

Arizona Health Care Cost Containment System

	FY 2024 ACTUAL	FY 2025 ESTIMATE	FY 2026 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,358.3	2,459.3	2,459.3
Personal Services	60,900,700	63,636,400	63,636,400
Employee Related Expenditures	33,431,600	34,938,900	34,938,900
Professional and Outside Services	10,457,700	11,698,200	11,698,200
Travel - In State	27,700	23,400	23,400
Travel - Out of State	57,400	56,100	56,100
Other Operating Expenditures	49,557,000	45,299,900	23,108,900
Equipment	1,138,200	984,900	984,900
OPERATING SUBTOTAL	155,570,300	156,637,800	134,446,800 ^{1/}
SPECIAL LINE ITEMS			
Administration			
AHCCCS Data Storage	16,877,400	19,325,800	19,605,800
DES Eligibility	116,083,200	97,074,500	97,074,500 ^{2/}
Proposition 204 - AHCCCS Administration	12,748,900	15,625,100	15,625,100 ^{3/}
Proposition 204 - DES Eligibility	45,763,300	44,358,700	44,358,700 ^{3/}
Medicaid Services ^{4/5/6/}			
Traditional Medicaid Services	7,148,662,600	8,650,302,800	9,294,829,500 ^{7/-12/}
Proposition 204 Services	7,103,940,200	7,769,810,300	7,450,961,800 ^{11/-13/}
Adult Expansion Services	687,387,300	740,010,600	798,727,300 ^{11/12/}
Comprehensive Health Plan	151,588,400	177,233,200	178,650,800 ^{11/}
KidsCare Services	161,356,400	229,689,800	257,635,300
ALTCS Services	2,207,370,200	2,534,184,700	2,457,084,800 ^{14/-16/}
Behavioral Health Services in Schools	9,120,600	8,630,600	8,445,400
Non-Medicaid Behavioral Health Services			
Non-Medicaid Seriously Mentally Ill Services	76,644,300	77,646,900	77,646,900 ^{17/}
Case Management Provider Wage Increases	0	1,000,000	0
Supported Housing	5,305,100	65,324,800	65,324,800
Crisis Services	16,276,000	16,391,300	16,391,300
Hospital Payments			
Disproportionate Share Payments - Private Hospitals	19,583,900	5,087,100	884,800
DSH Payments - Voluntary Match	33,221,100	65,330,500	205,641,700 ^{12/18/}
Graduate Medical Education	406,203,300	469,246,600	528,558,300 ^{12/19/-23/}
Critical Access Hospitals	30,257,400	28,416,700	16,454,300
Targeted Investments Program	30,914,800	56,000,000	67,000,000
AGENCY TOTAL	18,434,874,700	21,227,327,800	21,735,347,900 ^{24/-26/}
FUND SOURCES			
General Fund	2,401,019,000	2,669,731,700	2,783,312,900
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	4,669,300	4,914,300	5,112,300
Children's Health Insurance Program Fund	128,657,800	174,041,000	194,417,200
Prescription Drug Rebate Fund - State	164,907,400	189,832,200	189,832,200
Seriously Mentally Ill Housing Trust Fund	423,300	217,700	217,700
Substance Abuse Services Fund	2,250,200	2,250,200	2,250,200
Tobacco Products Tax Fund - Emergency Health Services Account	16,515,600	17,458,500	15,400,000
Tobacco Tax and Health Care Fund - Medically Needy Account	60,160,100	66,586,300	57,545,600
SUBTOTAL - Other Appropriated Funds	377,583,700	455,300,200	464,775,200
SUBTOTAL - Appropriated Funds	2,778,602,700	3,125,031,900	3,248,088,100

	FY 2024 ACTUAL	FY 2025 ESTIMATE	FY 2026 BASELINE
<u>Expenditure Authority Funds</u>			
AHCCCS Fund	11,809,438,100	13,434,104,500	13,779,150,300
Arizona Tobacco Litigation Settlement Fund	88,272,600	102,000,000	102,000,000
Delivery System Reform Incentive Payment Fund	3,656,900	17,922,700	24,321,800
Health Care Investment Fund	529,190,200	911,052,600	913,772,900
Hospital Assessment Fund	546,269,700	694,319,800	622,867,900
Long Term Care System Fund	1,707,996,000	1,959,660,600	1,869,102,100
Nursing Facility Provider Assessment Fund	100,283,100	94,906,800	93,066,100
Political Subdivision Funds	227,965,900	242,411,000	441,383,700
Prescription Drug Rebate Fund - Federal	609,060,300	609,060,300	609,060,300
Third Party Liability and Recovery Fund	194,700	194,700	194,700
Tobacco Products Tax Fund - Proposition 204 Protection Account	33,944,500	36,662,900	32,340,000
SUBTOTAL - Expenditure Authority Funds	15,656,272,000	18,102,295,900	18,487,259,800
SUBTOTAL - Appropriated/Expenditure Authority Funds	18,434,874,700	21,227,327,800	21,735,347,900
Other Non-Appropriated Funds	151,730,300	165,318,300	165,318,300
Federal Funds	150,981,400	186,030,400	186,030,400
TOTAL - ALL SOURCES	18,737,586,400	21,578,676,500	22,086,696,600

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/ Before spending the monies for the replacement of the prepaid medicaid management information system, the Arizona strategic enterprise technology office shall submit, on behalf of the Arizona health care cost containment system, an expenditure plan for review by the joint legislative budget committee. The report shall include the project cost, deliverables, the timeline for completion and the method of procurement that are consistent with the department's prior reports for its appropriations from the automation projects fund. (General Appropriations Act footnote)
- 2/ 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 Appropriations Act footnote)
- 3/ 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 Appropriations Act footnote)
- 4/ 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 Appropriations Act footnote)
- 5/ The Arizona health care cost containment system administration shall report to the joint legislative budget committee on or before March 1, 2026 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 \$1,000,000 or more for any fiscal year, the administration shall submit the policy change for review by the joint legislative budget committee. (General Appropriations Act footnote)
- 6/ **NEW** On or before March 31, 2026, the Arizona health care cost containment system administration shall submit a report to the joint legislative budget committee and the governor's office of strategic planning and budgeting on the amount of

directed payments valleywise health will receive from the safety net services initiative in fiscal year 2025-2026, disaggregated by state match and by federal match. (General Appropriations Act footnote)

- 7/ 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 2025-2026 to the attorney general for costs associated with e-cigarette enforcement and tobacco settlement litigation. (General Appropriations Act footnote)
- 8/ The Arizona health care cost containment system administration shall transfer \$836,000 from the traditional medicaid services line item for fiscal year 2025-2026 to the department of revenue for enforcement costs associated with the March 13, 2013 master settlement agreement with tobacco companies. (General Appropriations Act footnote)
- 9/ The amount appropriated for the traditional medicaid services line item includes \$4,098,200 from the state general fund and \$8,059,900 from expenditure authority for inpatient payments to rural hospitals as defined in section 36-2905.02, Arizona Revised Statutes. (General Appropriation Act footnote)
- 10/ Of the amount appropriated from the expenditure authority fund source, \$3,606,700,000 is for hospital enhanced access leading to health improvements initiative payments in fiscal year 2025-2026. This amount includes monies from hospital assessments collected pursuant to section 36-2999.72, Arizona Revised Statutes, and any federal monies used to match those payments. (General Appropriations Act footnote)
- 11/ 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 Appropriations Act footnote)
- 12/ 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 2025-2026 costs of graduate medical education, disproportionate share payments — voluntary match, traditional medicaid services, proposition 204 services and adult expansion services line items are included in the expenditure authority fund source. (General Appropriations Act footnote)
- 13/ Of the amount appropriated for the proposition 204 services line item, \$100,000,000 shall be used from the hospital assessment fund established by section 36-2901.09, Arizona Revised Statutes, to cover a portion of the nonfederal share of the costs of services described in section 36-2907, subsection F, Arizona Revised Statutes. This amount is included in the expenditure authority fund source. (General Appropriations Act footnote)
- 14/ 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. (General Appropriations Act footnote)
- 15/ Pursuant to section 11-292, subsection B, Arizona Revised Statutes, the county portion of the fiscal year 2025-2026 nonfederal costs of providing long-term care system services is \$409,537,600. This amount is included in the expenditure authority fund source. (General Appropriations Act footnote)
- 16/ Any supplemental payments received in excess of \$93,066,100 for nursing facilities that serve Arizona long-term care system medicaid patients in fiscal year 2025-2026, including any federal matching monies, by the Arizona health care cost containment system administration are appropriated to the administration in fiscal year 2025-2026. 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 Appropriations Act footnote)
- 17/ On or before June 30, 2026, 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 Appropriations Act footnote)
- D/ ~~The \$5,087,100 appropriation for disproportionate share payments for fiscal year 2024-2025 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 Appropriations Act footnote)~~
- 18/ 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 2025-2026 by the Arizona health care cost containment system administration in excess of \$155,153,000 are appropriated to the administration in fiscal year 2025-2026. 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 Appropriations Act footnote)

- 19/ Any monies for graduate medical education received in fiscal year 2025-2026, including any federal matching monies, by the Arizona health care cost containment system administration in excess of \$528,558,300 are appropriated to the administration in fiscal year 2025-2026. 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 Appropriations Act footnote)
- 20/ If any graduate medical education monies remain after the Arizona health care cost containment system administration has funded all eligible graduate medical education programs in counties with a population of less than five hundred thousand persons, the administration may fund the costs of graduate medical education programs operated by community health centers and rural health clinics. (General Appropriations Act footnote)
- 21/ Notwithstanding section 36-2903.01, subsection G, paragraph 9, subdivisions (a), (b) and (c), Arizona Revised Statutes, the amount for graduate medical education includes \$5,000,000 from the state general fund and \$9,384,300 from expenditure authority for the direct and indirect costs of graduate medical education programs located in counties 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 Appropriations Act footnote)
- 22/ Notwithstanding section 36-2903.01, subsection G, paragraph 9, subdivisions (a), (b) and (c), Arizona Revised Statutes, the amount for graduate medical education includes \$4,000,000 from the state general fund and \$7,507,500 from expenditure authority for the direct and indirect costs of graduate medical education programs located in counties 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. (General Appropriations Act footnote)
- 23/ 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, 2027. (General Appropriations Act footnote)
- 24/ 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 Appropriations Act footnote)
- 25/ On or before July 1, 2026, 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, 2025. (General Appropriations Act footnote)
- 26/ General Appropriations Act funds are appropriated as Operating Lump Sum with Special Line Items by Agency.

