

Arizona Health Care Cost Containment System

	FY 2021 ACTUAL	FY 2022 ESTIMATE	FY 2023 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,339.3	2,348.3	2,348.3 ^{1/}
Personal Services	45,660,500	47,141,900	47,499,200
Employee Related Expenditures	18,992,100	19,357,500	22,774,300
Professional and Outside Services	16,920,200	17,700,900	27,200,900
Travel - In State	15,300	15,300	15,300
Other Operating Expenditures	22,420,700	27,232,600	29,330,900
Equipment	98,400	98,400	98,400
OPERATING SUBTOTAL	104,107,200	111,546,600	126,919,000 ^{2/}
SPECIAL LINE ITEMS			
Administration			
AHCCCS Data Storage	15,173,500	19,325,800	19,325,800
DES Eligibility	101,760,300	88,874,500	97,074,500 ^{3/}
Proposition 204 - AHCCCS Administration	21,885,900	13,906,200	14,525,200 ^{4/}
Proposition 204 - DES Eligibility	41,745,200	44,358,700	44,358,700 ^{4/}
FY 2023 Salary Increase	0	0	7,879,700
Medicaid Services			
Traditional Medicaid Services	5,219,519,500	7,299,366,400	7,303,608,100 ^{5/-12/}
Proposition 204 Services	4,108,435,000	6,743,005,000	6,390,896,200 ^{10/-12/}
Adult Expansion Services	602,859,200	1,302,702,900	804,705,200 ^{10/}
Comprehensive Medical and Dental Program	198,750,800	243,543,800	244,906,300 ^{10/11/}
KidsCare Services	95,663,000	171,812,300	152,682,100 ^{10/}
ALTCS Services	1,648,966,200	2,621,917,300	2,576,091,400 ^{13/-17/}
Behavioral Health Services in Schools	10,003,300	10,003,300	9,891,200
Non-Medicaid Behavioral Health Services			
Non-Medicaid Seriously Mentally Ill Services	75,714,600	77,646,900	77,646,900 ^{18/}
One-Time Substance Use Disorder Services Fund Deposit	0	6,000,000	0
Supported Housing	5,324,800	65,324,800	65,324,800 ^{19/20/}
Crisis Services	16,319,700	16,391,300	16,391,300
Secure Behavioral Health Residential Facilities	0	0	25,000,000 ^{21/}
Hospital Payments			
Disproportionate Share Payments	4,202,300	5,087,100	5,087,100 ^{22/}
DSH Payments - Voluntary Match	30,632,100	48,666,500	37,425,900 ^{12/23/}
Graduate Medical Education	270,797,800	401,318,900	393,232,100 ^{12/24/-27/}
Rural Hospitals	36,068,900	28,612,400	28,612,400
Targeted Investments Program	7,499,200	50,000,000	50,000,000
AGENCY TOTAL	12,615,428,500	19,369,410,700 ^{28/}	18,491,583,900 ^{29/-34/}
FUND SOURCES			
General Fund	1,274,618,300	1,915,630,200	2,321,039,900
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	4,037,400	4,076,200	4,303,100
Children's Health Insurance Program Fund	100,299,800	147,782,000	123,622,900
Prescription Drug Rebate Fund - State	148,305,700	175,236,600	165,160,800
Seriously Mentally Ill Housing Trust Fund	0	200,000	217,300
Substance Abuse Services Fund	2,250,200	2,250,200	2,250,200
Tobacco Products Tax Fund - Emergency Health Services Account	16,216,300	17,921,600	17,448,300
Tobacco Tax and Health Care Fund - Medically Needy Account	65,627,200	69,002,100	67,179,700
SUBTOTAL - Other Appropriated Funds	336,736,600	416,468,700	380,182,300

	FY 2021 ACTUAL	FY 2022 ESTIMATE	FY 2023 APPROVED
SUBTOTAL - Appropriated Funds	1,611,354,900	2,332,098,900	2,701,222,200
<u>Expenditure Authority Funds</u>			
Arizona Tobacco Litigation Settlement Fund	105,683,600	102,000,000	102,000,000
County Funds	303,982,200	328,828,000	397,615,200
Delivery System Reform Incentive Payment Fund	2,249,000	15,495,200	15,495,200
Federal Medicaid Authority	9,461,104,900	14,749,873,900	13,426,977,000
Health Care Investment Fund	97,764,900	382,548,500	453,104,400
Hospital Assessment Fund	251,024,200	608,696,900	548,910,500
Nursing Facility Provider Assessment Fund	28,411,500	32,989,600	32,989,600
Political Subdivision Funds	109,800,400	169,989,300	167,373,400
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	34,797,900	37,635,400	36,641,400
SUBTOTAL - Expenditure Authority Funds	11,004,073,600	17,037,311,800	15,790,361,700
SUBTOTAL - Appropriated/Expenditure Authority Funds	12,615,428,500	19,369,410,700	18,491,583,900
Other Non-Appropriated Funds	108,798,000	119,404,400	119,404,400
Federal Funds	157,393,300	263,968,200	263,968,200
TOTAL - ALL SOURCES	12,881,619,800	19,752,783,300	18,874,956,500

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

FOOTNOTES

- 1/ Includes 619.3 GF and 696.8 EA FTE Positions funded from Special Line Items in FY 2023.
- 2/ 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 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 2022-2023 to the attorney general for costs associated with e-cigarette enforcement and 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 2022-2023 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 amount appropriated for the traditional medicaid services line item includes \$8,900,000 for services to eligible women who are less than one year postpartum. This appropriation may not be spent unless on or before July 1, 2023 the centers for medicare and medicaid services authorizes the Arizona health care cost containment system administration to either redetermine the eligibility of members who are less than one year postpartum and are under one hundred thirty-three percent of the federal poverty level or use another methodology that enables the administration to provide coverage for eligible postpartum women. (General Appropriation Act footnote)

