and Substance Abuse (GMH/SA) and 4) Comprehensive Medical and Dental Program (CMDP).

Medicaid Behavioral Health - Traditional Services

The Baseline includes $1,015,591,300 in FY 2018 for Medicaid Behavioral Health - Traditional Services. This amount consists of:

General Fund	273,534,100
TTHCF - Medically Needy Account	35,565,800
Federal Medicaid Authority	706,491,400

FY 2018 adjustments would be as follows:

Formula Adjustments	**GF**	**20,250,700**
	EA	**54,653,900**

The Baseline includes an increase of $74,904,600 in FY 2018 for formula adjustments. These amounts consist of:

General Fund	20,250,700
Federal Medicaid Authority	54,653,900

These adjustments include:

- 1.6% average enrollment growth across all populations.
- An increase in the federal match rate from 69.16% to 69.73%.
- 3.0% capitation rate increase.

Health Insurer Fee Moratorium	**GF**	**(6,073,500)**
	EA	**(13,467,900)**

The Baseline includes a decrease of $(19,541,400) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. These amounts consist of:

General Fund	(6,073,500)
Federal Medicaid Authority	(13,467,900)

(See the Health Insurer Fee Moratorium section for additional detail.)

Background – This line item provides behavioral health treatment to Medicaid eligible adults and children. In June 2018, there are projected to be 1,105,416 eligible individuals. Behavioral health caseload projections differ slightly from acute care caseload projections primarily because behavioral health eligibility classifications are different from acute eligibility classifications for certain AHCCCS populations, including Developmentally Disabled individuals enrolled in ALTCS and CMDP Children.

Regional Behavioral Health Authorities (RHBAs) receive a monthly capitation payment from AHCCCS for every individual eligible for Medicaid behavioral health services, although only an estimated 88,305 individuals, or approximately 8.0% of the eligible population, will utilize services. For the integrated SMI population, this line item only includes the portion of capitation for behavioral health services. The acute care costs of the SMI population are included in the Traditional Medicaid Services line item.

Medicaid Behavioral Health - Proposition 204 Services

The Baseline includes $649,608,300 in FY 2018 for Medicaid Behavioral Health - Proposition 204 Services. This amount consists of:

General Fund	109,562,000
Federal Medicaid Authority	540,046,300

FY 2018 adjustments would be as follows:

Formula Adjustments	**GF**	**1,731,500**
	EA	**42,777,200**

The Baseline includes an increase of $44,508,700 in FY 2018 for formula adjustments. This amount consists of:

General Fund	1,731,500
Federal Medicaid Authority	42,777,200

These adjustments include:

- 1.6% average enrollment growth across all populations.
- An increase in the federal match rate for the non-Childless Adult population from 69.16% to 69.73%.
- An increase in the federal match rate for Childless Adults from 90.28% to 90.74%.
- 3.0% capitation rate increase.

Health Insurer Fee Moratorium GF (1,420,000)
EA (6,325,200)

The Baseline includes a decrease of $(7,745,200) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. This amount consists of:

General Fund	(1,420,000)
Federal Medicaid Authority	(6,325,200)

(See the Health Insurer Fee Moratorium section for additional detail.)

Background – This line item provides behavioral health treatment to Proposition 204 - Medicaid eligible adults and children. In June 2018, there are projected to be 534,354 eligible individuals. The RBHAs receive a monthly capitation payment from AHCCCS for every individual eligible for Medicaid behavioral health services, although only an estimated 63,928 individuals, or approximately 12.0% of the eligible population, will utilize services. For the integrated SMI population, this line item only includes the portion of capitation for behavioral health services. The acute care costs of the SMI population are included in the Proposition 204 Services line item.

Medicaid Behavioral Health - Comprehensive Medical and Dental Program

The Baseline includes $217,719,100 in FY 2018 for Medicaid Behavioral Health - Comprehensive Medical and Dental Program (CMDP). This amount consists of:

General Fund	65,719,400
Federal Medicaid Authority	151,999,700

FY 2018 adjustments would be as follows:

Formula Adjustments GF 1,948,900
EA 7,742,800

The Baseline includes an increase of $9,691,700 in FY 2018 for formula adjustments. This amount consists of:

General Fund	1,948,900
Federal Medicaid Authority	7,742,800

These adjustments include:

- 0% enrollment growth, due to a projected lack of growth in the number of children in the custody of the Department of Child Safety (DCS) in FY 2018.
- Increase in the federal match rate from 69.16% to 69.73%.
- 3.0% capitation rate increase.

Background – This line item provides behavioral health treatment to CMDP eligible children. CMDP is the health plan responsible for providing health services for children in foster care. DCS currently administers the acute care services for this population.

The Baseline assumes there will be 17,385 eligible individuals in June 2018. The RBHAs receive a monthly capitation payment from AHCCCS for every individual eligible for CMDP in FY 2018, and it is estimated that 11,167 individuals, or 64.2% of the eligible population, will utilize services.

Medicaid Behavioral Health - Adult Expansion Services

The Baseline includes $77,403,100 in FY 2018 for Medicaid Behavioral Health - Adult Expansion Services. This amount consists of:

General Fund	4,269,200
Federal Medicaid Authority	73,133,900

FY 2018 adjustments would be as follows:

Formula Adjustments GF 3,437,300
EA (2,224,200)

The Baseline includes an increase of $1,213,100 in FY 2018 for formula adjustments. This amount consists of:

General Fund	3,437,300
Federal Medicaid Authority	(2,224,200)

These adjustments include:

- 1.5% enrollment growth.
- A decrease in the federal match rate from 97.5% to 94.5%.
- 3.0% capitation rate increase.

Health Insurer Fee Moratorium EA (1,512,300)

The Baseline includes a decrease of $(1,512,300) in Federal Expenditure Authority in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. *(See the Health Insurer Fee Moratorium section for additional detail.)*

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 paid 100% of the cost of this population from 2014 to 2016. The federal share will gradually decline to 90% by 2020.

The Baseline assumes that 86,737 individuals will be enrolled in June 2018. The RBHAs receive a monthly capitation payment from AHCCCS for every individual eligible for the Adult Expansion, and it is estimated that 10,378 individuals, or approximately 12.0%, of the eligible population will utilize services. For the integrated SMI population, this line item only includes the portion of capitation for behavioral health services. The acute care costs of the SMI population are included in the Adult Expansion Services line item.

Non-Medicaid Seriously Mentally Ill Services

The Baseline includes $78,846,900 from the General Fund in FY 2018 for Non-Medicaid Seriously Mentally Ill (SMI) Services. This amount is unchanged from FY 2017.

Background – This line item provides funding for Non-Medicaid SMI clients. The state had been a longstanding defendant in the *Arnold v. Sarn* litigation concerning the level of services provided to the SMI population.

In January 2014, an exit agreement from the litigation was signed by Arizona's Governor, Maricopa County, and the plaintiffs in the case. The Maricopa County Superior Court approved the agreement in February 2014. The exit agreement requires the state to begin meeting requirements by June 2016 for providing assertive community treatment, supported housing, supported employment, crisis services, and family and peer support services to individuals with a serious mental illness.

(Please see the Behavioral Health footnotes for more information on service targets established by the exit agreement, and see the FY 2015 Appropriations Report for a history of the case.)

Supported Housing

The Baseline includes $5,324,800 from the General Fund in FY 2018 for Supported Housing. This amount is unchanged from FY 2017.

Background – This line item funds housing services that will enable individuals to live in the community. These funds may serve Medicaid and 100% state funded recipients. Medicaid, however, does not provide a match for housing assistance. The program served an average of 1,948 clients per month in FY 2015.

