

## Arizona Health Care Cost Containment System

|  | FY 2017<br>ACTUAL     | FY 2018<br>ESTIMATE   | FY 2019<br>BASELINE   |
|--|-----------------------|-----------------------|-----------------------|
| <b>OPERATING BUDGET</b>                        |                       |                       |                       |
| <i>Full Time Equivalent Positions</i>          | 2,326.3               | 2,326.3               | 2,326.3               |
| Personal Services                              | 40,049,800            | 45,187,500            | 45,187,500            |
| Employee Related Expenditures                  | 16,199,200            | 18,243,600            | 17,210,500            |
| Professional and Outside Services              | 10,367,900            | 11,741,600            | 11,741,600            |
| Travel - In State                              | 88,700                | 98,800                | 98,800                |
| Travel - Out of State                          | 26,800                | 30,200                | 30,200                |
| Other Operating Expenditures                   | 26,080,400            | 20,998,000            | 20,998,000            |
| Equipment                                      | 820,900               | 560,600               | 560,600               |
| <b>OPERATING SUBTOTAL</b>                      | <b>93,633,700</b>     | <b>96,860,300</b>     | <b>95,827,200</b>     |
| <b>SPECIAL LINE ITEMS</b>                      |                       |                       |                       |
| <b>Administration</b>                          |                       |                       |                       |
| DES Eligibility                                | 77,625,400            | 88,874,500            | 88,874,500            |
| Proposition 204 - AHCCCS Administration        | 15,098,800            | 12,908,400            | 12,760,600            |
| Proposition 204 - DES Eligibility              | 39,238,700            | 44,358,700            | 44,358,700            |
| Proposition 206 - Network Adequacy Report      | 0                     | 200,000               | 0                     |
| <b>Medicaid Services</b>                       |                       |                       |                       |
| Traditional Medicaid Services                  | 4,765,329,900         | 5,052,920,500         | 5,212,994,900         |
| Proposition 204 Services                       | 3,375,959,800         | 3,561,594,500         | 4,068,562,200         |
| Adult Expansion Services                       | 510,785,500           | 561,733,000           | 578,087,900           |
| Children's Rehabilitative Services             | 265,070,700           | 270,673,900           | 324,236,800           |
| Comprehensive Medical and Dental Program       | 172,456,000           | 217,719,100           | 202,755,700           |
| KidsCare Services                              | 23,736,900            | 111,961,100           | 82,303,300            |
| ALTCS Services                                 | 1,418,473,300         | 1,544,082,800         | 1,597,438,000         |
| <b>Non-Medicaid Behavioral Health Services</b> |                       |                       |                       |
| Non-Medicaid Seriously Mentally Ill Services   | 78,680,900            | 78,846,900            | 77,646,900            |
| Supported Housing                              | 5,237,800             | 5,324,800             | 5,324,800             |
| Crisis Services                                | 16,332,600            | 16,391,300            | 16,391,300            |
| <b>Hospital Payments</b>                       |                       |                       |                       |
| Disproportionate Share Payments                | 7,405,100             | 5,087,100             | 5,087,100             |
| DSH Payments - Voluntary Match                 | 5,060,000             | 18,920,200            | 21,705,900            |
| Rural Hospitals                                | 22,645,800            | 22,650,000            | 22,650,000            |
| Graduate Medical Education                     | 224,475,700           | 338,922,100           | 274,684,900           |
| Safety Net Care Pool                           | 96,756,800            | 75,000,000            | 0                     |
| Targeted Investments Program                   | 0                     | 0                     | 70,000,000            |
| <b>AGENCY TOTAL</b>                            | <b>11,214,003,400</b> | <b>12,125,029,200</b> | <b>12,801,690,700</b> |
| <b>FUND SOURCES</b>                            |                       |                       |                       |
| General Fund                                   | 1,696,148,600         | 1,775,264,100         | 1,859,238,700         |
| <u>Other Appropriated Funds</u>                |                       |                       |                       |
| Budget Neutrality Compliance Fund              | 2,672,500             | 3,655,300             | 3,756,200             |
| Children's Health Insurance Program Fund       | 24,779,300            | 117,688,200           | 88,023,200            |
| Prescription Drug Rebate Fund - State          | 113,740,000           | 145,691,200           | 148,457,900           |
| Substance Abuse Services Fund                  | 2,250,200             | 2,250,200             | 2,250,200             |
| TPTF Emergency Health Services Account         | 18,747,200            | 19,244,300            | 17,966,100            |
| TTHCF Medically Needy Account                  | 72,042,700            | 72,998,200            | 68,040,500            |
| SUBTOTAL - Other Appropriated Funds            | 234,231,900           | 361,527,400           | 328,494,100           |
| <b>SUBTOTAL - Appropriated Funds</b>           | <b>1,930,380,500</b>  | <b>2,136,791,500</b>  | <b>2,187,732,800</b>  |

|  | FY 2017<br>ACTUAL     | FY 2018<br>ESTIMATE   | FY 2019<br>BASELINE   |
|--|-----------------------|-----------------------|-----------------------|
| <b>Expenditure Authority Funds</b>                         |                       |                       |                       |
| County Funds   | 300,633,300           | 314,132,800           | 316,931,300           |
| Delivery System Reform Incentive Payment Fund              | 0                     | 0                     | 21,773,100            |
| Federal Medicaid Authority                                 | 7,929,709,600         | 8,636,179,300         | 9,174,166,000         |
| Hospital Assessment Fund                                   | 238,267,200           | 286,512,600           | 290,643,900           |
| Nursing Facility Provider Assessment Fund                  | 24,564,600            | 32,989,400            | 32,989,400            |
| Political Subdivision Funds                                | 115,294,000           | 133,152,900           | 102,023,400           |
| Prescription Drug Rebate Fund - In Lieu of Federal Funds   | 536,111,500           | 465,663,000           | 550,507,200           |
| Third Party Liability and Recovery Fund                    | 0                     | 194,700               | 194,700               |
| Tobacco Litigation Settlement Fund                         | 101,521,700           | 79,000,000            | 87,000,000            |
| TPTF Proposition 204 Protection Account                    | 37,521,000            | 40,413,000            | 37,728,900            |
| SUBTOTAL - Expenditure Authority Funds                     | 9,283,622,900         | 9,988,237,700         | 10,613,957,900        |
| <b>SUBTOTAL - Appropriated/Expenditure Authority Funds</b> | <b>11,214,003,400</b> | <b>12,125,029,200</b> | <b>12,801,690,700</b> |
| Other Non-Appropriated Funds                               | 91,269,200            | 106,074,900           | 99,730,500            |
| Federal Funds  | 112,791,400           | 168,049,200           | 167,489,500           |
| <b>TOTAL - ALL SOURCES</b>                                 | <b>11,418,064,000</b> | <b>12,399,153,300</b> | <b>13,068,910,700</b> |

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

### Summary

AHCCCS' FY 2019 General Fund spending increases by \$83,974,600, or a 4.7% increase from FY 2018. This amount includes:

- \$80,763,200 in formula adjustments.
- \$(17,095,500) to transfer behavioral health service funding of the developmentally disabled population to the Department of Economic Security as part of integration of care in FY 2019.
- \$20,306,900 in other adjustments.

AHCCCS' FY 2019 Hospital Assessment spending increases by \$4,131,300, or a 1.4% increase. This increase is primarily due to resumption of a federal health insurer fee and decreases in tobacco tax collections available to offset the Hospital Assessment.

As part of the Baseline's 3-year spending plan, AHCCCS' General Fund costs are projected to increase by \$128,541,500 in FY 2020 above FY 2019 and by \$134,840,000 in FY 2021 above FY 2020. (See the *Other Issues* section for more information.)

Below is an overview of FY 2019 formula adjustments, funding shifts for integration of care, and other adjustments. *Table 1* summarizes these changes.

**Table 1**

#### AHCCCS General Fund Baseline Spending Changes (\$ in millions)

##### Formula Adjustments

|  |       |
|--|-------|
| FY 2019 Caseload Growth                | \$ 40 |
| FY 2019 3.5% Capitation Rate Increase  | 52    |
| FY 2019 Federal Match Rate Increase    | (14)  |
| Tobacco Tax Collections Decrease       | 5     |
| Prescription Drug Rebate Fund Increase | (3)   |
| Subtotal <sup>1/</sup>                 | \$ 81 |

##### Integration of Care

|   |         |
|---|---------|
| Transfer to Department of Economic Security | \$ (17) |
|---|---------|

##### Other Adjustments

|   |       |
|---|-------|
| Restore Health Insurer Fee                | \$ 20 |
| Proposition 206 Rate Increase             | 2     |
| Remove Health Insurance Adjustment        | (0)   |
| Transfer to Department of Health Services | (1)   |
| Subtotal <sup>1/</sup>                    | \$ 20 |

**Total Spending Change** **\$ 84**

<sup>1/</sup> Numbers do not add to total due to rounding.

#### 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 Baseline includes a net increase of \$80,763,200 in General Fund appropriations in FY 2019 for these adjustments.

**FY 2019 Caseload Growth**

Formula adjustments include 2.0% caseload growth for most AHCCCS populations. Adjustments also include growth of 1.5% for members in the Children’s Rehabilitative Services program and 5.0% for seriously mentally ill members. FY 2019 caseload changes are expected to result in a General Fund increase of \$40,156,400 in FY 2019. Caseloads are shown in *Table 2*.

**FY 2019 3.5% Capitation Rate Increase**

In comparison to caseload growth rates which vary by population, capitation rate adjustments are assumed to be 3.5% above FY 2018 across all programs. The Baseline assumes the 3.5% capitation rate increase will result in an increase of \$51,933,600 from the General Fund in FY 2019.

**FY 2019 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 2019, the FMAP rates will adjust as follows:

- Traditional Medicaid rate will increase to 69.83% (0.1% increase).
- Proposition 204 Childless Adult rate will increase to 92.29% (1.55% increase).
- KidsCare and Child Expansion rates will remain at 100%.
- Adult Expansion rate will decrease to 93.5% (1.0% decrease).

The formula adjustments include a decrease of \$(13,517,800) in General Fund spending to reflect savings from the regular federal rate increase.

**Tobacco Tax Collections Decrease**

The Baseline includes a decrease of \$(4,957,700) from tobacco tax revenues and a corresponding \$4,957,700 increase from the General Fund in FY 2019. The decrease is the result of tobacco tax revenues that are projected to fall short of the appropriation in the FY 2018 budget by \$(4,444,500) in FY 2018 and by \$(4,957,700) in FY 2019.

**Prescription Drug Rebate Fund Increase**

The Baseline includes an increase of \$2,766,700 from the state portion of the Prescription Drug Rebate Fund (PDRF - State) and a corresponding \$(2,766,700) decrease from the General Fund in FY 2019 for a projected increase in rebate collections. Federal health care legislation requires

| <b>Population <sup>2/3/</sup></b>                   | <b>June 2017</b> | <b>June 2018</b> | <b>June 2019</b> | <b>'18-'19% Change</b> |
|---|------------------|------------------|------------------|------------------------|
| Traditional   | 1,062,524        | 1,070,794        | 1,092,210        | 2.0%                   |
| Prop 204 Childless Adults                           | 317,135          | 323,478          | 329,947          | 2.0                    |
| Other Proposition 204                               | 194,261          | 196,035          | 199,956          | 2.0                    |
| Adult Expansion <sup>4/</sup>                       | 82,228           | 83,873           | 85,550           | 2.0                    |
| KidsCare  | 21,050           | 34,122           | 34,804           | 2.0                    |
| CMDP  | 15,874           | 15,874           | 16,191           | 2.0                    |
| ALTCS - Elderly & Physically Disabled <sup>5/</sup> | 29,063           | 29,644           | 30,237           | 2.0                    |
| Emergency Services                                  | <u>121,105</u>   | <u>124,017</u>   | <u>126,498</u>   | <u>2.0</u>             |
| <b>Total Member Months</b>                          | <b>1,843,240</b> | <b>1,877,837</b> | <b>1,915,393</b> | <b>2.0%</b>            |

<sup>1/</sup> The figures represent June 1 estimates.  
<sup>2/</sup> The Children’s Rehabilitative Services program is included in the Traditional, Other Proposition 204, KidsCare, CMDP, and ALTCS populations.  
<sup>3/</sup> The integrated SMI population is included in the Traditional, Proposition 204, and Adult Expansion line items. (See the *Other Issues* section for enrollment and funding of the integrated SMI population.)  
<sup>4/</sup> Parents and Childless Adults 100%-133% of the federal poverty level (FPL).  
<sup>5/</sup> The ALTCS program funded in AHCCCS. In addition, approximately 31,300 people receive Medicaid services through the Department of Economic Security’s Developmental Disabilities program as of December 1, 2017.

drug manufacturers to provide rebates for drugs sold to Medicaid managed care plans. AHCCCS has been collecting these rebates since FY 2011.