- 8/ The amount appropriated for the traditional medicaid services line item includes monies to increase a differential adjustment payment by \$1,250 for twenty-four-bed pediatric skilled nursing facilities offering skilled nursing services in place of intensive care services. This increased payment is contingent on approval from the centers for medicare and medicaid services before implementation. (General Appropriation Act footnote)
- 9/ The amount appropriated for the traditional medicaid services line item includes \$10,000,000 from the state general fund and \$22,851,500 from expenditure authority to increase physician fee schedule rates associated with the Arizona health care cost containment system global obstetrical package, including current procedural technology codes 59400, 59510, 59610 and 59618, by eighty-eight percent. (General Appropriation Act footnote)
- 10/ It is the intent of the legislature that the Arizona health care cost containment system administration allocate \$7,500,000 from the state general fund and \$25,191,300 from expenditure authority for a 2.5 percent increase to the outpatient behavioral health fee schedule. On or before October 1, 2022, the administration shall report to the joint legislative budget committee on the actual distribution of rate increases by its contracted health plans. (General Appropriation 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 Appropriation 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 2022-2023 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 Appropriation Act footnote)
- 13/ 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 Appropriation Act footnote)
- 14/ Pursuant to section 11-292, subsection B, Arizona Revised Statutes, the county portion of the fiscal year 2022-2023 nonfederal costs of providing long-term care system services is \$352,697,700. This amount is included in the expenditure authority fund source. (General Appropriation Act footnote)
- 15/ Any supplemental payments received in excess of \$107,449,200 for nursing facilities that serve Arizona long-term care system medicaid patients in fiscal year 2022-2023, including any federal matching monies, by the Arizona health care cost containment system administration are appropriated to the administration in fiscal year 2022-2023. 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)
- 16/ The amount appropriated for the ALTCS services line item includes \$237,200,000 from expenditure authority to implement the American rescue plan act of 2021 (P.L. 117-2) home and community-based services spending plan in fiscal year 2022-2023. The administration may not use these monies for marketing purposes, and any direct payments or grants provided with the monies shall include a notification to the recipient that the monies are onetime funding. Beginning on or before July 31, 2022, the administration shall provide quarterly reports to the joint legislative budget committee at the same time that the information is provided to the centers for medicare and medicaid services, reflecting any changes to the administration's spending plan. Of the amount appropriated for the ALTCS services line item, \$237,200,000 is exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations. (General Appropriation Act footnote)
- 17/ This appropriation includes \$24,200,000 from the state general fund, \$19,364,100 from county funds and \$100,081,500 from expenditure authority for an eleven percent increase to provider rates for both home and community-based services and skilled nursing facilities. (General Appropriation Act footnote)
- 18/ On or before June 30, 2023, 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)
- 19/ On or before September 30, 2023, the Arizona health care cost containment system administration shall report to the joint legislative budget committee on its progress in implementing services specified in the housing and health opportunities section 1115 waiver amendment. The report shall include, at a minimum, the types of services provided for

eligible AHCCCS members, expenditures by service category, the number of members receiving services by eligibility category, the number of members waitlisted for housing services and progress toward achieving program outcomes, including changes in hospital utilization rates and utilization of primary care and preventive health services. (General Appropriation Act footnote)

- 20/ The appropriated amount for the supported housing line item includes \$60,000,000 of federal medicaid expenditure authority. If the administration's housing and health opportunities section 1115 waiver amendment is denied federal approval, the amount of \$60,000,000 of federal medicaid expenditure authority is reduced from the supported housing line item appropriation. (General Appropriation Act footnote)
- 21/ The monies appropriated for secure behavioral health residential facilities shall support five secure behavioral health residential facilities licensed by the department of health services pursuant to section 36-425.06, Arizona Revised Statutes, to provide secure on-site supportive treatment to persons determined to be seriously mentally ill, who are chronically resistant to treatment and who are placed in the facility pursuant to a court order. Three facilities shall be located in the central geographic service area, one facility shall be located in the north geographic service area and one facility shall be located in the south geographic service area. The administration shall allocate up to \$5,000,000 for each recipient facility, prioritizing facilities that can open within twelve months after the effective date of this act. (General Appropriation Act)
- 22/ The \$5,087,100 appropriation for disproportionate share payments for fiscal year 2022-2023 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)
- 23/ 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 2022-2023 by the Arizona health care cost containment system administration in excess of \$37,425,900 are appropriated to the administration in fiscal year 2022-2023. 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.
- 24/ Any monies for graduate medical education received in fiscal year 2022-2023, including any federal matching monies, by the Arizona health care cost containment system administration in excess of \$393,232,100 are appropriated to the administration in fiscal year 2022-2023. 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)
- 25/ 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 \$13,549,300 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 Appropriation Act footnote)
- 26/ 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 \$10,875,400 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 Appropriation Act footnote)
- 27/ 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, 2024. (General Appropriation Act footnote)
- 28/ Laws 2022, Chapter 2 appropriated \$1,078,032,800 in Expenditure Authority and \$30,121,100 in Children's Health Insurance Program Fund as a supplemental in FY 2022 for the same purpose and with the same conditions.
- 29/ 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)
- 30/ The expenditure authority amount includes an increase of \$400,000,000 from the health care investment fund for additional directed payments to hospitals. (General Appropriation Act footnote)
- 31/ 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)
- 32/ The Arizona health care cost containment system administration shall report to the joint legislative budget committee on or before March 1, 2023 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 Appropriation Act footnote)

33/ On or before July 1, 2023, 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, 2022. (General Appropriation Act footnote)

34/ General Appropriation Act funds are appropriated as Operating Lump Sum with Special Line Items by Agency.

Summary

AHCCCS's FY 2023 General Fund spending increases by \$405,409,700 from FY 2022. This amount includes:

- \$319,312,500 for formula adjustments.
- \$3,000,000 for Graduate Medical Education funding.
- \$140,100 for implementation of a newborn screening fee.
- \$178,600 for American Indian Health Program SMI integration
- \$270,000 for federal IT regulation compliance.
- \$500,000 one-time for PMMIS replacement.
- \$(100,000) for transfer of a Suicide Prevention Coordinator position to DHS.
- \$4,500,000 for increased eligibility determination costs.
- \$200,000 for eligibility determinations for older foster care youth.
- \$2,600,000 for chiropractic care.
- \$2,700,000 for postpartum care.
- \$700,000 for diabetes management.
- \$25,000,000 one-time for secure behavioral health residential facilities.
- \$630,000 for CHIP eligibility extension.
- \$24,200,000 for EPD provider rate increases.
- \$144,600 for pediatric skilled nursing facility rate increases.
- \$10,000,000 for pregnancy care provider rate increases.
- \$7,500,000 for a behavioral health provider rate increase.
- \$2,364,900 for a state employee salary increase.
- \$1,569,000 for statewide adjustments.

As part of the budget's 3-year spending plan, AHCCCS's General Fund costs are projected to increase by \$194,307,100 in FY 2024 above FY 2023 and by \$186,104,000 in FY 2025 above FY 2024. (See the *Other Issues section for more information.*)

Operating Budget

The budget includes \$126,919,000 and 1,032.2 FTE Positions in FY 2023 for the operating budget. These amounts consist of:

	FY 2023
General Fund	\$34,558,100
Children's Health Insurance Program (CHIP) Fund	5,636,400
Health Care Investment Fund	2,472,300
Prescription Drug Rebate Fund (PDRF) - State	662,100
Seriously Mentally Ill (SMI) Housing Trust Fund	199,600
Federal Medicaid Authority (FMA)	83,390,500

FY 2023 adjustments are as follows:

Remove One-Time Funding of PMMIS Roadmap

The budget includes a decrease of \$(780,000) in FY 2023 to remove one-time funding for the cost of developing a plan to replace AHCCCS's management information system. This amount consists of:

PDRF - State	(78,000)
Federal Medicaid Authority (FMA)	(702,000)

American Indian Health Program (AIHP) Serious Mental Illness Integration

The budget includes an increase of \$591,500 in FY 2023 for AIHP Serious Mental Illness (SMI) integration. This amount consists of:

General Fund	178,600
Federal Medicaid Authority	412,900

These amounts fund 2 new nurse case managers, 2 prior authorization/utilization review nurses, 1 supervisor, 1 administrative assistant, and 1 clinical care specialist position. These 7 positions will provide behavioral health services to 350 individuals with an SMI designation that

are transferring from contracted Regional Behavioral Health Authorities (RBHAs) to AIHP in October 2022. AHCCCS would receive additional FTE authority as part of the FY 2024 Baseline.