Crisis Services

The Baseline includes $16,391,300 in FY 2018 for Crisis Services. This amount consists of:

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

These amounts are unchanged from FY 2017.

Background – This line item provides funding for persons in need of emergency behavioral health assistance. These services may include 24-hour crisis telephone lines, crisis mobile teams, and facility-based crisis services. These funds serve 100% state funded recipients.

Hospital Payments

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

Disproportionate Share Hospital Payments Overview

The DSH program provides supplemental payments of federal and state dollars to hospitals that serve a large, or disproportionate, number of low-income patients. The total amount of eligible funding has historically been adjusted for annual changes in prices and the federal match rate.

Federal Reduction in Payments
The ACA would have reduced federal DSH payments nationwide by $500 million in FY 2014 and gradually increased the reductions to $5.6 billion by FY 2019. Subsequent federal legislation, though, has delayed and modified the reduction amounts. Under the Medicare Access and CHIP Reauthorization Act of 2015, nationwide DSH payment reductions of $2.0 billion will begin in FY 2018 and would gradually increase to $8.0 billion by FY 2024.

The federal Medicaid and CHIP Payment and Access Commission projects Arizona's federal DSH payments will be decreased by (13)% in FY 2018 as a result of the scheduled nationwide reductions. The Baseline similarly assumes a (13)% reduction in federal DSH payments to the state. As a result, the state's total DSH payments are estimated to decrease by $(24,839,700), from $163,074,200 in FY 2017 to $138,234,500 in FY 2018.

Table 3

Disproportionate Share Payments

	FY 2017	FY 2018
Eligible Funding 1/		
MIHS - CPE	$113,818,500	$108,874,800
ASH - CPE	28,474,900	28,474,900
Private Hospitals	884,800	884,800
DSH Voluntary Match 2/	19,896,000	0
Total Funding	**$163,074,200**	**$138,234,500**
Net Distribution - Disproportionate Share Payments		
General Fund		
Retain FF of CPE (via MIHS)	$ 74,605,600	$ 71,890,300
Retain FF of CPE (via ASH)	19,716,000	19,901,100
Subtotal - General Fund	$ 94,321,600	$ 91,791,400
Other Entities		
State MIHS	$ 4,202,300	$ 4,202,300
Private Hospitals	884,800	884,800
Subtotal - Other Entities	$ 5,087,100	$ 5,087,100
Total DSH Distributions	**$ 99,408,700**	**$ 96,878,500**
Match	**$ 19,896,000**	**$ 0**
Total Distributions	**$119,304,700**	**$96,878,500**

1/ Amounts include state and federal match funding.
2/ The Baseline continues a footnote that appropriates any payments in excess of $0 for DSH Voluntary Payments in FY 2018.

Of the $138,234,500 of eligible DSH funding in FY 2018, $96,878,500 is distributed according to the allocations described below and listed in *Table 3*. The remaining $41,356,000 of eligible funding represents existing expenditures used as part of the state match.

General Fund Distributions
Publicly-operated hospitals are required to document uncompensated care costs to the federal government through a Certified Public Expenditure (CPE) process. Those CPEs serve as the state match for the drawdown of Federal Funds. The publicly-operated hospitals are Maricopa Integrated Health System (MIHS) and DHS' Arizona State Hospital (ASH).

Section 18 of the FY 2017 Health BRB sets the eligible funding for MIHS at $113,818,500 in FY 2017. As a result of projected federal reductions to DSH payments, the Baseline reduces this amount to $108,874,800 in FY 2018. The state will retain $71,890,300 in Federal Funds in FY 2018 for deposit to the General Fund. The Baseline continues the state's current retention of all Federal Funds drawn down for ASH, which totals $19,901,100 in FY 2018.

In total, the Federal Funds drawn down for MIHS and ASH add $91,791,400 to General Fund revenue in FY 2018. This amount represents a $(2,530,200) reduction in deposits to the General Fund, relative to FY 2017. While the Baseline decreases the General Fund distribution as a result of the reduction in Federal Funds, the General Fund appropriation for MIHS could have alternatively been reduced by $(2,530,200) in FY 2018.

MIHS Distribution
While the state retains $71,890,300 of the MIHS federal match as General Fund revenue, the Baseline includes an appropriation of $4,202,300 of the federal draw down for distribution to MIHS. This distribution to MIHS is appropriated in the Disproportionate Share Payments line.

Private Hospital Distribution
The state appropriates General Fund dollars, which receive a drawdown of federal dollars, for DSH payments to private hospitals. The Baseline includes an $884,800 total funds appropriation for this distribution in the Disproportionate Share Payments line, including $266,400 from the General Fund and $618,400 in Federal Medicaid Authority.

DSH Voluntary Match Distribution
The state allows local governments, tribal governments and universities to provide the state match in the form of voluntary payments to draw down federal dollars. Any eligible DSH funding remaining after the previously mentioned allocations is made available for voluntary match payments. As a result of reductions to federal DSH payments, the Baseline includes no funding for this distribution in the DSH Payments - Voluntary Match line in FY 2018. The Baseline continues a footnote from the FY 2017 budget that appropriates any additional payments in excess of $0.

Disproportionate Share Payments

The Baseline includes $5,087,100 in FY 2018 for Disproportionate Share Payments. This amount consists of:

General Fund	266,400
Federal Medicaid Authority	4,820,700

FY 2018 adjustments would be as follows:

Formula Adjustments	**GF**	**(5,800)**
	EA	**5,800**

The Baseline includes a decrease of $(5,800) from the General Fund and a corresponding increase of $5,800 from Federal Medicaid Authority in FY 2018 due to a change in the federal match rate.

Of the $5,087,100 of total funds appropriated by the Baseline in the Disproportionate Share Payments line,

$884,800 represents distributions to private hospitals including $266,400 from the General Fund and $618,400 in federal expenditure authority. In FY 2015, there were 30 private hospitals that received DSH payments. The remaining $4,202,300 represents federal matching funds that the state appropriates to MIHS.

DSH Payments - Voluntary Match

The Baseline includes no funding in FY 2018 for DSH Payments - Voluntary Match. FY 2018 adjustments would be as follows:

Reduced Funding EA (19,896,000)

The Baseline includes a decrease of $(19,896,000) in FY 2018 for a reduction in eligible DSH funding. This amount consists of:

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

This line item provides DSH payments to hospitals with matching funds provided by political subdivisions. While the Baseline does not include funding for the line item in FY 2018, it continues a footnote from the FY 2017 budget that appropriates any additional payments in excess of $0. The Baseline additionally continues provisions from the FY 2017 Health BRB that give priority to eligible rural hospitals when allocating voluntary match DSH payments and that permit AHCCCS to include MIHS in allocations of voluntary match DSH payments if MIHS' CPE and matching Federal Funds exceed $108,874,800 in FY 2018. In FY 2015 there were 9 hospitals that received voluntary match DSH payments.

Rural Hospitals

The Baseline includes $22,650,000 in FY 2018 for Rural Hospitals (which includes Critical Access Hospitals). This amount consists of:

General Fund	6,819,900
Federal Medicaid Authority	15,830,100

FY 2018 adjustments would be as follows:

Formula Adjustments	**GF**	**(147,200)**
	EA	**147,200**

The Baseline includes a decrease of $(147,200) from the General Fund and a corresponding increase of $147,200 from Federal Medicaid Authority in FY 2018 due to a change in the federal match rate.

The FY 2017 Health BRB requires AHCCCS to report any voluntary payments paid to Critical Access Hospitals (CAHs) by political subdivisions, tribal governments or universities to provide a state match contribution for additional federal funding in FY 2017. The Baseline does not include funding for voluntary payments in FY 2018 because the federal government has yet to approve matching payments from political subdivisions for CAHs.