**FY 2018 Adjustments**

The Baseline includes a \$(9,043,500) ex-appropriation from the General Fund in FY 2018 associated with lower-than-budgeted capitation rates and enrollment for the Traditional population. In addition, the Baseline includes a \$75,703,600 supplemental increase of Expenditure Authority in FY 2018. The increase to Expenditure Authority largely funds provider payments under the Targeted Investments Program and Access to Professional Services Initiative and higher-than-budgeted behavioral health services capitation rates in FY 2018. (See the *Other Issues* section for more information.)

**Integration of Care**

Most AHCCCS enrollees currently receive health coverage for physical health services from AHCCCS acute care contracted health plans, while behavioral health services coverage is provided by the Regional Behavioral Health Authorities (RBHAs). To promote further coordination of services, beginning in FY 2019, AHCCCS will contract with “AHCCCS Complete Care” (ACC) health plans for most populations that cover the full spectrum of physical and behavioral health services.

To reflect these new contracts, the Baseline combines the appropriations for physical health services and behavioral health services in FY 2019 into single line items delineated by the basis for AHCCCS eligibility (i.e. Traditional, Proposition 204, Adult Expansion, CMDP). In addition, the Baseline transfers \$(17,095,500) from the General Fund from the AHCCCS budget to the Department of Economic Security (DES) to fund behavioral health services for the Developmental Disabilities (DD) program under a combined appropriation for physical and behavioral health services.

The RBHAs will continue to cover behavioral health services in FY 2019 for foster children enrolled in CMDP and persons with a serious mental illness (SMI), and will continue to administer crisis services, state-only funded behavioral health services, and non-Medicaid federal funding. AHCCCS is currently planning to integrate physical health and behavioral health services for CMDP children under a single plan administered by the Department of Child Safety (DCS) in FY 2020.

AHCCCS has further plans to integrate care for approximately 6,500 members that are dually eligible for the Children Rehabilitative Services (CRS) program and the DD program or CMDP. Currently, these clients receive physical health and behavioral health services related to their CRS condition from the CRS contractor, and receive all other physical health services from the subcontracted DD acute care plan or the CMDP acute plan administered by DCS. Coverage of services related to CRS conditions will be shifted to DES' subcontracted health plan for DD members and to DCS' integrated CMDP plan for foster children in FY 2019.

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**Other Adjustments**

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The Baseline includes a net increase of \$20,306,900 to the General Fund in FY 2019 for 4 other adjustments. These adjustments include restoring a federal health insurer fee, provider rate increases resulting from Proposition 206, removal of one-time funding for a health insurance adjustment, and a transfer to the Department of Health Services.

**Restore Health Insurer Fee**

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 placed a 1-year moratorium on the fee in calendar year (CY) 2017. As a result, the FY 2018 budget did not include funding for reimbursing Medicaid health insurers. The federal government will resume levying the fee in CY 2018, which AHCCCS would reimburse in FY 2019. The Baseline includes an increase of \$19,957,000 from the General Fund in FY 2019 for reimbursement of the fee.

**Proposition 206 Rate Increase**

The Baseline includes an increase of \$1,946,700 from the General Fund and \$11,562,600 in Total Funds in FY 2019 for Arizona Long Term Care System (ALTCS) Elderly and Physically Disabled provider rate increases associated with minimum wage provisions of Proposition 206. This amount includes funding to annualize a January 1, 2018 increase in the state minimum wage to \$10.50 and to fund a January 1, 2019 increase in the wage to \$11.00. This adjustment was funded as part of the FY 2018 budget's 3-year spending plan.

**Remove Health Insurance Adjustment**

The Baseline includes a decrease of \$(396,800) from the General Fund and \$(1,180,900) in Total Funds in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. *(Please see the Technical Budget Assumptions Section.)*

**Transfer to Department of Health Services**

The Baseline transfers \$1,200,000 in General Fund appropriation from AHCCCS' Non-Medicaid Seriously Mentally Ill line to the Department of Health Services (DHS) in FY 2019. The transfer would address an ongoing funding shortfall for prescription medications for Arizona State Hospital patients. While the budget in FY 2018 and prior years required AHCCCS to transfer this funding to DHS, the Baseline directly appropriates the funding to DHS in FY 2019. *(See the Other Issues section in DHS narrative for additional information.)*

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**Operating Budget**

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The Baseline includes \$95,827,200 and 1,013.2 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

|   | <b>FY 2019</b> |
|---|----------------|
| General Fund                                    | \$29,724,100   |
| Children's Health Insurance Program (CHIP) Fund | 5,719,900      |
| Prescription Drug Rebate Fund (PDRF) - State    | 660,100        |
| Federal Medicaid Authority (FMA)                | 59,723,100     |

FY 2019 adjustments are as follows:

**Remove Health Insurance Adjustment**

The Baseline includes a decrease of \$(1,033,100) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

|                            |           |
|----------------------------|-----------|
| General Fund               | (346,800) |
| CHIP Fund                  | (7,200)   |
| PDRF - State               | (800)     |
| Federal Medicaid Authority | (678,300) |

*(Please see the Technical Budget Assumptions section.)*

**Administration**

**DES Eligibility**

The Baseline includes \$88,874,500 and 885 FTE Positions in FY 2019 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 2018.

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

**Proposition 204 - AHCCCS Administration**

The Baseline includes \$12,760,600 and 128 FTE Positions in FY 2019 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

|                            |           |
|----------------------------|-----------|
| General Fund               | 4,073,800 |
| PDRF - State               | 60,800    |
| Federal Medicaid Authority | 8,626,000 |

FY 2019 adjustments are as follows:

**Remove Health Insurance Adjustment**

The Baseline includes a decrease of \$(147,800) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

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

Proposition 204 expanded AHCCCS eligibility. This line item contains funding for AHCCCS' acute care and

behavioral health service administration costs of the Proposition 204 program.

**Proposition 204 - DES Eligibility**

The Baseline includes \$44,358,700 and 300.1 FTE Positions in FY 2019 for Proposition 204 - DES Eligibility costs. These amounts consist of:

|  |            |
|--|------------|
| General Fund                             | 16,966,000 |
| Budget Neutrality Compliance Fund (BNCF) | 3,756,200  |
| Federal Medicaid Authority               | 23,636,500 |

FY 2019 adjustments are as follows:

**Statutory Adjustments**

The Baseline includes a decrease of \$(100,900) from the General Fund and a corresponding increase of \$100,900 from the BNCF in FY 2019 to reflect an increase of county contributions in FY 2019 as required by A.R.S. § 11-292. *(See Table 7 for contributions by county.)*

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

**Proposition 206 - Network Adequacy Report**

The Baseline includes no funding in FY 2019 for costs of a report on the effects of Proposition 206 on provider network adequacy. FY 2019 adjustments are as follows:

**Remove One-Time Funding**

The Baseline includes a decrease of \$(200,000) from PDRF - State in FY 2019 to remove one-time funding for conducting a study on the effects of Proposition 206 on network adequacy of long term care provider networks.

*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.

## Medicaid Services

AHCCCS oversees acute care, behavioral health services, long term care services, and the Children’s Rehabilitative Services program for Medicaid enrollees.

Chart 1 shows the income eligibility limits for each AHCCCS population in FY 2019. A description of program components can be found in the Other Issues section.

### Traditional Medicaid Services

The Baseline includes \$5,212,994,900 in FY 2019 for Traditional Medicaid Services. This amount consists of:

|   |               |
|---|---------------|
| General Fund                            | 1,175,029,700 |
| County Funds                            | 49,159,100    |
| Political Subdivision Funds             | 7,000,300     |
| PDRF - State                            | 140,158,600   |
| TTHCF - Medically Needy Account         | 68,040,500    |
| Third Party Liability and Recovery Fund | 194,700       |
| PDRF - In Lieu of Federal Funds         | 514,085,200   |
| Federal Medicaid Authority              | 3,259,326,800 |

FY 2019 adjustments are as follows:

#### Formula Adjustments

The Baseline includes an increase of \$187,124,400 in FY 2019 for formula adjustments. This amount consists of:

|                                 |             |
|---------------------------------|-------------|
| General Fund                    | 47,488,200  |
| County Funds                    | (300,500)   |
| TTHCF - Medically Needy Account | (4,957,700) |
| Federal Medicaid Authority      | 144,894,400 |

The adjustments include:

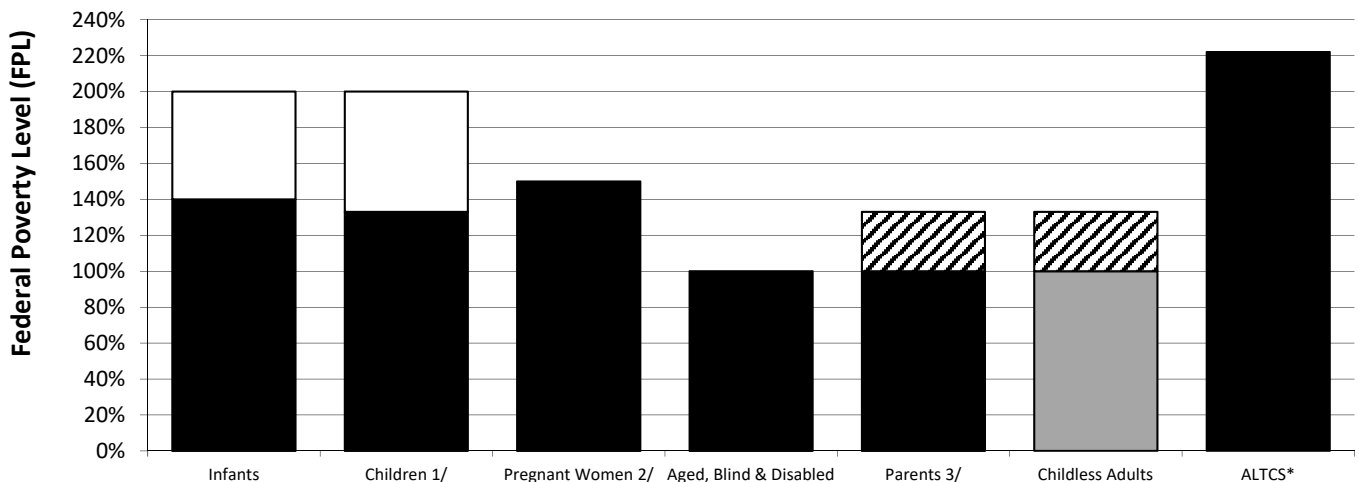
- 2.0% enrollment growth.
- An increase in the federal match rate from 69.73% to 69.83%.
- 3.5% capitation rate increase.
- \$(4,957,700) decrease from the TTHCF - Medically Needy Account due to lower-than-expected tobacco tax revenues and a corresponding General Fund increase.
- \$(300,500) decrease in the Maricopa County Acute Care contribution (County Funds) under A.R.S. § 11-292 with a corresponding General Fund increase.

#### PDRF Increase

The Baseline includes a \$2,967,600 increase from PDRF - State for additional rebate collections and a corresponding decrease of \$(2,967,600) from the General Fund in FY 2019. The Baseline also includes a \$84,844,200 increase from the PDRF - In Lieu of Federal Funds for additional rebate collections and a corresponding decrease of \$(84,844,200) from Federal Medicaid Authority in FY 2019.

Chart 1

### AHCCCS Eligibility



■ Mandatory (70% Fed Match) □ KidsCare (100% Fed Match) 4/ ■ Childless Adults Option (92% Fed Match) ▨ ACA Expansion (94% Fed Match)

1/ Children ages 6 to 18 years in families with incomes between 100% FPL and 133% FPL are eligible to receive a 100% federal match if sufficient Children’s Health Insurance Program (CHIP) Block Grant monies available.  
 2/ Women diagnosed with breast or cervical cancer by a provider recognized by the Well Women Healthcheck program and those in the “Ticket to Work” program receive coverage to 250% FPL.  
 3/ Mandatory Status of Parents is subject to interpretation.  
 4/ The FY 2018 Health BRB requires AHCCCS to freeze enrollment in the program if the federal match rate drops below 100% of costs.  
 \* Federal minimum is 75% FPL.

