

Arizona Health Care Cost Containment System

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,214.3	2,326.3	2,326.3 ^{1/}
Personal Services	34,936,100	48,482,200	48,687,200
Employee Related Expenditures	14,910,400	20,014,400	21,126,700
Professional and Outside Services	5,375,700	9,789,400	9,789,400
Travel - In State	64,800	79,700	79,700
Travel - Out of State	22,100	35,600	35,600
Other Operating Expenditures	21,589,600	16,869,200	16,997,900
Equipment	1,284,900	130,200	143,800
OPERATING SUBTOTAL	78,183,600	95,400,700	96,860,300
SPECIAL LINE ITEMS			
Administration			
DES Eligibility	72,084,100	88,874,500	88,874,500 ^{2/}
Proposition 204 - AHCCCS Administration	11,199,900	12,639,000	12,908,400 ^{3/}
Proposition 204 - DES Eligibility	38,269,500	44,358,700	44,358,700 ^{3/}
Proposition 206 - Network Adequacy Report	0	0	200,000 ^{4/}
Medical Services			
Traditional Medicaid Services	3,615,896,900	3,905,669,100	4,037,329,200 ^{5/6/}
Proposition 204 Services	2,474,278,400	2,819,313,400	2,911,986,200 ^{3/}
Adult Expansion Services	403,212,000	463,710,800	484,329,900
Children's Rehabilitative Services	250,423,100	268,909,600	270,673,900
KidsCare Services	2,050,800	61,180,800	111,961,100
ALTCS Services	1,300,784,400	1,439,188,100	1,544,082,800 ^{7/8/9/}
Behavioral Health Services			
Medicaid Behavioral Health - Traditional Services	0	965,944,700	1,015,591,300 ^{10/11/}
Medicaid Behavioral Health - Proposition 204 Services	0	616,158,200	649,608,300 ^{3/10/11/}
Medicaid Behavioral Health - Comprehensive Medical and Dental Program	0	211,266,400	217,719,100 ^{10/11/}
Medicaid Behavioral Health - Adult Expansion Services	0	73,735,600	77,403,100 ^{10/11/}
Non-Medicaid Seriously Mentally Ill Services	0	78,846,900	78,846,900 ^{10/12/}
Supported Housing	0	5,324,800	5,324,800 ^{10/}
Crisis Services	0	16,391,300	16,391,300 ^{10/}
Hospital Payments			
Disproportionate Share Payments	5,087,100	5,087,100	5,087,100 ^{13/}
DSH Payments - Voluntary Match	38,855,100	19,896,000	0 ^{14/15/}
Rural Hospitals	22,348,600	22,650,000	22,650,000
Graduate Medical Education	163,725,900	296,288,000	265,729,800 ^{15/16/}
Safety Net Care Pool	118,584,600	137,000,000	75,000,000 ^{15/17/}
AGENCY TOTAL	8,594,984,000	11,647,833,700	12,032,916,700 ^{18/-22/}
FUND SOURCES			
General Fund	1,145,016,100	1,750,941,400	1,775,264,100
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	2,612,200	3,563,300	3,655,300
Children's Health Insurance Program Fund	2,424,100	66,900,700	117,688,200
Prescription Drug Rebate Fund - State	105,718,100	113,778,900	145,691,200
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	278,238,500	361,527,400
SUBTOTAL - Appropriated Funds	1,308,431,200	2,029,179,900	2,136,791,500

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
Expenditure Authority Funds			
County Funds	299,153,500	299,667,700	314,132,800
Federal Medicaid Authority	6,140,839,600	8,304,254,300	8,574,072,200
Hospital Assessment Fund	224,197,600	252,329,100	286,512,600
Nursing Facility Provider Assessment Fund	18,031,200	23,746,800	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	460,052,600	465,663,000
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	9,618,653,800	9,896,125,200
SUBTOTAL - Appropriated/Expenditure Authority Funds	8,594,984,000	11,647,833,700	12,032,916,700
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	11,895,970,800	12,282,430,500

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

- 1/ Includes 618.9 GF and 694.2 EA FTE Positions funded from Special Line Items in FY 2018.
- 2/ The amounts appropriated for the DES 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. (General Appropriation Act footnote)
- 3/ The amounts included in the Proposition 204 - AHCCCS 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. (General Appropriation Act footnote)
- 4/ On or before February 1, 2018, the AHCCCS Administration shall submit a report to the Governor, the President of the Senate, the Speaker of the House of Representatives, the Director of the Governor's Office of Strategic Planning and Budgeting and the Director of the Joint Legislative Budget Committee on the impact of provider cost increases resulting from the enactment of Proposition 206, election of November 8, 2016, on the adequacy of the provider network for enrollees in the Arizona Long Term Care System established by A.R.S. § 36-2932. The analysis of the provider network adequacy shall be delineated by geographic service area. The report shall include recommendations on how this state may address any deficiencies in provider network adequacy identified in the analysis. (General Appropriation Act footnote)
- 5/ 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. (General Appropriation Act footnote)
- 6/ 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. (General Appropriation Act footnote)
- 7/ Any federal monies that the AHCCCS Administration passes through to the Department of Economic Security for use in long term care for persons with developmental disabilities do not count against the long term care expenditure authority above. (General Appropriation Act footnote)
- 8/ Pursuant to A.R.S. § 11-292B the county portion of the FY 2018 nonfederal costs of providing long term care system services is \$264,673,200. This amount is included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 9/ 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. (General Appropriation Act footnote)
- 10/ 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. (General Appropriation Act footnote)
- 11/ It is the intent of the Legislature that the percentage attributable to administration and profit for the Regional Behavioral Health Authorities be 9% of the overall capitation rate. (General Appropriation Act footnote)

Summary

AHCCCS' FY 2018 General Fund spending would increase by \$24,322,700, or a 1.4% increase from FY 2017. This amount includes:

- \$38,169,800 in formula adjustments.
- \$(24,130,900) in savings for a health insurer fee moratorium.
- \$9,780,700 in policy changes.
- \$503,100 in statewide adjustments.