Background – This line item is comprised of 2 programs. The Rural Hospital Reimbursement program increases inpatient reimbursement rates for qualifying rural hospitals. The CAH program provides increased reimbursement to small rural hospitals that are federally designated as CAHs. Funding is distributed according to a hospital's share of the cost in serving Medicaid enrollees during the prior year. In FY 2016, 21 hospitals qualified for funding from Rural Hospital Reimbursement and 10 from CAH.

Graduate Medical Education

The Baseline includes $265,729,800 in FY 2018 for Graduate Medical Education (GME) expenditures. This amount consists of:

Political Subdivision Funds	80,443,100
Federal Medicaid Authority	185,286,700

FY 2018 adjustments would be as follows:

Decreased Funding EA (30,558,200)

The Baseline includes a decrease of $(30,558,200) in FY 2018 for a reduction in GME payments. This amount consists of:

Political Subdivision Funds	(12,183,300)
Federal Medicaid Authority	(18,374,900)

Although the FY 2017 General Appropriation Act displays a $162,992,600 appropriation for FY 2017, a footnote appropriates any additional payments in excess of that amount. AHCCCS has informed JLBC that it expects to expend $296,288,000 in total GME payments in FY 2017, or $133,295,400 more than appropriated in the FY 2017 budget. The revision to payments in FY 2017 reflects a federally-approved change in AHCCCS' methodology for calculating Graduate Medical Education funds for training hospitals.

The FY 2017 appropriation has been adjusted to the $296,288,000 level. Of that amount, $30,558,200 represents one-time late payments for medical education costs incurred in calendar year 2015. The Baseline decrease is associated with removing this delay in payments.

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 2016, 12 hospitals received a total of $163,725,900 for Graduate Medical Education.

AHCCCS uses 2 formulas to calculate GME payments to training hospitals. Prior to FY 2017, hospitals received payments according to whichever formula provided the lesser amount of funding. Beginning in FY 2017, the federal government permits hospitals to receive payments according to which formula provides the greater amount of funds.

Safety Net Care Pool

The Baseline includes $75,000,000 in FY 2018 for the Safety Net Care Pool (SNCP) program. This amount consists of:

Political Subdivision Funds	22,704,400
Federal Medicaid Authority	52,295,600

FY 2018 adjustments would be as follows:

Decreased Funding EA (62,000,000)

The Baseline includes a decrease of $(62,000,000) in FY 2018 to reflect the federal phase-down of the program.

This amount consists of:

Political Subdivision Funds	(19,436,800)
Federal Medicaid Authority	(42,563,200)

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

In April 2012, AHCCCS received federal approval to establish the SNCP program. While this program was originally expected to end on December 31, 2013, the FY 2014 Health and Welfare BRB allowed Phoenix Children's Hospital (PCH) to continue to participate in the SNCP program through December 31, 2017. The federal government has approved the hospital to continue participating in the program through December 31, 2017 while indicating it will end funding for the program after that date. The Baseline continues a footnote from the FY 2017 budget that appropriates any additional payments in excess of $75,000,000.

* * *

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 shall be used for intergovernmental agreements with the Department of Economic Security for the purpose of eligibility determination and other functions. The state General Fund share may be used for eligibility determination for other programs administered by the Division of Benefits and Medical Eligibility based on the results of the Arizona Random Moment Sampling Survey.

The amounts included in the Proposition 204 - ~~Acute Care~~ AHCCCS Administration, ~~Proposition 204 - Behavioral Health Administration,~~ Proposition 204 - DES Eligibility, Proposition 204 Services and Medicaid Behavioral Health - Proposition 204 Services line items include all available sources of funding consistent with A.R.S. § 36-2901.01B. *(The Baseline consolidates funding for administration of Proposition 204 Acute Care and Behavioral Health in FY 2018 into the Proposition 204 - AHCCCS Administration line.)*

Medical Services and Behavioral Health Services

Before making fee-for-service program or rate changes that pertain to fee-for-service rate categories, the AHCCCS Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee.

The AHCCCS Administration shall report to the Joint Legislative Budget Committee on or before March 1, 2018 on preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum may not be more than 2%. Before implementation of any changes in capitation rates, the AHCCCS Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. Before the Administration implements any change in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the Administration shall prepare a fiscal impact analysis on the potential effects of this change on the

following year's capitation rates. If the fiscal impact analysis demonstrates that this change will result in additional state costs of $500,000 or more for any fiscal year, the Administration shall submit the policy change for review by the Joint Legislative Budget Committee.

The AHCCCS Administration shall transfer up to $1,200,000 from the Traditional Medicaid Services line item for FY 2018 to the Attorney General for costs associated with tobacco settlement litigation.

The AHCCCS Administration shall transfer $436,000 from the Traditional Medicaid Services line item for FY 2018 to the Department of Revenue for enforcement costs associated with the March 13, 2013 Master Settlement Agreement with tobacco companies.

On or before December 31, 2017, and June 30, 2018, the AHCCCS Administration shall report to the Joint Legislative Budget Committee on the progress in implementing the *Arnold v. Sarn* lawsuit settlement. The report shall include at a minimum the Administration's progress toward meeting all criteria specified in the 2014 joint stipulation, including the development and estimated cost of additional behavioral health service capacity in Maricopa County for supported housing services for 1,200 class members, supported employment services for 750 class members, 8 assertive community treatment teams and consumer operated services for 1,500 class members. The Administration shall also report by fund source the amounts it plans to use to pay for expanded services.

It is the intent of the Legislature that the percentage attributable to administration and profit for the Regional Behavioral Health Authorities is 9% of the overall capitation rate.

The AHCCCS Administration shall transfer $1,200,000 from the Non-Medicaid Seriously Mentally Ill Services line item for FY 2018 to the Department of Health Services for the costs of prescription medications for persons with a serious mental illness at the Arizona State Hospital.

Long-Term Care

Any federal monies that the AHCCCS Administration passes through to the Department of Economic Security for use in long-term administration care for persons with developmental disabilities do not count against the long-term care expenditure authority above.

Pursuant to A.R.S. § 11-292B the county portion of the FY 2018 nonfederal costs of providing long-term care system services is $256,957,400. This amount is included in the Expenditure Authority fund source.

Any supplemental payments received in excess of $108,974,800 for nursing facilities that serve Arizona Long-Term Care System Medicaid patients in FY 2018, including any federal matching monies, by the AHCCCS Administration are appropriated to the Administration in FY 2018. 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 $5,087,100 appropriation for Disproportionate Share Payments (DSH) for FY 2018 made pursuant to A.R.S. § 36-2903.01O includes $4,202,300 for the Maricopa County Health Care District and $884,800 for private qualifying disproportionate share hospitals.

Any monies received for Disproportionate Share Hospital payments from political subdivisions of this state, tribal governments and any university under the jurisdiction of the Arizona Board of Regents, and any federal monies used to match those payments, in FY 2018 by the AHCCCS Administration in excess of $0 are appropriated to the Administration in FY 2018. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision.

The Expenditure Authority fund source includes voluntary payments made from political subdivisions for payments to hospitals that operate a graduate medical education program or treat low-income patients. The political subdivision portions of the FY 2018 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. *(The Baseline amount of Expenditure Authority funding in FY 2018 would be adjusted if funding for the Disproportionate Share Payments - Voluntary Match is higher than expected.)*

Any monies for Graduate Medical Education received in FY 2018, including any federal matching monies, by the AHCCCS Administration in excess of $265,729,800 are appropriated to the Administration in FY 2018. 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 $75,000,000 for the Safety Net Care Pool by the AHCCCS Administration in FY 2018, including any federal matching monies, are appropriated to the Administration in FY 2018. 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 5, 2018, 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, 2017. On June 30, 2018, the Administration shall report the same information for all of FY 2018.