### Restore Health Insurer Fee

The Baseline includes an increase of \$57,388,700 in FY 2019 to restore payment of the ACA health insurer fee. This amount consists of:

|                            |            |
|----------------------------|------------|
| General Fund               | 16,537,800 |
| Federal Medicaid Authority | 40,850,900 |

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

### Shift Acute CMDP Funding

The Baseline includes a decrease of \$(51,169,600) in FY 2019 to shift acute care funding for the CMDP population to the CMDP line to reflect AHCCCS' plans for integration of care. This amount consists of:

|                            |              |
|----------------------------|--------------|
| General Fund               | (15,490,300) |
| Federal Medicaid Authority | (35,679,300) |

(See the Integration of Care section for additional information.)

### Shift DD Behavioral Health Funding

The Baseline includes a decrease of \$(56,472,000) in FY 2019 to transfer funding of behavioral health services for the Developmentally Disabled population to the Department of Economic Security to reflect AHCCCS' plans for integration of care. This amount consists of:

|                            |              |
|----------------------------|--------------|
| General Fund               | (17,095,500) |
| Federal Medicaid Authority | (39,376,500) |

(See the Integration of Care section for additional information.)

### APSI Payments

The Baseline includes an increase of \$23,202,900 in FY 2019 for supplemental payments to qualifying providers under the Access to Professional Services Initiative (APSI). This amount consists of:

|                             |            |
|-----------------------------|------------|
| Political Subdivision Funds | 7,000,300  |
| Federal Medicaid Authority  | 16,202,600 |

(See the Other Issues section for additional information.)

**Background** – Traditional Medicaid Services funds acute care and behavioral health services of 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").

To reflect AHCCCS' planned integration of care contracts, the FY 2019 Baseline combines acute care and behavioral health service funding for this population under the Traditional Medicaid Services line and shows the combined funding for FY 2017 and FY 2018. (See the Integration of Care section for additional information.)

### Proposition 204 Services

The Baseline includes \$4,068,562,200 in FY 2019 for Proposition 204 Services. This amount consists of:

|   |               |
|---|---------------|
| General Fund                              | 143,983,800   |
| Hospital Assessment Fund                  | 261,621,900   |
| Political Subdivision Funds               | 1,931,900     |
| Tobacco Litigation Settlement Fund        | 87,000,000    |
| TPTF - Emergency Health Services Account  | 17,966,100    |
| TPTF - Proposition 204 Protection Account | 37,728,900    |
| Federal Medicaid Authority                | 3,518,329,600 |

FY 2019 adjustments are as follows:

### Formula Adjustments

The Baseline includes an increase of \$446,821,500 in FY 2019 for formula adjustments. This amount consists of:

|   |             |
|---|-------------|
| General Fund                              | 33,643,200  |
| Hospital Assessment Fund                  | (5,023,800) |
| Tobacco Settlement Litigation Fund        | 8,000,000   |
| TPTF - Emergency Health Services Account  | (1,278,200) |
| TPTF - Proposition 204 Protection Account | (2,684,100) |
| Federal Medicaid Authority                | 414,164,400 |

These adjustments include:

- 2.0% enrollment growth.
- An increase in the federal match rate for the non-childless adult population from 69.73% to 69.83%.
- An increase in the federal match rate for the childless adult population from 90.74% to 92.29%.
- 3.5% capitation rate increase.
- \$8,000,000 increase from the Tobacco Litigation Settlement Fund for higher-than-expected settlement payments and a corresponding \$(8,000,000) Hospital Assessment Fund decrease.
- \$(2,684,100) decrease from the TPTF - Proposition 204 Protection Account due to lower-than-expected

tobacco tax revenues and a corresponding \$2,684,100 Hospital Assessment Fund increase.

- \$(1,278,200) decrease from the Emergency Health Services Account due to lower-than-expected tobacco tax revenues and a corresponding \$1,278,200 Hospital Assessment Fund increase.

**Restore Health Insurer Fee**

The Baseline includes an increase of \$44,898,400 in FY 2019 to restore payment of the ACA health insurer fee. This amount consists of:

|                            |            |
|----------------------------|------------|
| General Fund               | 778,600    |
| Hospital Assessment        | 5,921,800  |
| Federal Medicaid Authority | 38,198,000 |

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

**APSI Payments**

The Baseline includes an increase of \$15,247,800 in FY 2019 for supplemental payments to qualifying providers under the Access to Professional Services Initiative (APSI). This amount consists of:

|                             |            |
|-----------------------------|------------|
| Political Subdivision Funds | 1,931,900  |
| Federal Medicaid Authority  | 13,315,900 |

*(See the Other Issues 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).

To reflect AHCCCS’ planned integration of care contracts, the FY 2019 Baseline combines acute care and behavioral health service funding of this population under the Proposition 204 Services line and shows the combined funding for FY 2017 and FY 2018. Under integration, the hospital assessment will continue to cover the state portion of acute care costs of the program and the General Fund will continue to cover the program’s behavioral health state costs. *(See the Integration of Care section for more information.)*

**Adult Expansion Services**

The Baseline includes \$578,087,900 in FY 2019 for Adult Expansion Services. This amount consists of:

|                             |             |
|-----------------------------|-------------|
| General Fund                | 6,631,400   |
| Hospital Assessment Fund    | 29,022,000  |
| Political Subdivision Funds | 123,800     |
| Federal Medicaid Authority  | 542,310,700 |

FY 2019 adjustments are as follows:

**Formula Adjustments**

The Baseline includes an increase of \$7,197,500 in FY 2019 for formula adjustments. This amount consists of:

|                            |           |
|----------------------------|-----------|
| General Fund               | 2,346,700 |
| Hospital Assessment Fund   | 2,886,200 |
| Federal Medicaid Authority | 1,964,600 |

These adjustments include:

- 2.0% enrollment growth in FY 2019.
- A decrease in the federal match rate from 94.5% in FY 2018 to 93.5% in FY 2019.
- 3.5% capitation rate increase in FY 2019.

**Restore Health Insurer Fee**

The Baseline includes an increase of \$7,252,800 in FY 2019 to restore payment of the ACA health insurer fee. This amount consists of:

|                            |           |
|----------------------------|-----------|
| General Fund               | 15,500    |
| Hospital Assessment        | 347,100   |
| Federal Medicaid Authority | 6,890,200 |

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

**APSI Payments**

The Baseline includes an increase of \$1,904,600 in FY 2019 for supplemental payments to qualifying providers under the Access to Professional Services Initiative (APSI). This amount consists of:

|                             |           |
|-----------------------------|-----------|
| Political Subdivision Funds | 123,800   |
| Federal Medicaid Authority  | 1,780,800 |

*(See the Other Issues 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.



To reflect AHCCCS' planned integration of care contracts, the FY 2019 Baseline combines acute care and behavioral health service funding of this population under the Adult Expansion Services line and shows the combined funding for FY 2017 and FY 2018. Under integration, the hospital assessment will continue to cover the state portion of acute care costs of the program and the General Fund will continue to cover the program's behavioral health state costs. (See the *Integration of Care* section for additional information.)

### Children's Rehabilitative Services

The Baseline includes \$324,236,800 in FY 2019 for Children's Rehabilitative Services (CRS). This amount consists of:

|                             |             |
|-----------------------------|-------------|
| General Fund                | 94,316,200  |
| Political Subdivision Funds | 3,260,400   |
| Federal Medicaid Authority  | 226,660,200 |

FY 2019 adjustments are as follows:

#### Formula Adjustments

The Baseline includes an increase of \$35,061,900 in FY 2019 for formula adjustments. This amount consists of:

|                            |            |
|----------------------------|------------|
| General Fund               | 10,300,700 |
| Federal Medicaid Authority | 24,761,200 |

These adjustments include:

- 1.5% enrollment growth in FY 2019.
- An increase in the federal match rate from 69.73% to 69.83%.
- FY 2018 capitation rates that are 12.9% greater-than-budgeted amounts.
- 3.5% capitation rate increase in FY 2019.

#### Restore Health Insurer Fee

The Baseline includes an increase of \$7,694,200 in FY 2019 to restore payment of the ACA health insurer fee. This amount consists of:

|                            |           |
|----------------------------|-----------|
| General Fund               | 2,075,700 |
| Federal Medicaid Authority | 5,618,500 |

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

#### APSI Payments

The Baseline includes an increase of \$10,806,800 in FY 2019 for supplemental payments to qualifying providers under the Access to Professional Services Initiative (APSI). This amount consists of:

|                             |           |
|-----------------------------|-----------|
| Political Subdivision Funds | 3,260,400 |
| Federal Medicaid Authority  | 7,546,400 |

(See the *Other Issues* section for additional information.)

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

### Comprehensive Medical and Dental Program

The Baseline includes \$202,755,700 in FY 2019 for the Comprehensive Medical and Dental Program (CMDP). This amount consists of:

|                            |             |
|----------------------------|-------------|
| General Fund               | 61,070,000  |
| Federal Medicaid Authority | 141,685,700 |

FY 2019 adjustments are as follows:

#### Shift Acute CMDP Funding

The Baseline includes an increase of \$51,169,600 in FY 2019 to shift acute care funding for the CMDP population from the Traditional Medicaid Services line to the CMDP line to reflect AHCCCS' planned integration of care. This amount consists of:

|                            |            |
|----------------------------|------------|
| General Fund               | 15,490,300 |
| Federal Medicaid Authority | 35,679,300 |

(See the *Integration of Care* section for additional information.)

#### Formula Adjustments

The Baseline includes a decrease of \$(66,133,000) in FY 2019 for formula adjustments. This amount consists of:

|                            |              |
|----------------------------|--------------|
| General Fund               | (20,139,700) |
| Federal Medicaid Authority | (45,993,300) |

These adjustments include:

- Revised FY 2018 enrollment projections that are (8.7)% lower than budgeted amounts.
- 2% enrollment growth in FY 2019.
- Increase in the federal match rate from 69.73% to 69.83%.
- 3.5% capitation rate increase in FY 2019.

*Background* – This line item provides coverage to CMDP eligible children. CMDP is the health plan responsible for providing health services for children in foster care. The Department of Child Safety (DCS) administers the acute care services of the population while AHCCCS administers the behavioral health services through contracts with

Regional Behavioral Health Authorities (RHBAs). Of the CMDP line's Baseline funding in FY 2019, 25.2% funds acute care and 74.8% funds behavioral health services.

The FY 2018 budget appropriated acute care funding for the population within the Traditional Medicaid Services line and behavioral health service funding within the Medicaid Behavioral Health - Comprehensive Medical and Dental Program line. To reflect AHCCCS' planned integration of care contracts, the FY 2019 Baseline consolidates this funding under the Comprehensive Medical and Dental Program line in FY 2019. Funding in FY 2017 and FY 2018 continue to be displayed in separate lines. (See the *Integration of Care* section for additional information.)

**KidsCare Services**

The Baseline includes \$82,303,300 from the Children's Health Insurance Program (CHIP) Fund in FY 2019 for KidsCare Services. FY 2019 adjustments are as follows:

**Formula Adjustments**

The Baseline includes a decrease of \$(29,711,200) from the CHIP Fund in FY 2019 for formula adjustments. The adjustment includes:

- Revised FY 2018 enrollment projections that are (14.1)% lower than budgeted amounts.
- 2.0% enrollment growth in FY 2019.
- 3.5% capitation rate growth in FY 2019.

**Restore Health Insurer Fee**

The Baseline includes an increase of \$53,400 from the CHIP Fund in FY 2019 to restore payment of the ACA health insurer fee. (See the *Restore Health Insurer Fee* 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.

Following a temporary lapse in CHIP funding after federal fiscal year 2017, federal funding was retroactively extended the program for October 2017 to March 2018. The Baseline assumes that federal funding will be further extended at a later date.

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 is scheduled to continue through September 30, 2019. The federal monies are deposited into the CHIP Fund, and the CHIP Fund is then appropriated, along with the General Fund match, to fund the KidsCare program.

The FY 2018 Health Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 309) requires AHCCCS to 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 Baseline includes \$1,597,438,000 in FY 2019 for ALTCs services. This amount consists of:

|   |               |
|---|---------------|
| General Fund                              | 197,734,600   |
| County Funds                              | 267,772,200   |
| 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                | 1,054,941,400 |

FY 2019 adjustments are as follows:

**Formula Adjustments**

The Baseline includes an increase of \$38,523,500 in FY 2019 for formula adjustments. This amount consists of:

|                            |            |
|----------------------------|------------|
| General Fund               | 10,173,800 |
| County Funds               | 1,122,300  |
| Federal Medicaid Authority | 27,227,400 |

These adjustments include:

- 2.0% enrollment growth in FY 2019.
- An increase in the federal match rate from 69.73% to 69.83%.
- 3.5% capitation rate increase in FY 2019.