Summary

AHCCCS's FY 2026 General Fund spending increases by \$113,581,200 from FY 2025. This amount includes:

- \$118,781,200 for formula adjustments.
- \$(1,000,000) for removal of one-time case management provider wage increases.
- \$(4,200,000) for removal of one-time FY 2025 critical access hospital supplemental payments funding.

Below is an overview of FY 2026 formula adjustments, which *Table 1* summarizes, as well as any non-formula adjustments. As part of the Baseline's 3-year spending plan, AHCCCS's General Fund costs are projected to increase by \$268,785,300 in FY 2027 above FY 2026 and by \$167,238,400 in FY 2028 above FY 2027. (See the *Other Issues* section for more information.)

Formula Adjustments

Formula adjustments represent changes that occur under current law, including caseload, capitation, and federal

Table 1

AHCCCS State Match Spending Changes (in millions) ^{1/}

State Match Formula Adjustments

FY 2025 Rebase	(105)
FY 2026 Caseload Growth	(8)
FY 2026 Inflation Increase	210
FY 2026 Federal Medicaid Match Rate Change	<u>58</u>
<i>State Match Costs Subtotal</i>	<i>156</i>

Non-General Fund State Match Offsets

Political Subdivisions Fund Increase	114
County Funds Increase ^{2/}	10
Nursing Facility Provider Assessment Fund	(2)
Hospital Assessment Fund	(71)
Health Care Investment Fund	3
Tobacco Funds	<u>(15)</u>
<i>General Fund Offsets Subtotal</i>	<i>37</i>

Non-Formula Adjustments

Remove FY 2025 One-Time Funding	(5)
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Total General Fund Spending Change **\$114**

^{1/} Numbers may not sum due to rounding.

^{2/} County funds for the acute care program are displayed within the AHCCCS Fund. County funds for ALTCS are displayed within the Long Term Care System Fund.

AHCCCS Enrollment ^{1/}					
	June 2024	June 2025	June 2025	June 2026	'25-'26 %
Population	(Actual)	(Enacted)^{2/}	(Forecast)	(Forecast)	Change
Traditional	1,075,839	1,051,118	1,053,746	1,063,660	0.9%
Prop 204 Childless Adults	506,129	513,136	443,101	447,519	1.0%
Other Prop 204	184,106	175,254	167,358	169,988	1.6%
Adult Expansion	76,801	72,608	71,203	71,914	1.0%
KidsCare	62,025	69,628	66,502	70,277	5.7%
CHP	8,705	9,802	8,036	8,072	0.4%
ALTCS - Elderly & Physically Disabled ^{3/}	28,345	30,455	28,861	29,351	1.7%
Emergency Services	<u>132,594</u>	<u>129,547</u>	<u>129,871</u>	<u>131,093</u>	<u>0.9%</u>
Total Enrollment	2,074,544	2,051,548	1,968,679	1,991,874	1.2%

^{1/} The figures represent June 1 enrollment for both capitated and fee-for-service members.
^{2/} The figures in this column represent enrollment estimates included in the FY 2025 enacted budget.
^{3/} The ALTCS - Elderly and & Physically Disabled program is funded in AHCCCS. An additional 43,364 people received Medicaid services through the Department of Economic Security's ALTCS - Developmental Disabilities program as of June 2024.

match rate revisions. The Baseline includes an increase of \$118,781,200 from the General Fund in FY 2026 for the following AHCCCS formula adjustments. This amount includes:

- \$156,069,200 for state match expenses associated with formula adjustments.
- \$(37,288,000) for changes in General Fund offsets.

FY 2025 Base Adjustment

The Baseline includes a decrease of \$(104,877,700) from state match and a Total Funds decrease of \$(337,743,100) in FY 2026 for an FY 2025 base adjustment. The base adjustment is primarily associated with enrollment and capitation adjustments that occurred following the adoption of the enacted budget. Through December 2024, AHCCCS capitated enrollment was 1.70 million, or (90,000) below the enacted budget assumption of 1.79 million.

The FY 2025 base adjustment is the net result of the lower-than-budgeted caseloads, as well as the October 2024 capitation adjustment implemented by AHCCCS. Members between the ages of 1 and 20 received the largest rate increase of any group, which has an outsized impact on General Fund formula costs. We estimate the capitation adjustment resulted in \$31,675,200 of General Fund expenses above the enacted budget. Combined with the lower-than-budgeted caseloads, on net, we estimate that AHCCCS will end FY 2025 with an FY 2025 General Fund surplus of \$(76,351,600).

Additionally, federal regulators announced in November 2024 that Arizona recently qualified for a one-time upward revision to its federal match rate. This further increases the FY 2025 General Fund surplus. (See *Other Issues for additional information.*) However, because the

revision is one-time, its impact is excluded from the FY 2025 base adjustment amount.

FY 2026 Caseload Adjustment

Formula adjustments reflect a 1.2% enrollment growth in FY 2026. *Table 2* displays historical and forecasted member months across AHCCCS populations. The Baseline assumes each individual category will increase based on estimated population growth rates among children and adults.

We estimate, however, that the 1.2% growth nevertheless results in a small amount of General Fund caseload savings. This is due to the annualization of caseload declines that have occurred throughout FY 2025, as discussed above. Overall, caseload declines are expected to decrease state match expenses by \$(7,846,700) and Total Funds expenses by \$(141,003,900) in FY 2026.

FY 2026 Inflation Adjustments

The Baseline assumes a 3.0% inflation adjustment for capitation, fee-for-service, and reinsurance effective October 1, 2025. This increase is based on several factors, including the medical care consumer price index and the growth certain categories experienced in the FY 2025 capitation rate adjustment. The Baseline also annualizes the FY 2025 capitation rate adjustment. Inflation adjustments increase AHCCCS state costs by \$210,303,200 and Total Funds costs by \$815,405,100 in FY 2026.

FY 2026 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 2026, the standard FMAP rates will be as follows:

- Traditional Medicaid rate will decrease to 64.48%, a (0.76) percentage point decrease.
- Proposition 204 Childless Adult rate will remain at 90.0%.
- Adult Expansion rate will remain at 90.0%.
- CHIP rate will decrease to 75.14%, a (0.53) percentage point decrease.

The Baseline includes an increase of \$58,490,400 in state costs and a corresponding decrease of \$(58,490,400) in federal match costs in FY 2026 as a result of these FMAP adjustments.

Non-General Fund State Match Items

The gross state match contribution from the FY 2025 base adjustment and FY 2026 caseload growth, inflation, and federal match rate changes is projected to increase by \$156,069,200. The Non-General Fund state match is projected to increase by \$37,288,000, resulting in a net General Fund change of \$118,781,200.

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

- An increase of \$113,780,900 in Political Subdivision Funds, mostly for the state match costs of a new directed payments program called the Safety Net Services Initiative (SNSI). *(Please see the Valleywise Directed Payments section for additional information.)* The increase in expenditure authority in FY 2026 for this program is displayed separately from formula adjustments among the Medicaid Services line items.
- An increase of \$9,501,500 in County Funds, mostly for ALTCS. County Funds are displayed within the Budget Neutrality Compliance Fund, the AHCCCS Fund under the Traditional Medicaid Services line item, and the Long Term Care System Fund. *(Please see County Contributions in Other Issues for additional information.)*
- A decrease of \$(71,451,900) from the Hospital Assessment Fund in FY 2026 for physical health costs of enrollees in the Proposition 204 and Adult Expansion programs. AHCCCS estimates that the average member will receive a lower share of physical health services and a higher share of behavioral health services in FY 2026 than in prior years. Combined with a decline in enrollment among the Proposition 204 population, this lowers Hospital Assessment Fund costs.
- A decrease of \$(1,840,700) from the Nursing Facility Provider Assessment Fund within ALTCS.

- An increase of \$2,720,300 from the Health Care Investment Fund, mostly within Traditional.
- A decrease of \$(15,422,100) from lower tobacco tax revenues.

Hospital Assessment

Under A.R.S. § 36-2901.08 and A.R.S. § 36-2999.72, AHCCCS is required to establish, administer, and collect an assessment on hospitals. Below we provide more details on how the assessment is allocated, adjustments in the FY 2025 budget, and projections for the assessment in the FY 2026 Baseline.

Background

The amount of the levy for each hospital is computed based on its volume of inpatient and outpatient services. Monies collected from the assessment are allocated as follows:

- The Hospital Assessment Fund (HAF) receives assessment monies designated to cover the state match costs of the Proposition 204 and Adult Expansion populations not otherwise covered by voter-approved tobacco revenues and other state funds.
- The Health Care Investment Fund (HCIF) receives assessment monies designated to increase base reimbursement rates for services on AHCCCS' dental and physician fee schedules, and to make directed payments to hospitals (called the Hospital Enhanced Access Leading to Health Improvements Initiative, or "HEALTHII" payments) to supplement base reimbursement levels using federal Medicaid matching funds.

Under federal law, combined levies from the HAF and HCIF may not exceed 6% of hospital inpatient and outpatient services revenues.

