

Arizona Health Care Cost Containment System

	FY 2018 ACTUAL	FY 2019 ESTIMATE	FY 2020 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,326.3	2,339.3	2,339.3 ^{1/}
Personal Services	43,695,300	43,277,900	43,277,900
Employee Related Expenditures	18,472,300	18,279,200	18,383,900
Professional and Outside Services	10,904,900	11,146,800	11,146,800
Travel - In State	119,400	117,600	117,600
Travel - Out of State	24,500	24,100	24,100
Other Operating Expenditures	16,294,500	18,064,900	27,995,200
Equipment	569,000	574,800	574,800
OPERATING SUBTOTAL	90,079,900	91,485,300	101,520,300 ^{2/}
SPECIAL LINE ITEMS			
Administration			
ADOA Data Center	15,982,000	19,325,800	19,325,800
DES Eligibility	72,922,300	88,874,500	88,874,500 ^{3/}
Proposition 204 - AHCCCS Administration	17,788,800	13,143,500	13,155,200 ^{4/}
Proposition 204 - DES Eligibility	35,744,700	44,358,700	44,358,700 ^{4/}
Proposition 206 - Network Adequacy Report	61,700	0	0
Medicaid Services			
Traditional Medicaid Services	4,990,029,500	5,330,621,600	5,179,189,700 ^{5/6/7/8/}
Proposition 204 Services	3,587,140,400	3,936,110,800	4,168,410,500 ^{4/7/8/}
Adult Expansion Services	535,974,400	563,077,900	527,018,800 ^{7/8/}
Children's Rehabilitative Services	299,473,400	0	0
Comprehensive Medical and Dental Program	134,885,200	199,914,500	180,729,500 ^{7/}
KidsCare Services	57,555,400	81,846,900	106,516,300
ALTCS Services	1,541,358,300	1,605,757,300	1,796,913,800 ^{9/10/11/}
Behavioral Health Services in Schools	0	9,943,700	9,990,000
Non-Medicaid Behavioral Health Services			
Non-Medicaid Seriously Mentally Ill Services	78,180,000	77,646,900	77,646,900 ^{12/}
Supported Housing	5,330,200	5,324,800	5,324,800
Crisis Services	16,407,200	16,391,300	16,391,300
Substance Use Disorder Services Fund Deposit	10,000,000	0	0
Hospital Payments			
Disproportionate Share Payments	4,859,900	5,087,100	5,087,100 ^{13/}
DSH Payments - Voluntary Match	15,493,600	38,220,300	40,980,200 ^{8/14/}
Graduate Medical Education	272,269,400	375,773,400	303,551,500 ^{8/15/-18/}
Graduate Medical Education - Community Health Centers	0	0	750,000
Rural Hospitals	22,650,000	28,612,400	28,612,400
Safety Net Care Pool	54,663,300	0	0 ^{8/19/}
Targeted Investments Program	19,991,900	70,000,000	90,000,000
AGENCY TOTAL	11,878,841,500	12,601,516,700	12,804,347,300 ^{20/-24/}
FUND SOURCES			
General Fund	1,759,338,500	1,740,528,600	1,760,748,100
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	4,251,300	3,756,200	3,906,400
Children's Health Insurance Program Fund	60,114,000	87,572,700	104,650,200
Prescription Drug Rebate Fund - State	145,284,800	148,458,800	150,526,700
Substance Abuse Services Fund	2,250,200	2,250,200	2,250,200
TPTF Emergency Health Services Account	17,627,300	17,966,100	16,216,300

	FY 2018 ACTUAL	FY 2019 ESTIMATE	FY 2020 APPROVED
TTHCF Medically Needy Account	69,486,100	68,040,500	61,752,600
SUBTOTAL - Other Appropriated Funds	299,013,700	328,044,500	339,302,400
SUBTOTAL - Appropriated Funds	2,058,352,200	2,068,573,100	2,100,050,500
<u>Expenditure Authority Funds</u>			
County Funds	315,700,800	315,067,700	336,437,800
Delivery System Reform Incentive Payment Fund	6,149,500	21,773,100	28,062,400
Federal Medicaid Authority	8,408,942,600	9,039,581,900	9,106,639,800
Hospital Assessment Fund	255,421,000	310,023,300	340,871,900
Nursing Facility Provider Assessment Fund	32,501,500	32,989,400	32,989,600
Political Subdivision Funds	114,602,300	138,077,400	113,986,000
Prescription Drug Rebate Fund - Federal	548,393,900	550,507,200	609,060,300
Third Party Liability and Recovery Fund	0	194,700	194,700
Tobacco Litigation Settlement Fund	101,761,000	87,000,000	102,000,000
TPTF Proposition 204 Protection Account	37,016,700	37,728,900	34,054,300
SUBTOTAL - Expenditure Authority Funds	9,820,489,300	10,532,943,600	10,704,296,800
SUBTOTAL - Appropriated/Expenditure Authority Funds	11,878,841,500	12,601,516,700	12,804,347,300
Other Non-Appropriated Funds	97,115,000	110,247,600	110,247,600
Federal Funds	132,182,200	193,060,400	193,461,800
TOTAL - ALL SOURCES	12,108,138,700	12,904,824,700	13,108,056,700

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

FOOTNOTES

- 1/ Includes 619.3 GF and 696.8 EA FTE Positions funded from Special Line Items in FY 2020.
- 2/ Of the amount appropriated for the Operating Lump Sum, \$100,000 shall be used for a suicide prevention coordinator to assist school districts and charter schools in suicide prevention efforts. The AHCCCS Administration, in consultation with the Department of Education, shall report to the Governor, the President of the Senate, the Speaker of the House of Representatives, the Director of the Joint Legislative Budget Committee and the Director of the Governor's Office of Strategic Planning and Budgeting on or before September 1, 2020 on the suicide prevention coordinator's accomplishments in FY 2020. (General Appropriation Act footnote)
- 3/ The amount appropriated for the DES Eligibility line item shall be used for intergovernmental agreements with the Department of Economic Security for eligibility determination and other functions. The state General Fund share may be used for eligibility determination for other programs administered by the Division of Benefits and Medical Eligibility based on the results of the Arizona Random Moment Sampling Survey. (General Appropriation Act footnote)
- 4/ The amounts included in the Proposition 204 - AHCCCS Administration, Proposition 204 - DES Eligibility and Proposition 204 Services line items include all available sources of funding consistent with A.R.S. § 36-2901.01B. (General Appropriation Act footnote)
- 5/ The AHCCCS Administration shall transfer up to \$1,200,000 from the Traditional Medicaid Services line item for FY 2020 to the Attorney General for costs associated with tobacco settlement litigation. (General Appropriation Act footnote)
- 6/ The AHCCCS Administration shall transfer \$836,000 from the Traditional Medicaid Services line item for FY 2020 to the Department of Revenue for enforcement costs associated with the March 13, 2013 Master Settlement Agreement with tobacco companies. (General Appropriation Act footnote)
- 7/ The Legislature intends that the percentage attributable to administration and profit for the Regional Behavioral Health Authorities be 9% of the overall capitation rate. (General Appropriation Act footnote)
- 8/ 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 2020 costs of Graduate Medical Education, Disproportionate Share Payments - Voluntary Match, Safety Net Care Pool, Traditional Medicaid

Services, Proposition 204 Services and Adult Expansion Services line items are included in the Expenditure Authority fund source. (General Appropriation Act footnote)