Federal IT Regulation Compliance

The budget includes an increase of \$2,250,000 in FY 2023 for federal IT regulation compliance. This amount consists of:

General Fund	270,000
Federal Medicaid Authority	1,980,000

These amounts are for the professional services of a vendor to develop and host a software solution to accommodate a new federal rule. AHCCCS is currently non-compliant with the Centers for Medicare and Medicaid Services (CMS) Interoperability and Patient Access Final Rule, which began enforcement on July 1, 2021. The rule requires AHCCCS to enable members to access their claims and encounter information by implementing and maintaining an application programming interface, among other requirements relating to data exchanges. Of these amounts, \$1,950,000 is for one-time costs.

PMMIS Replacement

The budget includes a one-time increase of \$9,500,000 in FY 2023 for a Prepaid Medicaid Management Information System (PMMIS) replacement. This amount consists of:

General Fund	500,000
Federal Medicaid Authority	9,000,000

These amounts are for AHCCCS to contract the services of a Systems Integration (SI) provider to transition PMMIS to a new platform. The new system will enable AHCCCS to comply with rules and cybersecurity requirements established by the Centers for Medicare and Medicaid Services (CMS). The SI provider will be responsible for the integration and testing of system modules, as well as monitoring and adjusting modules for continuous operation.

Suicide Prevention Transfer

The budget includes a decrease of \$(100,000) from the General Fund in FY 2023 for a Suicide Prevention Coordinator position transfer. Funding for the position and its reporting requirements are being moved from AHCCCS to the Department of Health Services (DHS). The funds for this position were transferred through an FY 2022 intergovernmental agreement between AHCCCS and DHS. The FY 2024 Baseline will include a reduction of 1 FTE Position for AHCCCS to account for the change.

Statewide Adjustments

The budget includes an increase of \$3,910,900 in FY 2023 for statewide adjustments. This amount consists of:

General Fund	1,499,600
CHIP Fund	53,900
PDRF - State	1,400
SMI Housing Trust Fund	(400)
Federal Medicaid Authority	2,356,400

(Please see the Agency Detail and Allocations section).

Administration

AHCCCS Data Storage

The budget includes \$19,325,800 in FY 2023 for AHCCCS Data Storage. 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 2022.

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 budget includes \$97,074,500 and 885 FTE Positions in FY 2023 for DES Eligibility services. These amounts consist of:

General Fund	30,191,200
Federal Medicaid Authority	66,883,300

FY 2023 adjustments are as follows:

Eligibility Determination

The budget includes an increase of \$7,800,000 in FY 2023 for increased eligibility determination costs. This amount consists of:

General Fund	4,500,000
Federal Medicaid Authority	3,300,000

These amounts fund an increase in costs associated with implementing the integrated eligibility system for Medicaid, SNAP, and TANF Cash Assistance. The increase is due to the department running both new and legacy

information technology systems, population growth in programs, and a higher proportion of staff determining SNAP and TANF eligibility.

Foster Care Eligibility Determination

The budget includes an increase of \$400,000 in FY 2023 for foster care eligibility determination. This amount consists of:

General Fund	200,000
Federal Medicaid Authority	200,000

Laws 2022, Chapter 339 no longer requires the department to annually redetermine the eligibility of older foster care youth by requesting additional information from the person when they turn 18. Instead, the department will annually renew the person's eligibility until the person turns 26 unless the person notifies the department they are otherwise ineligible. These amounts fund the implementation of the renewal process.

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

Proposition 204 - AHCCCS Administration

The budget includes \$14,525,200 and 131 FTE Positions in FY 2023 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	4,556,300
PDRF - State	60,900
Federal Medicaid Authority	9,908,000

FY 2023 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$619,000 in FY 2023 for statewide adjustments. This amount consists of:

General Fund	69,400
Federal Medicaid Authority	549,600

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 budget includes \$44,358,700 and 300.1 FTE Positions in FY 2023 for Proposition 204 - DES Eligibility costs. These amounts consist of:

General Fund	16,419,100
Budget Neutrality Compliance Fund (BNCF)	4,303,100
Federal Medicaid Authority	23,636,500

FY 2023 adjustments are as follows:

Formula Adjustments

The budget includes a decrease of \$(226,900) from the General Fund and a corresponding increase of \$226,900 from the BNCF in FY 2023 to reflect an increase of county contributions in FY 2023. This adjustment assumes an inflation adjustment of 4.07% and a state population adjustment of 1.5% 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.

FY 2023 Salary Increase

The budget includes an increase of \$7,879,700 for an FY 2023 Salary Increase. This amount consists of:

General Fund	2,364,900
CHIP Fund	92,100
PDRF – State	800
SMI Housing Trust Fund	17,700
Federal Medicaid Authority	5,404,200

Of this amount, \$7,591,400 is for a 10% minimum state employee salary increase and \$288,300 is for selected market adjustments above 10%. The budget requires all agencies receiving salary increases to transfer the monies in this line item to the relevant line items as part of the FY 2024 budget request submittals. These submittals will include the reallocation for both FY 2023 and FY 2024. *(Please see the Agency Detail and Allocations section).*

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 2023 and *Table 1* shows AHCCCS actual enrollment by eligibility category as of June. A more detailed description of program components can be found in the *Other Issues* section.

Formula Adjustments

Medicaid Services line items are delineated based on eligibility for the program and fund the costs of these services. In addition to policy issues, each line includes funding changes for "formula adjustments," which represent the estimated change in state and federal costs for Medicaid services based on current law program parameters before accounting for policy changes. These funding requirements change annually based on the following factors:

- Enrollment changes
- Inflation in costs for covered services
- Adjustments to the federal share of funding, known as the Federal Medical Assistance Percentage (FMAP)
- Changes in non-General Fund sources to cover the cost of the state match.

In total, the FY 2023 budget includes a General Fund increase of \$319,312,500 for formula adjustments.

Public Health Emergency

The FY 2022 budget included a one-time savings of \$(180,000,000) from the General Fund in FY 2022 for a temporary 6.2% increase in the federal match rate due to the federally-declared public health emergency associated with COVID-19. The \$319,312,500 of formula adjustments includes an increase of \$180,000,000 from the General Fund in FY 2023 to remove these savings. (See the FY 2022 Supplemental discussion in the Other Issues section for more information).

As of this writing in July 2022, the public health emergency has been extended to September 15th, meaning that the 6.2% enhanced match rate would be available through at least December 2022. Under the extension, AHCCCS would continue to be prohibited from disenrolling individuals from Medicaid coverage pursuant to a provision in the federal Families First Coronavirus Response Act. Neither the 6-month FY 2023 savings from the additional FMAP nor the costs from higher caseloads associated with the prohibition on disenrollment are accounted for in the budget numbers. As a result, AHCCCS's actual formula costs are likely to change relative to the enacted budget numbers.

Traditional Medicaid Services

The budget includes \$7,303,608,100 in FY 2023 for Traditional Medicaid Services. This amount consists of:

General Fund	1,521,653,500
County Funds	44,917,500
Health Care Investment Fund	290,892,500
Political Subdivision Funds	40,142,900

Population	June 2021 (Actual)	June 2022 (Revised)	'21-'22 % Change
Traditional	1,142,194	1,226,158	7.4%
Prop 204 Childless Adults	423,908	503,329	18.7%
Other Proposition 204	203,556	194,235	(4.6)%
Adult Expansion	149,545	146,391	(2.1)%
KidsCare	54,408	65,728	20.8%
CMDP	13,628	12,829	(5.9)%
ALTCS - Elderly & Physically Disabled ^{2/}	28,238	27,939	(1.1)%
Emergency Services	125,482	136,968	9.2%
Total Member Months	2,140,959	2,313,577	8.1%

^{1/} The figures represent June 1 enrollment. Excludes members who are only eligible for the Medicare Savings Program.
^{2/} The ALTCS program is funded in AHCCCS. An additional 38,212 people receive Medicaid services through the Department of Economic Security's Developmental Disabilities program as of June 1, 2022.