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

Deletion of Prior Year Footnotes

The Baseline would delete a one-time footnote regarding a supplemental appropriation of Proposition 204-Protection Account funding from AHCCCS to DHS for behavioral health services.

The Baseline would delete a footnote requiring AHCCCS to report on retroactive capitation rate changes made to reimburse insurers for the Affordable Care Act health insurer fee in FY 2018. The Federal Consolidated Appropriations Act of 2016 places a 1-year moratorium on the fee for FY 2018.

STATUTORY CHANGES

The Baseline would:

Rates and Services

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

Counties

- As session law, continue to exclude Proposition 204 administration costs from county expenditure limitations.
- As session law, continue to require AHCCCS to transfer any excess monies back to the counties on December 31, 2018 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 2018 county Arizona Long Term Care System (ALTCS) contributions at $256,957,400.
- As session law, set the County Acute Care contributions at $46,813,400. This amount includes an inflation indexing of the Maricopa County contribution as required by Laws 2005, Chapter 238.
- As session law, continue to require the collection of $2,646,200 in the Disproportionate Uncompensated Care pool contributions from counties other than Maricopa. Exclude these contributions from county expenditure limitations.

Hospitals

- As session law, establish FY 2018 disproportionate share (DSH) distributions to the Maricopa Special Healthcare District, the Arizona State Hospital, private qualifying disproportionate share hospitals, and Yuma Regional Medical Center.
- As session law, continue to require AHCCCS to give priority to rural hospitals in the Pool 5 distribution, and allow MIHS to be eligible for Pool 5 allocations. Permit local jurisdictions to provide additional local match for Pool 5 distributions.
- As session law, continue to require that AHCCCS report any Critical Access Hospital Payments made by political subdivisions.

Erroneous Payments

- As session law, continue to permit AHCCCS to recover erroneous Medicare payments the state has made due to errors on behalf of the federal government. Subject to legislative appropriation, credits may be used to pay for the AHCCCS program in the year they are received.

Available Funding

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

Reports

- As permanent law, continue to require AHCCCS to submit a report to JLBC and the Governor's Office of Strategic Planning and Budgeting (OSPB) by December 1 of 2017 and each year thereafter on the use of emergency departments for non-emergency use by AHCCCS enrollees. *(Previously had been an annual session law provision.)*
- As permanent law, continue to require AHCCCS and DHS to submit a joint report to the Legislature and the Governor by January 2 of 2018 and each year thereafter on hospital costs and charges. *(Previously had been an annual session law provision.)*
- As permanent law, continue to require AHCCCS to report to JLBC on or before January 2 of 2018 and each year thereafter on the availability of inpatient psychiatric treatment for children and adults enrolled in Arizona's Regional Behavioral Health Authorities.

(Previously had been an annual session law provision.) The report will include the following information:
  - The total number of inpatient psychiatric beds available and the occupancy rate for those beds.
  - Expenditures on inpatient psychiatric treatment.
  - The total number of individuals in Arizona sent out of state for inpatient psychiatric care.
  - The prevalence of "psychiatric boarding," or the holding of psychiatric patients in emergency rooms for at least 24 hours before transferring them to a psychiatric facility.
- As session law, continue to require AHCCCS to report by November 1, 2017 on the feasibility of expanding 340B Drug Discount Program requirements enacted under the FY 2017 Health BRB to hospitals.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- FY 2017 Supplemental
- Prescription Drug Rebate Fund Balance
- Proposition 206
- Federal Funding for Native Americans
- Medicare Part B Premiums
- AHCCCS CARE Program
- Delivery System Reform Incentive Payments
- Hepatitis C Prescription Drug Coverage
- SMI Funding
- County Contributions
- Program Components
- Tobacco Master Settlement Agreement
- Tobacco Tax Allocations

Long-Term Budget Impacts

As part of the Baseline's 3-year spending plan, statutory caseload and policy changes are projected to increase AHCCCS's General Fund spending by $109.1 million in FY 2019 above FY 2018 and $143.0 million in FY 2020 above FY 2019.

These estimates are based on:

- Overall enrollment growth of 2.0% in FY 2019 and FY 2020.
- Capitation rate growth of 3.5% in FY 2019 and FY 2020.
- An increase in the federal match rate (from 69.73% in FY 2018 to 70.04% in FY 2019 and 70.20% in FY 2020).
- A decrease in the federal match rate for Child Expansion and KidsCare populations (from 100% in FY 2019 to 79.16%, beginning October 1, 2019).
- Resumption of the federal health insurer fee in FY 2019, following a 1-year moratorium in FY 2018. This is projected to increase General Fund spending by $23.7 million in FY 2019 above FY 2018 and by $0.6 million in FY 2020 above FY 2019.

Laws 2016, Chapter 112 specifies that the KidsCare program will be terminated if the federal government eliminates funding for the program as specified in 42 U.S.C. § 1397ee. The legislative intent appears to have been that KidsCare would be eliminated if the federal match rate fell below 100%. Since the federal match falls to 79.16% in FY 2020, the Baseline assumes that the KidsCare program is eliminated after September 30, 2019.

Though not part of the agency 3-year General Fund spending plan, federal reductions in Disproportionate Share Hospital (DSH) payments are expected to reduce General Fund revenues. The Baseline revenue forecast projects General Fund distributions to decrease by $(7.2) million in FY 2019 below FY 2018 and by $(7.2) million in FY 2020 below FY 2019. *(See Disproportionate Share Hospital Payments Overview section for additional information.)*

FY 2017 Supplemental

The Baseline includes a FY 2017 supplemental increase of $85,680,600. *Table 4* shows the supplemental appropriation included in the Baseline by fund source. Of the $85,680,600, $59,225,800 is from Appropriated Funds and $26,454,800 is from Expenditure Authority Funds.

Table 4

AHCCCS FY 2017 Supplemental

General Fund	$0
Appropriated Funds	
Children's Health Insurance Program Fund	59,225,800
Subtotal	*$59,225,800*
Expenditure Authority Funds	
PDRF – In Lieu of Federal Funds	$137,309,100
Federal Medicaid Authority	(110,854,300)
Subtotal	*$26,454,800*
Total Funds	**$85,680,600**

While Laws 2016, Chapter 112 required AHCCCS to reopen the KidsCare program, the legislation did not include an adjustment for increased program costs. The Baseline includes $59,225,800 in supplemental CHIP funding for KidsCare services in FY 2017. The supplemental does not include a funding increase for administrative costs associated with restoring the

program. *(See the KidsCare Restoration section for additional information.)*

The Baseline additionally includes a net increase of $26,454,800 in supplemental federal funding. This net amount consists of a $137,309,100 increase in Prescription Drug Rebate Fund - In Lieu of Federal Funds and a decrease of $(110,854,300) in Federal Medicaid Authority. The net increase primarily funds greater-than-budgeted FY 2017 Acute Care capitation rate increases for certain populations.

The FY 2017 budget included capitation rate growth of 1.5% while actual acute care rates increased 7.1% for Proposition 204 Childless Adults and 5.1% for the Adult Expansion population. Growth in capitation rates for these populations was partly driven by expanded coverage of Hepatitis C drugs *(see the Hepatitis C Prescription Drug Coverage section for additional detail).*

Although revisions to FY 2017 estimates are expected to be associated with $12.5 million in additional General Fund expenditures, the Baseline does not include a General Fund supplemental. AHCCCS has sufficient flexibility to address this level of supplemental through cash flow.