- 9/ Any federal monies that the AHCCCS Administration passes through to the Department of Economic Security for use in long term care for persons with developmental disabilities do not count against the long-term care expenditure authority above. (General Appropriation Act footnote)
- 10/ Pursuant to A.R.S. § 11-292B, the county portion of the FY 2020 nonfederal costs of providing long term care system services is \$290,276,100. This amount is included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 11/ Any supplemental payments received in excess of \$108,386,600 for nursing facilities that serve Arizona Long Term Care System Medicaid patients in FY 2020, including any federal matching monies, by the AHCCCS Administration are appropriated to the Administration in FY 2020. Before spending 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 spent under this provision. These payments are included in the Expenditure Authority fund source. (General Appropriation Act footnote)
- 12/ On or before June 30, 2020, the AHCCCS Administration shall report to the Joint Legislative Budget Committee on the progress in implementing the *Arnold v. Sarn* lawsuit settlement. The report shall include, at a minimum, the Administration's progress toward meeting all criteria specified in the 2014 joint stipulation, including the development and estimated cost of additional behavioral health service capacity in Maricopa County for supported housing services for 1,200 class members, supported employment services for 750 class members, 8 assertive community treatment teams and consumer operated services for 1,500 class members. The Administration shall also report by fund source the amounts it plans to use to pay for expanded services. (General Appropriation Act footnote)
- 13/ The \$5,087,100 appropriation for Disproportionate Share Payments (DSH) for FY 2020 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. (General Appropriation Act footnote)
- 14/ Any monies received for Disproportionate Share Hospital payments from political subdivisions of this state, tribal governments and any university under the jurisdiction of the Arizona Board of Regents, and any federal monies used to match those payments, in FY 2020 by the AHCCCS Administration in excess of \$40,980,200 are appropriated to the Administration in FY 2020. Before spending 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 spent under this provision. (General Appropriation Act footnote)
- 15/ Any monies for Graduate Medical Education received in FY 2020, including any federal matching monies, by the AHCCCS Administration in excess of \$303,551,500 are appropriated to the Administration in FY 2020. Before spending 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 spent under this provision. (General Appropriation Act footnote)
- 16/ Notwithstanding A.R.S. § 36-2903.01G9 (a), (b) and (c), the amount for Graduate Medical Education includes \$1,666,700 from the state General Fund and \$3,857,700 from Expenditure Authority for the direct costs of graduate medical education programs located in a county with a population of less than 500,000 persons. The state General Fund amount may supplement, but not supplant, voluntary payments made from political subdivisions for payments to hospitals that operate a graduate medical education program. The Administration shall prioritize distribution to programs at hospitals in counties with a higher percentage of persons residing in a health professional shortage area as defined in 42 Code of Federal Regulations part 5. (General Appropriation Act footnote)
- 17/ Notwithstanding A.R.S. § 36-2903.01G9 (a), (b) and (c), the amount for Graduate Medical Education includes \$1,333,300 from the state General Fund and \$3,086,000 from Expenditure Authority for the direct costs of graduate medical education programs located in a county with a population of more than 500,000 persons. The state General Fund amount may supplement, but not supplant, voluntary payments made from political subdivisions for payments to hospitals that operate a graduate medical education program. The Administration shall prioritize distribution to programs at hospitals in counties with a higher percentage of persons residing in a health professional shortage area as defined in 42 Code of Federal Regulations part 5. (General Appropriation Act footnote)
- 18/ Monies appropriated for Graduate Medical Education in this section are exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations until June 30, 2021. (General Appropriation Act footnote)
- 19/ Any monies received for the Safety Net Care Pool by the AHCCCS Administration in FY 2020, including any federal matching monies, are appropriated to the Administration in FY 2020. Before spending these 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 spent under this provision. (General Appropriation Act footnote)
- 20/ The non-appropriated portion of the Prescription Drug Rebate Fund established by A.R.S. § 36-2930 is included in the federal portion of the Expenditure Authority fund source. (General Appropriation Act footnote)

- 21/ Before making fee-for-service program or rate changes that pertain to fee-for-service rate categories, the AHCCCS Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 22/ The AHCCCS Administration shall report to the Joint Legislative Budget Committee on or before March 1, 2020 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 implementing any changes in capitation rates, the Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. Before the Administration implements any change in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the Administration shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal impact analysis demonstrates that this change will result in additional state costs of \$500,000 or more for any fiscal year, the Administration shall submit the policy change for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 23/ On or before July 1, 2020, 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, 2019. (General Appropriation Act footnote)
- 24/ General Appropriation Act funds are appropriated as Operating Lump Sum with Special Line Items by Agency.

Summary

AHCCCS' FY 2020 General Fund spending increases by \$20,219,500, or 1.2%, from FY 2019. This amount includes:

- \$30,675,400 for formula adjustments;
- \$11,800,000 for long term care provider rate adjustments;
- \$3,000,000 for Graduate Medical Education funding in health professional shortage areas;
- \$750,000 for one-time funding of Graduate Medical Education in community health centers in Northern Arizona;
- \$(26,054,100) to transfer DD behavioral health services to DES; and
- \$48,200 for statewide adjustments

Table 1 summarizes these changes. Below is an overview of FY 2020 formula adjustments. As part of the budget's 3-year spending plan AHCCCS' General Fund costs are projected to increase by \$136,097,000 in FY 2021 above FY 2020 and by \$73,137,100 in FY 2022 above FY 2021. (See the Other Issues section for more information.)

Table 1

AHCCCS General Fund Budget Spending Changes
(\$ in millions)

Formula Adjustments^{1/}

Formula Adjustments	\$ 31
ALTCS Provider Rate Increase	12
GME	3
Community Health Center GME	1
Transfer DD Behavioral Health	(26)

Total Spending Change **\$ 20**

^{1/} 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. The budget includes \$29,088,500 from the General Fund in FY 2020 for the following AHCCCS formula adjustments.

- Base adjustment for lower-than-budgeted FY 2019 formula growth. (Please see the FY 2019 Ex-Appropriation section for more information.)
- Aggregate FY 2020 caseload growth of 0.2%. Table 2 provides budgeted enrollment growth by AHCCCS program in FY 2020.
- Inflation growth of 3.0%.
- An increase in the regular Federal Medical Assistance Percentage (FMAP) from 69.81% to 70.02% effective October 1, 2019.
- A decrease in the Children's Health Insurance Program (CHIP) match from 100% to 90.51% effective October 1, 2019.
- A decrease in the ACA expansion match rate (Adult Expansion and Proposition 204 Childless Adults) from 93.00% to 90.00% effective January 1, 2020.
- Changes in other revenues that cover state match expenses, including monies from tobacco taxes, county collections, and the Hospital Assessment.
- One-time savings for the suspension of the Affordable Care Act Health Insurer Fee in FY 2020. A federal continuing resolution (P.L. 115-120) imposed a one-time moratorium on the fee in CY 2019.

Table 2

AHCCCS Member Months ^{1/}

	June 2018 <u>(Actual)</u>	June 2019 <u>(Actual)</u>	June 2020 <u>(Budgeted)</u>	'19- '20% <u>Change</u>
Population				
Traditional	1,016,241	1,009,019	1,000,341	(0.9)%
Prop 204 Childless Adults	305,638	319,925	325,364	1.7
Other Proposition 204	182,069	185,961	189,122	1.7
Adult Expansion	76,207	76,825	78,131	1.7
KidsCare	29,733	34,318	34,901	1.7
CMDP	14,316	13,147	13,147	0.0
ALTCS - Elderly & Physically Disabled ^{2/}	29,734	31,241	31,772	1.7
Emergency Services	<u>110,661</u>	<u>112,234</u>	<u>114,142</u>	<u>1.7</u>
Total Member Months	1,764,599	1,782,670	1,786,921	0.2%

^{1/} The figures represent June 1 enrollment.

^{2/} The ALTCS program funded in AHCCCS. An additional 33,777 people receive Medicaid services through the Department of Economic Security's Developmental Disabilities program as of June 1, 2019.

Operating Budget

The budget includes \$101,520,300 and 1,023.2 FTE Positions in FY 2020 for the operating budget. These amounts consist of:

	FY 2020
General Fund	\$28,637,600
Children's Health Insurance Program (CHIP) Fund	5,574,000
Prescription Drug Rebate Fund (PDRF) - State	2,728,800
Federal Medicaid Authority (FMA)	64,579,900

FY 2020 adjustments are as follows:

One-Time Funding for IT Operating Expenses

The budget includes an increase of \$9,878,000 in FY 2020 to provide one-time funding for operating expenses associated with AHCCCS' information technology systems for Asset Verification, Electronic Visit Verification, and Provider Management. This amount consists of:

PDRF - State	2,068,000
Federal Medicaid Authority	7,810,000

Statewide Adjustments

The budget includes an increase of \$157,000 in FY 2020 for statewide adjustments. This amount consists of:

General Fund	44,700
CHIP Fund	8,200
PDRF - State	(100)
Federal Medicaid Authority	104,200

(Please see the Agency Detail and Allocations section.)