PDRF - State	156,858,600
TTHCF - Medically Needy Account	67,179,700
Third Party Liability and Recovery Fund	194,700
PDRF - In Lieu of Federal Funds	572,638,300
Federal Medicaid Authority	4,609,130,400

FY 2023 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$198,882,400 in FY 2023 for formula adjustments. This amount consists of:

General Fund	251,826,600
County Funds	(716,500)
Health Care Investment Fund	7,203,100
Political Subdivision Funds	(10,104,900)
TTHCF - Medically Needy Account	(1,822,400)
Federal Medicaid Authority	(47,503,500)

Remove FY 2022 Supplemental

The budget includes a decrease of \$(441,030,700) from Federal Medicaid Authority in FY 2023 for removal of one-time supplemental expenditure authority appropriated by Laws 2022, Chapter 2 for additional federal funding associated with the enhanced federal match rate. (Please see the FY 2022 Supplemental narrative for more information.)

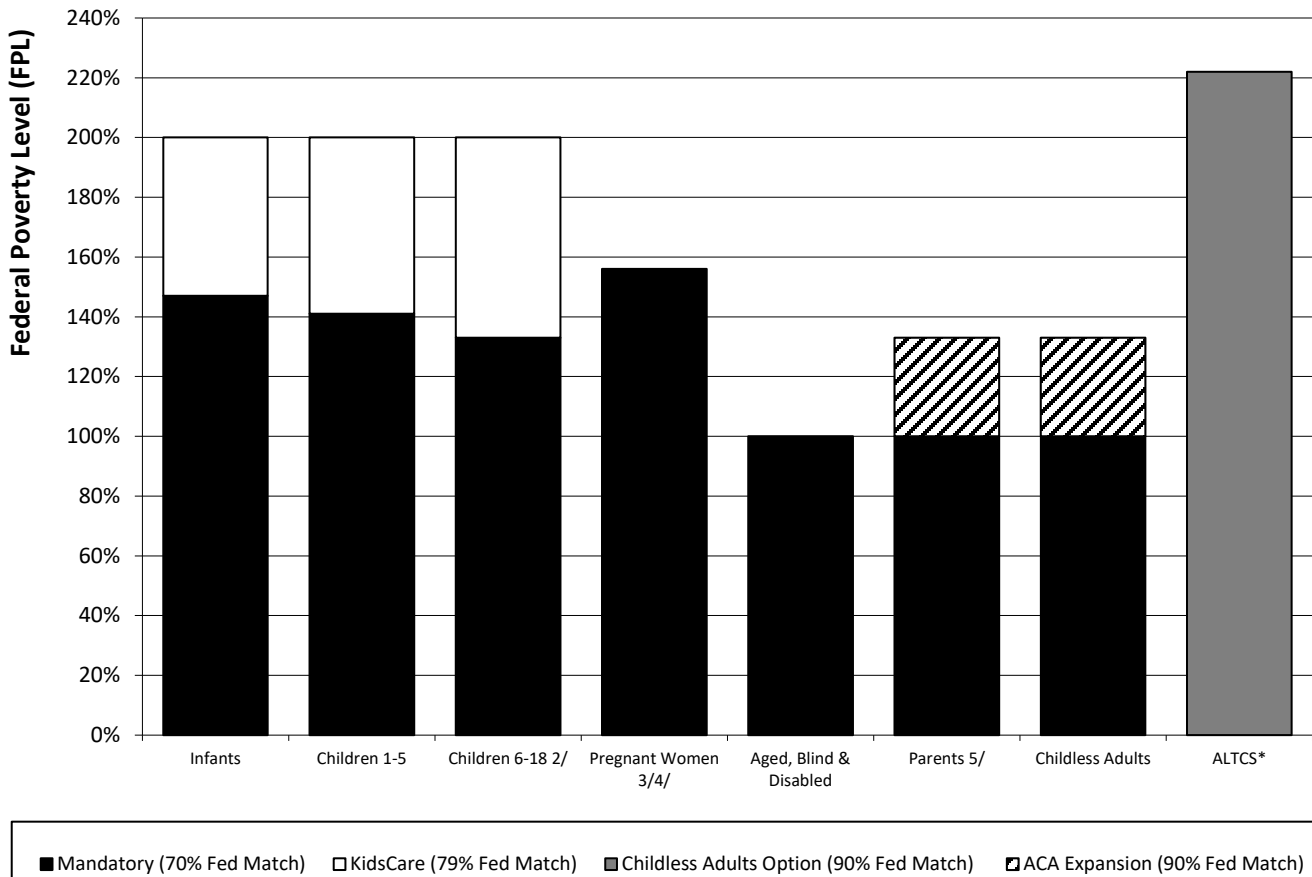
Chiropractic Care

The budget includes an increase of \$12,750,000 in FY 2023 for chiropractic care. This amount consists of:

General Fund	2,600,000
Federal Medicaid Authority	10,150,000

Chart 1

AHCCCS Eligibility ^{1/}



- 1/ Match rates do not reflect a one-time increase to the regular and KidsCare match rate associated with the federal Families First Coronavirus Response Act.
- 2/ Children ages 6 to 18 years in families with incomes between 100% FPL and 133% FPL are eligible to receive an 78.69% federal match in FFY 2023.
- 3/ Women diagnosed with breast or cervical cancer by a provider recognized by the Well Women Healthcheck program and those in the "Ticket to Work" program receive coverage to 250% FPL.
- 4/ Women less than 1 year postpartum receive coverage between 133% FPL and 156% FPL. Contingent on CMS approval, women below 133% FPL would continue to shift to other eligibility categories.
- 5/ Mandatory Status of Parents is subject to interpretation.

Laws 2022, Chapter 314 authorizes AHCCCS to include medically necessary chiropractic care as part of its covered services. The service must be provided by a licensed chiropractor and ordered by a primary care physician or practitioner.

Postpartum Care

The budget includes an increase of \$8,900,000 in FY 2023 for postpartum care. This amount consists of:

General Fund	2,700,000
Federal Medicaid Authority	6,200,000

Laws 2022, Chapter 314 authorizes AHCCCS to extend coverage for pregnant women from 56 days postpartum to 1 year postpartum. The change extends coverage to postpartum women between 133%-156% of the federal poverty limit (FPL). Contingent on CMS approval, postpartum women below 133% FPL would continue to shift to adult eligibility categories past the 60-day period. A General Appropriation Act footnote prohibits AHCCCS from spending the appropriation in the event the administration does not receive CMS approval.

Pregnancy Provider Rate Increase

The budget includes an increase of \$32,851,500 in FY 2023 for a pregnancy provider rate increase. This amount consists of:

General Fund	10,000,000
Federal Medicaid Authority	22,851,500

AHCCCS's current global payment rate (\$2,000) to OBGYNs for pregnancy care is below the typical commercial rate (\$5,000). These amounts will fund an 88% increase to the agency's payment rate.