FY 2025 Budget

The enacted FY 2025 budget included 2 changes that impacted the Hospital Assessment levy for Federal Fiscal Year (FFY) 2025:

- *One-Time Behavioral Health Shift:* Section 6 of the FY 2025 Health BRB (Laws 2024, Chapter 215) stipulates that, as session law, for FY 2025 and FY 2026, AHCCCS may increase the levy for the HAF to cover a portion of the behavioral health costs of the Proposition 204 and Adult Expansion populations. Under permanent law, behavioral health expenses for those populations would otherwise be covered by the General Fund. The enacted budget reduced AHCCCS' General Fund

budget by \$(100,000,000) to account for the shift. The 3-year spending plan associated with the enacted budget assumed this shift would end after FY 2026.

- ***HCIF Hospital Payments Increase:*** The enacted budget included total expenditure authority of \$3,606,700,000 for HEALTHII payments to hospitals to offset the financial impact of the behavioral health shift. This figure was based on an estimate of \$3,106,700,000 in HEALTHII payments to hospitals, plus \$500,000,000 as a "buffer" to ensure AHCCCS could increase HEALTHII payments above the \$3,106,700,000 level without a supplemental appropriation.

Based on the above policy changes, AHCCCS implemented a total FFY 2025 Hospital Assessment levy of \$1,423,100,000. According to AHCCCS, the \$1,423,100,000 represents 5.999% of combined hospital inpatient and outpatient service revenues (increase of 0.5% from 5.49% in FFY 2024) and consists of:

- \$682,100,000 for deposit in the HAF.
- \$741,000,000 for deposit in the HCIF.

Based on AHCCCS' modeling, these changes resulted in a net financial gain to Arizona hospitals of \$457,200,000 in FFY 2025 compared with FFY 2024, as follows:

- Revenue gain of \$557,200,000, primarily from increased federal revenues from HEALTHII payments, which were drawn down via an increase in the HCIF portion of the assessment.
- Revenue loss of \$(100,000,000) from shift of Medicaid behavioral health expenses to the Hospital Assessment in FY 2025, as noted above.

FY 2026 Baseline

Pursuant to the 3-year spending plan associated with the enacted FY 2025 budget, the Baseline assumes that the Hospital Assessment would continue to cover \$100,000,000 of behavioral health expenses for Proposition 204 and Adult Expansion combined in FY 2026. We estimate that with the behavioral health shift in place, Hospital Assessment Fund expenditures would reach \$622,867,900 in FY 2026, or a decrease of \$(59,232,100) in comparison with AHCCCS' FFY 2025 levy. The decrease is primarily based on enrollment declines in the Proposition 204 and Adult Expansion populations.

In FY 2027, under the 3-year spending plan associated with the enacted budget, the behavioral health shift would expire, which would result in a \$(100,000,000) decrease in the Hospital Assessment and a corresponding \$100,000,000 increase to the General Fund for that year. The Baseline continues this assumption.

The Baseline would also continue the footnote providing \$3,606,700,000 in expenditure authority for HEALTHII payments in FY 2026.

Valleywise Directed Payments

In March 2024, AHCCCS received approval from the Centers for Medicare & Medicaid Services (CMS) to provide directed payments to the Valleywise system of public hospitals via a new program called the Safety Net Services Initiative (SNSI). CMS approved \$286,460,000 of total payments in the first year. This amount consists of \$61,856,200 from Valleywise serving as the state match and \$224,603,800 in federal matching funds.

AHCCCS did not notify the Legislature of this new program. As a result, the FY 2025 budget did not account for the impact of these payments. The Baseline, however, anticipates that AHCCCS will have sufficient expenditure authority in FY 2025 to make its requested level of payments due to lower-than-budgeted caseloads. (*Please see Formula Adjustments for additional information.*) The Baseline also includes an increase of \$395,282,000 in FY 2026 from expenditure authority funds for AHCCCS to make its requested level of payments in FY 2026.

According to AHCCCS, these directed payments will reduce the level of Valleywise uncompensated care to \$0. Prior budgets assumed that the federal funds portion of Disproportionate Share Hospital (DSH) payments to Valleywise would be available for deposit to the General Fund. (*Please see the Hospital Payments section for additional information.*) Because the SNSI program has reduced the level of uncompensated care at Valleywise, the associated federal DSH funds will no longer be available for deposit to the General Fund.

We estimate Valleywise experienced a net increase in revenue of \$214,672,300 as a result of the SNSI program in FY 2024. This consists of \$286,460,000 in total payments, reduced by the following amounts:

- \$(61,856,200) from Valleywise to serve as the state match.
- \$(5,729,200) in insurance premium tax payments to the state.
- \$(4,202,300) in federal DSH payments Valleywise will no longer be eligible to receive.

The Baseline adds a footnote that would require AHCCCS to report to the JLBC and OSPB by March 31, 2026, on the amount of directed payments Valleywise will receive from the SNSI program in FY 2026, disaggregated by state match and by federal match.

Operating Budget

The Baseline includes \$134,446,800 and 1,143.2 FTE Positions in FY 2026 for the operating budget. These amounts consist of:

	FY 2026
General Fund	\$38,522,800
Children’s Health Insurance Program (CHIP) Fund	5,461,600
Health Care Investment Fund	2,472,200
Prescription Drug Rebate Fund (PDRF) - State	663,200
Nursing Facility Provider Assessment Fund	453,400
Seriously Mentally Ill (SMI) Housing Trust Fund	217,700
AHCCCS Fund	86,655,900

Adjustments are as follows:

Shift Funding to AHCCCS Data Storage

The Baseline includes a decrease of \$(280,000) from the CHIP Fund in FY 2026 to shift funding to the AHCCCS Data Storage line item for data costs related to the Children's Health Insurance Program.

Remove One-Time MES Modernization Funding

The Baseline includes a decrease of \$(21,911,000) from the AHCCCS Fund in FY 2026 to remove one-time funding for replacement of AHCCCS's Medicaid Enterprise System (MES), formerly known as the Prepaid Medicaid Management Information System (PMMIS). The corresponding General Fund state match amount of \$3,396,000 was included in the Arizona Department of Administration – Automation Projects Fund. *(Please see ADOA – Automation Projects Fund narrative for additional information.)*

Administration

AHCCCS Data Storage

The Baseline includes \$19,605,800 in FY 2026 for AHCCCS Data Storage. This amount consists of:

General Fund	5,915,400
CHIP Fund	440,000
AHCCCS Fund	13,250,400

Adjustments are as follows:

Funding Shift

The Baseline includes an increase of \$280,000 from the CHIP Fund in FY 2026 for data costs related to the

Children's Health Insurance Program. The Baseline shifts this funding from the Operating Lump Sum for no net overall change to agency resources.

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. Funds may also be used for broader computing expenses, including cloud migration and storage costs.

DES Eligibility

The Baseline includes \$97,074,500 and 885 FTE Positions in FY 2026 for DES Eligibility services. These amounts consist of:

General Fund	30,191,200
AHCCCS Fund	66,883,300

These amounts are unchanged from FY 2025.

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

Proposition 204 - AHCCCS Administration

The Baseline includes \$15,625,100 and 131 FTE Positions in FY 2026 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	4,942,300
PDRF - State	60,900
AHCCCS Fund	10,621,900

These amounts are unchanged from FY 2025.

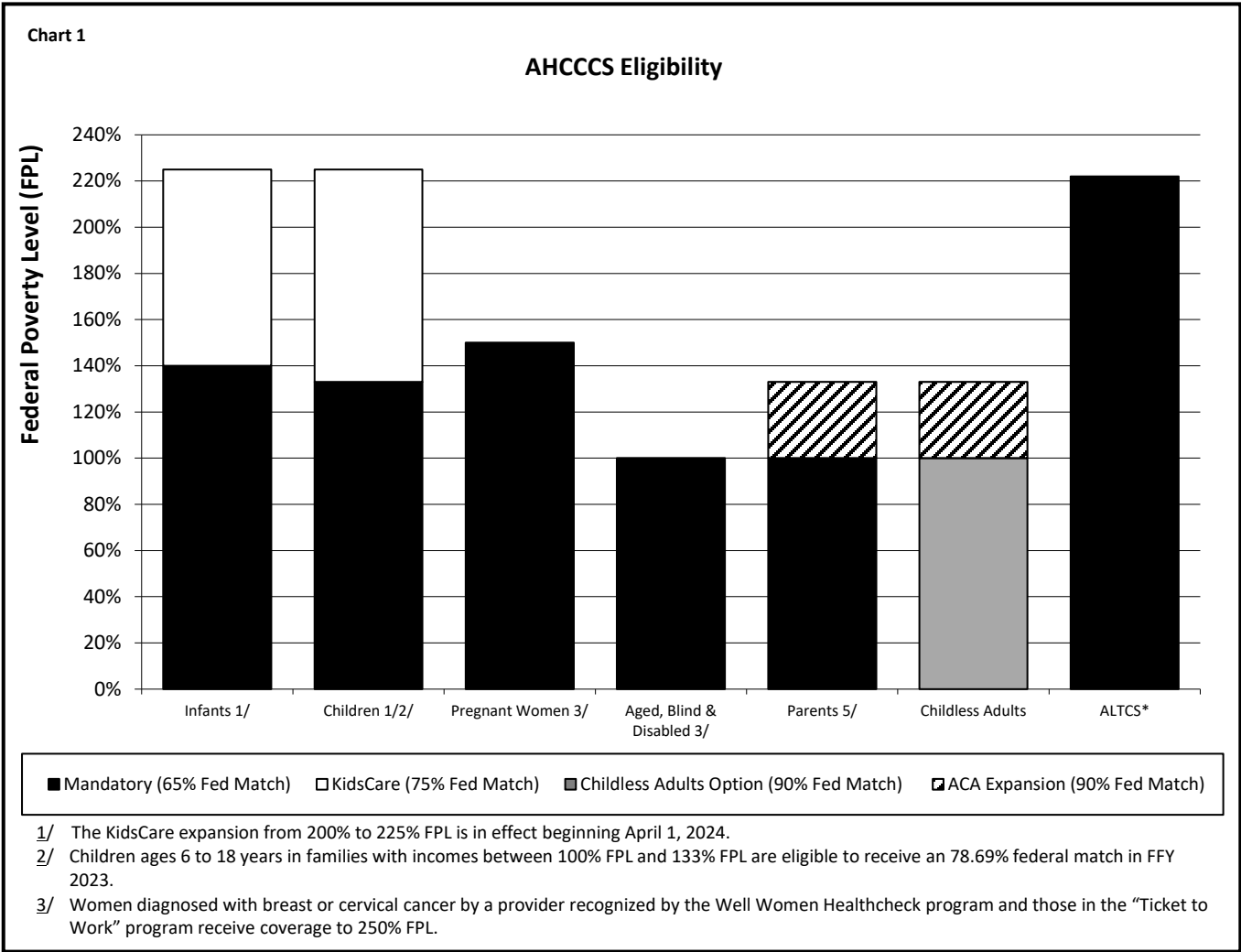
Proposition 204 expanded AHCCCS eligibility. This line item contains funding for AHCCCS's administration costs of the Proposition 204 program.