Administration

ADOA Data Center

The budget includes \$19,325,800 in FY 2020 for the Arizona Department of Administration (ADOA) Data Center. This amount consists of:

General Fund	5,915,400
CHIP Fund	160,000
Federal Medicaid Authority	13,250,400

These amounts are unchanged from FY 2019.

This line item funds charges paid by AHCCCS to ADOA pursuant to an interagency service agreement through which ADOA provides mainframe computing services to AHCCCS, including storage of medical records for AHCCCS enrollees.

DES Eligibility

The budget includes \$88,874,500 and 885 FTE Positions in FY 2020 for DES Eligibility services. These amounts consist of:

General Fund	25,491,200
Federal Medicaid Authority	63,383,300

These amounts are unchanged from FY 2019.

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

Proposition 204 - AHCCCS Administration

The budget includes \$13,155,200 and 131 FTE Positions in FY 2020 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	4,209,300
PDRF - State	60,900
Federal Medicaid Authority	8,885,000

FY 2020 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$11,700 in FY 2020 for statewide adjustments. This amount consists of:

General Fund	3,500
Federal Medicaid Authority	8,200

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

Proposition 204 - DES Eligibility

The budget includes \$44,358,700 and 300.1 FTE Positions in FY 2020 for Proposition 204 - DES Eligibility costs. These amounts consist of:

General Fund	16,815,800
Budget Neutrality Compliance Fund (BNCF)	3,906,400
Federal Medicaid Authority	23,636,500

FY 2020 adjustments are as follows:

Statutory Adjustments

The budget includes a decrease of \$(150,200) from the General Fund and a corresponding increase of \$150,200 from the BNCF in FY 2020 to reflect an increase of county contributions in FY 2020 as required by A.R.S. § 11-292. (See Table 6 for contributions by county.)

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

Medicaid Services

AHCCCS oversees acute care, behavioral health services, and long-term care services for Medicaid enrollees. Chart 1 shows the income eligibility limits for each AHCCCS population in FY 2020. A description of program components can be found in the *Other Issues* section.

Traditional Medicaid Services

The budget includes \$5,179,189,700 in FY 2020 for Traditional Medicaid Services. This amount consists of:

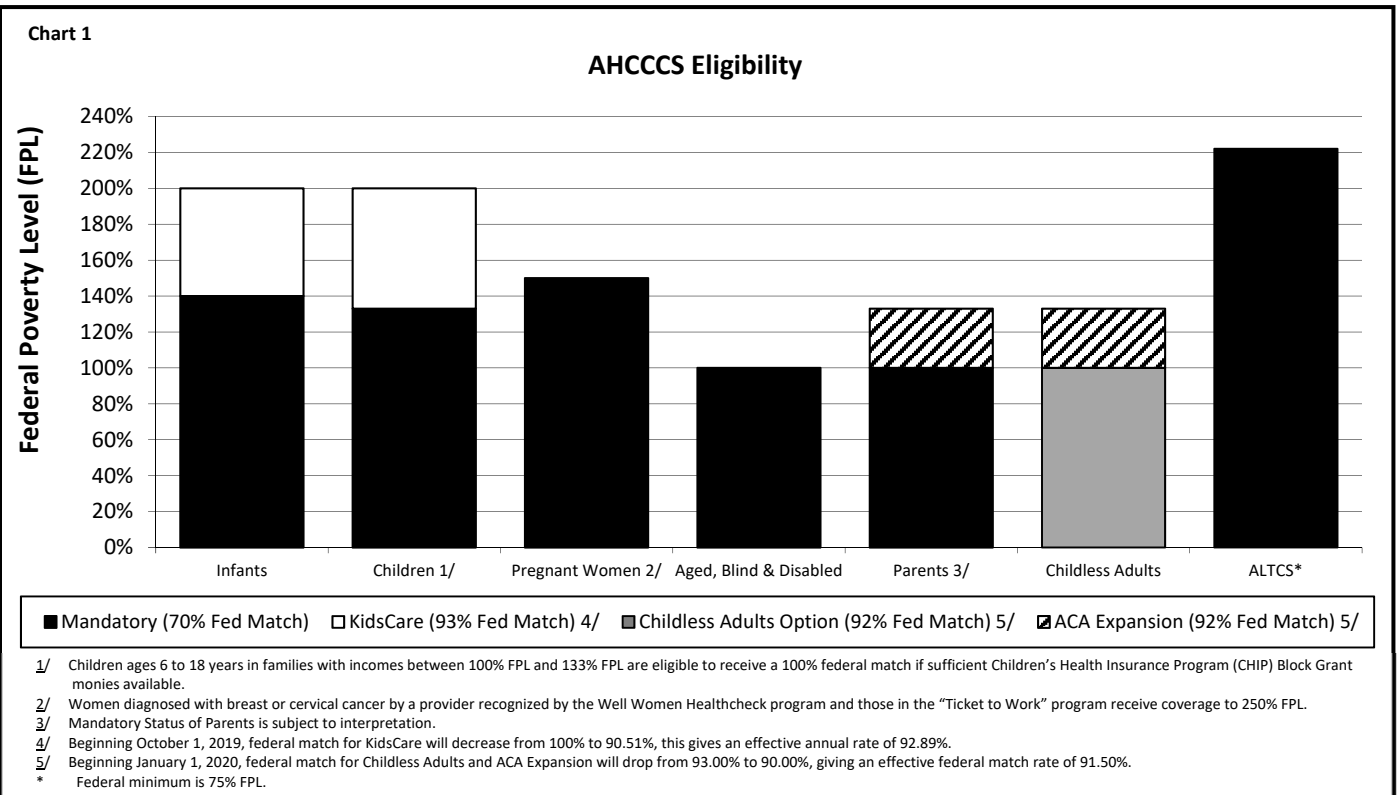
General Fund	1,170,627,100
County Funds	46,161,700
Political Subdivision Funds	10,297,700
PDRF - State	140,158,600
TTHCF - Medically Needy Account	61,752,600
Third Party Liability and Recovery Fund	194,700
PDRF - In Lieu of Federal Funds	572,638,300
Federal Medicaid Authority	3,177,359,000

FY 2020 adjustments are as follows:

Formula Adjustments

The budget includes a decrease of \$(66,064,500) in FY 2020 for formula adjustments. This amount consists of:

General Fund	(5,534,100)
County Funds	(351,200)



Political Subdivision Funds	37,000
TTHCF - Medically Needy Account	(6,287,900)
PRDF - In Lieu of Federal Funds	58,553,100
Federal Medicaid Authority	(112,481,400)

DD Behavioral Health Transfer

The budget includes a decrease of \$(85,367,400) in FY 2020 to transfer funding and administration of behavioral health services for people with developmental disabilities to the Department of Economic Security. This amount consists of:

General Fund	(26,054,100)
Federal Medicaid Authority	(59,313,300)

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”).

Proposition 204 Services

The budget includes \$4,168,410,500 in FY 2020 for Proposition 204 Services. This amount consists of:

General Fund	95,088,500
Hospital Assessment Fund	303,482,900
Political Subdivision Funds	2,564,700
Tobacco Litigation Settlement Fund	102,000,000
TPTF - Emergency Health Services Account	16,216,300
TPTF - Proposition 204 Protection Account	34,054,300
Federal Medicaid Authority	3,615,003,800

FY 2020 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$232,299,700 in FY 2020 for formula adjustments. This amount consists of:

General Fund	9,765,400
Hospital Assessment Fund	21,879,700
Political Subdivision Funds	632,800
Tobacco Litigation Settlement Fund	15,000,000
TPTF - Emergency Health Services Account	(1,749,800)

TPTF - Proposition 204 Protection Account	(3,674,600)
Federal Medicaid Authority	190,446,200

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

Adult Expansion Services

The budget includes \$527,018,800 in FY 2020 for Adult Expansion Services. This amount consists of:

General Fund	5,393,400
Hospital Assessment Fund	37,389,000
Political Subdivision Funds	179,900
Federal Medicaid Authority	484,056,500

FY 2020 adjustments are as follows:

Formula Adjustments

The budget includes a decrease of \$(36,059,100) in FY 2020 for formula adjustments. This amount consists of:

General Fund	1,529,200
Hospital Assessment Fund	8,968,900
Political Subdivision Funds	56,100
Federal Medicaid Authority	(46,613,300)

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.