Diabetes Management

The budget includes an increase of \$3,498,300 in FY 2023 for covering diabetes management services. This amount consists of:

General Fund	700,000
Federal Medicaid Authority	2,798,300

Laws 2022, Chapter 328 authorizes the department to include up to 10 program hours annually of diabetes outpatient self-management training as part of its covered services. To be eligible, members need to have been recently diagnosed with diabetes and prescribed the services by a primary care practitioner, had a change in their diabetic diagnosis or treatment, or found not to be meeting appropriate clinical outcomes. Monies from the Hospital Assessment Fund may not be used to provide these services.

Behavioral Health Provider Rate Increase

The budget includes an increase of \$15,038,000 in FY 2023 for a behavioral health provider rate increase. This amount consists of:

General Fund	4,577,500
Federal Medicaid Authority	10,460,500

These amounts fund a 2.5% rate increase to the outpatient behavioral health fee schedule. A General Appropriation Act footnote requires AHCCCS to report the actual distribution of the increase by its contracted health plans by October 1, 2022.

Pediatric SNF Rate Increase

The budget includes an increase of \$474,900 in FY 2023 for a pediatric skilled nursing facility (SNF) rate increase. This amount consists of:

General Fund	144,600
Federal Medicaid Authority	330,300

These amounts fund a rate increase via the differential adjusted payment (DAP) program that will go to 24-bed pediatric SNFs offering skilled nursing services in place of intensive care services. There are no SNFs in Arizona that currently accept pediatric patients, so funding is based on a single eligible facility providing services.

HCIF Directed Payment Increase

The budget includes an increase of \$187,290,800 in FY 2023 for a Health Care Investment Fund (HCIF) directed payment increase. This amount consists of:

Health Care Investment Fund	57,011,300
Federal Medicaid Authority	130,279,500

These amounts fund additional directed payments to hospitals. The increase is sufficient to raise total HCIF collections to 5.8% of patient service revenues.

Remove One-Time HCIF Increase

The budget includes a decrease of \$(14,875,400) in FY 2023 to remove one-time funding used to maintain 15% physician and dentist base rate increases that would have otherwise been financed by the Health Care Investment Fund. This amount consists of:

PDRF - State	(4,000,000)
Federal Medicaid Authority	(10,875,400)

Newborn Screening Fee

The budget includes an increase of \$461,900 in FY 2023 for increased newborn screening fees. This amount consists of:

General Fund	140,100
Federal Medicaid Authority	321,800

The FY 2022 Health Budget Reconciliation Bill (BRB) (Laws 2021, Chapter 409) required the Department of Health Services to increase the number of disorders included in newborn screening, which DHS estimates will increase its fees in FY 2023. The 3-year spending plan associated with the enacted FY 2022 budget assumed AHCCCS would incur a cost of \$461,900 for AHCCCS-eligible newborns.

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 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 \$6,390,896,200 in FY 2023 for Proposition 204 Services. This amount consists of:

General Fund	140,821,400
Health Care Investment Fund	119,764,200
Hospital Assessment Fund	487,525,400
Political Subdivision Funds	8,644,000
Tobacco Litigation Settlement Fund	102,000,000
TPTF - Emergency Health Services Account	17,448,300
TPTF - Proposition 204 Protection Account	36,641,400
Federal Medicaid Authority	5,478,051,500

FY 2023 adjustments are as follows:

Formula Adjustments

The budget includes a decrease of \$(298,394,300) in FY 2023 for formula adjustments. This amount consists of:

General Fund	9,996,200
Health Care Investment Fund	(29,741,000)
Hospital Assessment Fund	6,897,500
Political Subdivision Funds	4,245,900
TPTF - Emergency Health Services Account	(473,300)
TPTF - Proposition 204 Protection Account	(994,000)
Federal Medicaid Authority	(288,325,600)

Remove FY 2022 Supplemental

The budget includes a decrease of \$(238,770,900) from Federal Medicaid Authority in FY 2023 for removal of one-time supplemental expenditure authority appropriated by Laws 2022, Chapter 2 for additional federal funding associated with the enhanced federal match rate. *(Please see the FY 2022 Supplemental narrative for more information.)*

Behavioral Health Provider Rate Increase

The budget includes an increase of \$14,384,200 in FY 2023 for a behavioral health provider rate increase. This amount consists of:

General Fund	2,157,600
Federal Medicaid Authority	12,226,600

HCIF Directed Payment Increase

The budget includes an increase of \$170,672,200 in FY 2023 for a Health Care Investment Fund (HCIF) directed payment increase. This amount consists of:

Health Care Investment Fund	25,600,800
Federal Medicaid Authority	145,071,400

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 \$804,705,200 in FY 2023 for Adult Expansion Services. This amount consists of:

General Fund	6,972,000
Health Care Investment Fund	10,798,700
Hospital Assessment Fund	61,385,100
Political Subdivision Funds	1,221,700
Federal Medicaid Authority	724,327,700

FY 2023 adjustments are as follows:

Formula Adjustments

The budget includes a decrease of \$(789,829,300) in FY 2023 for formula adjustments. This amount consists of:

General Fund	(9,769,600)
Health Care Investment Fund	(606,400)
Hospital Assessment Fund	(66,683,900)
Political Subdivision Funds	739,200
Federal Medicaid Authority	(713,508,600)

Remove FY 2022 Supplemental

The budget includes an increase of \$267,259,000 from Federal Medicaid Authority in FY 2023 for removal of one-time supplemental expenditure authority changes in Laws 2022, Chapter 2. *(Please see the FY 2022 Supplemental narrative for more information.)*

Behavioral Health Provider Rate Increase

The budget includes an increase of \$980,700 in FY 2023 for a behavioral health provider rate increase. This amount consists of:

General Fund	98,100
Federal Medicaid Authority	882,600

HCIF Directed Payment Increase

The budget includes an increase of \$23,591,900 in FY 2023 for a Health Care Investment Fund (HCIF) directed payment increase. This amount consists of:

Health Care Investment Fund	2,359,200
Federal Medicaid Authority	21,232,700

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 Medical and Dental Program

The budget includes \$244,906,300 in FY 2023 for the Comprehensive Medical and Dental Program (CMDP). This amount consists of:

General Fund	69,062,500
Health Care Investment Fund	4,698,800
Federal Medicaid Authority	171,145,000

FY 2023 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$13,331,400 in FY 2023 for formula adjustments. This amount consists of:

General Fund	9,951,000
Health Care Investment Fund	1,329,800
Federal Medicaid Authority	2,050,600

Remove FY 2022 Supplemental

The budget includes a decrease of \$(16,454,500) from Federal Medicaid Authority in FY 2023 for removal of one-time supplemental expenditure authority appropriated by Laws 2022, Chapter 2 for additional federal funding associated with the enhanced federal match rate. *(Please see the FY 2022 Supplemental narrative for more information.)*

Behavioral Health Provider Rate Increase

The budget includes an increase of \$1,961,500 in FY 2023 for a behavioral health provider rate increase. This amount consists of:

General Fund	597,100
Federal Medicaid Authority	1,364,400

HCIF Directed Payment Increase

The budget includes an increase of \$2,524,100 in FY 2023 for a Health Care Investment Fund (HCIF) directed payment increase. This amount consists of:

Health Care Investment Fund	768,300
Federal Medicaid Authority	1,755,800

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 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 budget includes \$152,682,100 in FY 2023 for KidsCare Services. This amount consists of:

General Fund	29,518,300
Health Care Investment Fund	2,971,600
Political Subdivision Funds	358,400
CHIP Fund	117,734,400
Federal Medicaid Authority	2,099,400

FY 2023 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$5,553,700 in FY 2023 for formula adjustments. This amount consists of:

General Fund	1,741,400
Health Care Investment Fund	289,200
Political Subdivision Funds	(104,500)
CHIP Fund	3,446,000
Federal Medicaid Authority	181,600

Remove FY 2022 Supplemental

The budget includes a decrease of \$(30,121,100) from the CHIP Fund in FY 2023 for removal of one-time supplemental expenditure authority appropriated by Laws 2022, Chapter 2 for additional federal funding associated with the enhanced federal match rate. *(Please see the FY 2022 Supplemental narrative for more information.)*

Eligibility Extension

The budget includes an increase of \$3,000,000 in FY 2023 to extend CHIP eligibility. This amount consists of:

General Fund	630,000
CHIP Fund	2,370,000

Laws 2022, Chapter 338 requires that AHCCCS, subject to CMS approval, conduct eligibility redeterminations for children enrolled in the KidsCare Program to once every 12 months instead of once every 6 months. These amounts fund higher KidsCare caseloads that may result from reduced frequency of eligibility determinations.

Behavioral Health Provider Rate Increase

The budget includes an increase of \$326,900 in FY 2023 for a behavioral health provider rate increase. This amount consists of:

General Fund	69,700
Federal Medicaid Authority	257,200

HCIF Directed Payment Increase

The budget includes an increase of \$2,110,300 in FY 2023 for a Health Care Investment Fund (HCIF) directed payment increase. This amount consists of:

Health Care Investment Fund	449,700
Federal Medicaid Authority	1,660,600

These amounts fund additional directed payments to hospitals.

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. Households 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 \$2,576,091,400 in FY 2023 for ALTCS Services. This amount consists of:

General Fund	315,915,500
County Funds	352,697,700
Health Care Investment Fund	21,506,300
Political Subdivision Funds	6,227,800
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	1,802,754,100

FY 2023 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$158,557,400 in FY 2023 for formula adjustments. This amount consists of:

General Fund	55,661,100
County Funds	50,139,600

Health Care Investment Fund	1,687,900
Political Subdivision Funds	5,777,800
Federal Medicaid Authority	45,291,000

Provider Rate Increases

The budget includes an increase of \$143,645,600 in FY 2023 for provider rate increases. This amount consists of:

General Fund	24,200,000
County Funds	19,364,100
Federal Medicaid Authority	100,081,500

These amounts fund an 11% provider rate increase to both home-and community-based services (HCBS) and skilled nursing facility providers.

HCIF Directed Payment Increase

The budget includes an increase of \$13,810,700 in FY 2023 for a Health Care Investment Fund (HCIF) directed payment increase. This amount consists of:

Health Care Investment Fund	4,204,000
Federal Medicaid Authority	9,606,700

American Rescue Plan HCBS

The budget includes an increase of \$237,200,000 from Federal Medicaid Authority in FY 2023 for home-and community-based services (HCBS). On March 11, 2021, the American Rescue Plan Act (ARPA) gave state Medicaid agencies the ability to spend on HCBS with an enhanced match percentage. The amount will be spent in accordance with the department's HCBS Spending Plan. Monies in this appropriation are non-lapsing.

Remove FY 2022 Supplemental

The budget includes a decrease of \$(599,039,600) from Federal Medicaid Authority in FY 2023 for removal of one-time supplemental expenditure authority appropriated by Laws 2022, Chapter 2 for additional federal funding associated with the enhanced federal match rate and one-time funding to implement the department's HCBS Spending Plan in FY 2022. *(Please see the FY 2022 Supplemental narrative for more information.)*

Background – ALTCS provides coverage for individuals up to 222% of the FPL, or \$28,593 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 \$9,660 per person.

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 2022, AHCCCS estimates that client

contributions will pay for 3.6%, or \$52,300,000 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. A.R.S. § 36-2999.55 continues the assessment through September 30, 2023. 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 budget includes \$9,891,200 in FY 2023 for Behavioral Health Services in schools. This amount consists of:

General Fund	3,000,000
Federal Medicaid Authority	6,891,200

FY 2023 adjustments are as follows:

Formula Adjustments

The budget includes a decrease of \$(112,100) from Federal Medicaid Authority in FY 2023 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 will be 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 budget includes \$77,646,900 from the General Fund in FY 2023 for Non-Medicaid Seriously Mentally Ill (SMI) Services. This amount is unchanged from FY 2022.

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.)

One-Time Substance Use Disorder Services Fund Deposit

The budget includes no funding in FY 2023 for One-Time Substance Use Disorder Services Fund Deposit. FY 2023 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(6,000,000) from PDRF - State in FY 2023 to remove a one-time deposit in the Substance Use Disorder Services (SUDS) Fund. The deposit funds opioid treatment services, including copays, doctor visits, and lab tests, for uninsured and underinsured individuals.

Background – The SUDS Fund was established in 2018 following the enactment of the Opioid Epidemic Act. AHCCCS used the initial \$10,000,000 deposit in FY 2018-FY 2021 to provide substance use disorder treatment services to underinsured or uninsured individuals who are otherwise ineligible for Medicaid.

Supported Housing

The budget includes \$65,324,800 in FY 2023 for Supported Housing. This amount consists of:

General Fund	5,324,800
Federal Medicaid Authority	60,000,000

This amount is unchanged from FY 2022.

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. AHCCCS reports \$22,400,000 of RBHAs' allocation from the Non-Medicaid Seriously Mentally Ill Services line item will be spent on Supported Housing Services in SFY 2021.

In May 2021, AHCCCS submitted a waiver amendment to the Centers for Medicare and Medicaid Services (CMS) that would use current state funding for housing initiatives to draw down additional Federal Funds. If approved, the new funds would be used 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. The amendment is currently being considered by the CMS. In the event the amendment is denied federal approval, an FY 2023 General Appropriation Act continues a footnote

would reduce the Federal Medicaid Authority appropriation by \$60,000,000.

Crisis Services

The budget includes \$16,391,300 in FY 2023 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 2022.

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.

Secure Behavioral Health Residential Facilities

The budget includes \$25,000,000 from the General Fund in FY 2023 for Secure Behavioral Health Residential Facilities. FY 2023 adjustments are as follows:

Secure Behavioral Health Residential Facilities

The budget includes a one-time increase of \$25,000,000 from the General Fund in FY 2023 for construction of 5 secure behavioral health residential facilities.

The facilities will provide on-site supportive treatment to persons determined to be seriously mentally ill, chronically resistant to treatment, and who are placed in the facility pursuant to occur order.

A General Appropriation Act footnote instructs AHCCCS to award \$5,000,000 for each recipient facility, prioritizing facilities that can open within 1 year, as well as ensuring that one facility is located in each geographic service area.

