

Arizona Health Care Cost Containment System

	FY 2019 ACTUAL	FY 2020 ESTIMATE	FY 2021 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,339.3	2,339.3	2,339.3 ^{1/}
Personal Services	40,747,000	42,662,000	43,409,600
Employee Related Expenditures	17,412,600	18,179,200	19,520,000
Professional and Outside Services	12,510,100	12,917,500	12,917,500
Travel - In State	98,300	100,300	100,300
Travel - Out of State	34,900	37,600	37,600
Other Operating Expenditures	15,810,100	27,408,200	17,530,200
Equipment	211,600	215,500	215,500
OPERATING SUBTOTAL	86,824,600	101,520,300	93,730,700 ^{2/}
SPECIAL LINE ITEMS			
Administration			
ADOA Data Center	15,697,100	19,325,800	19,325,800
DES Eligibility	88,083,900	88,874,500	88,874,500 ^{3/}
Proposition 204 - AHCCCS Administration	19,998,500	13,155,200	13,550,000 ^{4/}
Proposition 204 - DES Eligibility	34,457,800	44,358,700	44,358,700 ^{4/}
Medicaid Services			
Traditional Medicaid Services	5,048,492,700	5,430,928,700	5,743,961,500 ^{5/6/7/8/}
Proposition 204 Services	3,878,692,600	4,361,864,800	4,585,376,000 ^{7/8/}
Adult Expansion Services	467,661,400	546,388,900	572,108,200
Comprehensive Medical and Dental Program	177,748,300	189,646,200	197,732,200 ^{7/}
KidsCare Services	73,207,800	105,406,300	92,088,200
ALTCS Services	1,598,027,600	1,852,398,400	1,966,345,300 ^{9/10/11/}
Behavioral Health Services in Schools	9,943,700	9,990,000	18,003,300
Non-Medicaid Behavioral Health Services			
Non-Medicaid Seriously Mentally Ill Services	76,729,900	77,646,900	77,646,900 ^{12/}
Supported Housing	5,324,800	5,324,800	5,324,800
Crisis Services	16,391,300	16,391,300	16,391,300
Hospital Payments			
Disproportionate Share Payments	4,202,300	5,087,100	5,087,100 ^{13/}
DSH Payments - Voluntary Match	7,439,800	41,591,700	27,137,600 ^{8/14/}
Graduate Medical Education	335,141,000	399,567,100	357,621,200 ^{8/15/-18/}
Graduate Medical Education - Community Health Centers	0	750,000	0
Rural Hospitals	28,612,400	28,612,400	28,612,400
Safety Net Care Pool	0	0	0 ^{8/19/}
Targeted Investments Program	65,903,400	90,000,000	70,000,000
AGENCY TOTAL	12,038,580,900	13,428,829,100	14,023,275,700 ^{20/-24/}
FUND SOURCES			
General Fund	1,745,626,100	1,806,726,700	1,951,981,100
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	3,756,200	3,906,400	4,037,400
Children's Health Insurance Program Fund	77,051,800	104,650,200	81,348,200
Prescription Drug Rebate Fund - State	148,213,400	150,526,700	148,459,600
Substance Abuse Services Fund	2,250,200	2,250,200	2,250,200
Tobacco Products Tax Fund - Emergency Health Services Account	17,469,200	16,216,300	16,216,300
Tobacco Tax and Health Care Fund - Medically Needy Account	66,143,900	66,861,800	65,627,200

	FY 2019 ACTUAL	FY 2020 ESTIMATE	FY 2021 APPROVED
SUBTOTAL - Other Appropriated Funds	314,884,700	344,411,600	317,938,900
SUBTOTAL - Appropriated Funds	2,060,510,800	2,151,138,300	2,269,920,000
<u>Expenditure Authority Funds</u>			
Arizona Tobacco Litigation Settlement Fund	98,938,500	102,000,000	102,000,000
County Funds	269,364,900	341,403,200	351,691,000
Delivery System Reform Incentive Payment Fund	20,496,000	28,062,400	21,686,700
Federal Medicaid Authority	8,492,754,100	9,586,211,400	9,999,369,800
Hospital Assessment Fund	270,895,900	351,103,600	408,220,600
Nursing Facility Provider Assessment Fund	28,030,200	32,989,600	32,989,600
Political Subdivision Funds	116,667,900	191,867,700	193,345,100
Prescription Drug Rebate Fund - Federal	644,237,200	609,060,300	609,060,300
Third Party Liability and Recovery Fund	0	194,700	194,700
Tobacco Products Tax Fund - Proposition 204 Protection Account	36,685,400	34,797,900	34,797,900
SUBTOTAL - Expenditure Authority Funds	9,978,070,100	11,277,690,800	11,753,355,700
SUBTOTAL - Appropriated/Expenditure Authority Funds	12,038,580,900	13,428,829,100	14,023,275,700
Other Non-Appropriated Funds	111,245,400	112,233,800	112,233,800
Federal Funds	139,715,200	169,495,100	169,495,100
TOTAL - ALL SOURCES	12,289,541,500	13,710,558,000	14,305,004,600

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 2021.
- 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 Arizona health care cost containment system 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, 2021 on the suicide prevention coordinator's accomplishments in fiscal year 2020-2021. (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 section 36-2901.01, subsection B, Arizona Revised Statutes. (General Appropriation Act Footnote)
- 5/ The Arizona health care cost containment system administration shall transfer up to \$1,200,000 from the traditional medicaid services line item for fiscal year 2020-2021 to the attorney general for costs associated with tobacco settlement litigation. (General Appropriation Act footnote)
- 6/ The Arizona health care cost containment system administration shall transfer \$836,000 from the traditional medicaid services line item for fiscal year 2020-2021 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 nine percent 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 fiscal year 2020-2021 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 Arizona health care cost containment system 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 section 11-292, subsection B, Arizona Revised Statutes, the county portion of the fiscal year 2020-2021 nonfederal costs of providing long-term care system services is \$305,872,000. This amount is included in the expenditure authority fund source. (General Appropriation Act footnote)
- 11/ Any supplemental payments received in excess of \$110,814,900 for nursing facilities that serve Arizona long-term care system medicaid patients in fiscal year 2020-2021, including any federal matching monies, by the Arizona health care cost containment system administration are appropriated to the administration in fiscal year 2020-2021. 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, 2021, the Arizona health care cost containment system 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, eight 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 for fiscal year 2020-2021 made pursuant to section 36-2903.01, subsection O, Arizona Revised Statutes, 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 fiscal year 2020-2021 by the Arizona health care cost containment system administration in excess of \$27,137,600 are appropriated to the administration in fiscal year 2020-2021. 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 fiscal year 2020-2021, including any federal matching monies, by the Arizona health care cost containment system administration in excess of \$357,621,200 are appropriated to the administration in fiscal year 2020-2021. 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 section 36-2903.01, subsection G, paragraph 9, subdivisions (a), (b) and (c), Arizona Revised Statutes, the amount for graduate medical education includes \$3,333,400 from the state general fund and \$7,781,700 from expenditure authority for the direct and indirect costs of graduate medical education programs located in a county with a population of less than five hundred thousand 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 section 36-2903.01, subsection G, paragraph 9, subdivisions (a), (b) and (c), Arizona Revised Statutes, the amount for graduate medical education includes \$2,666,600 from the state general fund and \$6,225,000 from expenditure authority for the direct and indirect costs of graduate medical education programs located in a county with a population of more than five hundred thousand 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 section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations until June 30, 2022. (General Appropriation Act footnote)
- 19/ Any monies received for the safety net care pool by the Arizona health care cost containment system administration in fiscal year 2020-2021, including any federal matching monies, are appropriated to the administration in fiscal year 2020-