AHCCCS' FY 2018 Hospital Assessment spending increases by \$34,183,500, or a 13.5% 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 budget's 3-year spending plan, AHCCCS' General Fund costs are projected to increase by \$110,847,500 in FY 2019 above FY 2018 and by \$160,163,600 in FY 2020 above FY 2019. (*See Other Issues section for more information.*)

Below is an overview of FY 2018 formula adjustments, the health insurer fee moratorium, policy changes, and statewide adjustments. *Table 1* summarizes these changes.

Formula Adjustments

Formula adjustments represent changes that occur under current law, including caseload, capitation and federal match rate revisions, a decrease in tobacco tax collections, and an increase in drug rebate collections. The budget includes a net increase of \$38,169,800 in General Fund appropriations in FY 2018 for these adjustments.

- 12/ 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. (General Appropriation Act footnote)
- 13/ The \$5,087,100 appropriation for Disproportionate Share Payments (DSH) for FY 2018 made pursuant to A.R.S. § 36-2903.010 includes \$4,202,300 for the Maricopa County Health Care District and \$884,800 for private qualifying disproportionate share hospitals. (General Appropriation Act footnote)
- 14/ 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. (General Appropriation Act footnote)
- 15/ 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. (General Appropriation Act footnote)
- 16/ 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. (General Appropriation Act footnote)
- 17/ 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. (General Appropriation Act footnote)
- 18/ 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. (General Appropriation Act footnote)
- 19/ 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. (General Appropriation Act footnote)
- 20/ 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. (General Appropriation Act footnote)
- 21/ 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. (General Appropriation Act footnote)
- 22/ General Appropriation Act funds are appropriated as Operating Lump Sum with Special Line Items by Agency.

Table 1**AHCCCS General Fund Budget 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)
Prescription Drug Rebate Fund Increase	<u>(30)</u>
<i>Subtotal</i>	\$ 38

Health Insurer Fee Moratorium

<i>Subtotal</i>	\$ (24)
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Policy Changes

Proposition 206 Rate Increase	10
Adult Outpatient Occupational Therapy Services ^{1/}	0
Adult Emergency Dental Restoration ^{2/}	0
Prescription Drug Review Initiative ^{2/}	<u>0</u>
<i>Subtotal</i>	\$ 10

Statewide Adjustments

<i>Subtotal</i>	\$ 1
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Total Spending Change ^{3/} **\$ 24**

^{1/} The budget includes a \$130,000 increase from the General Fund for state costs of adult outpatient occupational therapy services. (See the *Adult Outpatient Occupational Therapy Services* section for more information.)

^{2/} State costs of this policy change are funded with non-General Fund sources. (See the *Adult Emergency Dental Restoration* and *Prescription Drug Review Initiative* sections for more information.)

^{3/} Numbers do not add to total due to rounding.

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 caseload 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*.

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 budget 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:

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	<u>115,834</u>	<u>122,938</u>	<u>124,840</u>	<u>1.5</u>
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 the *KidsCare* line item for more information.)

^{6/} The ALTCS program funded in AHCCCS.

^{7/} In addition, approximately 30,500 people receive Medicaid services through the Department of Economic Security's Developmental Disabilities program as of May 1, 2017.

- 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.

Prescription Drug Rebate Fund Increase

The budget includes an increase of \$30,000,000 from the state portion of the Prescription Drug Rebate Fund (PDRF - State) and a corresponding \$(30,000,000) decrease from the General Fund in FY 2018 for higher-than-expected rebate collections. Federal health care legislation requires drug manufacturers to provide rebates for drugs sold to Medicaid managed care plans. AHCCCS has been collecting these rebates since FY 2011.

FY 2017 Supplemental

The budget includes a \$129,680,600 supplemental increase in FY 2017, including \$63,225,800 in Other Funds and \$66,454,800 in Expenditure Authority Funds. The \$63,225,800 increase in Other Funds is associated with costs of restoring enrollment in the KidsCare program. (See the *KidsCare Services* line item for more information.)

The Expenditure Authority increase aligns budgeted funding with current availability of federal monies and funds higher-than-budgeted capitation rate increases for the Proposition 204 Childless Adult and Adult Expansion populations in FY 2017.

Although formula and Proposition 206-related adjustments are expected to be associated with \$12.5 million in higher-than-budgeted General Fund expenditures, the budget does not include a General Fund supplemental. AHCCCS has sufficient flexibility to address this level of General Fund need without requiring a supplemental. (See the *Other Issues and Proposition 206 Rate Increase sections for more information.*)

Health Insurer Fee Moratorium

The Federal Affordable Care Act (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 budget 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.

Policy Changes

The budget includes \$9,780,700 from the General Fund in FY 2018 for 2 policy issue changes, including provider rate increases resulting from Proposition 206 and coverage of outpatient occupational therapy services for adults. The budget additionally funds restoration of the adult emergency dental benefit and a prescription drug review initiative with other state fund sources.

Proposition 206 Rate Increase

The budget includes an increase of \$9,650,700 from the General Fund and \$57,367,200 in Total Funds in FY 2018 for ALTCS Elderly and Physically Disabled provider rate increases associated with minimum wage and sick leave provisions of Proposition 206. In January 2017, AHCCCS implemented increases of 7% in select home and

community-based services rates and a 3.5% increase in nursing facility rates to address the increase in the minimum wage to \$10.00. The budget includes funding to annualize these increases for a full year, as well as funding for adjustments for the implementation of paid sick leave and an increase in the minimum wage to \$10.50 in FY 2018.

An FY 2018 General Appropriation Act footnote also requires AHCCCS to submit a report on or before February 1, 2018 evaluating the impact of Proposition 206 on the adequacy of the provider network for ALTCS, including the impact on the Developmental Disabilities program operated by the Department of Economic Security. The report shall include recommendations on how to address any deficiencies in network adequacy identified by the analysis. The budget includes \$200,000 from the PDRF - State in FY 2018 for AHCCCS to conduct the study.