Any small changes in caseloads or capitation rates could also eliminate the need for any additional General Fund expenditures. For example, as of the time of this writing, AHCCCS had not submitted final FY 2017 behavioral health service capitation rates for JLBC review. Preliminary estimates by the agency would represent a decrease of (1.3)% compared to FY 2016 rates. Due to uncertainty about the final rates, the Baseline assumes behavioral health service capitation rate growth of 2.5% in FY 2017. Using the preliminary estimated decrease of (1.3)% instead of the 2.5% assumption would decrease Baseline General Fund spending estimates by $(19.7) million in FY 2017, eliminating the current $12.5 million estimate.

Prescription Drug Rebate Fund Balance

AHCCCS reported an ending balance of $52.8 million for the state portion of the Prescription Drug Rebate Fund (PDRF) in FY 2016. The agency projects this balance will grow to $73.3 million by the end of FY 2018, assuming the Baseline's level of spending in FY 2018 *(see Table 5)*.

AHCCCS requests that $42.1 million of the balance be used on a one-time basis to offset $41.1 million in General Fund spending and $1.0 million in County Fund spending in FY 2018. Increasing the fund's appropriation on a one-time basis would obscure the level of ongoing costs in other state funding sources. The fund balance may alternatively be used to transfer $42.1 million in state PDRF money to the General Fund as revenue in FY 2018. Transferring any balance from the PDRF for non-Medicaid use would require a statutory change.

Table 5

State Prescription Drug Rebate Fund
FY 2018 Sources and Uses

Projected Beginning Balance	$63,064,200
Projected FY 2018 Rebate Collections 1/	124,025,200
Total Revenues 1/	187,089,400
Baseline Disbursements	
Operating Budget	500,000
Traditional Services	105,837,600
ALTCS Services	7,441,300
Subtotal Disbursements	113,778,900
Projected Ending Balance 1/	**$73,310,500**

1/ Of this total, $15.6 million represents rebates that would not be available to spend until FY 2019.

Proposition 206

In November 2016, Arizona voters approved Proposition 206, or the Fair Wages and Healthy Families Act. The initiative raises Arizona's minimum wage from $8.05 to $10.00 on January 1, 2017 and then gradually increases the rate to $12.00 by January 1, 2020. After 2020, increases would be tied to inflation. It also requires most employers to provide paid sick leave to their employees. The initiative does not apply to state employees. The initiative, however, could increase costs for AHCCCS contractors, especially for ALTCS providers that employ direct care workers.

In December, the Executive announced its plans to address the costs of Proposition 206 with a 7% provider rate increase for certain home and community-based services providers and a 3.5% increase for nursing facilities beginning January 1, 2017. AHCCCS estimates that the Total Funds cost of the rate increase for the ALTCS Elderly and Physically Disabled program would be $21.7 million in FY 2017. The associated state cost would be approximately $3.4 million to the General Fund and $3.3 million to county contributions. Prior to the initiative's increase in the minimum wage to $10.50 on January 1, 2018, the full year cost would be approximately $6.8 million to the General Fund and $6.6 million to counties. The Executive has not yet announced whether this cost would be addressed through a supplemental or through existing funds.

The Baseline does not include funding for capitation adjustments associated with Proposition 206. *(Please see the Other Issues section in the Department of Economic Security Narrative for additional information.)*

Federal Funding for Native Americans

The federal government provides a higher match rate for certain Medicaid services provided to Native Americans. States may receive 100% federal funding for Medicaid services provided to Native Americans if such services are provided by an Indian Health Services (IHS) facility, whereas services rendered by non-IHS providers qualify for the regular 2-to-1 federal match rate.

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

AHCCCS likely will realize savings from the higher match rate, as Native Americans enrollees typically represent approximately 9%-10% of the AHCCCS population. The magnitude of the savings is uncertain because federal law prohibits AHCCCS from requiring providers to develop care coordination agreements that are required to qualify for the 100% match rate.

The FY 2017 Health BRB requires AHCCCS to report on the fiscal implications of the guidance on or before December 1, 2016. In that report, AHCCCS did not provide specific savings estimates from the guidance, citing a lack of clarity from the federal government on how to interpret and implement the new rules, as well as the potential administrative burden for providers from care coordination agreements. AHCCCS states it is currently requesting formal guidance from CMS to address these issues.

Medicare Part B Premiums

Medicare Part B premiums will increase 10.0% from $121.80 per month in 2016 to $134.00 in 2017 for beneficiaries that are dually enrolled in Medicare and Medicaid. Because AHCCCS pays for the Medicare premiums of dual enrollees, higher Medicare premiums increase AHCCCS' costs. Relative to the FY 2017 budget, the premiums increase AHCCCS' General Fund spending by $2.6 million in FY 2017, and $6.0 million in FY 2018. The FY 2018 Baseline incorporates the $6.0 million increase.

Approximately 70% of Medicare Part B beneficiaries have their premiums deducted from their Social Security benefits. Federal law prohibits premiums for these individuals from increasing more than the annual increase to their Social Security benefits. Premium increases in excess of adjustments to benefits are added to premiums of the remaining 30% of beneficiaries, which includes Medicaid dual enrollees. The 0.3% inflation adjustment to Social Security benefits in 2017 was insufficient to fund the entire premium estimated for beneficiaries that deduct premiums from their benefits. As a result, premiums that are deducted from Social Security income were only increased 3.9% (from $104.90 to $109.00) while premiums charged for Medicaid dual enrollees were increased 10.0% (from $121.80 to $134.00) in 2017.

AHCCCS CARE Program

In September 2016, the Executive announced federal approval of the AHCCCS CARE program under the state's Section 1115 waiver. The program includes the following provisions that apply to the Adult Expansion population of individuals with income from 100-133% FPL:

- A premium equal to 2% of income.
- Coinsurance charges up to 3% of income, including:
  - $8 for non-emergency use of an emergency department.
  - $4 for opioid prescriptions or refills.
  - $4 for use of brand name drugs when a generic option is available.
  - Up to $10 for using specialist services without a primary care physician referral.
- Health targets including smoking cessation and wellness exams.
- Referral to employment and job training resources administered by the Department of Economic Security.

The FY 2017 budget included $(1.4) million in General Fund savings in FY 2017 and $(1.8) million in FY 2018 for cost sharing provisions. The approved waiver provisions are expected to result in minimal savings. For example, premiums levied under the AHCCCS CARE program fund costs for non-Medicaid services, such as vision plans, chiropractic services or a gym membership. Savings estimates under the FY 2017 budget, however, presumed premiums would offset AHCCCS costs for Medicaid services. The FY 2017 budget additionally included savings for a mandatory $25 copay for inappropriate emergency room use by all adult enrollees. The AHCCCS CARE program alternatively charges coinsurance for select

services to approximately 70,000 Adult Expansion enrollees. The Baseline does not include any savings associated with the approved AHCCCS CARE program. The federal government did not approve several other provisions of the state's waiver proposal, including:

- Suspension of funding for non-emergency medical transportation for the Adult Expansion population.
- A lifetime limit of 5 years for enrollment.
- A requirement to work, actively seek work, or participate in a job training program.

Delivery System Reform Incentive Payments

AHCCCS is seeking approval from the federal government for a proposal to create a Delivery System Reform Incentive Payment (DSRIP) program. DSRIP programs allow state Medicaid agencies to fund provider-led projects that address Medicaid population health.

AHCCCS plans to allocate DSRIP funding to projects to improve integration of behavioral health services and acute care services for adults, children, and individuals transitioning from the criminal justice system. Examples of potential projects include investments in health information technology infrastructure for behavioral health providers, as well as training in trauma-informed care for physicians treating foster children.

In its FY 2018 budget request, AHCCCS estimated that the DSRIP program would be associated with $1.46 billion in expenditures between FY 2017 and FY 2022, including $1.42 billion in federal funds and $42.3 million in funding from counties and universities.