2021. 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 nonappropriated portion of the prescription drug rebate fund established by section 36-2930, Arizona Revised Statutes, 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 Arizona health care cost containment system administration shall report its expenditure plan for review by the joint legislative budget committee. (General Appropriation Act footnote)
- 22/ The Arizona health care cost containment system administration shall report to the joint legislative budget committee on or before March 1, 2021 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 two percent. 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, 2021, the Arizona health care cost containment system 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, 2020. (General Appropriation Act footnote)
- 24/ General Appropriation Act funds are appropriated as Operating Lump Sum with Special Line Items by Agency.

Summary

AHCCCS' FY 2021 General Fund spending increases by \$145,254,400 from FY 2020. This amount includes:

- \$134,016,900 for formula adjustments.
- \$(750,000) for removal of one-time funding of Graduate Medical Education in community health centers in Northern Arizona.
- \$3,000,000 for Graduate Medical Education funding in health professional shortage areas.
- \$8,000,000 for one-time funding of Behavioral Health Services in School for low-income, non-TXIX children.
- \$987,500 for statewide adjustments.

Below is an overview of FY 2021 formula adjustments, which *Table 1* summarizes. As part of the budget's 3-year spending plan AHCCCS' General Fund costs are projected to increase by \$77,923,600 in FY 2022 above FY 2021 and by \$38,606,500 in FY 2023 above FY 2022. These amounts do not reflect the potential impact of the COVID-19 pandemic and enhanced federal funding. (See the *Other Issues* section for more information.)

Formula Adjustments

Formula adjustments represent changes that occur under current law, including caseload, capitation, and federal match rate revisions. The budget includes an increase of \$134,016,900 from the General Fund in FY 2021 for the

following AHCCCS formula adjustments. This amount includes:

- \$221,761,200 for state match expenses associated with formula adjustments.
- \$(87,744,300) for changes in General Fund offsets.

State Match Formula Adjustments	
FY 2020 Base Adjustment – Caseload	N/A
FY 2020 Base Adjustment – APSI	N/A
FY 2021 Caseload Growth	27
FY 2021 2.6% Capitation Rate Increase	96
FY 2021 Federal Medicaid Match Rate Change	68
FY 2021 Health Insurer Fee Restoration	<u>31</u>
<i>State Match Costs Subtotal</i>	222
Non-General Fund State Match Offsets	
Political Subdivisions Fund Increase	N/A
Hospital Assessment Fund	(67)
County Funds Increase	(15)
Tobacco Tax Revenue Increase	<u>(5)</u>
<i>General Fund Offsets Subtotal</i> ^{1/}	(88)
Non-Formula Adjustments	
North Country GME	(1)
GME/Health Professional Shortage Area	3
NTXIX Children's Behavioral Health	8
Statewide Adjustments	<u>1</u>
<i>Non-Formula Subtotal</i>	11
Total General Fund Spending Change	\$145
^{1/} Numbers do not add to total due to rounding.	

FY 2020 Base Adjustment

In FY 2021, the budget continues \$45,978,600 in state costs for a rebase associated with higher-than-budgeted capitation rates, as well as \$69,839,100 for increased Access to Professional Services Initiative (APSI) spending. The state match portion of the FY 2020 base adjustment amounts to \$115,817,700. These amounts are also included in the FY 2020 supplemental appropriation. (See the *Other Issues* section for more information.)

Of the corresponding \$519,269,700 Total Fund continued increase, \$222,542,800, or 42.9%, is attributable to uniform percentage increases within APSI and the Pediatric Service Initiative (PSI). The initiatives, which provide enhanced financial support to professionals and pediatric units meeting established requirements, will receive uniform percentage increases of 85% and 36%, respectively, to their contracted rates.

FY 2021 Caseload Adjustment

Formula adjustments include enrollment growth for most populations. In FY 2021, the budget assumes 2.64% growth for ALTCS; 0.5% growth for Traditional, KidsCare, Childless Adults, and other Proposition 204 populations; and flat growth for Adult Expansion and CMDP populations. Overall, caseload growth is expected to increase state match expenses by \$27,326,500 and Total Funds expenses by \$125,350,700 in FY 2021. *Table 2* displays historical and forecasted member months across AHCCCS populations. These budgeted caseloads do not reflect any adjustment for the impact of the COVID-19 pandemic including temporary eligibility changes. (See the *Other Issues* section for more information.)

FY 2021 Inflation Adjustments

The budget assumes a 2.6% inflation adjustment for capitation, fee-for-service, and reinsurance effective October 1, 2020. This increase is based on a 5-year average of the medical care consumer price index. Inflation adjustments increase AHCCCS state costs by \$95,589,300 and Total Funds costs by \$415,698,200 in FY 2021. Approximately \$94,774,400, or 22.8%, of the Total Fund costs are associated with increased APSI/PSI spending.

FY 2021 Federal Match Rate Changes

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 SFY 2021, the standard blended FMAP rates will be as follows:

- Traditional Medicaid rate will increase to 70.01% (0.04 percentage point increase).

Table 2

AHCCCS Member Months^{1/}

	June 2019	June 2020	June 2021	'20-'21 % Change
Population	(Actual)	(Forecast)	(Forecast)	
Traditional	1,009,019	1,009,019	1,014,064	0.5%
Prop 204 Childless Adults	319,925	335,921	337,601	0.5
Other Proposition 204	185,961	187,820	188,759	0.5
Adult Expansion	76,825	76,825	76,825	0.0
KidsCare	34,318	35,588	35,766	0.5
CMDP	13,147	13,147	13,147	0.0
ALTCS - Elderly & Physically Disabled ^{2/}	31,241	32,234	33,085	2.64
Emergency Services	<u>112,234</u>	<u>112,234</u>	<u>112,795</u>	<u>0.5</u>
Total Member Months	1,782,670	1,802,788	1,812,042	0.5%

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

^{2/} The ALTCS program funded in AHCCCS. An additional 35,601 people receive Medicaid services through the Department of Economic Security's Developmental Disabilities program as of June 1, 2020.