Proposition 204 - DES Eligibility

The Baseline includes \$44,358,700 and 300.1 FTE Positions in FY 2026 for Proposition 204 - DES Eligibility costs. These amounts consist of:

General Fund	15,609,900
Budget Neutrality Compliance Fund (BNCF)	5,112,300
AHCCCS Fund	23,636,500

Adjustments are as follows:



Formula Adjustments

The Baseline includes a decrease of \$(198,000) from the General Fund and a corresponding increase of \$198,000 from the BNCF in FY 2026 to reflect an increase of county contributions in FY 2026. This adjustment assumes an inflation adjustment of 2.39% and a state population adjustment of 1.64% pursuant to 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 2026. A description of program components can be found in the *Other Issues* section.

Traditional Medicaid Services

The Baseline includes \$9,294,829,500 in FY 2026 for Traditional Medicaid Services. This amount consists of:

General Fund	1,950,711,400
Health Care Investment Fund	599,199,100
Political Subdivision Funds	122,755,400
PDRF - State	181,529,700
TTHCF - Medically Needy Account	57,545,600
Third Party Liability and Recovery Fund	194,700
PDRF - In Lieu of Federal Funds	572,638,300
AHCCCS Fund	5,810,255,300

Adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$479,195,000 in FY 2026 for formula adjustments. This amount consists of:

General Fund	122,363,500
Health Care Investment Fund	2,203,900
Political Subdivision Funds	6,744,500
TTHCF - Medically Needy Account	(9,040,700)
AHCCCS Fund	356,923,800

New Valleywise Directed Payments Program

The Baseline includes an increase of \$165,331,700 in FY 2026 for a new Valleywise directed payments program. This amount consists of:

Political Subdivision Funds	58,610,100
AHCCCS Fund	106,721,600

(Please see the Valleywise Directed Payments section for additional information.)

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

- Children under 1, up to 147% of the federal poverty level (FPL).
- Children aged 1-5, up to 141% FPL.
- Children ages 6-19, up to 133% FPL.
- Pregnant women (including 1 year postpartum), up to 156% FPL.
- Aged, blind, and disabled adults, up to 75% FPL.
- Parents, up to 17% FPL.
- Women diagnosed with breast or cervical cancer by a provider recognized by DHS' Well Women Healthcheck program up to 250% FPL.
- Individuals aged 16-64 receiving Supplemental Security Income, up to 250% FPL ("Ticket to Work").

Proposition 204 Services

The Baseline includes \$7,450,961,800 in FY 2026 for Proposition 204 Services. This amount consists of:

General Fund	99,518,700
Health Care Investment Fund	243,225,300
Hospital Assessment Fund	575,993,200
Political Subdivision Funds	47,775,100
Tobacco Litigation Settlement Fund	102,000,000
TPTF - Emergency Health Services Account	15,400,000
TPTF - Proposition 204 Protection Account	32,340,000
AHCCCS Fund	6,334,709,500

Adjustments are as follows:

Formula Adjustments

The Baseline includes a decrease of \$(518,462,300) in FY 2026 for formula adjustments. This amount consists of:

General Fund	(15,492,800)
Health Care Investment Fund	419,100
Hospital Assessment Fund	(74,032,000)
Political Subdivision Funds	4,110,000
TPTF - Emergency Health Services Account	(2,058,500)
TPTF - Proposition 204 Protection Account	(4,322,900)
AHCCCS Fund	(427,085,200)

New Valleywise Directed Payments Program

The Baseline includes an increase of \$199,613,800 in FY 2026 for a new Valleywise directed payments program. This amount consists of:

Political Subdivision Funds	29,718,500
AHCCCS Fund	169,895,300

(Please see the Valleywise Directed Payments section for additional information.)

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

Adult Expansion Services

The Baseline includes \$798,727,300 in FY 2026 for Adult Expansion Services. This amount consists of:

General Fund	8,334,800
Health Care Investment Fund	19,866,000
Hospital Assessment Fund	46,874,700
Political Subdivision Funds	2,821,000
AHCCCS Fund	720,830,800

Adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$41,635,200 in FY 2026 for formula adjustments. This amount consists of:

General Fund	314,700
Health Care Investment Fund	132,100
Hospital Assessment Fund	2,580,100
Political Subdivision Funds	(24,500)
AHCCCS Fund	38,632,800

New Valleywise Directed Payments Program

The Baseline includes an increase of \$17,081,500 in FY 2026 for a new Valleywise directed payments program. This amount consists of:

Political Subdivision Funds	1,708,200
AHCCCS Fund	15,373,300

(Please see the Valleywise Directed Payments section for additional information.)

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.

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 Health Plan

The Baseline includes \$178,650,800 in FY 2026 for the Comprehensive Health Plan (CHP). This amount consists of:

General Fund	56,176,700
Health Care Investment Fund	6,588,300
AHCCCS Fund	115,885,800

Adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$1,417,600 in FY 2026 for formula adjustments. This amount consists of:

General Fund	1,821,400
Health Care Investment Fund	(112,200)
AHCCCS Fund	(291,600)

Background – This line item provides coverage to CHP-eligible children. CHP is the health plan responsible for providing health services for children in foster care. The Department of Child Safety (DCS) administers both the physical and behavioral health services for this population. The funding amounts listed above are transferred to DCS, where they appear as expenditure authority.

KidsCare Services

The Baseline includes \$257,635,300 in FY 2026 for KidsCare Services. This amount consists of:

General Fund	54,381,900
Health Care Investment Fund	13,010,600

Political Subdivision Funds	1,727,200
CHIP Fund	188,515,600

Adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$25,721,000 in FY 2026 for formula adjustments. This amount consists of:

General Fund	6,599,400
Health Care Investment Fund	74,300
Political Subdivision Funds	343,700
CHIP Fund	18,703,600

New Valleywise Directed Payments Program

The Baseline includes an increase of \$2,224,500 in FY 2026 for a new Valleywise directed payments program. This amount consists of:

Political Subdivision Funds	551,900
CHIP Fund	1,672,600

(Please see the Valleywise Directed Payments section for additional information.)

Background – The KidsCare program, also referred to as the Children’s Health Insurance Program (CHIP), provides health coverage to children in families with incomes between 133% and 225% FPL. Laws 2023, Chapter 139 raised the upper limit, previously 200% FPL, which went into effect on April 1, 2024. Households are charged a monthly premium of \$10 to \$70, depending on the family’s 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 Baseline includes \$2,457,084,800 in FY 2026 for ALTCS Services. This amount consists of:

General Fund	403,711,900
Health Care Investment Fund	29,411,400
Political Subdivision Funds	18,246,300
PDRF - State	7,578,400
PDRF - In Lieu of Federal Funds	36,422,000
Nursing Facility Provider Assessment Fund	92,612,700
Long Term Care System Fund	1,869,102,100

Adjustments are as follows:

Formula Adjustments

The Baseline includes a decrease of \$(88,130,400) in FY 2026 for formula adjustments. This amount consists of:

General Fund	3,277,700
Health Care Investment Fund	3,100
Political Subdivision Funds	9,131,500
Nursing Facility Provider Assessment Fund	(1,840,700)
Long Term Care System Fund	(98,702,000)

New Valleywise Directed Payments Program

The Baseline includes an increase of \$11,030,500 in FY 2026 for a new Valleywise directed payments program. This amount consists of:

Political Subdivision Funds	2,887,000
Long Term Care System Fund	8,143,500

(Please see the Valleywise Directed Payments section for additional information.)

Background – ALTCS provides coverage for individuals up to 222% of the FPL, or \$33,433 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 \$11,295 per person.

Pursuant to A.R.S. § 11-292, counties and the state jointly cover the state match of the ALTCS program based on a statutory formula. The county monies are deposited in the Long Term Care System Fund along with federal funds. A General Appropriations Act footnote would continue to specify the county share of cost for the program, which the Baseline assumes will reach \$409,537,600 in FY 2026.

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 2025, AHCCCS estimates that client contributions will pay for 3.8%, or \$66,122,000, of the cost of care.

A.R.S. § 36-2999.52 authorizes 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 2022, Chapter 64 continued the assessment through September 30, 2031. The assessment ranges from \$1.80 to \$15.63 per day of patient care. 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 Baseline includes \$8,445,400 in FY 2026 for Behavioral Health Services in Schools. This amount consists of:

General Fund	3,000,000
AHCCCS Fund	5,445,400

Adjustments are as follows:

Formula Adjustments

The Baseline includes a decrease of \$(185,200) from the AHCCCS Fund in FY 2026 for a change in the federal match rate.