Adult Outpatient Occupational Therapy Services

Section 4 of the FY 2018 Health Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 309) establishes occupational therapy services as covered services for adults in outpatient settings. Occupational therapy is intended to restore or improve independent functioning lost through illness or injury. The budget includes an increase of \$130,000 from the General Fund and \$1,255,100 in Total Funds in FY 2018 to fund these outpatient services. Enrollees age 20 and under are currently eligible to receive outpatient occupational therapy services through Medicaid's mandatory Early and Periodic Screening, Diagnostic, and Treatment (EPSDT) benefit. All child and adult enrollees are currently eligible for occupational therapy provided in inpatient settings.

Adult Emergency Dental Restoration

Section 4 of the FY 2018 Health BRB also restores coverage of adult emergency dental services, such as tooth extractions and root canals, with a per member spending cap of \$1,000 a year. The budget includes an increase of \$1,490,500 from PDRF - State and \$14,531,400 in Total Funds in FY 2018 for these services. Prior to elimination in the FY 2011 budget, emergency dental services were an uncapped covered service for adults. Enrollees age 20 and under are currently eligible for emergency dental services through Medicaid's mandatory EPSDT benefit.

Prescription Drug Review Initiative

The budget includes \$220,900 from PDRF - State and \$441,800 in Total Funds in FY 2018 for monitoring prescription drug use. This amount funds 5 FTE Positions that use data analytics, case reviews, and investigations for the purpose of reducing improper use or prescribing of opioid drugs by AHCCCS participants. In lieu of increasing

the agency's FTE Position authority, the budget assumes the agency will use its existing FTE Position authority to hire the additional staff.

Statewide Adjustments

The budget includes an increase of \$503,100 from the General Fund and \$1,287,200 in Total Funds in FY 2018 for statewide adjustments. These amounts fund increased employer contributions to the state Health Insurance Trust Fund (HITF) and increased Arizona Financial Information System (AFIS) charges. *(Please see the Agency Detail and Allocations section.)*

Operating Budget

The budget includes \$96,860,300 and 1,013.2 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$30,070,900
Children's Health Insurance Program (CHIP) Fund	5,727,100
Prescription Drug Rebate Fund (PDRF) - State	660,900
Federal Medicaid Authority (FMA)	60,401,400

These amounts fund the following adjustments:

Prescription Drug Review Staff

The budget includes an increase of \$320,200 in FY 2018 for additional staff to monitor improper use of prescription drugs. This amount consists of:

PDRF - State	160,100
Federal Medicaid Authority	160,100

In lieu of increasing the agency's FTE Position authority, the budget assumes the agency will use its existing FTE Position authority to hire the additional staff. *(See the Prescription Drug Review Initiative section for additional information.)*

Statewide Adjustments

The budget includes an increase of \$1,139,400 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	453,100
CHIP Fund	7,200
PDRF - State	800
Federal Medicaid Authority	678,300

(Please see the Agency Detail and Allocations section.)

Administration

DES Eligibility

The budget includes \$88,874,500 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	63,383,300

These amounts are unchanged from FY 2017.

The budget increases Federal Medicaid Authority to the DES Eligibility line in FY 2017 to realign budgeted amounts with currently available funding. *(See the Other Issues section for more information.)*

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

Proposition 204 - AHCCCS Administration

The budget includes \$12,908,400 and 128 FTE Positions in FY 2018 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	4,123,800
PDRF - State	60,900
Federal Medicaid Authority	8,723,700

These amounts fund the following adjustments:

Prescription Drug Review Staff

The budget includes an increase of \$121,600 in FY 2018 for additional staff to monitor improper use of prescription drugs. This amount consists of:

PDRF - State	60,800
Federal Medicaid Authority	60,800

In lieu of increasing the agency's FTE Position authority, the budget assumes the agency will use its existing FTE Position authority to hire the additional staff. *(See the Prescription Drug Review Initiative section for additional information.)*

Statewide Adjustments

The budget includes an increase of \$147,800 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	50,000
PDRF - State	100
Federal Medicaid Authority	97,700

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 budget 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 budget includes \$44,358,700 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	23,636,500

These amounts fund the following adjustments:

Statutory Adjustments

The budget 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.)

The budget increases Federal Medicaid Authority to the Proposition 204 - DES Eligibility line in FY 2017 to realign budgeted amounts with currently available funding levels. (See Other Issues section for more information.)

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.

Proposition 206 - Network Adequacy Report

The budget includes \$200,000 from PDRF - State in FY 2018 for costs of a report on the effects of Proposition 206 on provider network adequacy.

This amount funds the following adjustments:

One-Time Reporting Costs

The budget includes an increase of \$200,000 from PDRF - State in FY 2018 for one-time costs of conducting a study on the effects of Proposition 206 on network adequacy of long term care provider networks. (See the Proposition 206 Rate Increase section for more information.)

Background – An FY 2018 General Appropriation Act footnote requires AHCCCS to submit a report on or before February 1, 2018 evaluating the impact of Proposition 206 on the adequacy of the provider network for ALTCS, including the impact on the Developmental Disabilities program operated by the Department of Economic Security. The report shall include recommendations on how to address any deficiencies in network adequacy identified by the analysis.

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 budget includes \$4,037,329,200 in FY 2018 for Traditional Medicaid Services. This amount consists of:

General Fund	873,023,000
County Funds	49,459,600
PDRF - State	137,191,000
TTHCF - Medically Needy Account	37,432,400
Third Party Liability and Recovery Fund	194,700
PDRF - In Lieu of Federal Funds	429,241,000
Federal Medicaid Authority	2,510,787,500

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$174,659,100 in FY 2018 for formula adjustments. This amount consists of:

General Fund	34,729,500
County Funds	(228,100)
Federal Medicaid Authority	140,157,700

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.
- \$(228,100) decrease in the Maricopa County Acute Care contribution (County Funds) under A.R.S. § 11-292 with a corresponding General Fund increase.

PDRF Increase

The budget includes a \$30,000,000 increase from PDRF - State for higher-than-expected rebate collections and a corresponding decrease of \$(30,000,000) from the General Fund in FY 2018. The budget also includes a \$1,984,900 increase from the PDRF - In Lieu of Federal Funds for higher-than-expected rebate collections and a corresponding decrease of \$(1,984,900) from Federal Medicaid Authority in FY 2018.