- Proposition 204 Childless Adult rate will decrease to 90.0% (a 1.5 percentage point decrease).
- Adult Expansion rate will decrease to 90.0% (a 1.5 percentage point decrease).
- CHIP rate will decrease to 82.04% (a 10.8 percentage point decrease).

The budget includes an increase of \$67,526,100 in state costs in FY 2021 as a result of these primarily declining FMAP rates.

These FMAP costs do not reflect any adjustment for the impact of the enhanced FMAP authorized by the federal government to address the COVID-19 pandemic. (See the *Other Issues* section for more information.)

Health Insurer Fee Restoration

The budget includes an increase of \$31,319,300 in state funds for the restoration of the Affordable Care Act Health Insurer Fee in FY 2021. A federal continuing resolution (P.L.115-120) imposed a one-time moratorium on the fee in CY 2019. While the Health Insurer Fee is being restored in FY 2021 and FY 2022, the Consolidated Appropriations Act of 2020 repeals the fee beginning in FY 2023.

Non-General Fund State Match Items

The gross state match contribution from FY 2021 caseload growth, inflation, and federal match rate changes is projected to increase by \$221,761,200. The Non-General Fund state match is forecast to offset \$(87,744,300) of this cost, resulting in a net General Fund change of \$134,016,900. When combined with legislatively-mandated changes, or non-formula adjustments, the net General Fund change increases to \$145,254,400.

The non-General Fund state match offsets are as follows:

- An increase of \$67,348,700 from the Hospital Assessment Fund in FY 2021 to continue to cover the physical health costs of enrollees in the Proposition 204 and Adult Expansion programs.
- An increase of \$15,384,200 in County Funds, mostly for ALTCS.
- An increase of \$4,618,200 from tobacco tax revenues to reflect higher-than-budgeted receipts. While receipts continue to decline, they did not decline as quickly as projected in the FY 2020 budget.

Operating Budget

The budget includes \$93,730,700 and 1,023.2 FTE Positions in FY 2021 for the operating budget. These amounts consist of:

	FY 2021
General Fund	\$29,481,000
Children’s Health Insurance Program (CHIP) Fund	5,676,500
Prescription Drug Rebate Fund (PDRF) - State	661,700
Federal Medicaid Authority (FMA)	57,911,500

FY 2021 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(9,878,000) in FY 2021 to remove 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 \$2,088,400 in FY 2021 for statewide adjustments. This amount consists of:

General Fund	843,400
CHIP Fund	102,500
PDRF - State	900
Federal Medicaid Authority	1,141,600

(Please see the Agency Detail and Allocations section.)

Administration

ADOA Data Center

The budget includes \$19,325,800 in FY 2021 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 2020.

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 2021 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 2020.

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

Proposition 204 - AHCCCS Administration

The budget includes \$13,550,000 and 131 FTE Positions in FY 2021 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	4,353,400
PDRF - State	60,900
Federal Medicaid Authority	9,135,700

FY 2021 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$394,800 in FY 2021 for statewide adjustments. This amount consists of:

General Fund	144,100
Federal Medicaid Authority	250,700

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 2021 for Proposition 204 - DES Eligibility costs. These amounts consist of:

General Fund	16,684,800
Budget Neutrality Compliance Fund (BNCF)	4,037,400
Federal Medicaid Authority	23,636,500

FY 2021 adjustments are as follows:

Formula Adjustments

The budget includes a decrease of \$(131,000) from the General Fund and a corresponding increase of \$131,000 from the BNCF in FY 2021 to reflect an increase of county contributions in FY 2021 as required by A.R.S. § 11-292.

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

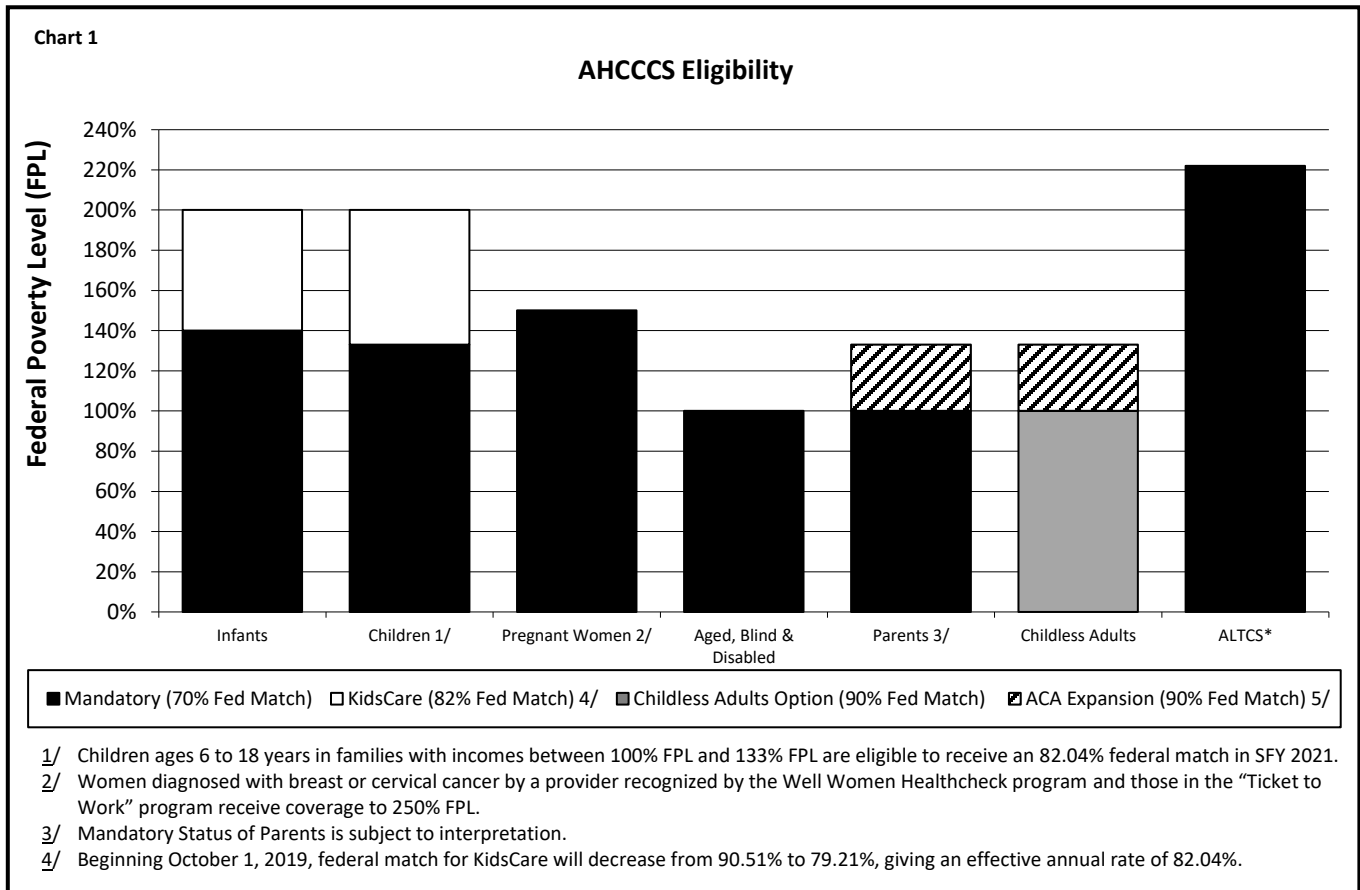
AHCCCS oversees acute care, behavioral health services, and long-term care services for Medicaid enrollees.