Background – This line item funds behavioral health services at or near public school campuses for both Medicaid-eligible and non-Medicaid students. Funds are allocated to behavioral health providers contracted with AHCCCS health plans working directly in schools.

Non-Medicaid Behavioral Health Services

Non-Medicaid Seriously Mentally Ill Services

The Baseline includes \$77,646,900 from the General Fund in FY 2026 for Non-Medicaid Seriously Mentally Ill (SMI) Services. This amount is unchanged from FY 2025.

Background – This line item provides funding for Non-Medicaid SMI clients. The state was 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.)*

Case Management Provider Wage Increases

The Baseline includes no funding in FY 2026 for Case Management Provider Wage Increases. Adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(1,000,000) from the General Fund in FY 2026 to remove one-time funding for distribution to entities that provide case management for persons with serious mental illness. The FY 2025 budget required the monies to be used for providers with fewer than 5,000 members.

Supported Housing

The Baseline includes \$65,324,800 in FY 2025 for Supported Housing. This amount consists of:

General Fund	5,324,800
AHCCCS Fund	60,000,000

These amounts are unchanged from FY 2025.

Background – This line item funds housing services that enable individuals to live in the community. These funds may serve Medicaid and 100% state-funded recipients. AHCCCS administers its housing programs via a contracted third-party public housing authority. Available housing services include rental subsidies for permanent supported housing and other housing-related supports, such as eviction prevention, move-in assistance, and move-in deposits. Most of the funding is reserved for members with an SMI designation, though some services are available for individuals without an SMI designation who have a general mental health or substance use disorder.

This line item also supports the "Housing and Health Opportunities" (H2O) demonstration, which provides housing services for AHCCCS members who are homeless or at risk of homelessness. Specific services allowed under the waiver include short-term post-transition housing up to 6 months, housing supports, pre-tenancy and tenancy supportive services, and home modifications deemed medically necessary. The H2O waiver amendment, which received CMS approval in October 2022 and began October 1, 2024, is intended to 1) increase homeless outreach, 2) provide housing for members who are homeless or at risk, and 3) expand wraparound housing services to ensure housing stability.

In addition to the \$5,324,800 General Fund appropriation 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. AHCCCS reports \$24,501,200 General Fund was spent for Supported Housing services from the Non-Medicaid Seriously Mentally Ill Services line item in FY 2024. These amounts are used to draw down federal funding for the H2O program. AHCCCS reports that the approved waiver would allow the agency to draw down an estimated \$68.9 million in Federal Funds annually for housing initiatives through FY 2027.

Obtaining the full federal allocation, however, requires AHCCCS to identify \$5.5 million in additional state monies over and above existing state housing funding. In FY 2025, the additional state match is being funded from the Housing Trust Fund.

As of July 2024, 2,187 households are enrolled in AHCCCS's housing program.

Crisis Services

The Baseline includes \$16,391,300 in FY 2026 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 2025.

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 2024 delayed nationwide DSH payment reductions that were originally authorized by the federal Affordable Care Act (ACA) until January 1, 2025. Given that Congress has enacted multiple delays to the ACA's DSH payment reductions to states, the Baseline does not assume any federal funding loss related to DSH in FY 2025 and FY 2026. The Baseline therefore assumes that Arizona's DSH allocation would be adjusted in FY 2026 through FY 2028 according to the regular federal formula, as outlined below.

Distribution

The FY 2025 enacted budget appropriated \$4,202,300 of federal DSH funds associated with uncompensated care at Maricopa Integrated Health System (Valleywise) for distribution to Valleywise. Due to the availability of a new federal program, the DSH Valleywise payments are no longer being made, starting with FY 2024.

Table 3

Disproportionate Share Hospital Payments

Eligible Funding ^{1/}	FY 2024 (Actual)	FY 2025 (Enacted)^{2/}	FY 2025 (Estimated)	FY 2026 (Estimated)
Valleywise - CPE ^{2/}	\$ 0	\$ 92,291,200	\$ 0	\$ 0
ASH - CPE	28,474,900	28,474,900	28,474,900	28,474,900
Private Hospitals	884,800	884,800	884,800	884,800
DSH Voluntary Match	<u>163,429,900</u>	<u>65,330,500</u>	<u>197,948,100</u>	<u>205,641,700</u>
Total Funding	\$ 192,789,600	\$ 186,981,400	\$ 227,307,800	\$ 235,001,400
General Fund				
Retain FF of CPE (via Valleywise)	\$ 0	\$ 55,685,500	\$ 0	\$ 0
Retain FF of CPE (via ASH)	<u>18,876,000</u>	<u>18,477,400</u>	<u>18,693,800</u>	<u>18,320,800</u>
Subtotal - General Fund	\$ 18,876,000	\$ 74,162,900	\$ 18,693,800	\$ 18,320,800
Other Entities				
Valleywise	\$ 0	\$ 4,202,300	\$ 0	\$ 0
Private Hospitals	<u>884,800</u>	<u>884,800</u>	<u>884,800</u>	<u>884,800</u>
Subtotal - Other Entities	<u>884,800</u>	<u>5,087,100</u>	<u>884,800</u>	<u>884,800</u>
Total DSH Distributions	\$ 19,760,800	\$ 80,590,400	\$ 19,578,600	\$ 19,205,600
Voluntary Match	<u>\$ 163,429,900</u>	<u>\$ 65,330,500</u>	<u>\$ 197,948,100</u>	<u>\$ 205,641,700</u>
Total Distributions	\$ 183,190,700	\$ 145,920,900	\$ 217,526,700	\$ 224,847,300

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

^{2/} The FY 2025 budget continued a Valleywise DSH limit of \$113,818,500 in the FY 2025 Health Care BRB to maximize the DSH General Fund revenue deposit in the event actual uncompensated care is higher. However, due to uncompensated care not reaching the statutory limit in recent years, the budget assumes the FY 2022 uncompensated care amount of \$92,291,200 in FY 2024 and FY 2025.

^{3/} The FY 2025 budget did not account for the impact of newly approved directed payments to Valleywise on DSH distributions. AHCCCS reports that these payments will reduce Valleywise's eligible funding for DSH to \$0. The Baseline incorporates these changes for FY 2025 and FY 2026.

The Baseline assumes that in FY 2025, the General Fund will receive \$18,693,800 via federal DSH funds associated with uncompensated care at the Arizona State Hospital (with adjustments in FY 2026 and in future years for changes in the federal match rate). The Baseline also eliminates the \$4,202,300 appropriation of federal DSH funds for distribution to Valleywise in FY 2026. Finally, the Baseline would modify a provision of session law to no longer include Valleywise among the entities that receive DSH distributions.

Change in Uncompensated Care Payments

In FY 2026, the Baseline assumes that the state's total DSH payments will reach \$235,001,400 due to federal adjustments for inflation. Of the \$235,001,400 of eligible DSH funding in FY 2026, \$224,847,300 is distributed according to the allocations described below and listed in *Table 3*. The remaining \$10,154,100 of eligible funding represents existing expenditures used as part of the state match. (See the *Hospital Payments program summary on the JLBC website*.)

The \$224,847,300 distribution in FY 2026 includes a \$140,311,200 increase in funding for DSH voluntary match payments above the FY 2025 amount. The FY 2025 budget allowed up to \$113,818,500 in DSH funding for Valleywise, but because Valleywise is no longer eligible, the \$113,818,500 is now available for voluntary match payments.

Disproportionate Share Payments - Private Hospitals

The Baseline includes \$884,800 in FY 2026 for Disproportionate Share Payments to private hospitals. This amount consists of:

General Fund	315,500
AHCCCS Fund	569,300

Adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$4,800 from the General Fund and a corresponding decrease of \$(4,800) from the AHCCCS Fund in FY 2026 to reflect a change in the federal match rate.

Eliminate Valleywise Distribution

The Baseline includes a decrease of \$(4,202,300) from the AHCCCS Fund in FY 2026 to eliminate the distribution of federal DSH funds to Valleywise. Accordingly, the Baseline deletes a footnote that specifies that \$4,202,300 is distributed to Valleywise.

In FY 2023, there were 16 private hospitals that received DSH payments.

DSH Payments - Voluntary Match

The Baseline includes \$205,641,700 in FY 2026 for DSH Payments - Voluntary Match. This amount consists of:

Political Subdivision Funds	73,331,800
AHCCCS Fund	132,309,900

Adjustments are as follows:

Increased Funding

The Baseline includes an increase of \$140,311,200 in FY 2026 due to DSH formula adjustments. This amount consists of:

Political Subdivision Funds	51,119,400
AHCCCS Fund	89,191,800

The level of funding for voluntary match payments was previously determined by the amount remaining of Arizona's DSH allocation after distributions to the General Fund (via Valleywise and ASH) and private hospitals. The increase in funding for voluntary match payments in FY 2026 is primarily a result of Valleywise no longer being eligible to receive \$113,818,500 in DSH funding.

Background – This line item provides DSH payments to hospitals with matching funds provided by political subdivisions. The Baseline would continue a provision that gives priority to eligible rural hospitals when allocating voluntary match DSH payments but would delete a provision that permits AHCCCS to include Valleywise in allocations of voluntary match DSH payments if Valleywise's CPE and matching Federal Funds exceed \$113,818,500. (Please see Table 3.)

Graduate Medical Education

The Baseline includes \$528,558,300 in FY 2026 for Graduate Medical Education (GME) expenditures. This amount consists of:

General Fund	9,000,000
Political Subdivision Funds	174,726,900
AHCCCS Fund	344,831,400

Adjustments are as follows:

Funding Adjustment

The Baseline includes an increase of \$59,311,700 in FY 2026 for a GME funding adjustment. This amount consists of:

Political Subdivision Funds	34,072,400
AHCCCS Fund	25,239,300

The funding adjustment reflects AHCCCS' estimate of hospital participation in the program in FY 2026, as well as changes in the federal match rate.