Adult Occupational Therapy

The budget includes an increase of \$431,800 in FY 2018 for outpatient occupational therapy services for adult enrollees. This amount consists of:

General Fund	130,000
Federal Medicaid Authority	301,800

(See the Adult Outpatient Occupational Therapy Services section for additional information.)

Adult Emergency Dental Restoration

The budget includes an increase of \$4,494,900 in FY 2018 to restore emergency dental services for adult enrollees. This amount consists of:

PDRF - State	1,353,400
PDRF - In Lieu of Federal Funds	3,141,500

(See the Adult Emergency Dental Restoration section for additional information.)

Health Insurer Fee Moratorium

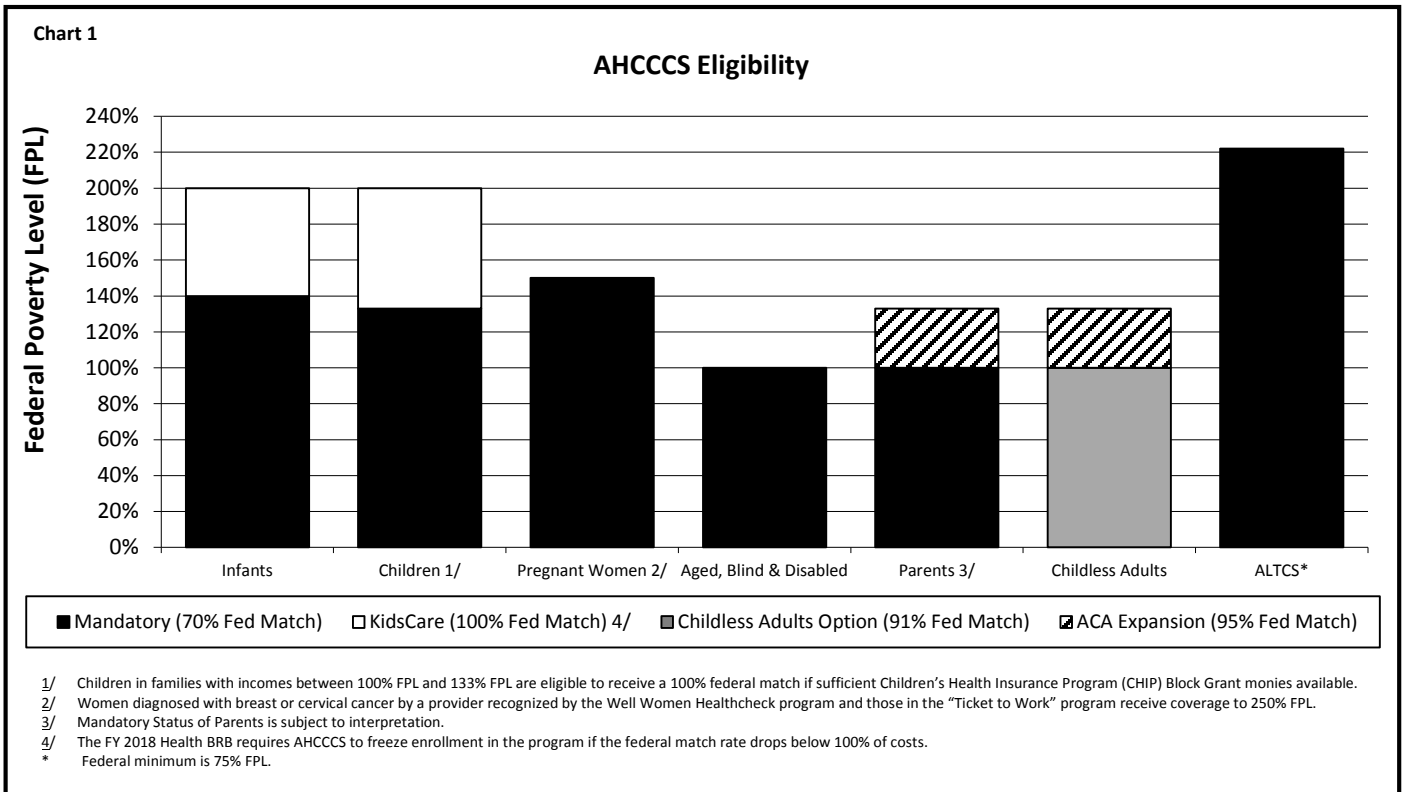
The budget includes a decrease of \$(47,925,700) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. This amount consists of:

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

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

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

- Children less than 1, up to 140% of the federal poverty level (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 budget includes \$2,911,986,200 in FY 2018 for Proposition 204 Services. This amount consists of:

Hospital Assessment Fund	260,723,900
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	2,512,605,000

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$101,927,700 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	103,193,600

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.
- 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

The budget includes a decrease of \$(21,000,000) from the Tobacco Litigation Settlement Fund and a corresponding increase of \$21,000,000 in the Hospital Assessment Fund in FY 2018. 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.

Adult Occupational Therapy

The budget includes an increase of \$823,300 in FY 2018 for outpatient occupational therapy services for adult enrollees. This amount consists of:

Hospital Assessment	125,500
Federal Medicaid Authority	697,800

(See the Adult Outpatient Occupational Therapy Services section for additional information.)

Adult Emergency Dental Restoration

The budget includes an increase of \$8,156,000 in FY 2018 to restore emergency dental services for adult enrollees. This amount consists of:

Hospital Assessment	1,544,300
Federal Medicaid Authority	6,611,700

(See the Adult Emergency Dental Restoration section for additional information.)

Health Insurer Fee Moratorium

The budget includes a decrease of \$(18,234,200) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. This amount consists of:

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

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

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

Adult Expansion Services

The budget includes \$484,329,900 in FY 2018 for Adult Expansion Services. This amount consists of:

Hospital Assessment Fund	25,788,700
Federal Medicaid Authority	458,541,200

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$23,069,500 in FY 2018 for formula adjustments. This amount consists of:

Hospital Assessment Fund	19,446,300
Federal Medicaid Authority	3,623,200

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.