Chart 1 shows the income eligibility limits for each AHCCCS population in FY 2021. A description of program components can be found in the *Other Issues* section.

Traditional Medicaid Services

The budget includes \$5,743,961,500 in FY 2021 for Traditional Medicaid Services. This amount consists of:

General Fund	1,277,622,300
County Funds	45,819,000
Political Subdivision Funds	73,818,600
PDRF - State	140,158,600
TTHCF - Medically Needy Account	65,627,200
Third Party Liability and Recovery Fund	194,700
PDRF - In Lieu of Federal Funds	572,638,300
Federal Medicaid Authority	3,568,082,800



FY 2021 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$313,032,800 in FY 2021 for formula adjustments. This amount consists of:

General Fund	74,803,100
County Funds	(342,700)
Political Subdivision Funds	20,748,900
TTHCF - Medically Needy Account	(1,234,600)
Federal Medicaid Authority	219,058,100

These adjustments include:

- FY 2020 rebase due to higher-than-budgeted capitation costs.
- 0.5% FY 2021 enrollment growth.
- An increase in the blended federal match rate from 69.97% in SFY 2020 to 70.01% in SFY 2021.
- 2.6% capitation rate increase.
- Restoration of the Health Insurer Fee.
- \$3,874,600 increase from the TTHCF - Medically Needy Account with a corresponding General Fund decrease.
- \$(342,700) decrease in the Maricopa County Acute Care contribution (County Funds) under A.R.S. § 11-292 with a corresponding General Fund increase.

Background – Traditional Medicaid Services funds acute care and behavioral health services of the following populations:

- Children under 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 \$4,585,376,000 in FY 2021 for Proposition 204 Services. This amount consists of:

General Fund	121,211,500
Hospital Assessment Fund	364,184,700
Political Subdivision Funds	7,394,800
Tobacco Litigation Settlement Fund	102,000,000
TPTF - Emergency Health Services Account	16,216,300
TPTF Proposition 204 Protection Account	34,797,900
Federal Medicaid Authority	3,939,570,800

FY 2021 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$223,511,200 in FY 2021 for formula adjustments. This amount consists of:

General Fund	20,423,200
Hospital Assessment Fund	49,608,400
Political Subdivision Funds	447,800
Federal Medicaid Authority	153,031,800

These adjustments include:

- FY 2020 rebase due to higher-than-budgeted capitation costs.
- 0.5% FY 2021 enrollment growth.
- An increase in the federal match rate for the non-childless adult population from 69.97% in SFY 2020 to 70.01% in SFY 2021.
- A decrease in the federal match rate for the childless adult population from 91.50% in SFY 2020 to 90.00% in SFY 2021.
- 2.6% capitation rate increase.
- Restoration of the Health Insurer Fee.
- \$743,600 increase from the TPTF - Proposition 204 Protection Account due to higher-than-expected tobacco tax revenues and a corresponding decrease of \$(743,600) in other state costs.

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

Adult Expansion Services

The budget includes \$572,108,200 in FY 2021 for Adult Expansion Services. This amount consists of:

General Fund	7,361,600
Hospital Assessment Fund	44,035,900
Political Subdivision Funds	624,500
Federal Medicaid Authority	520,086,200

FY 2021 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$25,719,300 in FY 2021 for formula adjustments. This amount consists of:

General Fund	1,536,100
Hospital Assessment Fund	7,508,600
Political Subdivision Funds	34,600
Federal Medicaid Authority	16,640,000

These adjustments include:

- FY 2020 rebase due to higher-than-budgeted capitation costs.
- Flat FY 2021 enrollment growth.
- A decrease in the federal match rate from 91.50% in SFY 2020 to 90.00% in SFY 2021.
- 2.6% capitation rate increase.
- Restoration of the Health Insurer Fee.

Background – The Adult Expansion Services line item funds Medicaid services for adults from 100% to 133% FPL who are not eligible for another Medicaid program. While the federal government previously paid 100% of the cost of this population, the federal share gradually declined 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 \$197,732,200 in FY 2021 for the Comprehensive Medical and Dental Program (CMDP). This amount consists of:

General Fund	59,250,900
Federal Medicaid Authority	138,481,300

FY 2021 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$8,086,000 in FY 2021 for formula adjustments. This amount consists of:

General Fund	2,274,900
Federal Medicaid Authority	5,811,100

These adjustments include:

- FY 2020 rebase due to higher-than-budgeted capitation costs.
- Flat FY 2021 enrollment growth.
- An increase in the federal match rate from 69.97% in SFY 2020 to 70.01% in SFY 2021.
- 2.6% capitation rate increase.

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 (RHBAs). Laws 2019, Chapter 305 authorizes the integration of physical health services and behavioral health services under a single plan administered by DCS if sufficient funding is available. *(Please see the [CMDP Integration section](#) of the Department of Child Safety narrative for additional information.)*

KidsCare Services

The budget includes \$92,088,200 in FY 2021 for KidsCare Services. This amount consists of:

General Fund	16,214,400
Political Subdivision Funds	362,100
CHIP Fund	75,511,700

FY 2021 adjustments are as follows:

Formula Adjustments

The budget includes a decrease of \$(13,318,100) in FY 2021 for formula adjustments. This amount consists of:

General Fund	10,035,700
Political Subdivision Funds	50,700
CHIP Fund	(23,404,500)

These adjustments include:

- FY 2020 rebase due to lower-than-budgeted enrollment costs. While the FY 2020 budget originally included \$106.5 million for KidsCare, the FY 2020 cost is now estimated at \$88.5 million.
- 0.5% FY 2021 enrollment growth.
- A decrease in the federal match rate from 92.88% in SFY 2020 to 82.04% in SFY 2021.
- 2.6% capitation rate increase.