**Proposition 206 Rate Increase**

The Baseline includes an increase of \$11,562,600 in FY 2019 to fund provider rate increases for minimum wage provisions of Proposition 206. This amount consists of:

|              |           |
|--------------|-----------|
| General Fund | 1,946,700 |
| County Funds | 1,541,800 |

Federal Medicaid Authority 8,074,100

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

**Restore Health Insurer Fee**

The Baseline includes an increase of \$3,269,100 in FY 2019 to restore payment of the ACA health insurer fee. This amount consists of:

|                            |           |
|----------------------------|-----------|
| General Fund               | 549,400   |
| County Funds               | 434,900   |
| Federal Medicaid Authority | 2,284,800 |

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

*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 2017, AHCCCS estimates that client contributions paid for 4.9% 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.

**Non-Medicaid Behavioral Health Services**

**Non-Medicaid Seriously Mentally Ill Services**

The Baseline includes \$77,646,900 from the General Fund in FY 2019 for Non-Medicaid Seriously Mentally Ill (SMI) Services. FY 2019 adjustments are as follows:

**Transfer to Department of Health Services**

The Baseline includes a decrease of \$(1,200,000) from the General Fund in FY 2019 to transfer funding to the Department of Health Services to address an ongoing shortfall in the Arizona State Hospital Fund.

The budget in FY 2018 and prior years included a footnote requiring AHCCCS to transfer this funding to DHS. In FY 2019, the Baseline replaces this footnote with a direct appropriation of funding to DHS. *(See Other Issues section in the DHS narrative for additional information.)*

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

In January 2014, an exit agreement from the litigation was signed by Arizona’s Governor, Maricopa County, and the plaintiffs in the case. The Maricopa County Superior Court approved the agreement in February 2014. The exit agreement requires the state to begin meeting requirements by June 2016 for providing assertive community treatment, supported housing, supported employment, crisis services, and family and peer support services to individuals with a serious mental illness. *(Please see the Behavioral Health footnotes for more information on service targets established by the exit agreement, and see the FY 2015 Appropriations Report for a history of the case.)*

**Supported Housing**

The Baseline includes \$5,324,800 from the General Fund in FY 2019 for Supported Housing. This amount is unchanged from FY 2018.

*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 Baseline includes \$16,391,300 in FY 2019 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 2018.

*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.

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### **Hospital Payments**

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These line items represent supplemental payments made to hospitals and other providers separate from Medicaid service payments.

#### **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.

##### *Delayed Reduction in Federal Payments*

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

The Baseline does not reduce the state's total DSH payments for the scheduled federal reductions described above. As in past years, Congress may choose to further delay or modify the reductions. Given this uncertainty, the Baseline assumes scheduled federal reductions to DSH payments will be delayed.

##### *Increase in Uncompensated Care Payments*

Under the Baseline, the state's total DSH payments are estimated to increase by \$2,785,700, from \$162,098,400 in FY 2018 to \$164,884,100 in FY 2019. Of the \$164,884,100 of eligible DSH funding in FY 2019, \$121,925,700 is distributed according to the allocations described below and listed in *Table 3*. The remaining \$42,958,400 of eligible funding represents existing expenditures used as part of the state match.

Under a scenario in which scheduled federal DSH reductions are implemented, projected eligible funding would drop to \$147,510,700 in FY 2018 and \$141,983,400 in FY 2019 (*see estimates for Baseline and DSH Reduction scenarios in Table 3*).

##### *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 2018 Health BRB reduced eligible funding for MIHS from \$113,818,500 to \$108,874,800 in FY 2018 to reflect scheduled federal reductions in payments. Under the assumption that federal reductions to DSH payments will be delayed, the Baseline returns eligible funding for MIHS to \$113,818,500 in FY 2018 and FY 2019. The state will retain Federal Funds of \$75,345,400 in FY 2018 and \$75,254,400 in FY 2019 for deposit to the General Fund. The FY 2019 Baseline continues the state's current retention of all Federal Funds drawn down for ASH, which totals \$19,901,100 in FY 2018 and \$19,878,300 in FY 2019. In total, the Federal Funds drawn down for MIHS and ASH add \$95,246,500 to General Fund revenue in FY 2018 and \$95,132,700 in FY 2019.

Under federal DSH reductions, Federal Funds drawn down for MIHS and ASH would drop to \$94,298,600 in FY 2019. If implemented, the federal DSH cuts could reduce Baseline General Fund revenue by \$(834,100) in FY 2019. Under this scenario, the General Fund appropriation for MIHS could alternatively be reduced by \$(834,100) in FY 2019.

##### *MIHS Distribution*

While the state retains \$75,254,400 of the MIHS federal match as General Fund revenue, the Baseline includes an appropriation of \$4,202,300 of the federal draw down for distribution to MIHS. This distribution to MIHS is appropriated in the Disproportionate Share Payments line and is unchanged from FY 2018.

##### *Private Hospital Distribution*

The state appropriates General Fund dollars, which receive a drawdown of federal dollars, for DSH payments to private hospitals. The Baseline includes an \$884,800 total funds appropriation for this distribution in the Disproportionate Share Payments line, including \$267,100 from the General Fund and \$617,700 in Federal Medicaid Authority, and is unchanged from FY 2018.

##### *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

**Table 3**

**Disproportionate Share Hospital Payments**

|   | FY 2018                         |                        | FY 2019               |                        |
|---|---------------------------------|------------------------|-----------------------|------------------------|
|   | Baseline Scenario <sup>1/</sup> | DSH Reduction Scenario | Baseline Scenario     | DSH Reduction Scenario |
| <b>Eligible Funding <sup>2/</sup></b>                     |                                 |                        |                       |                        |
| MIHS - CPE  | \$113,818,500                   | \$ 113,818,500         | \$113,818,500         | \$ 112,623,700         |
| ASH - CPE   | 28,474,900                      | 28,474,900             | 28,474,900            | 28,474,900             |
| Private Hospitals   | 884,800                         | 884,800                | 884,800               | 884,800                |
| DSH Voluntary Match <sup>3/</sup>                         | <u>18,920,200</u>               | <u>4,332,500</u>       | <u>21,705,900</u>     | <u>0</u>               |
| <b>Total Funding</b>                                      | <b>\$162,098,400</b>            | <b>\$147,510,700</b>   | <b>\$164,884,100</b>  | <b>\$141,983,400</b>   |
| <b>Net Distribution - Disproportionate Share Payments</b> |                                 |                        |                       |                        |
| <u>General Fund</u>                                       |                                 |                        |                       |                        |
| Retain FF of CPE (via MIHS)                               | \$ 75,345,400                   | \$ 75,345,400          | \$ 75,254,400         | \$ 74,420,300          |
| Retain FF of CPE (via ASH)                                | <u>19,901,100</u>               | <u>19,901,100</u>      | <u>19,878,300</u>     | <u>19,878,300</u>      |
| Subtotal - General Fund                                   | \$ 95,246,500                   | \$ 95,246,500          | \$ 95,132,700         | \$ 94,298,600          |
| <u>Other Entities</u>                                     |                                 |                        |                       |                        |
| State MIHS  | \$ 4,202,300                    | \$ 4,202,300           | \$ 4,202,300          | \$ 4,202,300           |
| Private Hospitals   | <u>884,800</u>                  | <u>884,800</u>         | <u>884,800</u>        | <u>884,800</u>         |
| Subtotal - Other Entities                                 | \$ 5,087,100                    | \$ 5,087,100           | \$ 5,087,100          | \$ 5,087,100           |
| <b>Total DSH Distributions</b>                            | <b>\$100,333,600</b>            | <b>\$ 100,333,600</b>  | <b>\$ 100,219,800</b> | <b>\$ 99,385,700</b>   |
| <b>Voluntary Match</b>                                    | <b>\$ 18,920,200</b>            | <b>\$ 4,332,500</b>    | <b>\$ 21,705,900</b>  | <b>\$ 0</b>            |
| <b>Total Distributions</b>                                | <b>\$119,253,800</b>            | <b>\$104,666,100</b>   | <b>\$ 121,925,700</b> | <b>\$ 99,385,700</b>   |

<sup>1/</sup> The Baseline revises the FY 2018 amounts of eligible funding and distributions in the FY 2018 budget.

<sup>2/</sup> Amounts include state and federal match funding.

<sup>3/</sup> The Baseline continues a footnote that appropriates any payments in excess of \$21,705,900 for DSH Voluntary Payments in FY 2019.

match payments. The Baseline includes a \$21,705,900 total funds appropriation for this distribution in the DSH Payments - Voluntary Match line, including \$6,553,000 of local voluntary payments and \$15,152,900 in federal expenditure authority. The FY 2019 Baseline continues a prior year footnote that appropriates any additional payments in excess of \$21,705,900. Under federal payment reductions, funding available for this line would decrease to \$4,332,500 in FY 2018 and \$0 in FY 2019.

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 \$267,100 from the General Fund and \$617,700 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.

**Disproportionate Share Payments**

The Baseline includes \$5,087,100 in FY 2019 for Disproportionate Share Payments. This amount consists of:

|                            |           |
|----------------------------|-----------|
| General Fund               | 267,100   |
| Federal Medicaid Authority | 4,820,000 |

FY 2019 adjustments are as follows:

**Formula Adjustments**

The Baseline includes an increase of \$700 from the General Fund and a corresponding decrease of \$(700) from Federal Medicaid Authority in FY 2019 due to a change in the federal match rate.

**DSH Payments - Voluntary Match**

The Baseline includes \$21,705,900 in FY 2019 for DSH Payments - Voluntary Match. This amount consists of:

|                             |            |
|-----------------------------|------------|
| Political Subdivision Funds | 6,553,000  |
| Federal Medicaid Authority  | 15,152,900 |

FY 2019 adjustments are as follows:

**Increased Funding**

The Baseline includes an increase of \$2,785,700 in FY 2019 for an increase in eligible DSH funding. This amount consists of:

|                             |           |
|-----------------------------|-----------|
| Political Subdivision Funds | 856,100   |
| Federal Medicaid Authority  | 1,929,600 |

The FY 2018 budget reduced DSH funding for scheduled federal reductions, which resulted in elimination of funding for the DSH Payments - Voluntary Match line. As noted earlier, the FY 2019 Baseline assumes that the federal reductions will be delayed indefinitely. The FY 2018 budget includes a footnote that appropriates any additional payments in excess of \$0 in FY 2018. The FY 2019 Baseline increases funding for the DSH Payments - Voluntary Match line from \$0 to \$18,920,200 in FY 2018.

This line item provides DSH payments to hospitals with matching funds provided by political subdivisions. The Baseline continues a footnote from the FY 2018 budget that appropriates any additional payments above \$21,705,900 in FY 2019. The Baseline additionally continues provisions from the FY 2018 Health BRB that 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 \$113,818,500 in FY 2019. In FY 2016 there were 7 hospitals that received voluntary match DSH payments.

### **Rural Hospitals**

The Baseline includes \$22,650,000 in FY 2019 for Rural Hospitals (which includes Critical Access Hospitals (CAH)). This amount consists of:

|                            |            |
|----------------------------|------------|
| General Fund               | 6,838,000  |
| Federal Medicaid Authority | 15,812,000 |

FY 2019 adjustments are as follows:

#### **Formula Adjustments**

The Baseline includes an increase of \$18,100 from the General Fund and a corresponding decrease of \$(18,100) from Federal Medicaid Authority in FY 2019 due to a change in the federal match.

*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 2017, 21 hospitals qualified for funding from Rural Hospital Reimbursement and 11 from CAH.

### **Graduate Medical Education**

The Baseline includes \$274,684,900 in FY 2019 for Graduate Medical Education (GME) expenditures. This amount consists of:

|                             |             |
|-----------------------------|-------------|
| Political Subdivision Funds | 83,154,000  |
| Federal Medicaid Authority  | 191,530,900 |

FY 2019 adjustments are as follows:

#### **Decreased Funding**

The Baseline includes a decrease of \$(64,237,200) in FY 2019 for a reduction in GME payments. This amount consists of:

|                             |              |
|-----------------------------|--------------|
| Political Subdivision Funds | (21,597,600) |
| Federal Medicaid Authority  | (42,639,600) |

Although the FY 2018 General Appropriation Act displays a \$265,729,800 appropriation for FY 2018, a footnote appropriates any additional payments in excess of that amount. AHCCCS has informed JLBC that it expects to expend \$338,922,100 in total GME payments in FY 2018, or \$73,192,300 more than appropriated in the FY 2018 budget.

The FY 2018 appropriation has been adjusted to the \$338,922,100 level. Of that amount, \$34,237,300 represents late payments for medical education costs incurred in calendar year 2016. The Baseline decrease in FY 2019 partly results from 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 2017, 14 hospitals received a total of \$224,475,700 for Graduate Medical Education.