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 2024, 29 hospitals received a total of \$406,203,400 for Graduate Medical Education.

The General Fund portion of the program supports GME payments to hospitals located in health professional shortage areas. The Baseline continues footnotes that instruct AHCCCS how to allocate monies for this program.

The Baseline also continues to include a footnote making monies appropriated for the GME program non-lapsing through the end of the following fiscal year (FY 2027).

Critical Access Hospitals

The Baseline includes \$16,454,300 in FY 2026 for Critical Access Hospitals (CAH). This amount consists of:

General Fund	5,867,600
AHCCCS Fund	10,586,700

Adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$90,500 from the General Fund and a corresponding decrease of \$(90,500) from the AHCCCS Fund in FY 2026 due to a change in the federal match.

Remove FY 2025 Supplemental Pool Increase

The Baseline includes a decrease of \$(11,962,400) in FY 2026 to remove one-time supplemental payments to Critical Access Hospitals. This amount consists of:

General Fund	(4,200,000)
AHCCCS Fund	(7,762,400)

Background – This line item funds the CAH program, which provides increased reimbursement to small rural hospitals that are federally designated as CAHs. To be eligible as a CAH, the hospital must be in a rural area more than 35 miles from the nearest hospital and maintain no more than 25 inpatient beds. Funding is distributed according to a hospital's share of the cost in

serving Medicaid enrollees during the prior year. In FY 2024, 12 hospitals qualified for funding from CAH.

Targeted Investments Program

The Baseline includes \$67,000,000 in FY 2026 for the Targeted Investments (TI) Program. This amount consists of:

Delivery System Reform	24,321,800
Incentive Payment (DSRIP) Fund	
AHCCCS Fund	42,678,200

Adjustments are as follows:

Funding Adjustment

The Baseline includes an increase of \$11,000,000 in FY 2026 for increased TI program payments. This amount consists of:

DSRIP Fund	6,399,100
AHCCCS Fund	4,600,900

AHCCCS included waiver authority for this program as part of its 2022-2027 waiver renewal application, which received CMS approval in October 2022.

Background – In January 2017, CMS approved AHCCCS's 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 initially authorized up to \$300,000,000 in total funds for the program from FY 2018 through FY 2022. In October 2022, CMS granted a 5-year extension of the program at a total funding level of \$250,000,000. 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 2025 Ex-Appropriation
- Statutory Changes
- Long-Term Budget Impacts
- County Contributions
- Program Components
- Tobacco Master Settlement Agreement
- Tobacco Tax Allocations

FY 2025 Ex-Appropriation

The Baseline includes an FY 2025 ex-appropriation of \$(246,351,600) to account for an estimated General Fund surplus. The \$(246,351,600) surplus consists of:

- \$(76,351,600) for lower-than-budgeted caseloads. *(See Formula Adjustments for additional information.)*
- \$(170,000,000) for revisions to the state's FMAP.

In certain circumstances, the federal government can provide one-time upward adjustments in a state's FMAP if the state would otherwise experience a rapid decline in the match rate due to personal income growth. In December 2024, the federal government determined that Arizona qualified for such one-time adjustments for FY 2024 due to a (3.27)% decline in the state's regular match rate between FY 2023 and FY 2024. Arizona's one-time increase is approximately 1.2% for FY 2024 and FY 2025.

This results in the following match rates:

- 66.29% to 67.93% in FFY 2024.
- 64.89% to 65.65% in FFY 2025.

The Baseline assumes this adjustment generates \$(259,000,000) of General Fund savings across the AHCCCS, DES, and DCS budgets. Of this amount, approximately \$(170,000,000) is within the AHCCCS budget. The Baseline ex-appropriates this amount in FY 2025.

Statutory Changes

The Baseline would:

Rates and Services

- As session law, continue the FY 2010 risk contingency rate reduction for all managed care organizations. Continues to allow AHCCCS 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 2026 County Acute Care contribution at \$42,814,200.
- As session law, continue to require AHCCCS to transfer any excess monies back to the counties by December 31, 2026, 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 2026 county Arizona Long Term Care System (ALTCS) contributions at \$409,537,600.

Hospitals

- As session law, modify the FY 2026 disproportionate share (DSH) distributions to continue to include the Arizona State Hospital, private qualifying disproportionate share hospitals, and Yuma Regional Medical Center but eliminate the distribution to Valleywise, which is now funded from a separate federal program.
- As session law, continue to require AHCCCS to give priority to rural hospitals in Pool 5 distribution, as well as permit local jurisdictions to provide additional local match for Pool 5 distributions.
- As session law, continue to establish priority for payments to private hospitals via the DSH-Voluntary program in FY 2026 according to county population size. Hospitals in rural counties (i.e. excluding Maricopa, Pima, and Pinal) have first priority; hospitals in Pinal County have second priority; and hospitals in Maricopa and Pima Counties have third priority.

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.

Long-Term Budget Impacts

As part of the Baseline's 3-year spending plan, AHCCCS's General Fund costs are projected to increase by \$268,785,300 in FY 2027 above FY 2026 and by \$167,238,400 in FY 2028 above FY 2027.

The FY 2027 estimate is based on:

- 1% caseload growth.
- 3.0% capitation growth.
- An estimated 64.11% FMAP in SFY 2027.
- Adjustments to non-General Fund state match offsets.
- \$100,000,000 to backfill a portion of the behavioral health costs of certain AHCCCS expansion populations that would no longer be covered via the Hospital Assessment Fund.

The FY 2028 estimate is based on:

- 1% caseload growth.
- 3.0% capitation growth.
- An estimated 64.03% FMAP in SFY 2028.
- Adjustments to non-General Fund state match offsets.

County Contributions

County governments make 3 different payments to defray the AHCCCS budget's costs, as summarized in *Table 4*. 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. (See *the County Contributions program summary on the JLBC website*.)

Program Components

Traditional Medicaid, Proposition 204, Adult Expansion, KidsCare, ALTCS, and CHP 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 2026, the average capitation rate is expected to be approximately \$607 per member per month (or \$7,300 annually). Of that amount, an average of \$161 is from state match and \$446 from federal Medicaid and CHIP funds.

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 member 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.

Table 4

County Contributions

County	FY 2025			FY 2026		
	<u>BNCF</u> ^{1/}	<u>Acute</u> ^{2/}	<u>ALTCS</u> ^{3/}	<u>BNCF</u> ^{1/}	<u>Acute</u> ^{2/}	<u>ALTCS</u> ^{3/}
Apache	\$162,000	\$268,800	975,500	\$168,500	\$268,800	707,000
Cochise	302,100	2,214,800	973,400	314,300	2,214,800	7,510,100
Coconino	298,100	742,900	2,928,200	310,100	742,900	2,122,700
Gila	122,400	1,413,200	3,161,900	127,300	1,413,200	3,173,800
Graham	87,000	536,200	1,596,200	90,500	536,200	2,339,400
Greenlee	22,400	190,700	43,400	23,300	190,700	66,900
La Paz	46,300	212,100	990,200	48,200	212,100	828,800
Maricopa	0	15,145,900	269,359,200	0	14,783,900	275,201,600
Mohave	347,900	1,237,700	11,389,600	361,900	1,237,700	10,438,200
Navajo	228,000	310,800	4,037,000	237,200	310,800	2,926,600
Pima	2,072,300	14,951,800	62,975,600	2,155,700	14,951,800	63,729,700
Pinal	405,500	2,715,600	16,370,500	421,800	2,715,600	17,094,300
Santa Cruz	95,800	482,800	2,880,000	99,700	482,800	2,949,900
Yavapai	383,000	1,427,800	9,862,900	398,500	1,427,800	7,808,600
Yuma	<u>341,500</u>	<u>1,325,100</u>	<u>12,328,500</u>	<u>355,300</u>	<u>1,325,100</u>	<u>12,640,000</u>
Subtotal	\$4,914,300	\$43,176,200	\$399,872,100	\$5,112,300	\$42,814,200	\$409,537,600
Total			\$447,962,600			\$457,464,100

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

^{2/} County contributions to the acute care program are displayed within the AHCCCS Fund under the Traditional Medicaid Services line item.

^{3/} County contributions to the ALTCS program are displayed within the Long Term Care System Fund.

Tobacco Master Settlement Agreement

The Baseline continues to require AHCCCS to transfer up to \$2,036,000 from the Traditional Medicaid Services line item in FY 2026 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. (See the program summary on the JLBC website.)

Tobacco Tax Allocations

The Baseline projects AHCCCS and DHS will receive \$124,486,100 in transfers of tobacco tax collections in FY 2026. This amount represents a decrease of \$(1,257,400) from the FY 2025 estimated amount. Table 5 summarizes tobacco tax transfers and allocations to the agencies.