Pursuant to A.R.S. § 36-2901.07 and Laws 2013, First Special Session, Chapter 10, 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.

Comprehensive Medical and Dental Program

The budget includes \$180,729,500 in FY 2020 for the Comprehensive Medical and Dental Program (CMDP). This amount consists of:

General Fund	54,297,600
Federal Medicaid Authority	126,431,900

FY 2020 adjustments are as follows:

Formula Adjustments

The budget includes a decrease of \$(19,185,000) in FY 2020 for formula adjustments. This amount consists of:

General Fund	(5,916,300)
Federal Medicaid Authority	(13,268,700)

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 physical health services of the population while AHCCCS administers the behavioral health services through contracts with Regional Behavioral Health Authorities (RHBA). Laws 2019, Chapter 305 authorizes the integration of physical health services and behavioral health services under a single plan administered by DCS (Please see the CMDP Integration section of the Department of Child Safety narrative for additional information.)

KidsCare Services

The budget includes \$106,516,300 in FY 2020 for KidsCare services. This amount consists of:

General Fund	7,523,800
Political Subdivision Funds	76,300
CHIP Fund	98,916,200

FY 2020 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$24,669,400 in FY 2020 for formula adjustments. This amount consists of:

General Fund	7,523,800
Political Subdivision Funds	76,300
CHIP Fund	17,069,300

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, 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.

KidsCare is funded with the federal CHIP Block Grant and state matching dollars. The federal monies are deposited into the CHIP Fund, and the CHIP Fund is then appropriated, along with the General Fund match, to fund

KidsCare. Enrollment in the program was frozen in January 2010.

Laws 2016, Chapter 112 required AHCCCS to submit a state plan amendment to the federal Centers for Medicare and Medicaid Services (CMS) to resume enrollment in the KidsCare program. The bill also eliminated a prior requirement that AHCCCS freeze enrollment in the program if the federal government "significantly reduces the federal funding below the estimated federal expenditures," effectively only mandating a freeze if federal funding for the program was eliminated entirely. CMS approved the request, and AHCCCS resumed enrollment in the program on September 1, 2016.

The FY 2018 Health Budget Reconciliation Bill (BRB) subsequently clarified that AHCCCS would be required to immediately stop processing applications in the program if the federal match rate fell below 100%. Federal legislation effectively decreased Arizona's match rate to 90.51% on October 1, 2019 and 79.21% on October 1, 2020.

The FY 2020 Health BRB amends A.R.S. § 36-2985 to remove the requirement that AHCCCS freeze enrollment when the match rate drops below 100%. The bill authorizes the AHCCCS Director to freeze enrollment if the director determines that state and federal funding for the program are insufficient.

The enacted FY 2020 budget assumes that AHCCCS enrollment would remain unfrozen in FY 2021 and FY 2022. Given the decline in the match rate to 79.21% in FY 2021, the state costs of the program are assumed to rise to rise by \$9.4 million from the General Fund in each of FY 2021 and FY 2022 above the costs of a KidsCare program under frozen enrollment.

ALTCS Services

The budget includes \$1,796,913,800 in FY 2020 for ALTCS services. This amount consists of:

General Fund	234,042,300
County Funds	290,276,100
PDRF - State	7,578,400
PDRF - In Lieu of Federal Funds	36,422,000
Nursing Facility Provider Assessment Fund	32,989,600
Federal Medicaid Authority	1,195,605,400

FY 2020 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$108,569,400 in FY 2020 for formula adjustments. This amount consists of:

General Fund	21,574,900
County Funds	10,565,400
Nursing Facility Provider Assessment Fund	200
Federal Medicaid Authority	76,428,900

Proposition 206 Rate Increase

The budget includes an increase of \$11,562,600 in FY 2020 to fund provider rate increases for minimum wage provisions of Proposition 206. This amount provides a half-year of funding for provider rate increase to address the minimum wage increase to \$12.00/hour, effective January 1, 2020. This amount consists of:

General Fund	1,944,500
County Funds	1,527,800
Federal Medicaid Authority	8,090,300

Additional Provider Rate Increases

The budget includes an increase of \$71,024,500 in FY 2020 to fund additional provider rate increases. This amount consists of:

General Fund	11,800,000
County Funds	9,628,100
Federal Medicaid Authority	49,596,400

This additional funding provides a level of resources that is comparable in magnitude to additional funding within the DES budget for developmental disabilities provider rate increases so as to ensure that provider rate increases implemented in DES and AHCCCS are similar. *(Please see the DES narrative for additional information on DD provider rate increases.)*

Background – ALTCS provides coverage for individuals up to 222% of the FPL, or \$27,000 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 \$9,105 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 2019, AHCCCS estimates that client contributions will pay for 5.2% of the cost of care.

From October 1, 2012 to September 30, 2015, Laws 2012, Chapter 213 allowed 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 ranges from \$1.80 to \$15.63 per day of patient care. Pursuant to A.R.S. § 36-2999.52, AHCCCS may not increase rates to a level that generates assessment revenues more than 3.5% of facilities' net patient revenues.

Behavioral Health Services in Schools

The budget includes \$9,990,000 in FY 2020 for Behavioral Health Services in schools. This amount consists of:

General Fund	3,000,000
Federal Medicaid Authority	6,990,000

FY 2020 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$46,300 from Federal Medicaid Authority in FY 2020 for a change in the federal match rate.

Background – This line item funds behavioral health services for at or near public school campuses for students that are Medicaid-eligible. AHCCCS plans to use \$1,000,000 of this funding for an interagency service agreement with the Arizona Department of Education of administration of Mental Health First Aid training in public schools. The remaining \$8,990,000 will be allocated to behavior health providers contracted with AHCCCS health plans that work directly in schools.

Non-Medicaid Behavioral Health Services

Non-Medicaid Seriously Mentally Ill Services

The budget includes \$77,646,900 from the General Fund in FY 2020 for Non-Medicaid Seriously Mentally Ill (SMI) Services. This amount is unchanged from FY 2019.

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

Supported Housing

The budget includes \$5,324,800 from the General Fund in FY 2020 for Supported Housing. This amount is unchanged from FY 2019.

Background – This line item funds housing services that enable individuals to live in the community. These funds are distributed to the RBHAs and may serve Medicaid and 100% state funded recipients. Medicaid, however, does not provide a match for housing assistance.

In addition to the \$5,324,800 for Supported Housing in this line item, the RBHAs may also expend monies in the Non-Medicaid Seriously Mentally Ill Services line item on Supported Housing services. The RBHAs report expending \$25,021,100 of their allocation from the Non-Medicaid Seriously Mentally Ill Services line item on Supported Housing Services in Federal Fiscal Year 2018.

Crisis Services

The budget includes \$16,391,300 in FY 2020 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 2019.

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.

Substance Use Disorder Services Fund Deposit

The budget includes no funding in FY 2020 for the Substance Use Disorder Services Fund Deposit. This amount is unchanged from FY 2019.

Background – Laws 2018, 1st Special Session, Chapter 1 appropriated \$10,000,000 from the General Fund in FY 2018 for deposit in the Substance Use Disorder Services Fund, as created by the act. The Substance Use Disorders

Services Fund is administered by AHCCCS. Monies in the fund are non-lapsing and shall be used for contracted substance use disorder services, with priority for individuals that are ineligible for Medicaid coverage.

AHCCCS plans to spend the entirety of the \$10,000,000 appropriation by the end of FY 2020. Thus far, AHCCCS has contracted with RBHAs and Tribal RBHAs to deliver services, such as doctor visits, lab tests, and methadone administration.