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

**Safety Net Care Pool**

The Baseline includes no funding in FY 2019 for the Safety Net Care Pool (SNCP) program. FY 2019 adjustments are as follows:

**Decreased Funding**

The Baseline includes a decrease of \$(75,000,000) in FY 2019 to reflect the federal phase-down of the program. This amount consists of:

|                             |              |
|-----------------------------|--------------|
| Political Subdivision Funds | (22,704,400) |
| Federal Medicaid Authority  | (52,295,600) |

*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, 1<sup>st</sup> Special Session, Chapter 10) allowed Phoenix Children’s Hospital (PCH) to continue to participate in the SNCP program through December 31, 2017.

The FY 2018 Health BRB further extends the date PCH may participate in the program to December 31, 2020. The federal government, however, has indicated it plans to end funding for the program after December 31, 2017. The Baseline continues a prior year footnote that appropriates any additional payments in excess of \$0 in FY 2019.

**Targeted Investments Program**

The Baseline includes \$70,000,000 in FY 2019 for the Targeted Investments Program. This amount consists of:

|                                |            |
|--------------------------------|------------|
| Delivery System Reform         | 21,773,100 |
| Incentive Payment (DSRIP) Fund |            |
| Federal Medicaid Authority     | 48,226,900 |

FY 2019 adjustments are as follows:

**Increased Funding**

The Baseline includes an increase of \$70,000,000 in FY 2019 to reflect resources authorized by the federal government for the Targeted Investments Program. This amount consists of:

|                            |            |
|----------------------------|------------|
| DSRIP Fund                 | 21,773,100 |
| Federal Medicaid Authority | 48,226,900 |

The FY 2017 Health BRB established the non-appropriated DSRIP Fund for state costs of the program. In FY 2018, the fund is displayed as non-appropriated. The Baseline converts the DSRIP Fund to expenditure authority under the budget structure in FY 2019.

*Background* – In January 2017, the Centers for Medicare and Medicaid Services (CMS) approved AHCCCS' request to create a Targeted Investments Program. AHCCCS began using the program in FY 2018 to make incentive payments to Medicaid providers that adopt processes to integrate physical care and behavioral health services. CMS has authorized up to \$300 million in total funds for the program from FY 2018 through FY 2022. The state portion of the program’s cost is funded from certified public expenditures for existing state-funded programs and voluntary contributions from local governments and public universities.

\* \* \*

**FORMAT** — Operating Lump Sum with Special Line Items by Agency

**FOOTNOTES**

*Standard Footnotes*

Operating Budget

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.

The amounts included in the Proposition 204 - AHCCCS Administration, Proposition 204 - DES Eligibility AND Proposition 204 Services and Medicaid Behavioral Health—~~Proposition 204 Services~~ line items include all available sources of funding consistent with A.R.S. § 36-2901.01B. *(The Baseline consolidates funding for Proposition 204 acute and behavioral health services into the Proposition 204 Services line in FY 2019.)*

Medical Services and Behavioral Health Services

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

The AHCCCS Administration shall report to the Joint Legislative Budget Committee on or before March 1, 2019 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.

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.

The AHCCCS Administration shall transfer up to \$1,200,000 from the Traditional Medicaid Services line item for FY 2019 to the Attorney General for costs associated with tobacco settlement litigation.

The AHCCCS Administration shall transfer \$436,000 from the Traditional Medicaid Services line item for FY 2019 to the Department of Revenue for enforcement costs associated with the March 13, 2013 Master Settlement Agreement with tobacco companies.

On or before ~~December 31, 2018,~~ and June 30, 2019, 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. *(The Baseline reduces the frequency of this report from semi-annual to annual.)*

#### Long Term Care

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.

Pursuant to A.R.S. § 11-292B the county portion of the FY 2019 nonfederal costs of providing long term care system services is \$267,772,200. This amount is included in the Expenditure Authority fund source.

Any supplemental payments received in excess of \$109,345,000 for nursing facilities that serve Arizona Long Term Care System Medicaid patients in FY 2019, including any federal matching monies, by the AHCCCS Administration are appropriated to the Administration in FY 2019. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision. These payments are included in the Expenditure Authority fund source.

#### Payments to Hospitals

The \$5,087,100 appropriation for Disproportionate Share Payments (DSH) for FY 2019 made pursuant to A.R.S. § 36-2903.01O includes \$4,202,300 for the Maricopa County Health Care District and \$884,800 for private qualifying disproportionate share hospitals.

Any monies received for Disproportionate Share Hospital payments from political subdivisions of this state, tribal governments and any university under the jurisdiction of the Arizona Board of Regents, and any federal monies used to match those payments, in FY 2019 by the AHCCCS Administration in excess of \$21,705,900 are appropriated to the Administration in FY 2019. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision.

The Expenditure Authority fund source includes voluntary payments made from political subdivisions for payments to hospitals that operate a graduate medical education program or treat low-income patients AND FOR PAYMENTS TO QUALIFYING PROVIDERS AFFILIATED WITH TEACHING HOSPITALS. The political subdivision portions of the FY 2019 costs of Graduate Medical Education, Disproportionate Share Payments - Voluntary Match, and Safety Net Care Pool, TRADITIONAL SERVICES, PROPOSITION 204 SERVICES, ADULT EXPANSION SERVICES



AND CHILDREN'S REHABILITATIVE SERVICES line items are included in the Expenditure Authority fund source. *(Beginning in FY 2018, the Baseline appropriates expenditure authority for payments to qualified providers under the Access to Professional Services Initiative.)*

Any monies for Graduate Medical Education received in FY 2019, including any federal matching monies, by the AHCCCS Administration in excess of \$274,684,900 are appropriated to the Administration in FY 2019. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision.

Any monies received in excess of \$0 for the Safety Net Care Pool by the AHCCCS Administration in FY 2019, including any federal matching monies, are appropriated to the Administration in FY 2019. Before the expenditure of these increased monies, the Administration shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of monies that will be expended under this provision.

#### Other

~~On or before January 5, 2019~~ June 30, 2019, 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, 2018. ~~On June 30, 2019, the Administration shall report the same information for all of FY 2019.~~ *(The Baseline reduces the frequency of this report from semi-annual to annual.)*

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

#### *Deletion of Prior Year Footnotes*

The Baseline would delete the footnote on developing a FY 2018 provider rate report.

The Baseline would delete the footnote requiring AHCCCS to make a transfer to DHS for medications at the Arizona State Hospital and instead directly appropriate the \$1,200,000 to DHS in FY 2019.

#### **STATUTORY CHANGES**

The Baseline would:

#### *Rates and Services*

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

#### *Counties*

- As session law, set the FY 2019 county Arizona Long Term Care System (ALTCs) contributions at \$267,772,200.
- As session law, set the County Acute Care contribution at \$46,512,900. This amount includes an inflation indexing of the Maricopa County contribution as required by Laws 2005, Chapter 328.
- As session law, continue to require the collection of \$2,646,200 in the Disproportionate Uncompensated Care pool contributions from counties other than Maricopa. Exclude these contributions from county expenditure limitations.
- As session law, continue to exclude Proposition 204 administration costs from county expenditure limitations.
- As session law, continue to require AHCCCS to transfer any excess monies back to the counties by December 31, 2019 if the counties' proportion of state match exceeds the proportion allowed in order to comply with the Federal Affordable Care Act.

#### *Hospitals*

- As session law, continue to establish FY 2019 disproportionate share (DSH) distributions to the Maricopa Special Health Care District (MIHS), the Arizona State Hospital, private qualifying disproportionate share hospitals, and Yuma Regional Medical Center. Increase the MIHS distribution to \$113,818,500 in FY 2018 and FY 2019.
- As session law, continue to require AHCCCS to give priority to rural hospitals in Pool 5 distribution, and allow MIHS to be eligible for Pool 5 allocations. Permit local jurisdictions to provide additional local match for Pool 5 distributions.

#### *Erroneous Payments*

- As session law, continue to permit AHCCCS to recover erroneous Medicare payments made due to errors by the federal Social Security Administration. Any credits received may be used to pay for the AHCCCS program in the year they are received.

#### *Available Funding*

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

#### *Reports*

- As session law, continue to require AHCCCS and DHS to submit a joint report to the Legislature and the Governor by January 2, 2019 on hospital costs and charges.

- As session law, continue to require AHCCCS to report to JLBC on or before January 2, 2019 on the availability of inpatient psychiatric treatment and "psychiatric boarding" in emergency rooms for children and adults enrolled in Arizona's Regional Behavioral Health Authorities.

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**Other Issues**

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This section includes information on the following topics:

- FY 2018 Adjustments
- Long-Term Budget Impacts
- Federal Funding for American Indians
- Prescription Drug Rebate Fund Balance Option
- Waiver Submittal
- Access to Professional Services Initiative
- SMI Funding
- County Contributions
- Program Components
- Tobacco Master Settlement Agreement
- Tobacco Tax Allocations

**FY 2018 Adjustments**

The Baseline includes a net supplemental increase of \$66,660,100 in FY 2018. *Table 4* below shows the adjustments included in the Baseline by fund source. The summary table at the front of the agency narrative has not been updated to reflect the recommended FY 2018 adjustments.

| <b>Table 4</b>                     |                     |
|------------------------------------|---------------------|
| <b>AHCCCS FY 2018 Adjustments</b>  |                     |
| General Fund                       | \$(9,043,500)       |
| <u>Expenditure Authority</u>       |                     |
| Federal Funds                      | \$49,577,700        |
| Political Subdivision Funds        | 8,973,200           |
| Tobacco Settlement Litigation Fund | 8,000,000           |
| Hospital Assessment                | 2,808,300           |
| Delivery System Reform             |                     |
| Incentive Payments Fund            | <u>6,344,400</u>    |
| <i>Subtotal</i>                    | <i>\$75,703,600</i> |
| <b>Total Funds</b>                 | <b>\$66,660,100</b> |

General Fund

The Baseline includes a \$(9,043,500) ex-appropriation from the General Fund in FY 2018 associated with lower-than-budgeted growth in acute care capitation and Traditional enrollment. While the enacted budget included 3.0% in acute care capitation growth, actual rates grew 1.0%. The FY 2019 Baseline also projects (11,006) fewer Traditional population enrollees in June 2018 than projected under the FY 2018 budget.

Expenditure Authority

The Baseline includes a FY 2018 supplemental increase of \$75,703,600 in Expenditure Authority. The supplemental includes \$56,076,400 for payments to providers through the Targeted Investments Program and Access to Professional Services Initiative. This amount consists of \$40,758,800 in Federal Funds, \$8,973,200 in Political Subdivision Funds, and \$6,344,400 from the Delivery System Reform Incentive Payments Fund. *(See the Targeted Investments Program line item and the Access to Professional Services Initiative section in Other Issues for additional information.)*

The remaining \$19,627,200 supplemental amount funds greater-than-budgeted formula growth in FY 2018. That amount includes \$8,818,900 in Federal Funds, \$8,000,000 from the Tobacco Settlement Litigation Fund, and \$2,808,300 from the Hospital Assessment Fund. This overall increase primarily funds greater-than-budgeted increases in capitation rates for behavioral health services and the Children's Rehabilitative Services program. Growth in these FY 2018 capitation rates was driven by increased utilization of services and programmatic changes.

**Long-Term Budget Impacts**

As part of the Baseline's 3-year spending plan, statutory caseload and policy changes are projected to increase AHCCCS's General Fund spending by \$128.5 million in FY 2020 above FY 2019 and by \$134.8 million in FY 2021 above FY 2020.

These estimates are based on:

- Overall enrollment growth of 2.0% in FY 2020 and FY 2021.
- Capitation rate growth of 3.5% in FY 2020 and FY 2021.
- A slight decrease in the federal match rate (from 69.83% in FY 2019 to 69.81% in FY 2020 and FY 2021).
- Continued 100% federal match rates for KidsCare and Child Expansion populations.
- An increase in State Prescription Drug Rebate Fund disbursements of \$5.9 million in FY 2020 above FY 2019 and \$9.8 million in FY 2021 above FY 2020.
- Provider rate increases associated with a Proposition 206 minimum wage hike to \$11.00 on January 1, 2019 and to \$12.00 on January 1, 2020. This is projected to increase General Fund spending by \$2.9 million in FY 2020 above FY 2019 and by \$2.1 million in FY 2021 above FY 2020.

Under federal law, the 100% federal match rate for KidsCare and Child Expansion populations is scheduled to

expire and decrease to a projected rate of 78.87% on October 1, 2019. The FY 2018 Health BRB requires AHCCCS to freeze enrollment in KidsCare if the program's federal match rate drops below 100% of costs.

The Baseline continues the 100% match rate for KidsCare and Child Expansion populations in all future years. All costs of these populations are projected to be funded through Arizona's federal allotment of Children's Health Insurance Program (CHIP) funding. As a result, the Baseline assumes enrollment in the KidsCare program will not be frozen.