Adult Emergency Dental Restoration

The budget includes an increase of \$1,427,600 in FY 2018 to restore emergency dental services for adult enrollees. This amount consists of:

Hospital Assessment	80,900
Federal Medicaid Authority	1,346,700

(See the Adult Emergency Dental Restoration section for additional information.)

Health Insurer Fee Moratorium

The budget 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 information.)*

Background – Beginning on January 1, 2014, the Adult Expansion Services line item funds Medicaid services for adults from 100% to 133% FPL who are not eligible for another Medicaid program. The federal government 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 budget 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

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$6,787,400 in FY 2018 for formula adjustments. This amount consists of:

General Fund	(1,436,900)
Federal Medicaid Authority	8,224,300

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

The budget includes a decrease of \$(5,023,100) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. This amount consists of:

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

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

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

KidsCare Services

The budget includes \$111,961,100 from the Children’s Health Insurance Program (CHIP) Fund in FY 2018 for KidsCare Services. This amount funds the following adjustments:

Formula Adjustments

The budget includes an increase of \$50,823,500 from the CHIP Fund in FY 2018 for the annualization and phase-in of this population. The adjustment includes a projected increase in enrollment, from 21,050 in June 2017 to 33,850 by June 2018, and 3.0% capitation rate growth in FY 2018.

Health Insurer Fee Moratorium

The budget 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 information.)*

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 required 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. Sections 7 and 8 of the FY 2018 Health BRB replace the requirement to terminate the program with a requirement to freeze enrollment. The BRB additionally clarifies that AHCCCS will freeze enrollment if the program's federal match rate drops below 100% of costs. *(See Long-Term Budget Impacts section for additional information.)*

ALTCS Services

The budget includes \$1,544,082,800 in FY 2018 for ALTCS services. This amount consists of:

General Fund	185,064,700
County Funds	264,673,200
PDRF - State	7,578,400
PDRF - In Lieu of Federal Funds	36,422,000
Nursing Facility Provider Assessment Fund	32,989,400
Federal Medicaid Authority	1,017,355,100

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$17,824,600 in FY 2018 for formula adjustments. This amount consists of:

General Fund	7,753,800
County Funds	7,122,200
Federal Medicaid Authority	2,948,600

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

The budget includes a \$168,200 increase from PDRF - In Lieu of Federal Funds and a corresponding decrease of

\$(168,200) from Federal Medicaid Authority in FY 2018 for higher-than-expected rebate collections.

Proposition 206 Rate Increase

The budget includes an increase of \$57,367,200 in FY 2018 to fund provider rate increases for minimum wage and sick leave provisions of Proposition 206. This amount consists of:

General Fund	9,650,700
County Funds	7,715,800
Federal Medicaid Authority	40,000,700

(See the Proposition 206 Rate Increase section for additional information.)

Adult Emergency Dental Restoration

The budget includes an increase of \$452,900 in FY 2018 to fund emergency dental services for adults enrolled in ALTCS. This amount consists of:

PDRF - State	137,100
PDRF - In Lieu of Federal Funds	315,800

Section 4 of the FY 2018 Health BRB restored emergency dental services as a covered service for ALTCS adult enrollees, with a per member spending cap of \$1,000 annually. The FY 2017 Health BRB (Laws 2016, Chapter 122) previously restored preventive and other dental services for ALTCS adults, with a per member spending cap of \$1,000 annually. *(See the Adult Emergency Dental section for additional information.)*

Health Insurer Fee Moratorium

The budget includes a decrease of \$(1,047,800) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. This amount consists of:

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

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

Nursing Facility Payments

The budget includes an increase of \$30,297,800 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	9,242,600
Federal Medicaid Authority	21,055,200

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 \$77,000,000 in supplemental payments in FY 2017. This \$5,049,900 increase to supplemental payments above the FY 2017 budget amount reflects additional funding from the January 1, 2017 increase to assessment rates.

Background – ALTCS provides coverage for individuals up to 222% of the FPL, or \$26,773 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 \$9,045 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 budget 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

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$69,188,000 in FY 2018 for formula adjustments. This amount consists of:

General Fund	20,250,700
Federal Medicaid Authority	48,937,300

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

The budget includes a decrease of \$(19,541,400) in FY 2018 associated with a 1-year moratorium on the ACA health insurer fee. This amount consists of:

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

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

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 budget 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

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$41,195,300 in FY 2018 for formula adjustments. This amount consists of:

General Fund	1,731,500
Federal Medicaid Authority	39,463,800

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

The budget 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 information.)

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 budget 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

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$6,452,700 in FY 2018 for formula adjustments. This amount consists of:

General Fund	1,948,900
Federal Medicaid Authority	4,503,800

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 budget 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 budget 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

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$5,179,800 in FY 2018 for formula adjustments. This amount consists of:

General Fund	3,437,300
Federal Medicaid Authority	1,742,500

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

The budget 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 information.)

Background – Beginning on January 1, 2014, the Adult Expansion provides Medicaid services for adults from 100%-133% FPL who are not eligible for another Medicaid program. The federal government paid 100% of the cost of this population from 2014 to 2016. The federal share will gradually decline to 90% by 2020.

The budget 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 budget 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 budget 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.

Crisis Services

The budget 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 Disproportionate Share Hospital (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

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/}	<u>19,896,000</u>	<u>0</u>
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)	<u>19,716,000</u>	<u>19,901,100</u>
Subtotal - General Fund	\$ 94,321,600	\$ 91,791,400
Other Entities		
State MIHS	\$ 4,202,300	\$ 4,202,300
Private Hospitals	<u>884,800</u>	<u>884,800</u>
Subtotal - Other Entities	\$ 5,087,100	\$ 5,087,100
Total DSH Distributions	\$ 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 budget continues a footnote that appropriates any payments in excess of \$0 for DSH Voluntary Payments in FY 2018.		

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.

Given the scheduled federal reduction in payments, 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. 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).

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, Section 13 of the FY 2018 Health BRB 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 FY 2018 budget 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 budget 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 budget 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 budget 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 budget includes no funding for this distribution in the DSH Payments - Voluntary Match line in FY 2018. The FY 2018 budget continues a prior year footnote that appropriates any additional payments in excess of \$0.