Hospital Payments

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.

Reduction in Federal DSH Payments

The federal Affordable Care Act included reductions in federal DSH payments by \$(500) million nationwide in FY 2014 and gradually increased the reductions to \$(5.6) billion by FY 2019. Subsequent federal legislation has delayed and modified the reduction amounts. The Medicare and CHIP Reauthorization Act of 2015 (P.L. 114-10) had previously delayed the DSH cuts until FY 2018. The Bipartisan Budget Act of 2018 (P.L. 115-123) further delayed nationwide DSH payment reductions until FY 2020. DSH cuts of \$(4.0) billion are now scheduled to begin in FY 2020 and would increase to \$(8.0) billion by FY 2021 and each year thereafter.

The \$(4.0) billion and \$(8.0) billion reductions required by the Bipartisan Budget Act of 2018 represent reductions in federal DSH funding of (31.7)% in FY 2020 and (63.4)% in FY 2021, respectively. Arizona's estimated federal DSH allocation in FY 2020 is \$117.3 million without any cuts to the program. As a result, a proportionate (31.7)% reduction in Arizona's DSH allotment would generate a net loss of Federal Funds of \$(37.2) million in FY 2020.

Relative to the FY 2020 budget, if the \$(37.2) million proportionate reduction occurs, the current DSH methodology would result in a \$(28.7) million Federal Funds reduction to eliminate the availability of the DSH - Voluntary program and a \$(8.5) million reduction in the

deposit of federal dollars in the General Fund for uncompensated care at Maricopa Integrated Health System (MIHS) (also called the Maricopa Medical Center).

Given that Congress has enacted multiple delays to the ACA's DSH payment reductions to states, the budget does not incorporate the \$(37.2) million federal funding loss in FY 2020. The budget instead assumes that Arizona's DSH allocation would be adjusted in FY 2020 according to the regular federal formula, as outlined below.

Increase in Uncompensated Care Payments

In FY 2020, the state's total DSH payments are estimated to increase by \$2,759,900, from \$164,884,100 in FY 2019 to \$167,644,000 in FY 2020 due to federal adjustments for inflation and the FMAP. Of the \$167,644,000 of eligible DSH funding in FY 2020, \$129,935,400 is distributed according to the allocations described below and listed in *Table 4*. The remaining \$37,708,600 of eligible funding represents existing expenditures used as part of the state match.

Public Hospital 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 MIHS and DHS' Arizona State Hospital (ASH).

The budget includes an appropriation of \$4,202,300 of the federal draw down for distribution to MIHS. This distribution to MIHS is appropriated in the Disproportionate Share Payments line and is unchanged from FY 2019. The budget continues the state's long-standing practice of depositing any Federal Funds drawn down from MIHS and ASH in excess of \$4,202,300 to the General Fund.

The FY 2019 Health BRB established eligible funding of \$113,818,500 from MIHS and \$28,474,900 from ASH for FY 2018 and FY 2019, which would have resulted in net General Fund deposits of \$95,246,400 in FY 2018 and \$95,132,700 in FY 2019. After the enactment of the budget, AHCCCS informed the JLBC Staff that the actual certifiable uncompensated care from MIHS in FY 2018 was \$97,304,100, or \$(16,514,400) below the eligible funding level assumed in the budget. As a result, the net General Fund deposit in FY 2018 was only \$83,704,600, or \$(11,541,900) less than the amount budgeted. The budget assumes no changes in MIHS' uncompensated care levels in FY 2019 and FY 2020, which would result in net General Fund deposits of \$83,604,000 in FY 2019 and \$83,868,100 in FY 2020.

Table 3
Disproportionate Share Hospital Payments

Eligible Funding ^{1/}	FY 2019	FY 2020
MIHS - CPE ^{2/}	\$97,304,100	\$97,304,100
ASH - CPE	28,474,900	28,474,900
Private Hospitals	884,800	884,800
DSH Voluntary Match ^{3/}	<u>38,220,300</u>	<u>40,980,200</u>
Total Funding	\$164,884,100	\$167,644,000
General Fund		
Retain FF of CPE (via MIHS) ^{2/}	\$ 63,725,700	\$ 63,930,000
Retain FF of CPE (via ASH)	<u>19,878,300</u>	<u>19,938,100</u>
Subtotal - General Fund	\$ 83,604,000	\$ 83,868,100
Other Entities		
State MIHS	\$ 4,202,300	\$ 4,202,300
Private Hospitals	<u>884,800</u>	<u>884,800</u>
Subtotal - Other Entities	\$ 5,087,100	\$ 5,087,100
Total DSH Distributions	\$ 88,691,000	\$ 88,955,200
Voluntary Match ^{3/}	\$ 38,220,300	\$ 40,980,200
Total Distributions	\$ 126,911,400	\$ 129,935,400

^{1/} Amounts include state and federal match funding.

^{2/} The budget establishes MIHS DSH limit of \$113,818,500 in the FY 2020 Health BRB to maximize the DSH General Fund revenue deposit. As a result, the actual General Fund deposit from MIHS could reach a maximum of \$75,254,400 in FY 2019 and \$75,493,400 in FY 2020.

^{3/} The budget continues a footnote that appropriates any payments in excess of \$40,980,200 for DSH Voluntary Payments in FY 2020.

To maximize the potential General Fund revenues associated with DSH funding, the budget continues to establish an eligible DSH funding level for MIHS of \$113,818,500 in FY 2019 and FY 2020. If MIHS' uncompensated care increases again, the state would be able to deposit additional monies into the General Fund revenues of up to \$11,528,700 in FY 2019 and \$11,563,400 in FY 2020, respectively.

Private Hospital Distribution

The state appropriates General Fund dollars, which receive a drawdown of federal dollars, for DSH payments to private hospitals. The budget includes an \$884,800 total funds appropriation for this distribution in the Disproportionate Share Payments line, including \$265,300 from the General Fund and \$619,500 in Federal Medicaid Authority, and is unchanged from FY 2019.

DSH Voluntary Match Distribution

The state allows local governments, tribal governments and universities to provide the state match in the form of voluntary payments to draw down federal dollars. Any eligible DSH funding remaining after the previously mentioned allocations is made available for voluntary match payments. The budget includes a \$40,980,200 total funds appropriation for this distribution in the DSH Payments - Voluntary Match line, including \$12,285,900

of local voluntary payments and \$28,694,300 in federal expenditure authority. The budget continues a prior year footnote that appropriates any additional payments in excess of \$40,980,200.

Disproportionate Share Payments

The budget includes \$5,087,100 in FY 2020 for Disproportionate Share Payments. This amount consists of:

General Fund	265,300
Federal Medicaid Authority	4,821,800

FY 2020 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$1,800 from Federal Medicaid Authority and a corresponding decrease of \$(1,800) from the General Fund in FY 2020 due to a change in the federal match rate.

Of the \$5,087,100 of total funds appropriated by the budget in the Disproportionate Share Payments line, \$884,800 represents distributions to private hospitals including \$265,300 from the General Fund and \$619,500 in federal expenditure authority. In FY 2018, there were 31 private hospitals that received DSH payments. The remaining \$4,202,300 represents federal matching funds that the state appropriates to MIHS.

DSH Payments - Voluntary Match

The budget includes \$40,980,200 in FY 2020 for DSH Payments - Voluntary Match. This amount consists of:

Political Subdivision Funds	12,285,900
Federal Medicaid Authority	28,694,300

FY 2020 adjustments are as follows:

Increased Funding

The budget includes an increase of \$2,759,900 in FY 2020 for an increase in Arizona's allocation of federal DSH funding. This amount consists of:

Political Subdivision Funds	747,200
Federal Medicaid Authority	2,012,700

Although the FY 2019 General Appropriation Act displays a \$21,705,900 appropriation for FY 2019, a footnote appropriates any additional payments in excess of that amount. AHCCCS has informed the JLBC that the actual DSH - Voluntary monies received for FY 2018 was \$36,213,000 due to a lower-than-budgeted level of

uncompensated care at MIHS of \$97,304,100. The FY 2019 appropriation has been adjusted to \$38,220,300, or an increase of \$16,514,400, to reflect the lower level of uncompensated care at MIHS.