In the event the 100% federal match rate does expire on October 1, 2019, General Fund costs would exceed Baseline estimates by \$38.7 million in FY 2020 and by a further \$9.8 million in FY 2021. These amounts represent the state costs of funding the KidsCare population under a freeze and the Child Expansion population at a 78.87% federal match rate. Federal costs of these populations would continue to be funded from Arizona's federal allocation of CHIP funding. Under an enrollment freeze, KidsCare membership is projected to decrease from 35,100 in September 2019 to 20,300 by June 2020 and 11,800 by June 2021.

**Federal Funding for American Indians**

The federal government provides a higher match rate for certain Medicaid services provided to American Indians. States may receive 100% federal funding for Medicaid services provided to American Indians if such services are provided by an Indian Health Services (IHS) facility/Tribal 638 Facility, whereas services rendered by non-IHS providers qualify for the regular 2-to-1 federal match rate.

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

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

In October 2017, AHCCCS began operating a new Medical Home program for American Indians that may facilitate the adoption of care coordination agreements eligible for 100% federal funding. The program authorizes federal payments to IHS/Tribal 638 Providers that engage in care coordination efforts on behalf of American Indian enrollees. Certain Medical Home providers will participate in "Care Management Collaboratives" that will include opportunities to execute care coordination agreements, but since the agreements are still voluntary, the extent of the potential savings associated with this initiative is unknown.

**Prescription Drug Rebate Fund Balance Option**

The FY 2019 Baseline is projected to have a cash balance shortfall. In addition, there may be legislative interest in retaining some of the \$90 million in one-time FY 2018 spending deleted in the FY 2019 Baseline. To address these issues, the Legislature could consider making a one-time transfer from the state portion of the Prescription Drug Rebate Fund (PDRF - State) to the General Fund in FY 2019.

AHCCCS reported a balance of \$78.6 million in the fund at the beginning of FY 2018. Under Baseline projections of ongoing fund revenues and disbursements, the PDRF - State balance is estimated to total \$72.8 million at the end of FY 2019 (see Table 5).

**Table 5**

**State Prescription Drug Rebate Fund Sources and Uses**

|                                     | <b>FY 2018</b>       | <b>FY 2019</b>       |
|-------------------------------------|----------------------|----------------------|
| <b>Revenues</b>                     |                      |                      |
| Projected Beginning Balance         | \$ 78,570,500        | \$ 72,821,700        |
| Projected Rebate Collections        | <u>139,942,400</u>   | <u>148,457,900</u>   |
| <b>Total Revenues</b>               | <b>\$218,512,900</b> | <b>\$221,279,600</b> |
| <b>Baseline Disbursements</b>       |                      |                      |
| Operating Budget and Administration | \$ 721,800           | \$ 720,900           |
| Proposition 206 Network Study       | 200,000              | 0                    |
| Traditional Services                | 137,191,000          | 140,158,600          |
| ALTCS Services                      | <u>7,578,400</u>     | <u>7,578,400</u>     |
| <b>Total Disbursements</b>          | <b>\$145,691,200</b> | <b>\$148,457,900</b> |
| <b>Projected Ending Balance</b>     | <b>\$ 72,821,700</b> | <b>\$ 72,821,700</b> |

**Waiver Submittal**

Laws 2015, Chapter 7 requires AHCCCS to reapply by March 30 of each year to implement a lifetime limit of 5 years for enrollment of able-bodied adults and a requirement for able-bodied adults to work, actively seek work, or participate in a job training program. The federal government has not previously approved Arizona's waiver application for these provisions.

On December 19, 2017 AHCCCS submitted a waiver amendment to implement a work requirement for able-bodied adults, with exemptions for the following populations:

- Individuals age 55 or older
- American Indians
- Former Arizona foster youth up to age 26
- Women for 90 days post-pregnancy
- Persons with a Serious Mental Illness
- Individuals receiving private or public disability benefits
- Full-time high school students older than age 18
- Full-time college or graduate students
- Victims of domestic violence
- Individuals who are homeless
- Individuals directly impacted by a natural disaster or death of someone in the same household
- Caregivers for a foster child less than 13 years old
- Caregivers for an ALTCS member
- Individuals who are medically frail

Able-bodied adults that do not receive an exemption would be required to engage in at least 20 hours of employment, school, or enrolled in an approved employment support and development program. Employment support and development programs could include job training, English as a second language courses, parenting education, healthy living classes, health insurance competency, disease management education or, in some cases, community service. Failure to comply for 6 months or more would result in termination of AHCCCS coverage, but individuals could re-enroll once they have demonstrated 30 consecutive days of compliance.

AHCCCS also reapplied for the 5-year time limit on coverage, and has requested additional flexibility to limit non-emergency medical transportation, prior quarter coverage, prescription drug coverage, federally-qualified health center reimbursement, fee-for-service reporting requirements, and renewal of previously approved federal waivers.

**Access to Professional Services Initiative**

AHCCCS is seeking federal approval of a proposal to create the Access to Professional Services Initiative (APSI). Under the program, providers at qualifying hospitals would receive a 40% rate increase for AHCCCS services beginning in FY 2018.

AHCCCS plans to allocate rate increases to physicians, physician assistants, nurse practitioners, psychologists

and other select providers. To qualify for added reimbursement, providers must be affiliated with one of the following types of hospitals:

- GME hospital operated by a special health care district.
- GME hospital that provides 30% or more of services to AHCCCS members and is operated by a university.
- Children's hospital or hospital unit with at least 100 pediatric beds.

The Baseline includes \$36.1 million in FY 2018 and \$51.2 million in FY 2019 to fund state and federal costs of the program. The state match for the program would be provided through voluntary contributions from political subdivisions. The federal match would be funded at the regular match rate (69.83% in FY 2019). As of this writing, the federal government has not approved the program.

**SMI Funding**

Table 6 shows the total Medicaid funding in FY 2019 for the integrated SMI population is \$1.0 billion for 43,519 recipients. This amount includes all funding for acute care and behavioral health services. State and federal funding for this population is located in the Traditional, Proposition 204, and Adult Expansion line items.

**Table 6**

**FY 2019 Budgeted Medicaid Funding for Integrated SMI**

|                            | <u>State Match</u>   | <u>Federal Match</u> | <u>Total Funds</u>     | <u>Enrollees</u> |
|----------------------------|----------------------|----------------------|------------------------|------------------|
| Traditional                | \$156,490,500        | \$362,492,600        | \$ 518,983,100         | 21,653           |
| Proposition 204            | 83,232,200           | 414,795,400          | 498,027,600            | 20,647           |
| Adult Expansion            | <u>1,911,800</u>     | <u>27,501,000</u>    | <u>29,412,800</u>      | <u>1,219</u>     |
| <b>Total <sup>1/</sup></b> | <b>\$241,634,500</b> | <b>\$804,789,000</b> | <b>\$1,046,423,500</b> | <b>43,519</b>    |

<sup>1/</sup> Estimates reflect Medicaid capitation spending for acute care and behavioral health services for the SMI population. They do not include any services funded by non-Medicaid state funds, federal grant funds, or county funds.

In FY 2019, an estimated \$30.7 million in additional total Medicaid funds will be spent on SMI services for non-integrated SMI clients. Of that amount, \$6.2 million is state matching funds, and \$24.5 million is federal matching funds.

**County Contributions**

County governments make 4 different payments to defray the AHCCCS budget's costs, as summarized in Table 7. The counties' single largest contribution is the ALTCS program. Pursuant to A.R.S. § 11-292, the state and the counties share in the growth of the ALTCS program, as defined by the following formula:

1. The growth is split 50% to the state, 50% to the counties.
2. The counties' portion is allocated among the counties based on their FY 2017 ALTCS utilization.
3. Each county's contribution is then limited to 90¢ per \$100 of net assessed property value. In FY 2019, this provision provides 4 counties with a total of \$8,539,200 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 2019, this provision provides 3 counties with a total of \$13,931,200 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 2019 no counties qualify for this relief.
6. The state pays for county costs above the average statewide per capita (\$41.09 in FY 2019). In FY 2019 this provision provides 7 counties with a total of \$13,097,900 in relief.

In FY 2019, provisions 3 through 6 of the ALTCS formula result in the state providing a total of \$35,568,300 in relief to 10 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 2019, the average capitation rate for acute care, behavioral health services, and long term care is expected to be approximately \$483 per member per month (or \$5,796 annually). Of that amount, an average of \$110 is from state match and \$373 from Federal Medicaid Authority.

#### Reinsurance

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

#### Fee-For-Service

Rather than using Capitation, Fee-For-Service payments are made for 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-

Table 7

### County Contributions

| County          | FY 2018            |                     |                    |                      | FY 2019            |                     |                    |                      |
|-----------------|--------------------|---------------------|--------------------|----------------------|--------------------|---------------------|--------------------|----------------------|
|                 | BNCF               | Acute               | DUC                | ALTCS                | BNCF               | Acute               | DUC                | ALTCS                |
| Apache          | \$120,500          | \$268,800           | \$87,300           | \$657,500            | \$123,800          | \$268,800           | \$87,300           | \$642,500            |
| Cochise         | 224,700            | 2,214,800           | 162,700            | 5,241,100            | 230,900            | 2,214,800           | 162,700            | 5,273,600            |
| Coconino        | 221,700            | 742,900             | 160,500            | 1,974,000            | 227,800            | 742,900             | 160,500            | 1,929,300            |
| Gila            | 91,100             | 1,413,200           | 65,900             | 2,208,500            | 93,600             | 1,413,200           | 65,900             | 2,232,500            |
| Graham          | 64,700             | 536,200             | 46,800             | 1,561,800            | 66,500             | 536,200             | 46,800             | 1,573,900            |
| Greenlee        | 16,600             | 190,700             | 12,000             | 28,000               | 17,100             | 190,700             | 12,000             | 48,700               |
| La Paz          | 34,500             | 212,100             | 24,900             | 526,000              | 35,400             | 212,100             | 24,900             | 597,400              |
| Maricopa        | 0                  | 18,783,100          | 0                  | 165,477,400          | 0                  | 18,482,600          | 0                  | 169,991,700          |
| Mohave          | 258,800            | 1,237,700           | 187,400            | 8,350,800            | 266,000            | 1,237,700           | 187,400            | 8,454,800            |
| Navajo          | 169,600            | 310,800             | 122,800            | 2,721,500            | 174,300            | 310,800             | 122,800            | 2,659,900            |
| Pima            | 1,541,300          | 14,951,800          | 1,115,900          | 40,974,000           | 1,583,900          | 14,951,800          | 1,115,900          | 41,628,200           |
| Pinal           | 301,600            | 2,715,600           | 218,300            | 15,344,200           | 309,900            | 2,715,600           | 218,300            | 13,814,100           |
| Santa Cruz      | 71,300             | 482,800             | 51,600             | 2,040,600            | 73,200             | 482,800             | 51,600             | 2,078,400            |
| Yavapai         | 284,900            | 1,427,800           | 206,200            | 8,840,500            | 292,800            | 1,427,800           | 206,200            | 8,306,100            |
| Yuma            | 254,000            | 1,325,100           | 183,900            | 8,727,300            | 261,000            | 1,325,100           | 183,900            | 8,541,100            |
| <b>Subtotal</b> | <b>\$3,655,300</b> | <b>\$46,813,400</b> | <b>\$2,646,200</b> | <b>\$264,673,200</b> | <b>\$3,756,200</b> | <b>\$46,512,900</b> | <b>\$2,646,200</b> | <b>\$267,772,200</b> |
| <b>Total</b>    |                    |                     |                    | <b>\$317,788,100</b> |                    |                     |                    | <b>\$320,687,500</b> |

mandated emergency services for unauthorized and qualified immigrants.

#### Medicare Premiums

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

#### Clawback

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

### **Tobacco Master Settlement Agreement**

The Baseline continues to require AHCCCS to transfer up to \$1,636,000 from the Traditional Medicaid Services line item in FY 2019 to assist in the enforcement of a multi-year settlement reached between tobacco companies and the state over the Master Settlement Agreement (MSA). This transfer amount consists of:

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

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

*Background* – In 1998, the major tobacco companies and 46 states reached a settlement in which the signatory tobacco companies would make an annual payment to compensate the states for Medicaid costs associated with tobacco use. Currently, Arizona receives an annual payment 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 Baseline allow DOR to comply with the terms of the amended agreement through enhanced auditing capabilities and an automated accounting system.