Background – The KidsCare program, also referred to as the Children’s Health Insurance Program (CHIP), provides health coverage to children in families with incomes between 133% and 200% FPL, 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.

For additional program history, please refer to the [FY 2020 Appropriations Report](#).

ALTCS Services

The budget includes \$1,966,345,300 in FY 2021 for ALTCS Services. This amount consists of:

General Fund	265,435,600
County Funds	305,872,000
Political Subdivision Funds	1,150,900
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	1,316,896,800

FY 2021 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$113,946,900 in FY 2021 for formula adjustments. This amount consists of:

General Fund	25,072,000
County Funds	10,630,500
Political Subdivision Funds	161,100
Federal Medicaid Authority	78,083,300

These adjustments include:

- 2.64% FY 2021 enrollment growth.
- An increase in the federal match rate from 69.97% in SFY 2020 to 70.01% in SFY 2021.
- 2.6% capitation rate increase.
- Restoration of the Health Insurer Fee.

Although the FY 2020 General Appropriation Act sets supplemental payments for nursing facilities serving ALTCS patients at \$108,386,600 for FY 2020, a footnote appropriates any additional payments in excess of that amount. AHCCCS has informed JLBC that it expects to expend \$116,971,600 in total nursing facilities payments in FY 2020, or \$8,585,000 more than appropriated in the FY 2020 budget. The FY 2020 appropriation has been adjusted to reflect the \$116,971,600 level.

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 \$9,368 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 2020, AHCCCS estimates that client contributions will pay for 4.1%, or \$58.7 million, 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 \$18,003,300 in FY 2021 for Behavioral Health Services in schools. This amount consists of:

General Fund	11,000,000
Federal Medicaid Authority	7,003,300

FY 2021 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$13,300 from Federal Medicaid Authority due to a change in the federal match rate.

NTXIX Children's Behavioral Health Services

The budget includes an increase of \$8,000,000 from the General Fund in FY 2021 for a one-time deposit into the Children's Behavioral Health Services Fund established in Laws 2020, Chapter 4. This funding will be used to pay contractors for behavioral health services rendered to low-income, non-Medicaid students.

Background – This line item funds behavioral health services at or near public school campuses for both Medicaid-eligible and non-Medicaid students. AHCCCS plans to use \$1,000,000 of this funding for an interagency service agreement with the Arizona Department of Education for administration of Mental Health First Aid training in public schools. Of the remaining funds, \$9,003,300 will be allocated to behavior health providers

contracted with AHCCCS health plans working directly in schools. The other \$8,000,000 will be used to pay contracted behavioral health providers for services provided to uninsured or underinsured non-Medicaid students. (See the *Other Issues* section for more information.)

Non-Medicaid Behavioral Health Services

Non-Medicaid Seriously Mentally Ill Services

The budget includes \$77,646,900 from the General Fund in FY 2021 for Non-Medicaid Seriously Mentally Ill (SMI) Services. This amount is unchanged from FY 2020.

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. (Please see footnotes for more information on service targets established by the *Arnold v. Sarn* 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 2021 for Supported Housing. This amount is unchanged from FY 2020.

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 \$22,302,000 of their allocation from the Non-Medicaid Seriously Mentally Ill Services line item on Supported Housing Services in SFY 2018.

Crisis Services

The budget includes \$16,391,300 in FY 2021 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 2020.

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.

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 Consolidated Appropriations Act of 2020 delayed nationwide DSH payment reductions until May 2020, which the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) further delayed until December 1, 2020. The CARES Act also reduced the scheduled DSH cut from \$(8.0) billion to \$(4.0) billion in FY 2021, with \$(8.0) billion cuts remaining in fiscal years 2022-2025.

Arizona's estimated federal DSH allocation in FY 2021 is \$119.7 million. As a result, a proportionate (30.7)% reduction in Arizona's DSH allotment would generate a net loss of Federal Funds of \$(36.7) million in FY 2021.

Relative to the FY 2021 budget, if the \$(36.7) million proportionate reduction occurs, the current DSH methodology would result in a \$(19.1) million Federal Funds reduction to eliminate the availability of the DSH Voluntary program and a \$(17.6) 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 \$(36.7) million federal funding loss in FY 2021. The budget instead assumes that Arizona's DSH allocation would be adjusted in FY 2021 according to the regular federal formula, as outlined below.

FY 2020 Uncompensated Care Adjustments

AHCCCS reported in June 2020 that MIHS will only qualify for \$95,696,000 in uncompensated care in FY 2020, or \$(18,122,500) less than the \$113,818,500 limit specified in

the FY 2020 Health Budget Reconciliation Bill (BRB). As a result, the FY 2020 DSH voluntary appropriation increases by \$611,500 from \$40,980,200 to \$41,591,700, while the General Fund deposit decreases to \$83,314,600 -- \$(12,116,900) lower than what was assumed in the enacted budget, or \$(20,939,200) lower than what was assumed in the JLBC June budget update.

Increase in Uncompensated Care Payments

In FY 2021, the state's total DSH payments are estimated to increase by \$12,074,200 from \$158,241,600 in FY 2020 to \$170,315,800 due to federal adjustments for inflation and the FMAP, reflecting pre-June 2020 estimates of the level of uncompensated care at MIHS. Of the \$170,315,800 of eligible DSH funding in FY 2021, \$128,054,700 is distributed according to the allocations described below and listed in *Table 3*.

The remaining \$42,261,100 of eligible funding represents existing expenditures used as part of the state match.

For more information regarding public hospital distributions, private hospital distributions, and DSH voluntary match distributions, please refer to the [Hospital Payments](#) program summary on the JLBC website.