Table 5

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

	<u>FY 2024</u>	<u>FY 2025</u>
Medically Needy Account		
<u>Funds Available</u>		
Balance Forward	\$ 0	\$ (1,446,100)
Transfer In - Tobacco Tax and Health Care Fund	37,924,000	37,544,800
Transfer In - Tobacco Products Tax Fund	<u>20,790,000</u>	<u>20,582,100</u>
Total Funds Available	\$ 58,714,000	\$ 56,680,800
<u>Allocations</u>		
<i>AHCCCS</i>		
AHCCCS State Match Appropriation	\$ 59,460,100	\$ 65,886,300
Total AHCCCS Allocations	\$ 59,460,100	\$ 65,886,300
<i>DHS</i>		
Folic Acid	\$ 400,000	\$ 400,000
Renal, Dental Care, and Nutrition Supplements	300,000	300,000
Administrative Adjustments	<u>0</u>	<u>0</u>
Total DHS Allocations	<u>700,000</u>	<u>700,000</u>
Balance Forward*	\$ (1,446,100) *	\$ (9,905,500) *
AHCCCS Proposition 204 Protection Account		
<u>Funds Available</u>		
Balance Forward	\$ 780,000	\$ (824,500)
Transfer In - Tobacco Products Tax Fund	<u>32,340,000</u>	<u>32,016,600</u>
Total Funds Available	\$ 33,120,000	\$ 31,192,100
<u>Allocations</u>		
AHCCCS State Match Appropriation	\$ 33,944,500	\$ 36,662,900
Administrative Adjustments	<u>0</u>	<u>0</u>
Balance Forward	\$ (824,500) *	\$ (5,470,800) *
AHCCCS Emergency Health Services Account		
<u>Funds Available</u>		
Balance Forward	\$ 723,000	\$ (392,600)
Transfer In - Tobacco Products Tax Fund	<u>15,400,000</u>	<u>15,246,000</u>
Total Funds Available	\$ 16,123,000	\$ 14,853,400
<u>Allocations</u>		
AHCCCS State Match Appropriation	\$ 16,515,600	\$ 17,458,500
Administrative Adjustments	<u>0</u>	<u>0</u>
Balance Forward ^{1/}	\$ (392,600) *	\$ (2,605,100) *
DHS Health Education Account		
<u>Funds Available</u>		
Balance Forward	\$ 18,847,500	\$ 22,005,500
Transfer In - Tobacco Tax and Health Care Fund	12,460,800	12,336,200
Transfer In - Tobacco Products Tax Fund	1,540,000	1,524,600
Smoke-Free Arizona Fund	<u>303,700</u>	<u>300,700</u>
Total Funds Available	\$ 33,152,000	\$ 36,167,000
<u>Allocations</u>		
Tobacco Education and Prevention Program	\$ 9,733,900	\$ 16,368,100
Leading Causes of Death - Prevention and Detection	<u>1,412,600</u>	<u>2,232,000</u>
Balance Forward	\$ 22,005,500	\$ 17,566,900
Health Research Account		
<u>Funds Available</u>		
Balance Forward	\$ 9,788,700	\$ 12,344,300
Transfer In - Tobacco Tax and Health Care Fund	2,708,800	2,681,700
Transfer In - Tobacco Products Tax Fund	<u>3,850,000</u>	<u>3,811,500</u>
Total Funds Available	\$ 16,347,500	\$ 18,837,500
<u>Allocations</u>		
Research Grants	<u>4,003,200</u>	<u>12,487,700</u>
Balance Forward	\$ 12,344,300	\$ 6,349,800

^{1/} Unencumbered funds in Emergency Health Services Account are transferred to Prop 204 Protection Account at end of year.
 * Actual ending balance will not be negative.

SUMMARY OF FUNDS	FY 2024 Actual	FY 2025 Estimate
AHCCCS Fund (HCA2120/A.R.S. § 36-2913)		Expenditure Authority
Source of Revenue: Federal matching funding through the U.S. Department of Health & Human Services, Centers for Medicare and Medicaid Services that is deposited in the AHCCCS Fund, along with county contributions serving as the state match for federal Medicaid dollars.		
Purpose of Fund: For AHCCCS's administrative costs and for the provision of services to eligible Medicaid populations.		
Funds Expended	11,809,438,100	13,434,104,500
Year-End Fund Balance	59,238,400	59,238,400
Arizona Tobacco Litigation Settlement Fund (HCA2468/A.R.S. § 36-2901.02)		Expenditure Authority
Source of Revenue: Monies received from tobacco companies as part of a lawsuit settlement.		
Purpose of Fund: Established by Proposition 204 (enacted in the 2000 General Election) to provide funding to expand the AHCCCS program to 100% of the Federal Poverty Level and for 6 public health programs.		
Funds Expended	88,272,600	102,000,000
Year-End Fund Balance	0	100
Budget Neutrality Compliance Fund (HCA2478/A.R.S. § 36-2928)		Appropriated
Source of Revenue: County contributions.		
Purpose of Fund: To provide administrative funding for costs associated with the implementation of the Proposition 204 expansion. Proposition 204 shifted some county administrative functions to the state, for which the counties now compensate the state.		
Funds Expended	4,669,300	4,914,300
Year-End Fund Balance	9,800	9,800
Children's Behavioral Health Services Fund (HCA2735/A.R.S. § 36-3436)		Non-Appropriated
Source of Revenue: Includes monies appropriated to the fund, gifts or donations to the fund, and any interest earned.		
Purpose of Fund: To provide behavioral health services for uninsured or underinsured non-Medicaid children. Expenditures are not displayed to avoid double counting the General Fund.		
Funds Expended	4,037,500	0
Year-End Fund Balance	216,600	216,600
Children's Health Insurance Program Fund (HCA2410/A.R.S. § 36-2995)		Appropriated
Source of Revenue: Includes Medicaid matching monies for Arizona's State Children's Health Insurance Program (CHIP), called KidsCare. General Fund monies are used to leverage federal monies for KidsCare and are not included in the reported CHIP Fund expenditures.		
Purpose of Fund: To provide health insurance for low-income children 19 years of age and under. The eligibility limit for the KidsCare program has been set at 225% of the Federal Poverty Level (FPL), which is approximately \$67,500 for a family of 4.		
Funds Expended	128,657,800	174,041,000
Year-End Fund Balance	7,560,400	7,560,400
Coronavirus State and Local Fiscal Recovery Fund (HCA2985/U.S. P.L. 117-2)		Federal Funds
Source of Revenue: Federal monies appropriated in the American Rescue Plan Act (P.L. 117-2).		
Purpose of Fund: To provide emergency support to households, small businesses, nonprofits, workers performing essential work, and certain industries negatively impacted by the COVID-19 pandemic. To extend government services that received a reduction in revenue as a result of the COVID-19 pandemic. To make investments in water, sewer, and broadband infrastructure.		
Funds Expended	673,600	0
Year-End Fund Balance	1,092,200	1,092,200

SUMMARY OF FUNDS	FY 2024 Actual	FY 2025 Estimate
Delivery System Reform Incentive Payment Fund (HCA2130/A.R.S. § 36-2930.04)		Expenditure Authority
Source of Revenue: Monies voluntarily given to AHCCCS from local governments or Arizona public universities in order to obtain a federal match. Federal revenues and expenditures associated with DSRIP are accounted for in Federal Medicaid Authority.		
Purpose of Fund: To fund incentive payments to Medicaid providers that adopt processes to integrate physical care and behavioral health services through the Targeted Investment Program (TI Program). The projects will be funded with existing state matching monies and intergovernmental transfers (IGTs) from counties and universities.		
Funds Expended	3,656,900	17,922,700
Year-End Fund Balance	65,570,400	79,885,500
Employee Recognition Fund (HCA2449/A.R.S. § 36-2903)		Non-Appropriated
Source of Revenue: Private donations.		
Purpose of Fund: To be used for the agency's employee recognition program.		
Funds Expended	800	800
Year-End Fund Balance	3,300	2,800
Federal Funds (HCA2000/A.R.S. § 36-2913)		Federal Funds
Source of Revenue: Non-Medicaid federal grant monies.		
Purpose of Fund: To support specific federally funded behavioral health programs, including the Mental Health Block Grant and the Substance Abuse Prevention and Treatment Block Grant.		
Funds Expended	150,307,800	186,030,400
Year-End Fund Balance	1,266,100	1,266,100
Health Care Investment Fund (HCA2588/A.R.S. § 36-2999.73)		Expenditure Authority
Source of Revenue: An assessment on hospital revenues, discharges, or beds days in addition to the Hospital Assessment established by A.R.S. § 36-2901.09, interest earnings, and legislative appropriations.		
Purpose of Fund: To increase the base reimbursement level for hospital services, to increase dental and physician fee schedules, and to cover related administrative expenses incurred by AHCCCS.		
Funds Expended	529,190,200	911,052,600
Year-End Fund Balance	135,577,200	125,326,300
Hospital Assessment Fund (HCA2576/A.R.S. § 36-2901.09)		Expenditure Authority
Source of Revenue: An assessment on hospital revenues, discharges, or beds days.		
Purpose of Fund: For funding the non-federal share of Proposition 204 services and the adult population who became eligible for AHCCCS services on January 1, 2014.		
Funds Expended	546,269,700	694,319,800
Year-End Fund Balance	139,634,900	139,634,900
IGA and ISA Fund (HCA2500/A.R.S. § 36-2925)		Non-Appropriated
Source of Revenue: Operating transfers to provide the state matches for the Department of Economic Security Long-Term Care Program, Department of Corrections claims processing for inmates, and county claims for processing inmates. Excludes amounts received from political subdivisions for GME, DSH, APSI and PSI programs.		
Purpose of Fund: To receive and spend monies associated with intergovernmental agreements and interagency service agreements. Expenditures are not displayed to avoid double counting of the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	142,093,400	142,093,400