Disproportionate Share Payments

The budget 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

These amounts fund the following adjustments:

Formula Adjustments

The budget 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 budget 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 2016, there were 40 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 budget includes no funding in FY 2018 for DSH Payments - Voluntary Match. This amount funds the following adjustments:

Reduced Funding

The budget 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 budget 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. Section 13 of the FY 2018 Health BRB continues to give priority to eligible rural hospitals when allocating voluntary match DSH payments, and continues to 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 2016 there were 7 hospitals that received voluntary match DSH payments.

Rural Hospitals

The budget 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

These amounts fund the following adjustments:

Formula Adjustments

The budget 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. AHCCCS indicated the agency does not plan to submit a proposal to the federal government for voluntary payments to CAHs. As a result, the FY 2018 Health BRB does not continue this provision in FY 2018.

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 budget 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

These amounts fund the following adjustments:

Decreased Funding

The budget 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 budget 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 budget 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

These amounts fund the following adjustments:

Decreased Funding

The budget 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 (Laws 2013, 1st Special Session, Chapter 10) allowed Phoenix Children’s Hospital (PCH) to continue to participate in the SNCP program through December 31, 2017.

Section 9 of the FY 2018 Health BRB further extends the date PCH may participate in the program to December 31, 2019. The federal government, however, has indicated it plans to end funding for the program after December 31, 2017. The budget continues a prior year footnote that appropriates any additional payments in excess of \$75,000,000 in FY 2018.

Additional Legislation

FY 2018 Health BRB

In addition to the previously mentioned items and items mentioned in the *County Contributions* section below, the FY 2018 Health BRB includes the following provisions:

Rates and Services

As session law, Section 19 continues 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, Section 17 continues to exclude Proposition 204 administration costs from county expenditure limitations.

As session law, Section 14 continues 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.

Erroneous Payments

As session law, Section 20 continues 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, Section 25 continues to state that it is the intent of the Legislature that AHCCCS implement a program within its available appropriation.

Reports

As permanent law, Section 3 continues 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.

As session law, Section 21 continues to require AHCCCS and DHS to submit a joint report to the Legislature and the Governor on or before January 2, 2018 on hospital costs and charges.

As session law, Section 22 continues to require AHCCCS to report to JLBC on or before January 2, 2018 on the availability of inpatient psychiatric treatment for children and adults enrolled in Arizona's Regional Behavioral Health Authorities. 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 permanent law, Section 5 continues to require AHCCCS to report by November 1 of 2017 and each year thereafter on the feasibility of expanding 340B Drug Discount Program requirements enacted under the FY 2017 Health BRB to hospitals.

Tribal Court-Ordered Treatment

Laws 2017, Chapter 89 permits mental health treatment facilities to admit a patient for involuntary treatment pending the filing of an involuntary commitment order by a Tribal Court. The patient must be discharged if the order is not filed by the close of the next business day that the Tribal Court is open. The bill is intended to increase access to mental health treatment facilities outside of tribal service areas.

Clinical Oversight Committee

Laws 2017, Chapter 207 requires AHCCCS to establish an internal clinical oversight review committee to review clinical data for specific populations and agency initiatives, including behavioral health services.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- FY 2017 Supplemental
- State Prescription Drug Rebate Fund
- AHCCCS CARE and Waiver Submittal
- SMI Funding
- County Contributions
- Program Components
- Tobacco Master Settlement Agreement
- Tobacco Tax Allocations

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, statutory caseload and policy changes are projected to increase AHCCCS's General Fund spending by \$110.8 million in FY 2019 above FY 2018 and \$160.2 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.
- Provider rate increases associated with Proposition 206 minimum wage hikes to \$11.00 on January 1, 2019 and \$12.00 on January 1, 2020. This is projected to increase General Fund spending by \$1.7 million in FY 2019 above FY 2018 and by \$2.6 million in FY 2020 above FY 2019.

Laws 2016, Chapter 112 required AHCCCS to terminate the KidsCare program if the federal government eliminates funding for the program as specified in 42 U.S.C. § 1397ee. Sections 7 and 8 of the FY 2018 Health BRB replace the requirement to terminate the program with a requirement to freeze enrollment. The BRB additionally clarifies that AHCCCS will freeze enrollment if

the program's federal match rate drops below 100% of costs.

Under federal law, the KidsCare program's current federal match rate of 100% will expire and decrease to a projected rate of 79.16% on October 1, 2019. Given provisions of the FY 2018 Health BRB, new enrollment would end on that date. A freeze is projected to reduce enrollment from 34,700 in September 2019 to 19,900 by June 2020. The General Fund savings would be \$(5.2) million in FY 2020.

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 budget 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 detail.)

FY 2017 Supplemental

The budget includes a FY 2017 supplemental increase of \$129,680,600. Table 4 shows the supplemental appropriation included in the budget by fund source. Of the \$129,680,600 total, \$63,225,800 is from appropriated Children's Health Insurance Program (CHIP) funding and \$66,454,800 is an increase in Expenditure Authority federal funds. These amounts fund KidsCare Restoration, realignment of appropriations with available federal funds, and formula growth.

General Fund	\$0
<u>Appropriated Funds</u>	
Children's Health Insurance Program Fund	63,225,800
<u>Expenditure Authority of Federal Funds</u>	
	<u>66,454,800</u>
Total Funds	\$129,680,600

KidsCare Restoration

While Laws 2016, Chapter 112 required AHCCCS to reopen the KidsCare program, the legislation did not include an adjustment for increased program costs. The budget includes \$63,225,800 in supplemental CHIP funding for KidsCare in FY 2017. Of that amount, \$59,225,800 funds services and \$4,000,000 funds administrative costs of the program. (See the *KidsCare Services* line item for additional detail.)

Realign Federal Funding

Of the \$66,454,800 supplemental Expenditure Authority in FY 2017, \$40,000,000 represents realignment of federal

funding levels for AHCCCS administration in the budget with amounts the agency currently receives. Medicaid administrative costs have generally received a 50% federal match rate. Since FY 2014, the Federal Affordable Care Act (ACA) has provided the state enhanced match rates of 75% to 100% for qualifying information technology and eligibility determination costs. Under the ACA, AHCCCS has received increased federal funding for these administrative costs without additional state match monies. The budget increases federal funding levels in FY 2017 to reflect the increased federal funding received by the agency.