Background – This line item provides DSH payments to hospitals with matching funds provided by political subdivisions. The budget continues provisions from the FY 2019 Health BRB that gives 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 2018, there were 8 hospitals that received voluntary match DSH payments.

Graduate Medical Education

The budget includes \$303,551,500 in FY 2020 for Graduate Medical Education (GME) expenditures. This amount consists of:

General Fund	3,000,000
Political Subdivision Funds	88,581,500
Federal Medicaid Authority	211,970,000

FY 2020 adjustments are as follows:

Remove 2017 Payments

The budget includes a decrease of \$(82,165,600) in FY 2020 for a reduction in GME payments. This amount consists of:

Political Subdivision Funds	(25,640,800)
Federal Medicaid Authority	(56,524,800)

Although the FY 2019 General Appropriation Act displays a \$274,684,900 appropriation for FY 2019, a footnote appropriates any additional payments in excess of that amount. AHCCCS has informed JLBC that it expects to expend \$375,773,400 in total GME payments in FY 2019, or \$101,088,500 more than appropriated in the FY 2019 budget.

The FY 2019 appropriation has been adjusted to the \$375,773,400 level. Of that amount, \$82,165,600 represents late payments for medical education costs incurred in calendar year 2017. The budgeted decrease in FY 2020 results from removing this delay in payments.

Increase for Health Professional Shortage Areas

The budget includes an increase of \$9,943,700 in FY 2020 to increase GME payments for hospitals located in health professional shortage areas. This amount consists of:

General Fund	3,000,000
Federal Medicaid Authority	6,943,700

A General Appropriation Act footnote directs AHCCCS to allocate \$5,524,400 Total Funds of the increase for GME programs located in a county with less than 500,000 persons and the remaining \$4,419,300 to programs in counties with a population of more than 500,000 persons. The \$3,000,000 General Fund amount may supplement, but not supplant, existing political subdivision funds for GME programs. AHCCCS shall prioritize funding for hospitals located in federally-designated health professional shortage areas.

The 3-year spending plan associated with the enacted FY 2020 budget assumes that the General Fund appropriation for Graduate Medical Education program will increase from \$3,000,000 in FY 2020 to \$6,000,000 in FY 2021 and \$9,000,000 in FY 2022. The \$9,000,000 in FY 2022 would include a \$5,000,000 allocation for rural GME program and \$4,000,000 for urban GME programs. The funding phase-in assumes that the recipient hospitals would increase the number of slots for incoming residents in FY 2020 and each successive class thereafter, but that the number of slots for the cohorts already enrolled in the program (i.e., that started in FY 2019 or before) would remain unchanged. As a result, the full phase-in of the larger number of slots would occur incrementally until FY 2022.

Background – The GME program reimburses hospitals with graduate medical education programs for the additional costs of treating AHCCCS members with graduate medical students. Besides the use of General Fund monies, 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 2018, 15 hospitals received a total of \$272,269,500 for Graduate Medical Education.

Graduate Medical Education - Community Health Centers

The budget includes \$750,000 from the General Fund in FY 2020 for Graduate Medical Education - Community Health Centers. FY 2020 adjustments are as follows:

One-Time Funding

The budget includes an increase of \$750,000 from the General Fund in FY 2020 for onetime funding of graduate medical education in community health centers to address health care provider shortages in northern Arizona.

Background – Monies in this line item are distributed to a nonprofit organization with a network of community health centers that includes GME program in Northern Arizona.

Rural Hospitals

The budget includes \$28,612,400 in FY 2020 for Rural Hospitals, which includes Critical Access Hospitals (CAH). This amount consists of:

General Fund	8,578,000
Federal Medicaid Authority	20,034,400

FY 2020 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$60,000 from Federal Medicaid Authority and a corresponding decrease of \$(60,000) from the General Fund in FY 2020 due to a change in the federal match.

Background – This line item includes \$12,158,100 for the Rural Hospital Reimbursement program, which increases inpatient reimbursement rates for qualifying rural hospitals. The remaining \$16,454,300 is for the CAH program, which 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 2018, 20 hospitals qualified for funding from Rural Hospital Reimbursement and 10 from CAH.

Safety Net Care Pool

The budget includes no funding in FY 2020 for the Safety Net Care Pool (SNCP) program. This amount is unchanged from FY 2019.

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

In April 2012, AHCCCS received federal approval to establish the SNCP program. While this program was originally expected to end on December 31, 2013, the FY 2014 Health and Welfare BRB allowed Phoenix Children’s Hospital (PCH) to continue to participate in the SNCP program through December 31, 2017. The FY 2018 Health BRB further extends the date PCH may participate in the program to December 31, 2020. The federal government, however, ended funding for the program after December

31, 2017. The budget continues a prior year footnote that appropriates any additional payments in FY 2020.

Targeted Investments Program

The budget includes \$90,000,000 in FY 2020 for the Targeted Investments Program. This amount consists of:

Delivery System Reform	28,062,400
Incentive Payment (DSRIP) Fund	
Federal Medicaid Authority	61,937,600

FY 2020 adjustments are as follows:

Increased Funding

The budget includes an increase of \$20,000,000 in FY 2020 to reflect resources authorized by the federal government for the Targeted Investments Program. This amount consists of:

DSRIP Fund	6,289,300
Federal Medicaid Authority	13,710,700

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.

Other Issues

This section includes information on the following topics:

- FY 2019 Ex-Appropriation
- Statutory Changes
- Long-Term Budget Impacts
- Prescription Drug Rebate Fund
- Waiver
- SMI Funding
- Affordable Care Act Litigation
- Access to Professional Services Initiative
- County Contributions
- Program Components
- Tobacco Master Settlement Agreement
- Tobacco Tax Allocations

FY 2019 Ex-Appropriation

The FY 2020 budget includes an ex-appropriation of \$(36,564,900) from the General Fund in FY 2019, primarily for lower-than-budgeted caseload growth. The enacted FY 2019 budget assumed that Traditional enrollment would decline by (3.1)% in June 2018 compared with June 2017, and would grow by 1.0% by June 2019 compared to June 2018. The actual traditional enrollment change was (4.1)% by June 2018 and (0.8)% by June 2019.

Statutory Changes

The Health Budget Reconciliation Bill makes the following statutory changes:

Rates and Services

- As session law, continue the FY 2010 risk contingency rate reduction for all managed care organizations. Continue to impose a reduction on funding for all managed care organizations administrative funding levels.
- As permanent law, repeal the requirement that AHCCCS freeze enrollment in the KidsCare program when the match rate falls below 100% and restore AHCCCS authority to freeze enrollment if the director determines that state and federal funding for the program is insufficient.
- As permanent law, allow monies in the Seriously Mentally Ill Housing Trust Fund to be expended on rental assistance for seriously mentally ill persons.

Counties

- As session law, continue to exclude Proposition 204 administration costs from county expenditure limitations.
- As session law, set the County Acute Care contribution at \$46,161,700. This amount includes an inflation indexing of the Maricopa County contribution as required by Laws 2005, Chapter 328.
- As session law, continue to require AHCCCS to transfer any excess monies back to the counties by December 31, 2020 if the counties' proportion of state match exceeds the proportion allowed in order to comply with the Federal Affordable Care Act.
- As session law, set the FY 2020 county Arizona Long Term Care System (ALTCs) contributions at \$290,276,100.

Hospitals

- As session law, continue to establish FY 2020 disproportionate share (DSH) distributions to the Maricopa Special Healthcare District (MIHS), the Arizona State Hospital, private qualifying disproportionate share hospitals, and Yuma Regional

Medical Center. Keep the MIHS distribution of \$113,818,500 in FY 2020.

- 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, as well as permit local jurisdictions to provide additional local match for Pool 5 distributions.