The FY 2017 Health BRB creates a non-appropriated DSRIP Fund that will receive any monies to implement the program if it is approved by the federal government. AHCCCS is required to submit an expenditure plan for review by the Joint Legislative Budget Committee before any monies are deposited into the DSRIP Fund. As of this writing, AHCCCS has not submitted a plan. The Baseline does not include funding for the DSRIP program in FY 2017 or FY 2018.

Hepatitis C Prescription Drug Coverage

Since federal approval of the Hepatitis C drug Sovaldi in December 2013, companies have developed a variety of drugs to treat the disease. New drugs have significantly improved outcomes, generally achieving cure rates of about 90% compared to rates of about 45% using previously available drugs. A typical treatment regimen, though, can cost between $55,000 to $95,000, prior to negotiated rebates.

In FY 2015 and FY 2016, AHCCCS limited coverage of Hepatitis C drugs to individuals at the most severe stages of the illness (F3 and F4 on a clinical scale of liver fibrosis) and to those that had not abused drugs or alcohol in the prior 6 months. AHCCCS estimates that 830 members qualified under these criteria and received the drugs in FY 2016. In FY 2017, the agency expanded coverage to those at a less severe stage of the illness (score of F2) and lowered the drug and alcohol use requirement to 3 months. The latest changes to coverage are estimated to expand the number of individuals receiving the drugs annually by 639 members (to 1,469 in total). Covering the additional treatments is estimated to increase General Fund costs by $2.7 million ($7.1 million in total state funds) on an annual basis, prior to any rebate savings. These costs are included in the FY 2018 Baseline amounts.

AHCCCS and the federal government have negotiated rebates with manufacturers of Hepatitis C drugs, which may be used to offset a portion of the state's cost of the drugs. Specific negotiated rebate amounts are confidential. One large seller of Hepatitis C drugs, however, has reported that it discounts drugs sold to government programs by more than 50% on average nationwide. The extent of discounts varies by location. The Baseline does not include an increased appropriation from the Prescription Drug Rebate Fund. *(See the Prescription Drug Rebate Balance item in this section for more information.)*

In May 2016, a U.S. District Court judge granted a preliminary injunction that requires Washington to make Hepatitis C drugs available to all Medicaid enrollees. Plaintiffs in the case seeking an injunction argued that the state violated federal Medicaid law by withholding "medically necessary" treatments from members in early stages of the disease. Lawsuits have been filed in numerous other states that currently restrict Medicaid coverage of Hepatitis C drugs.

SMI Funding

Table 6 shows the total Medicaid funding in FY 2018 for behavioral health services for the integrated SMI population is $744.4 million for 42,417 recipients. State and federal funding for behavioral health services for this population is located in the Traditional, Proposition 204, and Adult Expansion line items of the behavioral health services portion of the AHCCCS budget.

In FY 2018, an estimated $33.8 million in additional total Medicaid funds will be spent on SMI services for non-integrated SMI clients. Of that amount, $6.7 million is state matching funds, and $27.1 million is federal matching funds.

Table 6

JLBC Projected FY 2018 Medicaid Behavioral Health Funding for Integrated SMI

	State Match	Federal Match	Total Funds	Enrollees
Integrated SMI Maricopa	$125,757,500	$359,304,000	$485,061,500	22,168
Integrated SMI Greater AZ	65,682,600	193,670,100	259,352,700	20,249
Total 1/	**$191,440,100**	**$552,974,100**	**$744,414,200**	**42,417**

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

County Contributions

County governments make 4 different payments to defray the AHCCCS budget's costs, as summarized in *Table 7*. 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 2016 ALTCS utilization.
3. Each county's contribution is then limited to 90¢ per $100 of net assessed property value. In FY 2018, this provision provides 4 counties with a total of $6,813,300 in relief.
4. In counties with an "on-reservation" population of at least 20%, the contribution is limited by an alternative formula specified in statute. In FY 2018, this provision provides 3 counties with a total of $13,639,700 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 2018 no counties qualify for this relief.
6. The state pays for county costs above the average statewide per capita ($39.41 in FY 2018). In FY 2018 this provision provides 9 counties with a total of $9,362,500 in relief.

In FY 2018, provisions 3 through 6 of the ALTCS formula result in the state providing a total of $29,815,500 in relief to 12 counties.

Program Components

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

Capitation

The majority of AHCCCS payments are made through monthly capitated payments. This follows a health maintenance organization (HMO) model in which capitated providers accept a predetermined rate for each member. In FY 2018, the average capitation rate for acute care is expected to be approximately $354 per member per month (or $4,246 annually). Of that amount, an

Table 7

County Contributions

	FY 2017				FY 2018			
County	**BNCF**	**Acute**	**DUC**	**ALTCS**	**BNCF**	**Acute**	**DUC**	**ALTCS**
Apache	$117,400	$268,800	$87,300	$625,200	$120,500	$268,800	$87,300	$638,300
Cochise	219,100	2,214,800	162,700	4,995,000	224,700	2,214,800	162,700	5,087,800
Coconino	216,100	742,900	160,500	1,877,300	221,700	742,900	160,500	1,916,700
Gila	88,800	1,413,200	65,900	2,112,600	91,100	1,413,200	65,900	2,143,900
Graham	63,100	536,200	46,800	1,303,500	64,700	536,200	46,800	1,516,100
Greenlee	16,200	190,700	12,000	33,500	16,600	190,700	12,000	24,800
La Paz	33,600	212,100	24,900	595,600	34,500	212,100	24,900	506,200
Maricopa	0	19,011,200	0	155,173,500	0	18,783,100	0	160,639,100
Mohave	252,300	1,237,700	187,400	7,948,800	258,800	1,237,700	187,400	8,106,600
Navajo	165,300	310,800	122,800	2,588,200	169,600	310,800	122,800	2,642,400
Pima	1,502,600	14,951,800	1,115,900	39,243,800	1,541,300	14,951,800	1,115,900	39,775,800
Pinal	294,000	2,715,600	218,300	14,899,800	301,600	2,715,600	218,300	14,924,700
Santa Cruz	69,500	482,800	51,600	1,930,900	71,300	482,800	51,600	1,981,000
Yavapai	277,700	1,427,800	206,200	8,391,300	284,900	1,427,800	206,200	8,581,900
Yuma	247,600	1,325,100	183,900	8,261,000	254,000	1,325,100	183,900	8,472,100
Subtotal	**$3,563,300**	**$47,041,500**	**$2,646,200**	**$249,980,000**	**$3,655,300**	**$46,813,400**	**$2,646,200**	**$256,957,400**
Total				**$303,231,000**				**$310,072,300**

average of $81 is from state match and $273 from Federal Medicaid Authority. For behavioral health, the average capitation rate is expected to be $94 per member per month (or $1,123 annually), with an average of $23 for state match and $71 for the federal match.

Reinsurance

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

Fee-For-Service

Rather than using Capitation, Fee-For-Service payments are made for 3 programs: 1) federally-mandated services for Native Americans living on reservations; 2) temporary Fee-For-Service coverage for those who leave AHCCCS before enrolling in a capitated plan; and 3) federally-mandated emergency services for unauthorized and qualified immigrants.

Medicare Premiums

AHCCCS provides funding for the purchase of Medicare Part B (supplemental medical insurance) and Part A (hospital insurance). Purchasing supplemental coverage reduces state expenditures since the federal Medicare program absorbs a portion of the costs. In addition, this includes the cost of premiums for certain disabled workers and low-income Qualified Medicare Beneficiaries.