Formula Growth

Of the \$66,454,800 increase to Expenditure Authority federal funding in FY 2017, \$26,454,800 funds greater-than-budgeted formula growth in FY 2017. This net increase primarily funds 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.

Although revisions to FY 2017 estimates are expected to be associated with \$12,468,000 in additional General Fund expenditures, the budget does not include a General Fund supplemental. AHCCCS has sufficient flexibility to address this level of supplemental through cash flow.

State Prescription Drug Rebate Fund

AHCCCS reported an ending balance of \$52,817,900 for the state portion of the Prescription Drug Rebate Fund (PDRF - State) in FY 2016. The JLBC Staff projects \$137,077,600 in rebate collections will be added to that balance in FY 2017 for total revenues of \$189,895,500 in FY 2017.

The FY 2018 budget requires AHCCCS to make a one-time transfer of \$30,000,000 from PDRF - State to the General Fund on or before June 30, 2017. Following that transfer and \$113,778,900 in agency appropriations, the balance in the fund is projected to equal \$46,116,600 at the end of FY 2017 (see Table 5).

The JLBC Staff projects \$140,367,400 in rebate collections will be added to the balance for total revenues of \$186,484,000 in FY 2018. Given that collections and total revenues are projected to substantially outpace the agency's appropriation of PDRF - State in FY 2017, the budget increases agency appropriations from the fund by \$31,912,300 in FY 2018. This amount funds the following increases in FY 2018:

- \$30,000,000 for Traditional Medicaid Services. (See the Prescription Drug Rebate Fund Increase section for more information.)
- \$1,490,500 in the Traditional Medicaid Services and ALTCS lines for restoring adult emergency dental services. (See the Adult Emergency Dental Restoration section for more information.)
- \$220,900 in the Operating Budget and administration lines for monitoring prescription drug use. (See the Prescription Drug Review Initiative section for more information.)
- \$200,000 for a report on the effects of Proposition 206 on provider network adequacy. (See Proposition 206 Rate Increase section for more information.)
- \$900 in the Operating Budget and administration lines for statewide adjustments.

After total disbursements of \$145,691,200 in FY 2018, the balance in the fund is projected to equal \$40,792,800 at the end of the year.

- \$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 FY 2018 budget 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 of able-bodied adults.
- A requirement for able-bodied adults to work, actively seek work, or participate in a job training program.

Laws 2015, Chapter 7 requires AHCCCS to reapply by March 30 of each year to implement the 5-year lifetime limit and the requirement to work, actively seek work, or participate in a job training program. AHCCCS estimates that if approved in the future, a 5-year time limit could affect coverage for at least 242,000 AHCCCS enrollees, but has not estimated the impact of a work requirement. As of this writing, AHCCCS had not reapplied for these provisions in 2017.

Table 5

**State Prescription Drug Rebate Fund
Sources and Uses ^{1/}**

	<u>FY 2017</u>	<u>FY 2018</u>
Revenues		
Projected Beginning Balance	\$52,817,900	\$46,116,600
Projected Rebate Collections	<u>137,077,600</u>	<u>140,367,400</u>
Total Revenues	189,895,500	186,484,000
Disbursements		
AHCCCS Appropriations		
Operating Budget and Administration	500,000	721,800
Proposition 206 Network Study	0	200,000
Traditional Services	105,837,600	137,191,000
ALTCS Services	<u>7,441,300</u>	<u>7,578,400</u>
Subtotal Appropriations	113,778,900	145,691,200
Transfers to the General Fund	<u>30,000,000</u>	<u>0</u>
Total Disbursements	143,778,900	145,691,200
Projected Ending Balance	\$46,116,600	\$40,792,800

^{1/} Amounts reported in the FY 2018 Baseline Book have been updated for a revised rebate forecast and increases to disbursements included in the FY 2018 budget.

AHCCCS CARE and Waiver Submittal

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:

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
FY 2018 Budgeted Medicaid Behavioral Health Funding for Integrated SMI

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

^{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. FY 2018 payments listed in the table are specified in sections 10, 15, and 16 of the FY 2018 Health BRB.

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 \$7,475,100 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 \$13,638,600 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 (\$40.59 in FY 2018). In FY 2018

Table 7

County Contributions

<u>County</u>	<u>FY 2017</u>				<u>FY 2018</u>			
	<u>BNCF</u>	<u>Acute</u>	<u>DUC</u>	<u>ALTCS</u>	<u>BNCF</u>	<u>Acute</u>	<u>DUC</u>	<u>ALTCS</u>
Apache	\$117,400	\$268,800	\$87,300	\$625,200	\$120,500	\$268,800	\$87,300	\$657,500
Cochise	219,100	2,214,800	162,700	4,995,000	224,700	2,214,800	162,700	5,241,100
Coconino	216,100	742,900	160,500	1,877,300	221,700	742,900	160,500	1,974,000
Gila	88,800	1,413,200	65,900	2,112,600	91,100	1,413,200	65,900	2,208,500
Graham	63,100	536,200	46,800	1,303,500	64,700	536,200	46,800	1,561,800
Greenlee	16,200	190,700	12,000	33,500	16,600	190,700	12,000	28,000
La Paz	33,600	212,100	24,900	595,600	34,500	212,100	24,900	526,000
Maricopa	0	19,011,200	0	155,173,500	0	18,783,100	0	165,477,400
Mohave	252,300	1,237,700	187,400	7,948,800	258,800	1,237,700	187,400	8,350,800
Navajo	165,300	310,800	122,800	2,588,200	169,600	310,800	122,800	2,721,500
Pima	1,502,600	14,951,800	1,115,900	39,243,800	1,541,300	14,951,800	1,115,900	40,974,000
Pinal	294,000	2,715,600	218,300	14,899,800	301,600	2,715,600	218,300	15,344,200
Santa Cruz	69,500	482,800	51,600	1,930,900	71,300	482,800	51,600	2,040,600
Yavapai	277,700	1,427,800	206,200	8,391,300	284,900	1,427,800	206,200	8,840,500
Yuma	<u>247,600</u>	<u>1,325,100</u>	<u>183,900</u>	<u>8,261,000</u>	<u>254,000</u>	<u>1,325,100</u>	<u>183,900</u>	<u>8,727,300</u>
Subtotal	<u>\$3,563,300</u>	<u>\$47,041,500</u>	<u>\$2,646,200</u>	<u>\$249,980,000</u>	<u>\$3,655,300</u>	<u>\$46,813,400</u>	<u>\$2,646,200</u>	<u>\$264,673,200</u>
Total				<u>\$303,231,000</u>				<u>\$317,788,100</u>

this provision provides 9 counties with a total of \$9,668,900 in relief.