### **Tobacco Tax Allocations**

The Baseline projects AHCCCS and DHS will receive \$149.6 million in transfers of tobacco tax collections in FY 2018. This amount represents a decrease of \$(7.5) million (4.8%) from the FY 2018 budgeted amount. *Table 8* summarizes tobacco tax transfers and allocations to the agencies.

Table 8

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

|  | <u>FY 2017</u>       | <u>FY 2018</u>          |
|--|----------------------|-------------------------|
| <b>Medically Needy Account</b>                     |                      |                         |
| <u>Funds Available</u>                             |                      |                         |
| Balance Forward                                    | \$ 684,000           | \$ 17,300               |
| Transfer In - Tobacco Tax and Health Care Fund     | 46,614,300           | 44,818,400              |
| Transfer In - Tobacco Products Tax Fund            | <u>25,436,700</u>    | <u>24,435,300</u>       |
| <b>Total Funds Available</b>                       | <b>\$ 72,735,000</b> | <b>\$ 69,271,000</b>    |
| <u>Allocations</u>                                 |                      |                         |
| <i>AHCCCS</i>                                      |                      |                         |
| AHCCCS State Match Appropriation                   | \$ 72,042,700        | \$ 72,998,200           |
| Total AHCCCS Allocations                           | \$ 72,042,700        | \$ 72,998,200           |
| <i>DHS</i>   |                      |                         |
| Folic Acid   | \$ 362,300           | \$ 400,000              |
| Renal, Dental Care, and Nutrition Supplements      | 225,000              | 300,000                 |
| Administrative Adjustments                         | <u>87,700</u>        | <u>0</u>                |
| Total DHS Allocations                              | <u>675,000</u>       | <u>700,000</u>          |
| <b>Balance Forward</b>                             | <b>\$ 17,300</b>     | <b>\$ (4,427,200)</b> * |
| <b>AHCCCS Proposition 204 Protection Account</b>   |                      |                         |
| <u>Funds Available</u>                             |                      |                         |
| Balance Forward                                    | \$ 2,209,700         | \$ 0                    |
| Transfer In - Tobacco Products Tax Fund            | <u>39,426,800</u>    | <u>38,010,500</u>       |
| <b>Total Funds Available</b>                       | <b>\$ 41,636,500</b> | <b>\$ 38,010,500</b>    |
| <u>Allocations</u>                                 |                      |                         |
| AHCCCS State Match Appropriation                   | \$ 37,521,000        | \$ 40,413,000           |
| Administrative Adjustments                         | <u>4,115,500</u>     | <u>0</u>                |
| <b>Balance Forward</b>                             | <b>\$ 0</b>          | <b>\$ (2,402,500)</b> * |
| <b>AHCCCS Emergency Health Services Account</b>    |                      |                         |
| <u>Funds Available</u>                             |                      |                         |
| Balance Forward                                    | \$ 1,050,900         | \$ 0                    |
| Transfer In - Tobacco Products Tax Fund            | <u>18,778,200</u>    | <u>18,100,200</u>       |
| <b>Total Funds Available</b>                       | <b>\$ 19,829,100</b> | <b>\$ 18,100,200</b>    |
| <u>Allocations</u>                                 |                      |                         |
| AHCCCS State Match Appropriation                   | 18,747,200           | 19,244,300              |
| Administrative Adjustments                         | <u>\$ 1,081,900</u>  | <u>\$ 0</u>             |
| <b>Balance Forward <sup>1/</sup></b>               | <b>\$ 0</b>          | <b>\$ (1,144,100)</b> * |
| <b>DHS Health Education Account</b>                |                      |                         |
| <u>Funds Available</u>                             |                      |                         |
| Balance Forward                                    | \$ 7,997,200         | \$ 5,025,800            |
| Transfer In - Tobacco Tax and Health Care Fund     | 15,260,300           | 14,726,100              |
| Transfer In - Tobacco Products Tax Fund            | <u>1,877,300</u>     | <u>1,810,000</u>        |
| <b>Total Funds Available</b>                       | <b>\$ 25,134,800</b> | <b>\$ 21,561,900</b>    |
| <u>Allocations</u>                                 |                      |                         |
| Tobacco Education and Prevention Program           | \$ 17,785,300        | \$ 20,872,900           |
| Leading Causes of Death - Prevention and Detection | <u>2,323,700</u>     | <u>2,727,100</u>        |
| <b>Balance Forward</b>                             | <b>\$ 5,025,800</b>  | <b>\$ (2,038,100)</b> * |
| <b>Health Research Account</b>                     |                      |                         |
| <u>Funds Available</u>                             |                      |                         |
| Balance Forward                                    | \$ 10,367,500        | \$ 10,425,900           |
| Transfer In - Tobacco Tax and Health Care Fund     | 3,292,000            | 3,201,200               |
| Transfer In - Tobacco Products Tax Fund            | <u>4,657,400</u>     | <u>4,525,100</u>        |
| <b>Total Funds Available</b>                       | <b>\$ 18,316,900</b> | <b>\$ 18,152,200</b>    |
| <u>Allocations</u>                                 |                      |                         |
| Biomedical Research Support <sup>2/</sup>          | \$ 1,501,300         | \$ 2,000,000            |
| Alzheimer's Disease Research <sup>3/</sup>         | 2,000,000            | 2,000,000               |
| Biomedical Research Commission <sup>4/</sup>       | 3,890,900            | 9,078,000               |
| Administrative Adjustments                         | <u>498,800</u>       | <u>0</u>                |
| <b>Balance Forward</b>                             | <b>\$ 10,425,900</b> | <b>\$ 5,074,200</b>     |

- <sup>1/</sup> Any unencumbered funds in Emergency Health Services Account are transferred to Proposition 204 Protection Account at the end of each year.
- <sup>2/</sup> 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).
- <sup>3/</sup> 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. Laws 2017, Chapter 305 continues the increase in FY 2018.
- <sup>4/</sup> 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 and FY 2019, including research grants, research education, biospecimen locator, and public cord blood.
- \* Actual ending balance will not be negative.

| SUMMARY OF FUNDS  | FY 2017<br>Actual | FY 2018<br>Estimate          |
|---|-------------------|------------------------------|
| <b>Budget Neutrality Compliance Fund (HCA2478/A.R.S. § 36-2928)</b>   |                   | <b>Appropriated</b>          |
| <b>Source of Revenue:</b> County contributions.   |                   |                              |
| <b>Purpose of Fund:</b> To provide administrative funding for costs associated with the implementation of the Proposition 204 expansion. Proposition 204 shifted some county administrative functions to the state, for which the counties now compensate the state.  |                   |                              |
| <b>Funds Expended</b>   | 2,672,500         | 3,655,300                    |
| <b>Year-End Fund Balance</b>  | 890,800           | 0                            |
| <b>Children's Health Insurance Program Fund (HCA2409/A.R.S. § 36-2995)</b>  |                   | <b>Appropriated</b>          |
| <b>Source of Revenue:</b> Includes Medicaid matching monies for Arizona's State Children's Health Insurance Program (CHIP), called KidsCare. General Fund monies are used to leverage federal monies for KidsCare and are not included in the reported CHIP Fund expenditures.  |                   |                              |
| <b>Purpose of Fund:</b> To provide health insurance for low-income children 19 years of age and under. The eligibility limit for the KidsCare program has been set at 200% of the Federal Poverty Level (FPL), which is approximately \$49,200 for a family of 4. Laws 2016, Chapter 112 reopened enrollment in KidsCare, which had been frozen since 2010. KidsCare enrollees are eligible for 100% Federal Financial Participation through FFY 2019, subject to availability of federal appropriations for CHIP.  |                   |                              |
| <b>Funds Expended</b>   | 24,779,300        | 117,688,200                  |
| <b>Year-End Fund Balance</b>  | 2,476,300         | 0                            |
| <b>County Funds (HCA2120 Acute Care/HCA2223 Long Term Care/A.R.S. § 36-2912)</b>  |                   | <b>Expenditure Authority</b> |
| <b>Source of Revenue:</b> Statutorily prescribed county contributions.  |                   |                              |
| <b>Purpose of Fund:</b> For the provision of acute medical and long term care services to Arizona Health Care Costs Containment System (AHCCCS) eligible populations. County contributions and state General Fund appropriations serve as the state match for federal Medicaid dollars. County Funds received by AHCCCS to provide behavioral health services to persons with a serious mental illness are accounted for separately in the IGA for County Behavioral Health Services Fund.  |                   |                              |
| <b>Funds Expended</b>   | 300,633,300       | 314,132,800                  |
| <b>Year-End Fund Balance</b>  | 0                 | 0                            |
| <b>Delivery System Reform Incentive Payment Fund (HCA2130/A.R.S. § 36-2930.04)</b>  |                   | <b>EA/Non-Appropriated</b>   |
| <b>Source of Revenue:</b> Monies voluntarily given to AHCCCS from local governments or Arizona public universities in order to obtain a federal match.  |                   |                              |
| <b>Purpose of Fund:</b> To fund incentive payments to Medicaid providers that adopt processes to integrate physical care and behavioral health services through the Targeted Investment Program (TI Program). The projects will be funded with existing state matching monies and intergovernmental transfers (IGTs) from counties and universities. Money in the fund will only include state matching monies from IGTs and certified public expenditure for the TI Program. AHCCCS estimates the program will be associated with \$20.0 million in Total Funds in FY 2018, which consists of \$6.3 million in state matching monies and \$13.7 million in federal matching monies. The \$6.3 million estimated state portion consists of \$2.0 million in IGT funding and \$4.3 million in federal certified public expenditure funding calculated for existing state-funded programs. The state certifies the amount of public expenditures on qualifying state-funded health programs. The federal government then determines what the federal share of funding would have been for the projects if state funds had received a federal match. The federal government then makes available the calculated federal share of certified public expenditures to be used as state matching funds for the TI Program. Due to uncertainty about expected funding and timeline of projects under the program, the FY 2018 budget did not include an appropriation to the fund. The \$6.3 million in state matching monies the agency expects to spend from the fund in FY 2018 is displayed as Non-Appropriated expenditures. Funding amounts are displayed as Expenditure Authority in FY 2019. |                   |                              |
| <b>Expenditure Authority Funds Expended</b>   | 0                 | 0                            |
| <b>Non-Appropriated Funds Expended</b>  | 0                 | 6,344,400                    |
| <b>Year-End Fund Balance</b>  | 0                 | 0                            |
| <b>Employee Recognition Fund (HCA2025/A.R.S. § 36-2903)</b>   |                   | <b>Non-Appropriated</b>      |
| <b>Source of Revenue:</b> Private donations.  |                   |                              |
| <b>Purpose of Fund:</b> To be used for the agency's employee recognition program.   |                   |                              |
| <b>Funds Expended</b>   | 1,400             | 1,400                        |
| <b>Year-End Fund Balance</b>  | 4,700             | 5,300                        |