Disproportionate Share Payments

The budget includes \$5,087,100 in FY 2021 for Disproportionate Share Payments. This amount consists of:

General Fund	265,400
Federal Medicaid Authority	4,821,700

FY 2021 adjustments are as follows:

Formula Adjustments

The budget includes a decrease of \$(100) from Federal Medicaid Authority and a corresponding increase of \$100 from the General Fund in FY 2021 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 \$265,400 from the General Fund and \$619,400 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 \$27,137,600 in FY 2021 for DSH Payments - Voluntary Match. This amount consists of:

Political Subdivision Funds	8,135,900
Federal Medicaid Authority	19,001,700

FY 2021 adjustments are as follows:

Table 3		
Disproportionate Share Hospital Payments		
Eligible Funding ^{1/}	FY 2020 ^{2/}	FY 2021
MIHS - CPE	\$ 95,696,000	\$ 113,818,500
ASH - CPE	28,474,900	28,474,900
Private Hospitals	884,800	884,800
DSH Voluntary Match	<u>41,591,700</u>	<u>27,137,600</u>
Total Funding	\$ 166,647,400	\$ 170,315,800
General Fund		
Retain FF of CPE (via MIHS)	\$ 63,245,500	\$ 75,812,100
Retain FF of CPE (via ASH)	<u>20,069,100</u>	<u>20,017,900</u>
Subtotal - General Fund	\$ 83,314,600	\$ 95,830,000
Other Entities		
State MIHS	\$ 4,202,300	\$ 4,202,300
Private Hospitals	<u>884,800</u>	<u>884,800</u>
Subtotal - Other Entities	<u>\$ 5,087,100</u>	<u>\$ 5,087,100</u>
Total DSH Distributions	\$ 88,401,700	\$ 100,917,100
Voluntary Match	\$ 41,591,700	\$ 27,137,600
Total Distributions	\$ 129,993,400	\$ 128,054,700
^{1/} Amounts include state and federal match funding. ^{2/} Assumes certifiable uncompensated care at MIHS is at the established funding level of \$113.8 million.		

Decreased Funding

The budget includes a decrease of \$(14,454,100) in FY 2021 due to a decrease in Arizona's allocation of federal DSH funding. This amount consists of:

Political Subdivision Funds	(4,150,000)
Federal Medicaid Authority	(10,304,100)

While the FY 2020 General Appropriation Act displays a \$40,980,200 appropriation for FY 2020, it presumed \$97,304,100 in uncompensated care at MIHS based on the FY 2018 level of uncompensated care. AHCCCS has since reported that MIHS will only qualify for \$95,696,000 in uncompensated care in FY 2020. The FY 2020 DSH voluntary appropriation is adjusted from \$40,980,200 to \$41,591,700 to reflect the revised level of uncompensated care, which allows the voluntary match level to increase slightly.

Background – This line item provides DSH payments to hospitals with matching funds provided by political subdivisions. The Health BRB continues a provision 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 2021.

Graduate Medical Education

The budget includes \$357,621,200 in FY 2021 for Graduate Medical Education (GME) expenditures. This amount consists of:

General Fund	6,000,000
Political Subdivision Funds	101,858,300
Federal Medicaid Authority	249,762,900

FY 2021 adjustments are as follows:

Decreased Funding

The budget includes a decrease of \$(52,008,900) in FY 2021 due to a decrease in GME payments. This amount consists of:

Political Subdivision Funds	(15,815,700)
Federal Medicaid Authority	(36,193,200)

Although the FY 2020 General Appropriation Act displays a \$303,551,500 appropriation for FY 2020, a footnote appropriates any additional payments in excess of that amount. In June 2020, AHCCCS informed JLBC that it expects to expend \$399,567,100 in total GME payments in FY 2020, or \$96,015,600 more than appropriated in the FY

2020 budget. The FY 2020 appropriation has been adjusted to the \$399,567,100 level (see Table 4).

<u>Expenditure Categories</u>	<u>FY 2020</u>	<u>FY 2021</u>
Locally Funded GME	\$ 293,607,800	\$ 337,614,500
FY 2020 Rebase	<u>96,015,600</u>	<u>0</u>
<i>GME Subtotal</i>	<i>\$ 389,623,400</i>	<i>\$ 337,614,500</i>
<i>HPSA GME</i>	<i>\$ 9,943,700</i>	<i>\$ 20,006,700</i>
Total Revenues	\$ 399,567,100	\$ 357,621,200

Health Professional Shortage Areas

The budget includes an increase of \$10,063,000 in FY 2021 for GME payments to hospitals located in health professional shortage areas. This amount consists of:

General Fund	3,000,000
Federal Medicaid Authority	7,063,000

With this increase, \$20,006,700 Total Funds will be available for Health Professional Shortage Areas, or \$6,000,000 from the General Fund and \$14,006,700 from Federal Medicaid Authority.

A pair of General Appropriation Act footnotes instructs AHCCCS how to allocate the \$20,006,700 total amount for this program. The budget allocates \$5,595,000 Total Funds of the increase for GME programs located in a county with less than 500,000 persons and the remaining \$4,468,000 to programs in counties with a population of more than 500,000 persons. The 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 2019, 16 hospitals received a total of \$335,140,967 for Graduate Medical Education.

Graduate Medical Education - Community Health Centers

The budget includes no funding in FY 2021 for Graduate Medical Education - Community Health Centers. FY 2021 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(750,000) from the General Fund in FY 2021 for one-time 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 programs in Northern Arizona.

Rural Hospitals

The budget includes \$28,612,400 in FY 2021 for Rural Hospitals, which includes Critical Access Hospitals (CAH). This amount consists of:

General Fund	8,580,800
Federal Medicaid Authority	20,031,600

FY 2021 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$2,800 from the General Fund and a corresponding decrease of \$(2,800) from Federal Medicaid Authority in FY 2021 due to a change in the federal match rate.

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 2019, 19 hospitals qualified for funding from Rural Hospital Reimbursement and 10 from CAH.

Safety Net Care Pool

The budget includes no funding in FY 2021 for the Safety Net Care Pool (SNCP) program. This amount is unchanged from FY 2020.

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 again extended the date PCH may participate in the program to December 31, 2020. While federal funding for the program ended December 31, 2017, the budget continues to provide spending authority due to the program being extended midway through FY 2021.

Targeted Investments Program

The budget includes \$70,000,000 in FY 2021 for the Targeted Investments Program. This amount consists of:

Delivery System Reform	21,686,700
Incentive Payment (DSRIP) Fund	
Federal Medicaid Authority	48,313,300

FY 2021 adjustments are as follows:

Decreased Funding

The budget includes a decrease of \$(20,000,000) in FY 2021 to reflect resources authorized by the federal government for the Targeted Investments Program. This amount consists of:

DSRIP Fund	(6,375,700)
Federal Medicaid Authority	(13,624,300)

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 2020 Supplemental
- Statutory Changes
- Long-Term Budget Impacts
- Health Care Investment Fund
- Children's Behavioral Health Services Fund
- Prescription Drug Rebate Fund
- AHCCCS Works Waiver
- Affordable Care Act Litigation
- County Contributions
- Section 1135 Waiver
- COVID-19-Related FMAP Adjustments
- Program Components
- Tobacco Master Settlement Agreement
- Tobacco Tax Allocations

FY 2020 Supplemental

The FY 2021 budget includes an FY 2020 supplemental appropriation of \$519,269,700 for state costs associated with lower-than-budgeted caseload growth in FY 2020. Of that amount, \$45,978,600 comes from the General Fund; \$5,109,200 comes from Other Funds; and \$468,181,900 comes from Expenditure Authority. The budget continues this funding in FY 2021.