Clawback

AHCCCS is not required to pay for prescription drug costs for members who are eligible for Medicare. Instead, AHCCCS is required to make "Clawback" payments to Medicare based on 75.0% of the estimated drug costs.

Tobacco Master Settlement Agreement

The Baseline requires AHCCCS to continue to transfer up to $1,636,000 from the Traditional Medicaid Services line item in FY 2018 to assist in the enforcement of a multi-year settlement reached between tobacco companies and the state over the Master Settlement Agreement (MSA). This transfer amount consists of:

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

This adjustment does not include the $816,000 appropriation ($84,400 General Fund and $731,600 Consumer Protection-Consumer Fraud Revolving Fund) to the Attorney General for costs associated with tobacco settlement litigation. *(See the Attorney General - Department of Law section for more information.)*

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

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

Tobacco Tax Allocations

Table 8 is a summary of the tobacco tax allocations.

Table 8

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

	FY 2016	FY 2017
Medically Needy Account		
Funds Available		
Balance Forward	$ 6,346,200	$ 591,300
Transfer In - Tobacco Tax and Health Care Fund	47,474,100	47,508,000
Transfer In - Tobacco Products Tax Fund	25,883,965	25,901,500
Total Funds Available	**$ 79,704,300**	**$ 74,000,800**
Allocations		
AHCCCS		
AHCCCS State Match Appropriation	$ 34,498,500	$ 72,998,200
Total AHCCCS Allocations	$ 34,498,500	$ 72,998,200
DHS		
Behavioral Health GF Offset 1/2/	$ 44,002,300	$ 0
Folic Acid	387,200	400,000
Renal, Dental Care, and Nutrition Supplements	225,000	300,000
Total DHS Allocations	44,614,500	700,000
Balance Forward	**$ 591,300**	**$ 302,600**
AHCCCS Proposition 204 Protection Account		
Funds Available		
Balance Forward	$ 3,352,200	$ 2,123,200
Transfer In - Tobacco Products Tax Fund	40,263,900	40,291,300
Total Funds Available	**$ 43,616,100**	**$ 42,414,500**
Allocations		
AHCCCS		
AHCCCS State Match Appropriation	38,140,700	37,521,000
Administrative Adjustments	0	0
Total AHCCCS Allocatoins	38,140,700	37,521,000
DHS		
Behavioral Health GF Offset 2/	3,352,200	0
Total DHS Allocations	3,352,200	0
Balance Forward	**$ 2,123,200**	**$ 4,893,500**
AHCCCS Emergency Health Services Account		
Funds Available		
Balance Forward	$ 0	$ 62,400
Transfer In - Tobacco Products Tax Fund	19,173,300	19,186,300
Total Funds Available	**$ 19,173,300**	**$ 19,248,700**
Allocations		
AHCCCS State Match Appropriation	$ 18,162,200	18,747,200
Administrative Adjustments	948,700	$ 0
Balance Forward 3/	**$ 62,400**	**$ 501,500**
DHS Health Education Account		
Funds Available		
Balance Forward	$ 7,054,500	$ 7,470,900
Transfer In - Tobacco Tax and Health Care Fund	15,598,600	15,609,800
Transfer In - Tobacco Products Tax Fund	1,917,300	1,918,600
Total Funds Available	**$ 24,570,400**	**$ 24,999,300**
Allocations		
Tobacco Education and Prevention Program	$ 14,855,200	$ 18,434,700
Leading Causes of Death - Prevention and Detection	2,244,300	2,785,300
Balance Forward	**$ 7,470,900**	**$ 3,779,300**
Health Research Account		
Funds Available		
Balance Forward	$ 10,357,700	$ 12,765,000
Transfer In - Tobacco Tax and Health Care Fund	3,390,900	3,393,300
Transfer In - Tobacco Products Tax Fund	4,793,300	4,796,600
Total Funds Available	**$ 18,541,900**	**$ 20,954,900**
Allocations		
Biomedical Research Support 4/	$ 1,496,300	$ 2,000,000
Alzheimer's Disease Research 5/	1,000,000	2,000,000
Biomedical Research Commission	3,280,600	8,729,300
Balance Forward	**$ 12,765,000**	**$ 8,225,600**

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

2/ Laws 2016, Chapter 117 permitted AHCCCS to transfer up to $3,352,200 from the Proposition 204 Protection Account to DHS for behavioral health costs in FY 2016. AHCCCS transferred the full amount in FY 2016, which DHS reported was spent from the Medically Needy Account. The table displays the $3,352,200 of spending by DHS from the Proposition 204 Protection Account.

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

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

5/ Laws 2016, Chapter 117 appropriates $2,000,000 from the Health Research Account in FY 2017, which includes a one-time funding increase of $1,000,000 for Alzheimer's disease research.

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate

Budget Neutrality Compliance Fund (HCA2478/A.R.S. § 36-2928) **Appropriated**

Source of Revenue: County contributions.

Purpose of Fund: To provide administrative funding for costs associated with the implementation of the Proposition 204 expansion. Proposition 204 shifted some county administrative functions to the state, for which the counties now compensate the state.

Funds Expended	2,612,200	3,563,300
Year-End Fund Balance	870,700	0

Children's Health Insurance Program Fund (HCA2409/A.R.S. § 36-2995) **Appropriated**

Source of Revenue: Includes Medicaid matching monies for Arizona's State Children's Health Insurance Program (CHIP), called KidsCare. General Fund monies are used to leverage federal monies for KidsCare and are not included in the reported CHIP Fund expenditures.

Purpose of Fund: To provide health insurance for low-income children 19 years of age and under. The eligibility limit for the KidsCare program has been set at 200% of the Federal Poverty Level (FPL), which is approximately $48,600 for a family of 4. Laws 2016, Chapter 112 reopened enrollment in KidsCare, which had been frozen since 2010. The FY 2017 estimates do not reflect additional expenditures associated with increased enrollment. KidsCare enrollees are eligible for 100% Federal Financial Participation through FFY 2019.

Funds Expended	2,424,100	3,674,900
Year-End Fund Balance	1,757,700	0

County Funds (HCA2120 Acute Care/HCA2223 Long Term Care/A.R.S. § 36-2913) **Expenditure Authority**

Source of Revenue: Statutorily prescribed county contributions.

Purpose of Fund: For the provision of acute medical and long term care services to Arizona Health Care Costs Containment System (AHCCCS) eligible populations. County contributions and state General Fund appropriations serve as the state match for federal Medicaid dollars. County Funds received by AHCCCS to provide behavioral health services to persons with a serious mental illness are accounted for separately in the IGA for County Behavioral Health Services Fund.

Funds Expended	299,153,500	299,667,700
Year-End Fund Balance	0	0

Delivery System Reform Incentive Payment Fund (HCA2130/A.R.S. § 36-2930.04) **Non-Appropriated**

Source of Revenue: Monies voluntarily given to AHCCCS from local governments or Arizona public universities in order to obtain a federal match.

Purpose of Fund: To fund one-time provider-led projects to improve health care delivery for certain AHCCCS populations under the federal Delivery System Reform Payment (DSRIP) program, including children and adults with behavioral health needs, children in out-of-home care, and persons involved in the criminal justice system. The projects will be funded with existing state matching monies and intergovernmental transfers (IGTs) from counties and universities. Before the initial deposit of monies to the fund, the Administration is submitting an expenditure plan for review by the JLBC. The fund is displayed as Expenditure Authority in FY 2018. Money in the fund will only include state matching monies from IGTs and certified public expenditure for DSRIP. AHCCCS estimates the program will be associated with $252.0 million in Total Funds in FY 2017, which consists of $77.5 million in state matching monies and $174.5 million in federal matching monies. The $77.5 million estimated state portion consists of $11.3 million in IGT funding and $66.2 million in federal certified public expenditure funding calculated for existing state-funded programs. The state certifies the amount of public expenditures on qualifying state-funded health programs. The federal government then determines what the federal share of funding would have been for the projects if state funds had received a federal match. The federal government then makes available the calculated federal share of certified public expenditures to be used as state matching funds for the DSRIP program. Due to uncertainty about expected funding and timeline of projects under the program, the Baseline does not display any amounts for the fund in FY 2017 and FY 2018.