In FY 2018, provisions 3 through 6 of the ALTCS formula result in the state providing a total of \$30,782,600 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 \$357 per member per month (or \$4,287 annually). Of that amount, an average of \$82 is from state match and \$275 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 budget continues to require 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 \$823,900 appropriation (\$85,300 General Fund and \$738,600 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 that is distributed to states that diligently enforce the provisions and collection of tobacco tax laws. 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 was the first year tobacco tax collections came under diligent enforcement scrutiny under the provisions of the amended settlement. The monies provided in the budget allow DOR to comply with the terms of the amended agreement through enhanced auditing capabilities and an automated accounting system. The latter automates the current manual data entry process, allows delinquent returns and account information to be tracked, and logs data that DOR does not currently track for non-participating manufacturers, cigarette stamp inventory, and other tobacco sales data.

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

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
Medically Needy Account			
<u>Funds Available</u>			
Balance Forward	\$ 6,346,200	\$ 591,300	\$ 302,600
Transfer In - Tobacco Tax and Health Care Fund	47,474,100	47,508,000	47,651,500
Transfer In - Tobacco Products Tax Fund	25,884,000	25,901,500	25,979,800
Total Funds Available	\$ 79,704,300	\$ 74,000,800	\$ 73,933,900
<u>Allocations</u>			
<u>AHCCCS</u>			
AHCCCS State Match Appropriation	\$ 34,498,500	\$ 72,998,200	\$ 72,998,200
Total AHCCCS Allocations	\$ 34,498,500	\$ 72,998,200	\$ 72,998,200
<u>DHS</u>			
Behavioral Health GF Offset <u>1/2/</u>	\$ 44,002,300	\$ 0	\$ 0
Folic Acid	387,200	400,000	400,000
Renal, Dental Care, and Nutrition Supplements	225,000	300,000	300,000
Total DHS Allocations	44,614,500	700,000	700,000
Balance Forward	\$ 591,300	\$ 302,600	\$ 235,700
AHCCCS Proposition 204 Protection Account			
<u>Funds Available</u>			
Balance Forward	\$ 3,352,200	\$ 2,123,200	\$ 4,893,500
Transfer In - Tobacco Products Tax Fund	40,263,900	40,291,300	40,413,000
Total Funds Available	\$ 43,616,100	\$ 42,414,500	\$ 45,306,500
<u>Allocations</u>			
<u>AHCCCS</u>			
AHCCCS State Match Appropriation	38,140,700	37,521,000	40,413,000
Total AHCCCS Allocations	38,140,700	37,521,000	40,413,000
<u>DHS</u>			
Behavioral Health GF Offset <u>2/</u>	3,352,200	0	0
Total DHS Allocations	3,352,200	0	0
Balance Forward	\$ 2,123,200	\$ 4,893,500	\$ 4,893,500
AHCCCS Emergency Health Services Account			
<u>Funds Available</u>			
Balance Forward	\$ 0	\$ 62,400	\$ 501,500
Transfer In - Tobacco Products Tax Fund	19,173,300	19,186,300	19,244,300
Total Funds Available	\$ 19,173,300	\$ 19,248,700	\$ 19,745,800
<u>Allocations</u>			
AHCCCS State Match Appropriation	\$ 18,162,200	18,747,200	19,244,300
Administrative Adjustments	948,700	0	0
Balance Forward <u>3/</u>	\$ 62,400	\$ 501,500	\$ 501,500
DHS Health Education Account			
<u>Funds Available</u>			
Balance Forward	\$ 6,444,900	\$ 7,054,500	\$ 3,362,900
Transfer In - Tobacco Tax and Health Care Fund	15,621,100	15,609,800	15,656,900
Transfer In - Tobacco Products Tax Fund	2,088,000	1,918,600	1,924,400
Total Funds Available	\$ 24,154,000	\$ 24,582,900	\$ 20,944,200
<u>Allocations</u>			
Tobacco Education and Prevention Program	\$ 14,855,200	\$ 18,434,700	\$ 18,434,700
Leading Causes of Death - Prevention and Detection	2,244,300	2,785,300	2,785,300
Balance Forward	\$ 7,054,500	\$ 3,362,900	\$ (275,800) *
Health Research Account			
<u>Funds Available</u>			
Balance Forward	\$ 8,795,300	\$ 10,357,600	\$ 5,818,200
Transfer In - Tobacco Tax and Health Care Fund	3,390,900	3,393,300	3,403,600
Transfer In - Tobacco Products Tax Fund	4,945,800	4,796,600	4,811,100
Total Funds Available	\$ 17,132,000	\$ 18,547,500	\$ 14,032,900
<u>Allocations</u>			
Biomedical Research Support <u>4/</u>	\$ 1,496,300	\$ 2,000,000	\$ 2,000,000
Alzheimer's Disease Research <u>5/</u>	1,000,000	2,000,000	1,000,000
Biomedical Research Commission <u>6/</u>	3,280,600	8,729,300	8,729,300
Administrative Adjustments	997,500	0	0
Balance Forward	\$ 10,357,600	\$ 5,818,200	\$ 2,303,600

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.

6/ Laws 2017, Chapter 136 repealed the Biomedical Research Commission. DHS reports that monies in the Health Research Account will continue to be spent on initiatives previously reviewed by the commission in FY 2018, including research grants, research education, biospecimen locator, and public cord blood.

* Actual ending balance will not be negative.