Statutory Changes

The Health BRB 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.

Counties

- As session law, continue to exclude Proposition 204 administration costs from county expenditure limitations.
- As session law, set the FY 2021 County Acute Care contribution at \$45,819,000. 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, 2021, 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 2021 county Arizona Long Term Care System (ALTCs) contributions at \$305,872,000.

Hospitals

- As session law, continue to establish FY 2021 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 2021.
- 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.

The Human Services BRB makes the following statutory changes:

- As session law, allow AHCCCS to adjust payments to behavioral health providers and providers serving ALTCs members to ensure adequate capacity during the COVID-19 public health emergency.
- As session law, apply the temporary adjustments to provider payments retroactive to March 10, 2020.

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, AHCCCS's General Fund spending increases by \$77.9 million in FY 2022 above FY 2021 and by \$38.6 million in FY 2023 above FY 2022. These figures assume 0.5% enrollment growth for most populations, a 2.6% inflation rate, and an increasing federal match rate.

The FY 2023 General Fund impact also accounts for repeal of the Health Insurer Fee, per the Consolidated Appropriations Act of 2020.

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 2022 and FY 2023.

These figures do not adjust for impacts of the COVID-19 pandemic. (See COVID-19-Related FMAP Adjustments.)

Health Care Investment Fund

Laws 2020, Chapter 46 establishes the Health Care Investment Fund. The fund will receive revenues based on an assessment on hospital revenues, discharges, or bed days relative to inpatient and outpatient services, to be established by the AHCCCS director. As of this writing, the fund is expected to generate approximately \$1.1 billion in additional funding for AHCCCS, including federal drawdown of funds, but has not yet been implemented by AHCCCS.

Children's Behavioral Health Services Fund

Laws 2020, Chapter 4 establishes the Children's Behavioral Health Services Fund. In FY 2021, the fund will receive a one-time \$8.0 million transfer from the General Fund. The fund will be used to pay contracted behavioral health providers for services rendered to low-income, non-Medicaid students, so long as the student is referred for services by an educational institution. Behavioral health services need not be rendered on school grounds.

Prescription Drug Rebate Fund

Beginning in 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 included 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 \$7.7 million at the end of FY 2021 (see Table 5).

(Please see the Long Term Budget Impacts section for changes to the Prescription Drug Rebate Fund in FY 2022.)

AHCCCS Works 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.

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 were to 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 most recent pricing estimate, as of May 2019, is \$4.8 million across 5 years.

In November 2019, AHCCCS announced that implementation of AHCCCS Works would be delayed while court cases involving CMS community engagement requirements are heard. The program, which was set to begin no sooner than summer 2020, is further delayed as

	<u>FY 2020</u>	<u>FY 2021</u>
Revenues		
Beginning Balance	\$ 45,538,000	\$ 0
Rebate Collections	<u>164,020,200</u>	<u>172,844,200</u>
Total Revenues	\$209,558,200	\$172,844,200
Budgeted Disbursements		
Operating Budget and Administration	\$ 2,728,800	\$ 660,800
Traditional Services	140,158,600	140,158,600
ALTCS Services	7,578,400	7,578,400
Prop 204	<u>60,900</u>	<u>60,900</u>
AHCCCS Subtotal	\$ 150,526,700	\$148,458,700
DHS One-Time Health Research	<u>\$1,000,000</u>	<u>0</u>
Total Disbursements	\$ 151,526,700	\$148,458,700
General Fund Transfer ^{1/}	\$ 69,000,000	\$ 16,700,000
Projected Ending Balance	\$ (9,968,500)^{2/}	\$ 7,685,500

^{1/} The FY 2020 transfer was enacted by Laws 2019, Chapter 263.
^{2/} Actual FY 2020 ending balance will not be negative.

a result of maintenance of eligibility requirements associated with the Families First Coronavirus Response Act (FFCRA).

Affordable Care Act Litigation

Current litigation revolves around the constitutionality of the ACA's individual mandate. The Tax Cuts and Jobs Act (TCJA), passed in December 2017, established a \$0 penalty for not having health insurance. On December 14, 2018, the Fifth Circuit Court ruled in *Texas v. Azar* that a \$0 Shared Responsibility Payment renders the mandate 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.

Formal repeal of the ACA would trigger the authorizations set forth in A.R.S. § 36-2901.07 and A.R.S. § 36-2901.08, which extend eligibility to the adult expansion population. However, coverage would continue for the Proposition 204 population from 0-100% and for children ages 6-18 from 100-133%. For more information regarding prior federal litigation, refer to the [FY 2020 Appropriations Report](#).

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. These figures do not adjust for impacts of the COVID-19 pandemic. More details regarding how [County Contributions](#) are calculated can be found in the corresponding program summary on the JLBC website.

Section 1135 Waiver

In response to the COVID-19 emergency, AHCCCS submitted an 1135 waiver to the Centers for Medicare and Medicaid Services (CMS) on March 17, 2020. Section 1135 waivers permit the Health and Human Services Secretary to temporarily waive or modify Medicaid requirements during a national emergency. As part of the list of approved flexibilities, AHCCCS is authorized to streamline provider enrollment requirements, suspend member cost-sharing requirements, extend KidsCare renewal deadlines, and delay action on changes of circumstances that would affect KidsCare eligibility, among other administrative changes.