Available Funding

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

Reports

- As permanent law, continue to require AHCCCS and the Department of Health Services (DHS) to submit a joint report to the Legislature and the Governor by January 2 of each year on hospital costs and charges. This provision had previously been authorized as session law.
- As permanent law, continue to require AHCCCS to report to JLBC on or before January 2 of each year 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. This provision had previously been authorized as session law.
- As session law, require AHCCCS to complete a study with a contracted third-party entity on or before January 31, 2022 on the costs and effectiveness of secure behavioral health residential facilities for individuals with a serious mental illness. The study must take into account impacts on outcomes related to health, employment, and interactions with the criminal justice system for such individuals.

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, AHCCCS's General Fund spending increases by \$136.1 million in FY 2021 above FY 2020 and by \$73.1 million in FY 2022 above FY 2021 due to enrollment growth, inflation, and federal match rate changes. These amounts also assume an increase in General Fund costs for Graduate Medical Education will increase by \$3.0 million in FY 2021 above FY 2020 and by \$3.0 million in FY 2022 above FY 2021. *(Please see the Graduate Medical Education line item for additional information.)*

In addition to AHCCCS spending changes, the budget's 3-year spending plan assumes that AHCCCS will transfer \$16.7 million from the Prescription Drug Rebate Fund to the General Fund in FY 2021 and FY 2022.

Prescription Drug Rebate Fund

At the beginning of FY 2019, AHCCCS reported a one-time cash balance of \$102.7 million in the Prescription Drug Rebate Fund (PDRF) - State due to higher-than-forecasted rebates from prior years. To spend down the balance, the budget includes a one-time transfer of \$69.0 million from PDRF to the General Fund in FY 2020. Under the budgeted projections of ongoing fund revenues and disbursements, the PDRF - State balance is estimated to total \$5.6 million at the end of FY 2020 *(see Table 4)*. *(Please see the Long Term Budget Impacts section for changes to the Prescription Drug Rebate Fund in FY 2021 and FY 2022.)*

Table 4

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

	<u>FY 2019</u>	<u>FY 2020</u>
Revenues		
Beginning Balance	\$ 102,679,500	\$ 60,896,600
Rebate Collections	<u>159,275,900</u>	<u>165,188,900</u>
Total Revenues	\$261,955,400	\$226,085,500
Budgeted Disbursements		
Operating Budget and Administration	\$ 721,800	\$ 721,700
One-Time IT Operating Expenses	0	2,068,000
Traditional Services	140,158,600	140,158,600
ALTCS Services	<u>7,578,400</u>	<u>7,578,400</u>
<i>AHCCCS Subtotal</i>	<i>\$148,458,800</i>	<i>150,526,700</i>
<i>DHS: One-Time Health Research</i>	<i>0</i>	<i>1,000,000</i>
Total Disbursements	\$148,458,800	\$151,526,700
General Fund Transfer ^{1/}	\$ 52,600,000	\$69,000,000
Projected Ending Balance	\$ 60,896,600	\$ 5,558,800

^{1/} The FY 2019 transfer was enacted by Laws 2018, Chapter 276.

Waiver

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. Laws 2018, Chapter 201 revises AHCCCS' required annual waiver submission to exempt American Indians enrolled for services through the Indian Health Service or an Urban Indian Health program from such requirements.

On January 18, 2019 the federal Centers for Medicare and Medicaid Services (CMS) partly approved AHCCCS' waiver

submittal. Effective January 1, 2020, AHCCCS enrollees aged 19-49 will be subject to a "community engagement" requirement of 80 hours per month, which may be satisfied with employment, education, job or life skills training, job search activities, or community service. Individuals failing to comply with the requirement will have their AHCCCS coverage suspended for 2 months. Coverage will be automatically reinstated following the 2-month suspension. CMS did not approve the request for a 5-year time limit on coverage.

The waiver exempts several populations from the community engagement requirement, including individuals with an SMI diagnosis, members of federally recognized tribes, and former foster youth. After accounting for the exemptions, AHCCCS estimates that 120,000 enrollees will be subject to the community engagement requirement.

In January 2019, AHCCCS opened a request for proposals (RFP) for a new information technology system called the "AHCCCS Works Portal" that AHCCCS enrollees will use to report their compliance with the community engagement requirement. The costs of the AHCCCS Works portal are not yet known.

SMI Funding

Table 5 shows total Medicaid funding in FY 2020 for the integrated SMI population at an estimated \$1.0 billion for 42,079 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 5

FY 2020 Budgeted Medicaid Funding for Integrated SMI

	<u>State Match</u>	<u>Federal Match</u>	<u>Total Funds</u>	<u>Enrollees</u>
Traditional	\$157,524,400	\$367,320,700	\$ 524,845,100	21,139
Proposition 204	83,762,700	412,870,500	496,633,200	19,820
Adult Expansion	<u>2,396,200</u>	<u>25,794,800</u>	<u>28,191,000</u>	<u>1,120</u>
Total ^{1/}	\$243,683,300	\$805,986,000	\$1,049,669,300	42,079

^{1/} 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.

Affordable Care Act Litigation

A recent federal court ruling has the potential to have a significant impact on the federal Affordable Care Act (ACA). Starting in 2014, this legislation established an "individual mandate" that requires individuals to purchase

health insurance satisfying minimum coverage requirements specified in federal law. Through Tax Year (TY) 2018, individuals that are not in compliance with the mandate are subject to the "Shared Responsibility Payment," which consists of a tax of up to 2.5% of household income. In December 2017, the federal Tax Cuts and Jobs Act (TCJA) established a shared responsibility amount of \$0, effective TY 2019. The individual mandate was not repealed, but now there is no penalty for non-compliance.

On December 14, 2018, a Federal District Court ruled in *Texas v. Azar* that with a \$0 Shared Responsibility Payment established in TCJA, the ACA's individual mandate is unconstitutional and that, by extension, the entirety of the ACA is unconstitutional. The case is currently on appeal. The appeal process is expected to take a considerable amount of time.

If upheld, the *Texas v. Azar* ruling would eliminate several components of the AHCCCS program. Pursuant to Laws 2013, First Special Session, Chapter 10, A.R.S. § 36-2901.07, and A.R.S. § 36-2901.08, AHCCCS is required to discontinue Medicaid eligibility for the Adult Expansion population (adults with incomes from 100% to 133% FPL) and eliminate the Hospital Assessment if either the ACA is repealed or the federal match rate for either the Adult Expansion or Proposition 204 Childless Adults falls below 80%. Coverage would continue for the Proposition 204 population from 0%-100% FPL and for children age 6-18 from 100%-133% FPL. Other major AHCCCS impacts include elimination of authority to collect most prescription drug rebates and elimination of the ACA health insurer fee.

In addition to impacts on AHCCCS, the overturning of the ACA would eliminate coverage on the ACA exchanges and associated federal subsidies, which covered 165,800 enrollees in Arizona in 2018.

The ACA has also been the subject of prior federal litigation, including:

- *National Federation of Independent Businesses v. Sebelius* (2012). The United States Supreme Court held that the ACA's individual mandate was constitutional, but that ACA's Medicaid expansion was optional for states.
- *Burwell v. Hobby Lobby* (2014): The United States Supreme Court ruled that the ACA's mandate that employers cover contraceptives for female employees cannot be applied to closely-held corporations with religious objections to the rule.
- *King v. Burwell* (2015): The United States Supreme Court held that the federal Department of Health and Human Services (HHS) had legal authority to issue

premium tax credits on federally-administered ACA exchanges.

- *U.S. House of Representatives v. Burwell* (2016) A United States District Court ruled that HHS did not receive an appropriation to finance ACA's cost-sharing subsidies for certain low-income individuals receiving coverage through the ACA exchanges. The case was later settled out of court.

Access to Professional Services Initiative

The Access to Professional Services Initiative (APSI) program funds a 40% rate increase for AHCCCS services rendered by select providers at qualifying hospitals. AHCCCS allocates the 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 FY 2019 budget included \$12.3 million from Political Subdivision Funds and \$51.2 million Total Funds for APSI in FY 2019. The budget includes an increase of \$725,900

in Political Subdivision Funds and \$3.4 million Total Funds in FY 2020 based on anticipated increases in utilization of the program. Funding for APSI is included in the line items for Traditional Services, Proposition 204 Services, and Adult Expansion Services. AHCCCS reports that 8 hospitals elected to participate in the program in FY 2018.