The 3-year spending plan associated with the enacted FY 2023 budget includes an ongoing increase of \$10,000,000 from the General Fund in FY 2024 to provide a daily payment rate to the newly constructed facilities that is higher than the rate available to existing behavioral health facilities.

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 2021 delayed nationwide DSH payment reductions that were originally authorized by the federal Affordable Care Act (ACA) until FY 2024. Given that Congress has enacted multiple delays to the ACA's DSH payment reductions to states, the budget does not assume any federal funding loss related to DSH in FY 2024. The budget therefore assumes that Arizona's DSH allocation would be adjusted in FY 2023 through FY 2025 according to the regular federal formula, as outlined below.

MIHS Distribution

The budget continues to appropriate \$4,202,300 of federal DSH funds associated with uncompensated care at Maricopa Integrated Health System (MIHS) for distribution to MIHS. The remaining \$91,574,300 of federal DSH funds associated with uncompensated care in public hospitals (MIHS and the Arizona State Hospital) are available for General Fund deposit. The \$91,574,300 assumes MIHS would report uncompensated care of \$109,214,300 in FY 2023.

Increase in Uncompensated Care Payments

In FY 2023, the state's total DSH payments are estimated to increase by \$2,277,700 from \$173,722,200 in FY 2022 (budgeted) to \$175,999,900 due to federal adjustments for inflation and the FMAP. Of the \$175,999,900 of eligible DSH funding in FY 2023, \$134,087,300 is distributed according to the allocations described below and listed in *Table 2*. The remaining \$41,912,600 of eligible funding represents existing expenditures used as part of the state match. (See the *Hospital Payments program summary on the JLBC website*.)

Disproportionate Share Payments

The budget includes \$5,087,100 in FY 2023 for Disproportionate Share Payments. This amount consists of:

General Fund	269,300
Federal Medicaid Authority	4,817,800

FY 2023 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$3,900 from the General Fund and a corresponding decrease of \$(3,900) from Federal Medicaid Authority in FY 2023 to reflect 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 \$269,300 from the General Fund and \$615,500 in federal expenditure authority. In FY 2018, there were 31 private hospitals that received DSH payments. The remaining \$4,202,300 represents federal matching funds that the state appropriates to MIHS.

DSH Payments - Voluntary Match

The budget includes \$37,425,900 in FY 2023 for DSH Payments - Voluntary Match. This amount consists of:

Political Subdivision Funds	11,425,700
Federal Medicaid Authority	26,000,200

FY 2023 adjustments are as follows:

Decreased Funding

The budget includes a decrease of \$(11,240,600) in FY 2023 due to DSH Formula adjustments. This amount consists of:

Political Subdivision Funds	(3,169,400)
Federal Medicaid Authority	(8,071,200)

Background – This line item provides DSH payments to hospitals with matching funds provided by political subdivisions. The budget 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 2023. (Please see Table 2.)

Graduate Medical Education

The budget includes \$393,232,100 in FY 2023 for Graduate Medical Education (GME) expenditures. This amount consists of:

General Fund	9,000,000
Political Subdivision Funds	99,352,900
Federal Medicaid Authority	284,879,200

FY 2023 adjustments are as follows:

Funding Adjustment

The budget includes a decrease of \$(21,548,200) from Federal Medicaid Authority in FY 2023 for GME formula adjustments.

Eligible Funding ^{1/}	FY 2022 (Enacted)	FY 2022 (Estimated)	FY 2023
Valleywise - CPE ^{2/}	\$ 95,696,000	\$ 107,685,700	\$ 109,214,300
ASH - CPE	28,474,900	28,474,900	28,474,900
Private Hospitals	884,800	884,800	884,800
DSH Voluntary Match	<u>48,666,500</u>	<u>33,300,500</u>	<u>37,425,900</u>
Total Funding	\$ 173,722,200	\$ 170,345,900	\$ 175,999,900
General Fund			
Retain FF of CPE (via Valleywise) ^{3/}	\$ 62,794,500	\$ 66,132,800	\$ 71,767,200
Retain FF of CPE (via ASH)	<u>19,935,300</u>	<u>21,700,700</u>	<u>19,807,100</u>
Subtotal - General Fund	\$ 82,729,800	\$ 87,833,500	\$ 91,574,300
Other Entities			
State MIHS	\$ 4,202,300	\$ 4,202,300	\$ 4,202,300
Private Hospitals	<u>884,800</u>	<u>884,800</u>	<u>884,800</u>
Subtotal - Other Entities	<u>\$ 5,087,100</u>	<u>\$ 5,087,100</u>	<u>\$ 5,087,100</u>
Total DSH Distributions	\$ 87,816,900	\$ 92,920,600	\$ 96,661,400
Voluntary Match	\$ 48,666,500	\$ 33,300,500	\$ 37,425,900
Total Distributions	\$ 136,483,400	\$ 126,221,100	\$ 134,087,300

^{1/} Amounts include state and federal match funding.
^{2/} The budget continues a Valleywise DSH limit of \$113,818,500 in the FY 2023 Health Care BRB to maximize the DSH General Fund revenue deposit in the event actual uncompensated care is higher.
^{3/} Based on FY 2022 federal match rates, the actual \$107,685,700 of CPE reported by Valleywise would have resulted in a DSH General Fund deposit of \$77,865,000. AHCCCS reports, however, that it reduced the deposit to \$66,132,800, or \$(11,732,200) based on retroactive adjustments to DSH formula calculations from FY 2018.

Health Professional Shortage Areas

The budget includes an increase of \$13,461,400 in FY 2023 for GME payments to hospitals located in health professional shortage areas. This amount consists of:

General Fund	3,000,000
Federal Medicaid Authority	10,461,400

With this increase, \$33,469,700 Total Funds will be available for Health Professional Shortage Areas, or \$9,000,000 from the General Fund and \$24,469,700 from Federal Medicaid Authority.

A pair of General Appropriation Act footnotes instructs AHCCCS how to allocate the \$33,469,700 total amount for this program. The budget allocates \$16,663,900 Total Funds for GME programs located in a county with less than 500,000 persons (rural) and the remaining \$13,331,100 to programs in counties with a population of more than 500,000 persons (urban). The General Fund amount may supplement, but not supplant, existing political subdivision funds for GME programs. The FY 2023 budget modifies the footnotes to clarify that AHCCCS is no longer required to prioritize federally-designated health professional shortage areas (HPSAs) in its distribution of monies from the urban pool. HPSAs will continue to receive priority in the rural pool.

The FY 2022 budget's 3-year spending plan included a \$3,000,000 increase in FY 2023 GME funding for a total General Fund contribution of \$9,000,000. This amount includes \$5,000,000 allocation for rural programs and \$4,000,000 for urban programs.

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 2021, 21 hospitals received a total of \$270,797,900 for Graduate Medical Education.

Rural Hospitals

The budget includes \$28,612,400 in FY 2023 for Rural Hospitals, which includes Critical Access Hospitals (CAH). This amount consists of:

General Fund	8,709,600
Federal Medicaid Authority	19,902,800

FY 2023 adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$128,800 from the General Fund and a corresponding decrease of \$(128,800) from Federal Medicaid Authority in FY 2023 due to a change in the federal match.