COVID-19-Related FMAP Adjustments

In March 2020, the President signed the federal Families First Coronavirus Response Act into law. Among other provisions, the bill temporarily increases the regular Medicaid match rate by 6.2% retroactive to January 1, 2020. The temporary enhanced match rate is effective

County	FY 2020			FY 2021		
	BNCF	Acute	ALTCS	BNCF ^{1/}	Acute	ALTCS
Apache	\$128,800	\$268,800	720,200	\$133,100	\$268,800	696,200
Cochise	240,200	2,214,800	5,176,200	248,200	2,214,800	5,181,000
Coconino	236,900	742,900	2,162,200	244,900	742,900	2,090,300
Gila	97,300	1,413,200	2,418,200	100,600	1,413,200	2,519,200
Graham	69,200	536,200	1,684,400	71,500	536,200	1,745,100
Greenlee	17,800	190,700	8,200	18,400	190,700	3,900
La Paz	36,800	212,100	822,000	38,100	212,100	716,100
Maricopa	0	18,131,400	185,791,300	0	17,788,700	196,891,500
Mohave	276,500	1,237,700	9,232,700	285,800	1,237,700	9,763,200
Navajo	181,300	310,800	2,981,000	187,300	310,800	2,881,800
Pima	1,647,200	14,951,800	45,157,400	1,702,500	14,951,800	47,415,800
Pinal	322,300	2,715,600	13,755,300	333,100	2,715,600	14,431,100
Santa Cruz	76,200	482,800	2,266,800	78,700	482,800	2,402,000
Yavapai	304,500	1,427,800	8,534,800	314,700	1,427,800	9,074,300
Yuma	271,400	1,325,100	9,556,400	280,600	1,325,100	10,060,500
Subtotal	\$3,906,400	\$46,161,700	\$290,276,100	\$4,037,400	\$45,819,000	\$305,872,000
Total			\$340,344,200			\$355,728,400

^{1/} Numbers do not add to total due to rounding.

through the last quarter that the federal public health emergency is in effect. The match rate increase will reduce General Fund expenditures for AHCCCS in FY 2020 and FY 2021. The enacted budget did not adjust AHCCCS' General Fund appropriation to account for the savings.

In FY 2020, any match rate savings are expected to be realized through reverts to the General Fund. The magnitude of AHCCCS' level of FY 2020 reverts, however, is not yet known and will depend on other technical factors.

In FY 2021, the JLBC Staff estimates that the match rate increase will reduce AHCCCS' General Fund expenditures by \$(297) million relative to the enacted budget. This estimate assumes that the 6.2% increase will be in effect through March 2021, consistent with the Congressional Budget Office's current assumption concerning the duration of the increase. The match rate savings would either be realized via an ex-appropriation to AHCCCS' FY 2021 General Fund appropriation or via reverts.

The JLBC Staff estimates also assume that caseload changes would reduce the match rate savings by \$(211) million based on 10% caseload growth. The net savings in AHCCCS in FY 2021 is currently estimated at \$(86) million.

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 2021, the average capitation rate is expected to be approximately \$511 per member per month (or \$6,100 annually). Of that amount, an average of \$121 is from state match and \$390 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 continues to require AHCCCS to transfer up to \$2,036,000 from the Traditional Medicaid Services line item in FY 2021 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.
- \$836,000 to the Department of Revenue to fund 6 positions that perform luxury tax enforcement and audit duties.

For additional details related to [Tobacco Tax Enforcement and Litigation](#), please refer to the corresponding program summary on the JLBC website.

Tobacco Tax Allocations

The budget projects AHCCCS and DHS will receive \$141.5 million in transfers of tobacco tax collections in FY 2021. This amount represents an increase of \$1.9 million (1.4%) from the FY 2020 budgeted amount. *Table 7* 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 2019</u>	<u>FY 2020</u>
Medically Needy Account		
<u>Funds Available</u>		
Balance Forward	\$ 0	\$ 51,900
Transfer In - Tobacco Tax and Health Care Fund	43,260,500	39,945,800
Transfer In - Tobacco Products Tax Fund	<u>23,583,500</u>	<u>25,296,800</u>
Total Funds Available	\$ 66,844,000	\$ 65,294,500
<u>Allocations</u>		
<u>AHCCCS</u>		
AHCCCS State Match Appropriation	\$ 66,143,900	\$ 66,861,800
Total AHCCCS Allocations	\$ 66,143,900	\$ 66,861,800
<u>DHS</u>		
Folic Acid	\$ 314,800	\$ 400,000
Renal, Dental Care, and Nutrition Supplements	225,000	300,000
Administrative Adjustments	<u>108,400</u>	<u>0</u>
Total DHS Allocations	<u>648,200</u>	<u>700,000</u>
Balance Forward	\$ 51,900	\$ (2,267,300)
AHCCCS Proposition 204 Protection Account		
<u>Funds Available</u>		
Balance Forward	\$ 0	\$ 0
Transfer In - Tobacco Products Tax Fund	<u>36,685,400</u>	<u>36,457,400</u>
Total Funds Available	\$ 36,685,400	\$ 36,457,400
<u>Allocations</u>		
AHCCCS State Match Appropriation	\$ 36,685,400	\$ 34,797,900
Administrative Adjustments	<u>0</u>	<u>0</u>
Balance Forward	\$ 0	\$ 1,659,500
AHCCCS Emergency Health Services Account		
<u>Funds Available</u>		
Balance Forward	\$ 0	\$ 0
Transfer In - Tobacco Products Tax Fund	<u>17,469,200</u>	<u>17,360,600</u>
Total Funds Available	\$ 17,469,200	\$ 17,360,600
<u>Allocations</u>		
AHCCCS State Match Appropriation	17,469,200	16,216,300
Administrative Adjustments	<u>\$ 0</u>	<u>\$ 0</u>
Balance Forward <u>1/</u>	\$ 0	\$ 1,144,300
DHS Health Education Account		
<u>Funds Available</u>		
Balance Forward	\$ 4,281,300	\$ 1,885,400
Transfer In - Tobacco Tax and Health Care Fund	14,214,200	13,125,100
Transfer In - Tobacco Products Tax Fund	<u>1,746,900</u>	<u>2,489,900</u>
Total Funds Available	\$ 20,242,400	\$ 17,500,400
<u>Allocations</u>		
Tobacco Education and Prevention Program	\$ 16,141,500	\$ 12,498,400
Leading Causes of Death - Prevention and Detection	<u>2,215,500</u>	<u>3,125,400</u>
Balance Forward	\$ 1,885,400	\$ 1,876,600
Health Research Account		
<u>Funds Available</u>		
Balance Forward	\$ 9,155,800	\$ 5,736,800
Transfer In - Tobacco Tax and Health Care Fund	3,090,000	2,853,300
Transfer In - Tobacco Products Tax Fund	<u>4,367,300</u>	<u>4,409,100</u>
Total Funds Available	\$ 16,613,100	\$ 12,999,200
<u>Allocations</u>		
Biomedical Research Support	\$ 1,498,800	\$ 2,000,000
Alzheimer's Disease Research	3,000,000	2,000,000
Biomedical Research Commission <u>2/</u>	5,878,700	9,515,200
Administrative Adjustments	<u>498,800</u>	<u>0</u>
Balance Forward	\$ 5,736,800	\$ (516,000) *

1/ Unencumbered funds in Emergency Health Services Account are transferred to Prop 204 Protection Account at end of 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.