County Contributions

County governments make 3 different payments to defray the AHCCCS budget's costs, as summarized in *Table 6*. The counties' single largest contribution is the ALTCS program. Pursuant to A.R.S. § 11-292, the state and the counties share in the growth of the ALTCS program, as defined by the following formula:

1. The growth is split 50% to the state, 50% to the counties.
2. The counties' portion is allocated among the counties based on their FY 2018 ALTCS utilization.
3. Each county's contribution is then limited to 90¢ per \$100 of net assessed property value. In FY 2020, this provision provides 4 counties with a total of \$11,807,500 in relief.
4. In counties with a tribal land population of at least 20%, the contribution is limited by an alternative formula specified in statute. In FY 2020, this provision provides 3 counties with a total of \$14,378,000 in relief.

County	FY 2019			FY 2020		
	BNCF	Acute	ALTCS	BNCF	Acute	ALTCS
Apache	\$123,800	\$268,800	\$644,500	\$128,800	\$268,800	\$720,200
Cochise	230,900	2,214,800	5,288,900	240,200	2,214,800	5,176,200
Coconino	227,800	742,900	1,935,200	236,900	742,900	2,162,200
Gila	93,600	1,413,200	2,239,000	97,300	1,413,200	2,418,200
Graham	66,500	536,200	1,578,400	69,200	536,200	1,684,400
Greenlee	17,100	190,700	49,000	17,800	190,700	8,200
La Paz	35,400	212,100	599,500	36,800	212,100	822,000
Maricopa	0	18,482,600	170,486,100	0	18,131,400	185,791,300
Mohave	266,000	1,237,700	8,479,400	276,500	1,237,700	9,232,700
Navajo	174,300	310,800	2,668,000	181,300	310,800	2,981,000
Pima	1,583,900	14,951,800	41,749,300	1,647,200	14,951,800	45,157,400
Pinal	309,900	2,715,600	13,853,200	322,300	2,715,600	13,755,300
Santa Cruz	73,200	482,800	2,084,400	76,200	482,800	2,266,800
Yavapai	292,800	1,427,800	8,334,500	304,500	1,427,800	8,543,800
Yuma	261,000	1,325,100	8,565,400	271,400	1,325,100	9,556,400
Subtotal	\$3,756,200	\$46,512,900	\$268,554,800	\$3,906,400	\$46,161,700	\$290,276,100
Total			\$318,823,900			\$340,344,200

5. If any county would 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 2020 no counties qualify for this relief.
6. The state pays for county costs above the average statewide per capita (\$42.17 in FY 2020). In FY 2020 this provision provides 6 counties with a total of \$16,284,700 in relief.

In FY 2020, provisions 3 through 6 of the ALTCS formula result in the state providing a total of \$42,470,200 in relief to 9 counties.

Program Components

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

Capitation

The majority of AHCCCS payments are made through monthly capitated payments to contracted health plans to cover Medicaid services. In FY 2020, the average capitation rate is expected to be approximately \$489 per member per month (or \$5,868 annually). Of that amount, an average of \$108 is from state match and \$382 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-mandated emergency services for unauthorized and qualified immigrants.

Medicare Premiums

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

Clawback

AHCCCS is not required to pay for prescription drug costs for members who are eligible for Medicare. Instead,

AHCCCS is required to make "Clawback" payments to Medicare based on 75.0% of the estimated drug costs.

Tobacco Master Settlement Agreement

The budget requires AHCCCS to transfer up to \$2,036,000 from the Traditional Medicaid Services line item in FY 2020 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. This amount is unchanged from FY 2019.
- \$836,000 to the Department of Revenue to fund 6 positions that perform luxury tax enforcement and audit duties. This amount represents an increase of \$400,000 compared to FY 2019 to reflect actual transfers made by AHCCCS to DOR in FY 2018.

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 budget allow DOR to comply with the terms of the amended agreement through enhanced auditing capabilities and an automated accounting system.

Tobacco Tax Allocations

The budget projects AHCCCS and DHS will receive \$139.6 million in transfers of tobacco tax collections in FY 2019. This amount represents a decrease of \$(8.9) million (6.0%) from the FY 2019 budgeted amount. *Table 7* summarizes tobacco tax transfers and allocations to the agencies.

Table 7

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

	<u>FY 2018</u>	<u>FY 2019</u>
Medically Needy Account		
<u>Funds Available</u>		
Balance Forward	\$ 0	\$ 0
Transfer In - Tobacco Tax and Health Care Fund	45,599,100	42,071,300
Transfer In - Tobacco Products Tax Fund	<u>24,553,300</u>	<u>22,707,500</u>
Total Funds Available	\$ 70,152,400	\$ 64,778,800
<u>Allocations</u>		
<i>AHCCCS</i>		
AHCCCS State Match Appropriation	\$ <u>69,486,100</u>	\$ <u>68,040,500</u>
Total AHCCCS Allocations	\$ 69,486,100	\$ 68,040,500
<i>DHS</i>		
Folic Acid	\$ 380,700	\$ 400,000
Renal, Dental Care, and Nutrition Supplements	285,600	300,000
Administrative Adjustments	<u>0</u>	<u>0</u>
Total DHS Allocations	<u>666,300</u>	<u>700,000</u>
Balance Forward	\$ 0	\$ (3,961,700) *
AHCCCS Proposition 204 Protection Account		
<u>Funds Available</u>		
Balance Forward	\$ 0	\$ 0
Transfer In - Tobacco Products Tax Fund	<u>37,016,700</u>	<u>35,322,700</u>
Total Funds Available	\$ 37,016,700	\$ 35,322,700
<u>Allocations</u>		
AHCCCS State Match Appropriation	\$ 37,016,700	\$ 37,728,900
Administrative Adjustments	<u>0</u>	<u>0</u>
Balance Forward	\$ 0	\$ (2,406,200) *
AHCCCS Emergency Health Services Account		
<u>Funds Available</u>		
Balance Forward	\$ 0	\$ 0
Transfer In - Tobacco Products Tax Fund	<u>17,627,300</u>	<u>16,820,400</u>
Total Funds Available	\$ 17,627,300	\$ 16,820,400
<u>Allocations</u>		
AHCCCS State Match Appropriation	17,627,300	17,966,100
Administrative Adjustments	<u>\$ 0</u>	<u>\$ 0</u>
Balance Forward ^{1/}	\$ 0	\$ (1,145,700) *
DHS Health Education Account		
<u>Funds Available</u>		
Balance Forward	\$ 5,367,700	\$ 4,281,400
Transfer In - Tobacco Tax and Health Care Fund	16,197,100	13,823,400
Transfer In - Tobacco Products Tax Fund	<u>1,773,200</u>	<u>1,682,000</u>
Total Funds Available	\$ 23,338,000	\$ 19,786,800
<u>Allocations</u>		
Tobacco Education and Prevention Program	\$ 17,343,200	\$ 17,343,200
Leading Causes of Death - Prevention and Detection	<u>1,713,400</u>	<u>1,713,400</u>
Balance Forward	\$ 4,281,400	\$ 730,200
Health Research Account		
<u>Funds Available</u>		
Balance Forward	\$ 10,416,400	\$ 9,155,800
Transfer In - Tobacco Tax and Health Care Fund	3,278,700	3,005,000
Transfer In - Tobacco Products Tax Fund	<u>4,588,000</u>	<u>4,205,100</u>
Total Funds Available	\$ 18,283,100	\$ 16,365,900
<u>Allocations</u>		
Biomedical Research Support	\$ 2,000,000	\$ 2,000,000
Alzheimer's Disease Research	2,000,000	3,000,000
Biomedical Research Commission ^{2/}	5,127,300	9,247,300
Administrative Adjustments	<u>0</u>	<u>0</u>
Balance Forward	\$ 9,155,800	\$ 2,118,600

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

^{2/} 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.