| SUMMARY OF FUNDS  | FY 2017<br>Actual | FY 2018<br>Estimate          |
|---|-------------------|------------------------------|
| <b>Federal - Medicaid Direct Services (HCA2120/A.R.S. § 36-2913)</b>  |                   | <b>Non-Appropriated</b>      |
| <b>Source of Revenue:</b> Federal funding through the U.S. Department of Health & Human Services, Centers for Medicare and Medicaid Services.   |                   |                              |
| <b>Purpose of Fund:</b> To reimburse schools participating in the Direct Services Claiming program for services provided to children with disabilities who are Medicaid eligible. All federal Medicaid monies must flow through AHCCCS, therefore, these monies are obtained by AHCCCS and then passed on to the participating schools.   |                   |                              |
| <b>Funds Expended</b>   | 30,859,600        | 46,352,600                   |
| <b>Year-End Fund Balance</b>  | 0                 | 0                            |
| <b>Federal Funds (HCA2000/A.R.S. § 36-2913)</b>   |                   | <b>Non-Appropriated</b>      |
| <b>Source of Revenue:</b> Federal grant monies.   |                   |                              |
| <b>Purpose of Fund:</b> To provide federal match for non-appropriated state expenditures. On July 1, 2016, the administration of federal behavioral health grants was transferred from DHS to AHCCCS. The transferred grants include the Block Grant for Substance Abuse Prevention and Treatment (SAPT), which is anticipated to account for \$55,934,700 in expenditures in FY 2018, and the Block Grant for Community Mental Health Services, which is anticipated to account for \$10,503,100 in expenditures in FY 2018. |                   |                              |
| <b>Funds Expended</b>   | 62,906,700        | 73,096,600                   |
| <b>Year-End Fund Balance</b>  | 776,100           | 0                            |
| <b>Federal Grants - American Recovery and Reinvestment Act (ARRA)<br/>(HCA2999/A.R.S. § 35-142)</b>   |                   | <b>Non-Appropriated</b>      |
| <b>Source of Revenue:</b> Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).   |                   |                              |
| <b>Purpose of Fund:</b> Federal Funds to assist Medicaid providers in adopting electronic medical records.  |                   |                              |
| <b>Funds Expended</b>   | 19,025,100        | 48,600,000                   |
| <b>Year-End Fund Balance</b>  | 0                 | 0                            |
| <b>Federal Medicaid Authority (HCA2120 Acute/HCA2223 Long Term Care/<br/>A.R.S. § 36-2913)</b>  |                   | <b>Expenditure Authority</b> |
| <b>Source of Revenue:</b> Federal funding through the U.S. Department of Health & Human Services, Centers for Medicare and Medicaid Services.   |                   |                              |
| <b>Purpose of Fund:</b> For AHCCCS' administrative costs and for the provision of services to eligible Medicaid populations. Any monies received in excess of the FY 2018 budgeted appropriations for the Nursing Facility Provider Assessment, Disproportionate Share Hospital (DSH) Voluntary Match Payments, Graduate Medical Education (GME), or Safety Net Care Pool (SNCP) program by the AHCCCS administration in FY 2018, including any federal matching monies, are appropriated to the Administration in FY 2018.   |                   |                              |
| <b>Funds Expended</b>   | 7,929,709,600     | 8,636,179,300                |
| <b>Year-End Fund Balance</b>  | 53,521,000        | 23,372,000                   |
| <b>Hospital Assessment Fund (HCA9692/A.R.S. § 36-2901.09)</b>   |                   | <b>Expenditure Authority</b> |
| <b>Source of Revenue:</b> An assessment on hospital revenues, discharges, or beds days.   |                   |                              |
| <b>Purpose of Fund:</b> For funding the non-federal share of Proposition 204 services and the adult population who became eligible for AHCCCS services on January 1, 2014.  |                   |                              |
| <b>Funds Expended</b>   | 238,267,200       | 286,512,600                  |
| <b>Year-End Fund Balance</b>  | 28,901,900        | 15,758,400                   |
| <b>Hospital Loan Residency Fund (HCA2532/A.R.S. § 36-2921)</b>  |                   | <b>Non-Appropriated</b>      |
| <b>Source of Revenue:</b> Received a \$1,000,000 deposit from the General Fund in FY 2007. In future years, will also include any repaid loan money received from the participating hospitals.  |                   |                              |
| <b>Purpose of Fund:</b> To provide interest free loans to fund start-up and ongoing costs for residency programs in accredited hospitals, with priority given to rural areas.   |                   |                              |
| <b>Funds Expended</b>   | 0                 | 0                            |
| <b>Year-End Fund Balance</b>  | 900,000           | 900,000                      |

| SUMMARY OF FUNDS  | FY 2017<br>Actual | FY 2018<br>Estimate          |
|---|-------------------|------------------------------|
| <b>IGA for County Behavioral Health Services Fund (HCA4503/A.R.S. § 36-108.01)</b>  |                   | <b>Non-Appropriated</b>      |
| <b>Source of Revenue:</b> Monies from local governments and state liquor service fees.  |                   |                              |
| <b>Purpose of Fund:</b> To fund the delivery of behavioral health services to seriously mentally ill (SMI) individuals, some mental health services for non-SMI individuals, and the administration of Local Alcohol Reception Centers (LARC) to treat substance abuse. In FY 2018, the fund will receive \$58.9 million from Maricopa County, \$3.0 million from Pima County, \$1.0 million from Coconino County, \$0.1 million from the City of Phoenix, and \$0.1 million in Liquor Service Fees from the Department of Liquor Licenses and Control. This fund was transferred from DHS to AHCCCS on July 1, 2016. |                   |                              |
| <b>Funds Expended</b>   | 60,510,600        | 63,059,800                   |
| <b>Year-End Fund Balance</b>  | 0                 | 0                            |
| <b>Intergovernmental Service Fund (HCA2438/A.R.S. § 36-2927)</b>  |                   | <b>Non-Appropriated</b>      |
| <b>Source of Revenue:</b> Monies collected from the State of Hawaii.  |                   |                              |
| <b>Purpose of Fund:</b> To be used for costs associated with information technology services provided by AHCCCS to the State of Hawaii for the design, development, implementation, operation, and maintenance of a Medical Management Information System.  |                   |                              |
| <b>Funds Expended</b>   | 8,135,100         | 8,135,100                    |
| <b>Year-End Fund Balance</b>  | 850,500           | 522,200                      |
| <b>Nursing Facility Provider Assessment Fund (HCA2567/A.R.S. § 36-2999.53)</b>  |                   | <b>Expenditure Authority</b> |
| <b>Source of Revenue:</b> Assessment on health care items and services provided by some nursing facilities, nursing facility penalties, grants, gifts, and contributions from public or private sources.  |                   |                              |
| <b>Purpose of Fund:</b> To qualify for federal matching funds for supplemental payments for nursing facility services, to reimburse the Medicaid sharer of the assessment, to provide Medicaid supplemental payments to fund covered nursing facility services for Medicaid beneficiaries, and to pay up to 1% in administrative expenses incurred by AHCCCS for administering this fund.   |                   |                              |
| <b>Funds Expended</b>   | 24,564,600        | 32,989,400                   |
| <b>Year-End Fund Balance</b>  | 4,829,100         | 4,836,600                    |
| <b>Political Subdivision Funds (HCA1111/A.R.S. § 36-2927)</b>   |                   | <b>Expenditure Authority</b> |
| <b>Source of Revenue:</b> Monies voluntarily given to AHCCCS from local governments, tribal communities, or Arizona public universities in order to obtain a federal match.   |                   |                              |
| <b>Purpose of Fund:</b> To expand funding for hospitals through supplemental payments and the Access to Professional Services Initiative. Includes agreements for the Disproportionate Share Hospital (DSH) Voluntary Match Payments, Graduate Medical Education (GME), and Safety Net Care Pool (SNCP) programs.   |                   |                              |
| <b>Funds Expended</b>   | 115,294,000       | 133,152,900                  |
| <b>Year-End Fund Balance</b>  | 0                 | 0                            |
| <b>Prescription Drug Rebate Fund (HCA2546/A.R.S. § 36-2930)</b>   |                   | <b>EA/Appropriated</b>       |
| <b>Source of Revenue:</b> Prescription drug rebate collections and interest from prescription drug rebate late payments.  |                   |                              |
| <b>Purpose of Fund:</b> To pay for the administrative costs of the Prescription Drug Rebate Program, for payments to contractors or providers in the administration's medical services programs, and to offset General Fund costs for Medicaid programs. The federal share of rebates is retained by the state and is used in lieu of federal match funds. Monies in the fund used in lieu of federal match funds are subject to expenditure authority; all other monies are appropriated.  |                   |                              |
| <b>State Funds Expended</b>   | 113,740,000       | 145,691,200                  |
| <b>Funds Expended In Lieu of Federal Funds</b>  | 536,111,500       | 465,663,000                  |
| <b>Year-End Fund Balance</b>  | 122,004,100       | 114,817,500                  |
| <b>Proposition 202 - Trauma and Emergency Services Fund (HCA2494/A.R.S. § 36-2903.07)</b>   |                   | <b>Non-Appropriated</b>      |
| <b>Source of Revenue:</b> Gaming monies received from the Arizona Benefits Fund.  |                   |                              |
| <b>Purpose of Fund:</b> For unrecovered trauma center readiness and emergency services costs.   |                   |                              |
| <b>Funds Expended</b>   | 22,095,900        | 24,089,700                   |
| <b>Year-End Fund Balance</b>  | 6,259,600         | 6,259,600                    |

| SUMMARY OF FUNDS  | FY 2017<br>Actual | FY 2018<br>Estimate           |
|---|-------------------|-------------------------------|
| <b>Seriously Mentally Ill Housing Trust Fund (HCA2555/A.R.S. § 41-3955.01)</b>  |                   | <b>Partially-Appropriated</b> |
| <b>Source of Revenue:</b> Receives \$2,000,000 from the proceeds of the sales of unclaimed property and interest income. A.R.S. § 44-313 states that the first \$2,000,000 in unclaimed property revenues are distributed to the Seriously Mentally Ill Housing Trust Fund. The second \$2,500,000 in unclaimed property revenues are distributed to the Housing Trust Fund, which is administered by the Department of Housing.  |                   |                               |
| <b>Purpose of Fund:</b> To fund housing projects as well as rental assistance for the seriously mentally ill. The non-appropriated portion of the fund is used for rental assistance for seriously mentally individuals, as well as the operation, construction or renovation of a facility that houses seriously mentally ill individuals. The appropriated portion pays for administration expenses, and may not exceed 10% of the Seriously Mentally Ill Housing Trust monies. No funding was appropriated to the fund for administrative expenses in FY 2017 or FY 2018. This fund was transferred from DHS to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195. |                   |                               |
| <b>Appropriated Funds Expended</b>  | 0                 | 0                             |
| <b>Non-Appropriated Funds Expended</b>  | 526,200           | 3,140,900                     |
| <b>Year-End Fund Balance</b>  | 5,766,200         | 4,625,300                     |
| <b>Substance Abuse Services Fund (HCA2227/A.R.S. § 36-2005)</b>   |                   | <b>Appropriated</b>           |
| <b>Source of Revenue:</b> The fund receives 23.6% of monies collected from Medical Services Enhancement Fund, which is a 13% penalty levied on criminal offenses, motor vehicle civil violations, and game and fish violations. Monies are deposited into 2 subaccounts.  |                   |                               |
| <b>Purpose of Fund:</b> To provide alcohol and other drug screening, education or treatment for persons court-ordered to attend and who do not have the financial ability to pay for the services, to contract for preventive or rehabilitative and substance abuse services, and to provide priority for treatment services to pregnant substance abusers. This fund transferred from DHS to AHCCCS on July 1, 2016 pursuant to Laws 2015, Chapters 19 and 195.  |                   |                               |
| <b>Funds Expended</b>   | 2,250,200         | 2,250,200                     |
| <b>Year-End Fund Balance</b>  | 2,777,100         | 2,777,100                     |
| <b>Third Party Liability and Recovery Fund (HCA3791 Acute Care/HCA3019 Long Term Care/A.R.S. § 36-2913)</b>   |                   | <b>EA/Non-Appropriated</b>    |
| <b>Source of Revenue:</b> Collections from third-party payers and revenues from lien and estate recoveries.   |                   |                               |
| <b>Purpose of Fund:</b> To provide acute medical services to AHCCCS members.  |                   |                               |
| <b>Expenditure Authority Funds Expended</b>   | 0                 | 194,700                       |
| <b>Non-Appropriated Funds Expended</b>  | 0                 | 1,303,600                     |
| <b>Year-End Fund Balance</b>  | 2,292,100         | 1,808,800                     |
| <b>Tobacco Litigation Settlement Fund (TRA2561/A.R.S. § 36-2901.02)</b>   |                   | <b>Expenditure Authority</b>  |
| <b>Source of Revenue:</b> Monies received from tobacco companies as part of a lawsuit settlement.   |                   |                               |
| <b>Purpose of Fund:</b> Established by Proposition 204 (enacted in the 2000 General Election) to provide funding to expand the AHCCCS program to 100% of the Federal Poverty Level and for 6 public health programs.  |                   |                               |
| <b>Funds Expended</b>   | 101,521,700       | 79,000,000                    |
| <b>Year-End Fund Balance</b>  | 0                 | 0                             |
| <b>Tobacco Products Tax Fund - Emergency Health Services Account* (HCA1304/A.R.S. § 36-776)</b>   |                   | <b>Appropriated</b>           |
| <b>Source of Revenue:</b> This account receives 20¢ of each dollar deposited into the Tobacco Products Tax Fund, administered by the Department of Revenue.   |                   |                               |
| <b>Purpose of Fund:</b> For primary care services, reimbursement of uncompensated care costs, and trauma center readiness costs.  |                   |                               |
| <b>Tobacco Products Tax Fund - Proposition 204 Protection Account* (HCA1303/A.R.S. § 36-778)</b>  |                   | <b>Expenditure Authority</b>  |
| <b>Source of Revenue:</b> This account receives 42¢ of each dollar deposited into the Tobacco Products Tax Fund, administered by the Department of Revenue.   |                   |                               |
| <b>Purpose of Fund:</b> To fund state match costs in AHCCCS for the Proposition 204 program. These monies are non-appropriated and must be spent before any other state monies on the Proposition 204 program.  |                   |                               |

| SUMMARY OF FUNDS | FY 2017<br>Actual | FY 2018<br>Estimate |
|------------------|-------------------|---------------------|
|------------------|-------------------|---------------------|

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

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

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

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

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

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

\*See Table 8