SUMMARY OF FUNDS	FY 2024 Actual	FY 2025 Estimate
IGA for County Behavioral Health Services Fund (HCA4503/A.R.S. § 36-108.01)		Non-Appropriated
Source of Revenue: Monies from local governments and state liquor service fees.		
Purpose of Fund: To fund the delivery of behavioral health services to seriously mentally ill (SMI) individuals, some mental health services for non-SMI individuals, and the administration of Local Alcohol Reception Centers (LARC) to treat substance abuse.		
Funds Expended	78,619,900	86,096,100
Year-End Fund Balance	5,669,400	5,669,400
Intergovernmental Service Fund (HCA2442/A.R.S. § 36-2927)		Non-Appropriated
Source of Revenue: Monies collected from the State of Hawaii.		
Purpose of Fund: To be used for costs associated with information technology services provided by AHCCCS to the State of Hawaii for the design, development, implementation, operation, and maintenance of a Medicaid Management Information System.		
Funds Expended	28,592,600	40,187,300
Year-End Fund Balance	4,029,700	4,029,700
Long Term Care System Fund (HCA2223/A.R.S. § 36-2913)		Expenditure Authority
Source of Revenue: Federal matching funding through the U.S. Department of Health & Human Services, Centers for Medicare and Medicaid Services that is deposited in the Long Term Care System Fund, along with county contributions serving as the state match for federal Medicaid dollars.		
Purpose of Fund: For AHCCCS's administrative costs and for the provision of services to the long-term care population.		
Funds Expended	1,707,996,000	1,959,660,600
Year-End Fund Balance	263,281,200	263,281,200
Nursing Facility Provider Assessment Fund (HCA2567/A.R.S. § 36-2999.53)		Expenditure Authority
Source of Revenue: Assessment on health care items and services provided by some nursing facilities, nursing facility penalties, grants, gifts, and contributions from public or private sources.		
Purpose of Fund: To qualify for federal matching funds for supplemental payments for nursing facility services, to reimburse the Medicaid sharer of the assessment, to provide Medicaid supplemental payments to fund covered nursing facility services for Medicaid beneficiaries, and to pay up to 1% in administrative expenses incurred by AHCCCS for administering this fund.		
Funds Expended	100,283,000	94,906,800
Year-End Fund Balance	479,000	479,000
Political Subdivision Funds (HCA1111/A.R.S. § 36-2927)		Expenditure Authority
Source of Revenue: Portion of IGA and ISA Fund monies voluntarily given to AHCCCS from local governments, tribal communities, or Arizona public universities in order to obtain a federal match.		
Purpose of Fund: To expand funding for hospitals through supplemental payments and the Access to Professional Services Initiative. Includes agreements for the Disproportionate Share Hospital (DSH) Voluntary Match Payments, Graduate Medical Education (GME), and Pediatric Services Initiative (PSI) programs.		
Funds Expended	227,965,900	242,411,000
Year-End Fund Balance	0	0
Prescription Drug Rebate Fund - Federal (HCA2546/A.R.S. § 36-2930)		Expenditure Authority
Source of Revenue: Prescription drug rebate collections, interest from prescription drug rebate late payments, and federal monies made available to this state for the operation of the AHCCCS Prescription Drug Rebate Program.		
Purpose of Fund: To pay for the administrative costs of the Prescription Drug Rebate Program, for payments to contractors or providers in the administration's medical services programs, and to offset General Fund costs for Medicaid programs. Also used to return the federal share of Prescription Drug Rebate collections and interest from late payments to the federal Centers for Medicare and Medicaid Services by offsetting future federal draws. Federal monies are listed as Expenditure Authority. All other monies are appropriated. Expenditures displayed only include the federal share of disbursements and exclude "contra expenses" recorded in AFIS associated with the federal share of rebate collections.		
Funds Expended	609,060,300	609,060,300
Year-End Fund Balance	172,991,100	86,495,500

SUMMARY OF FUNDS	FY 2024 Actual	FY 2025 Estimate
Prescription Drug Rebate Fund - State (HCA2546/A.R.S. § 36-2930)		Appropriated
Source of Revenue: Prescription drug rebate collections and interest from prescription drug rebate late payments.		
Purpose of Fund: To pay for the administrative costs of the Prescription Drug Rebate Program, for payments to contractors or providers in the administration's medical services programs, and to offset General Fund costs for Medicaid programs. The federal share of rebates is retained by the state and is used in lieu of federal match funds. Monies in the fund used in lieu of federal match funds are subject to expenditure authority; all other monies are appropriated. Expenditures displayed only include the state share of disbursements from the fund and exclude "contra expenses" recorded in AFIS associated with the state share of rebate collections.		
Funds Expended	164,907,400	189,832,200
Year-End Fund Balance	149,879,100	260,935,900
Proposition 202 - Trauma and Emergency Services Fund (HCA2494/A.R.S. § 36-2903.07)		Non-Appropriated
Source of Revenue: Gaming monies received from the Arizona Benefits Fund.		
Purpose of Fund: For unrecovered trauma center readiness and emergency services costs.		
Funds Expended	39,034,100	39,034,100
Year-End Fund Balance	10,922,300	11,279,900
Seriously Mentally Ill Housing Trust Fund (HCA2555/A.R.S. § 41-3955.01)		Appropriated
Source of Revenue: Receives \$2,000,000 from the proceeds of the sales of unclaimed property and interest income. A.R.S. § 44-313 states that the first \$2,000,000 in unclaimed property revenues are distributed to the Seriously Mentally Ill Housing Trust Fund. The second \$2,500,000 in unclaimed property revenues are distributed to the Housing Trust Fund, which is administered by the Department of Housing.		
Purpose of Fund: To cover related administrative expenses. Please see the Non-Appropriated portion of the fund for additional information.		
Funds Expended	423,300	217,700
Year-End Fund Balance	0	0
Seriously Mentally Ill Housing Trust Fund (HCA2555/A.R.S. § 41-3955.01)		Non-Appropriated
Source of Revenue: Receives \$2,000,000 from the proceeds of the sales of unclaimed property and interest income. A.R.S. § 44-313 states that the first \$2,000,000 in unclaimed property revenues are distributed to the Seriously Mentally Ill Housing Trust Fund. The second \$2,500,000 in unclaimed property revenues are distributed to the Housing Trust Fund, which is administered by the Department of Housing.		
Purpose of Fund: To fund housing projects and rental assistance for seriously mentally ill persons. The Legislature may appropriate up to 10% of the monies from the fund for administrative costs of services. Appropriated monies are displayed in the Appropriated portion of the fund. Please see the Appropriated portion of the fund for additional information.		
Funds Expended	0	0
Year-End Fund Balance	13,641,900	16,000,100
Substance Abuse Services Fund (HCA2227/A.R.S. § 36-2005)		Appropriated
Source of Revenue: The fund receives 23.6% of monies collected from the Medical Services Enhancement Fund, which is a 13% penalty levied on criminal offenses, motor vehicle civil violations, and game and fish violations. Monies are deposited into 2 subaccounts.		
Purpose of Fund: To provide alcohol and other drug screening, education or treatment for persons court-ordered to attend and who do not have the financial ability to pay for the services; to contract for preventive or rehabilitative and substance abuse services; and to provide priority for treatment services to pregnant substance abusers.		
Funds Expended	2,250,200	2,250,200
Year-End Fund Balance	(286,900)	100

SUMMARY OF FUNDS	FY 2024 Actual	FY 2025 Estimate
Substance Use Disorder Services Fund (HCA2325/A.R.S. § 36-2930.06)		Non-Appropriated
Source of Revenue: Monies appropriated to the fund, any gifts or donations to the fund, and interest earned on those monies.		
Purpose of Fund: To enter into agreements with one or more contractors for substance use disorder services. Monies in the fund shall not be used for persons eligible for Medicaid or Children's Health Insurance Program services. Preferences shall be given to persons with lower household incomes. Contractor administrative costs shall not exceed 8% of the expenditures for services. Monies in the fund are non-lapsing. Expenditures are not displayed to avoid double counting of General Fund monies.		
Funds Expended	1,445,400	0
Year-End Fund Balance	41,800	41,800
Third Party Liability and Recovery Fund (HCA3791 Acute Care/A.R.S. § 36-2913)		Expenditure Authority
Source of Revenue: Collections from third-party payers and revenues from lien and estate recoveries.		
Purpose of Fund: To provide acute medical services to AHCCCS members. Please see the Non-Appropriated portion of the fund for additional information.		
Funds Expended	194,700	194,700
Year-End Fund Balance	0	0
Third Party Liability and Recovery Fund (HCA3791 Acute Care//A.R.S. § 36-2913)		Non-Appropriated
Source of Revenue: Collections from third-party payers and revenues from lien and estate recoveries.		
Purpose of Fund: To provide acute medical services to AHCCCS members. This account displays payment of the Third Party Liability contractor fee and return of the federal share of recoveries to CMS. Please see the Expenditure Authority portion of the fund for additional information.		
Funds Expended	0	0
Year-End Fund Balance	10,646,600	10,428,000
Tobacco Products Tax Fund - Emergency Health Services Account (HCA1304/A.R.S. § 36-776)		Appropriated
Source of Revenue: This account receives 20¢ of each dollar deposited into the Tobacco Products Tax Fund, administered by the Department of Revenue.		
Purpose of Fund: For primary care services, reimbursement of uncompensated care costs, and trauma center readiness costs.		
Funds Expended	16,515,600	17,458,500
Year-End Fund Balance	(392,600)	100
Tobacco Products Tax Fund - Proposition 204 Protection Account (HCA1303/A.R.S. § 36-778)		Expenditure Authority
Source of Revenue: This account receives 42¢ of each dollar deposited into the Tobacco Products Tax Fund, administered by the Department of Revenue.		
Purpose of Fund: To fund state match costs in AHCCCS for the Proposition 204 program. These monies are non-appropriated and must be spent before any other state monies on the Proposition 204 program.		
Funds Expended	33,944,500	36,662,900
Year-End Fund Balance	(824,500)	0
Tobacco Tax and Health Care Fund - Medically Needy Account (HCA1306/A.R.S. § 36-774)		Appropriated
Source of Revenue: The account receives 70¢ of each dollar deposited in the Tobacco Tax and Health Care Fund, administered by the Department of Revenue, and 27¢ of each dollar deposited into the Tobacco Products Tax Fund, also administered by the Department of Revenue. The fund also receives a portion of the monies reverting from the Corrections Fund Adjustment Account and an allocation from the Healthcare Adjustment Account.		
Purpose of Fund: For health care services including, but not limited to, preventive care, transplants and the treatment of catastrophic illness or injury. Eligible recipients include persons statutorily determined to be medically indigent, medically needy, or low-income children. A portion of the monies is transferred to the DHS for statutorily established services, grants and pilot programs. These taxes were enacted in Proposition 200 and approved by voters in the 1994 General Election.		
Funds Expended	60,160,100	66,586,300
Year-End Fund Balance	(1,446,100)	100