Funds Expended	0	0
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	1,800	1,800
Year-End Fund Balance	2,700	2,900

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate

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

Source of Revenue: Federal funding through the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services.

Purpose of Fund: To reimburse schools participating in the Direct Services Claiming program for services provided to children with disabilities who are Medicaid eligible. All federal Medicaid monies must flow through AHCCCS, therefore, these monies are obtained by AHCCCS and then passed on to the participating schools.

Funds Expended	44,315,700	45,826,100
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. On July 1, 2016, the administration of federal behavioral health grants was transferred from DHS to AHCCCS. The transferred grants include the Block Grant for Substance Abuse Prevention and Treatment (SAPT), which is anticipated to account for $40,1073,700 in expenditures in FY 2017, and the Block Grant for Community Mental Health Services, which is anticipated to account for $11,615,500 in expenditures in FY 2017.

Funds Expended	1,116,100	53,632,400
Year-End Fund Balance	20,900	0

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	20,751,000	55,790,100
Year-End Fund Balance	0	0

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

Source of Revenue: Federal funding through the U.S. Department of Health and 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 2017 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 2017, including any federal matching monies, are appropriated to the Administration in FY 2017. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under these provisions.

Funds Expended	6,140,839,600	8,383,725,800
Year-End Fund Balance	64,723,000	0

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

Source of Revenue: An assessment on hospital revenues, discharges, or beds days.

Purpose of Fund: For funding the non-federal share of Proposition 204 services and the adult population who becomes eligible for AHCCCS services on January 1, 2014.

Funds Expended	224,197,600	252,329,100
Year-End Fund Balance	15,830,900	7,915,400

Hospital Loan Residency Fund (HCA2532/A.R.S. §36-2921) **Non-Appropriated**

Source of Revenue: Received a $1,000,000 deposit from the General Fund in FY 2007. In future years, will also include any repaid loan money received from the participating hospitals.

Purpose of Fund: To provide interest free loans to fund start-up and ongoing costs for residency programs in accredited hospitals, with priority given to rural areas.

Funds Expended	0	0
Year-End Fund Balance	900,000	900,000

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate

IGA for County Behavioral Health Services Fund (HCA4503/A.R.S. § 36-108.01) **Non-Appropriated**

Source of Revenue: Monies from local governments and state liquor service fees.

Purpose of Fund: To fund the delivery of behavioral health services to seriously mentally ill (SMI) individuals, some mental health services for non-SMI individuals, and the administration of Local Alcohol Reception Centers (LARC) to treat substance abuse. In FY 2017, the fund will receive $54.6 million from Maricopa County, $2.9 million from Pima County, $0.9 million from Coconino County, $0.2 million from the City of Phoenix, and $0.1 million in Liquor Service Fees from the Department of Liquor Licenses and Control. This fund was transferred from DHS to AHCCCS on July 1, 2016. The FY 2016 expenditures for this fund are displayed in the DHS Summary of Funds.

Funds Expended	0	58,699,000
Year-End Fund Balance	0	0

Intergovernmental Service Fund (HCA2438/A.R.S. § 36-2927) **Non-Appropriated**

Source of Revenue: Monies collected from the State of Hawaii.

Purpose of Fund: To be used for costs associated with information technology services provided by AHCCCS to the State of Hawaii for the design, development, implementation, operation, and maintenance of a Medical Management Information System.

Funds Expended	7,965,000	7,920,300
Year-End Fund Balance	1,189,800	1,062,200

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 1% in administrative expenses incurred by AHCCCS for administering this fund. Any monies received in excess of the FY 2017 budgeted appropriation for the Nursing Facility Provider Assessment program by the AHCCCS administration in FY 2017, including any federal matching monies, are appropriated to the administration in FY 2017. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision.

Funds Expended	18,031,200	27,589,400
Year-End Fund Balance	6,633,100	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. Any monies received in excess of the FY 2017 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 2017, including any federal matching monies, are appropriated to the Administration in FY 2017. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under these provisions.

Funds Expended	106,506,900	140,887,600
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 and interest from prescription drug rebate late payments.

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. The federal share of rebates is retained by the state and is used in lieu of federal match funds. Monies in the fund used in lieu of federal match funds are subject to expenditure authority; all other monies are appropriated.

State Funds Expended	105,718,100	113,778,900
Funds Expended in Lieu of Federal Funds	360,776,400	322,743,500
Year-End Fund Balance	110,074,700	257,491,800

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate
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	23,027,400	23,027,400
Year-End Fund Balance	5,957,900	5,957,900
Seriously Mentally Ill Housing Trust Fund (HCA2555/A.R.S. § 41-3955.01)		**Partially-Appropriated**
Source of Revenue: Receives $2,000,000 from the proceeds of the sales of unclaimed property and interest income. A.R.S. § 44-313 states that the first $2,000,000 in unclaimed property revenues are distributed to the Seriously Mentally Ill Housing Trust Fund. The second $2,500,000 in unclaimed property revenues are distributed to the Housing Trust Fund, which is administered by the Department of Housing.		
Purpose of Fund: To fund housing projects as well as rental assistance for the seriously mentally ill. The appropriated portion pays for administration expenses, and may not exceed 10% of the Seriously Mentally Ill Housing Trust monies. The non-appropriated portion of the fund is used for rental assistance for seriously mentally individuals, as well as the operation, construction or renovation of a facility that houses seriously mentally ill individuals. This fund was transferred from DHS to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195. FY 2016 expenditures for this fund are displayed in the DHS Summary of Funds.		
Appropriated Funds Expended	0	0
Non-Appropriated Funds Expended	0	2,000,000
Year-End Fund Balance	0	4,230,500
Substance Abuse Services Fund (HCA2227/A.R.S. § 36-2005)		**Appropriated**
Source of Revenue: The fund receives 23.6% of monies collected from Medical Services Enhancement Fund, which is a 13% penalty levied on criminal offenses, motor vehicle civil violations, and game and fish violations. Monies are deposited into 2 subaccounts.		
Purpose of Fund: To provide alcohol and other drug screening, education or treatment for persons court-ordered to attend and who do not have the financial ability to pay for the services, to contract for preventive or rehabilitative and substance abuse services, and to provide priority for treatment services to pregnant substance abusers. This fund was transferred to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195. The FY 2016 expenditures for this fund are displayed in the DHS Summary of Funds.		
Funds Expended	0	2,250,200
Year-End Fund Balance	0	2,945,400
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	770,000	1,240,000
Year-End Fund Balance	1,302,500	902,500
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	98,906,900	100,000,000
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2016 Actual	FY 2017 Estimate

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

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

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

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

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

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

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

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

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

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

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

Purpose of Fund: For health care services including, but not limited to, preventive care, transplants and the treatment of catastrophic illness or injury. Eligible recipients include persons statutorily determined to be medically indigent, medically needy, or low-income children. A portion of the monies is transferred to the DHS for statutorily established services, grants and pilot programs. These taxes were enacted in Proposition 200 and approved by voters in the 1994 General Election. Any monies in this fund used to pay for behavioral health services were transferred from DHS to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195. The FY 2016 expenditures for behavioral health services from this fund are displayed in the DHS Summary of Funds.

**See Table 8*