Background – This line item includes \$12,158,100 for the Rural Hospital Reimbursement program, which increases inpatient reimbursement rates for qualifying rural hospitals. The remaining \$16,454,300 is for the CAH program, which provides increased reimbursement to small rural hospitals that are federally designated as CAHs. Funding is distributed according to a hospital's share of the cost in serving Medicaid enrollees during the prior year. In FY 2021, 20 hospitals qualified for funding from Rural Hospital Reimbursement and 12 from CAH.

Targeted Investments Program

The budget includes \$50,000,000 in FY 2023 for the Targeted Investments Program. This amount consists of:

Delivery System Reform	15,495,200
Incentive Payment (DSRIP) Fund	
Federal Medicaid Authority	34,504,800

This amount is unchanged from FY 2022.

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 \$300,000,000 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.

AHCCCS is seeking to extend its waiver authority for this program as part of its 2021-2026 waiver renewal application, submitted December 21, 2020. The current application proposes \$250,000,000 over the next 5 years.

Other Issues

This section includes information on the following topics:

- FY 2022 Supplemental
- Statutory Changes
- Long-Term Budget Impacts
- County Contributions

- Program Components
- Tobacco Master Settlement Agreement
- Tobacco Tax Allocations

FY 2022 Supplemental

The budget assumes that AHCCCS General Fund formula expenses for FY 2022 will be \$(167,932,400) lower than the original FY 2022 General Fund appropriation. The \$(167,932,400) surplus is based on the federal government's extension of the enhanced FMAP associated with the COVID-19 public health emergency through June 2022. The enacted budget assumed the enhanced rate would only be available through December 2021. As a result, the initial estimated savings of \$(180,000,000) within AHCCCS will increase to an estimated \$(347,932,400).

The budget does not, however, include an ex-appropriation to account for the savings. Instead, the surplus would be realized through General Fund revertments.

In addition, Laws 2022, Chapter 2 appropriates \$1,078,032,800 from Expenditure Authority and \$30,121,100 from the CHIP Fund in FY 2022. These appropriations authorized AHCCCS to expend additional federal monies associated with the extension of the 6.2% enhanced federal match rate as noted above and to expend one-time federal monies for Home and Community-Based Services made available by the federal American Rescue Plan Act (ARPA) of 2021. Chapter 2 requires AHCCCS to notify recipients of ARPA HCBS monies that the grants are one-time in nature. The agency must also provide quarterly reports to JLBC reflecting any changes to its ARPA HCBS spending plan.

Statutory Changes

The Health Care 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.
- As permanent law, require AHCCCS to cover medically necessary chiropractic services ordered by a primary care physician and submit a report documenting chiropractic service utilization and cost savings by January 21, 2027.

- As permanent law, expand AHCCCS eligibility to women less than one year postpartum with a family income not exceeding 150% FPL.

Counties

- As session law, continue to exclude Proposition 204 administration costs from county expenditure limitations.
- As session law, set the FY 2023 County Acute Care contribution at \$44,917,500.
- As session law, continue to require AHCCCS to transfer any excess monies back to the counties by December 31, 2023, 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 2023 county Arizona Long Term Care System (ALTCs) contributions at \$352,697,700.

Hospitals

- As session law, continue to establish FY 2023 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 2023.
- 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.
- As session law, modify distribution of FY 2021, FY 2022 and FY 2023 private disproportionate share hospital payments to reflect new 2020 census figures. Places certain Pinal County hospitals below other rural hospitals but above urban hospitals.
- As session law, provide a rulemaking exemption for the expanded Health Care Investment Fund assessment.

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 budget's 3-year spending plan, AHCCCS's General Fund spending increases by \$194,307,100 in FY 2024 above FY 2023 and by \$186,104,000 in FY 2025 above FY 2024. The FY 2024 increase includes \$10,000,000 from the General Fund in ongoing funding for a secure behavioral health provider rate increase. This amount is expected to draw down approximately \$35,000,000 in Federal Funds.

Table 3

County Contributions

County	FY 2022			FY 2023		
	<u>BNCF</u>^{1/}	<u>Acute</u>	<u>ALTCS</u>	<u>BNCF</u>^{1/}	<u>Acute</u>	<u>ALTCS</u>
Apache	\$134,400	\$268,800	662,900	\$141,800	\$268,800	860,500
Cochise	250,600	2,214,800	4,551,700	264,500	2,214,800	6,320,300
Coconino	247,200	742,900	1,990,400	261,000	742,900	2,583,200
Gila	101,500	1,413,200	2,327,100	107,200	1,413,200	2,855,600
Graham	72,200	536,200	1,328,000	76,200	536,200	1,258,800
Greenlee	18,500	190,700	0	19,600	190,700	0
La Paz	38,400	212,100	357,100	40,600	212,100	653,700
Maricopa	0	17,603,700	184,272,900	0	16,887,200	229,265,800
Mohave	288,600	1,237,700	9,154,300	304,600	1,237,700	10,473,800
Navajo	189,100	310,800	2,744,100	199,700	310,800	3,561,400
Pima	1,718,800	14,951,800	44,073,400	1,814,500	14,951,800	54,350,500
Pinal	336,300	2,715,600	12,109,900	355,000	2,715,600	17,427,100
Santa Cruz	79,500	482,800	2,242,800	83,900	482,800	2,775,000
Yavapai	317,700	1,427,800	7,677,800	335,400	1,427,800	9,429,000
Yuma	<u>283,300</u>	<u>1,325,100</u>	<u>9,701,600</u>	<u>299,000</u>	<u>1,325,100</u>	<u>10,883,000</u>
Subtotal	\$4,076,200	\$45,634,000	\$283,194,000	\$4,303,100	\$44,917,500	\$352,697,700
Total			\$332,904,200			\$401,918,300

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

County Contributions

County governments make 3 different payments to defray the AHCCCS budget's costs, as summarized in *Table 3*. 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 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 2023, the average capitation rate is expected to be approximately \$593 per member per month (or \$7,100 annually). Of that amount, an average of \$150 is from state match and \$443 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 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.

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 2023 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 budget projects AHCCCS and DHS will receive \$144,826,200 in transfers of tobacco tax collections in FY 2023. This amount represents a decrease of \$(3,928,600) from the FY 2022 budgeted amount. *Table 4* summarizes tobacco tax transfers and allocations to the agencies.

Table 4

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

Medically Needy Account	FY 2021	FY 2022
<u>Funds Available</u>		
Balance Forward	\$ 1,581,400	\$ 6,166,000
Transfer In - Tobacco Tax and Health Care Fund	39,610,400	43,201,200
Transfer In - Tobacco Products Tax Fund	<u>22,879,600</u>	<u>22,975,200</u>
Total Funds Available	\$ 64,071,400	\$ 72,342,400
<u>Allocations</u>		
<i>AHCCCS</i>		
AHCCCS State Match Appropriation	\$ <u>65,627,200</u>	\$ <u>69,002,100</u>
Total AHCCCS Allocations	\$ 65,627,200	\$ 69,002,100
<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*	\$ (2,255,800)	\$ 2,640,300
AHCCCS Proposition 204 Protection Account		
<u>Funds Available</u>		
Balance Forward	\$ 3,890,500	\$ 6,166,000
Transfer In - Tobacco Products Tax Fund	<u>37,073,400</u>	<u>37,228,400</u>
Total Funds Available	\$ 40,963,900	\$ 43,394,400
<u>Allocations</u>		
AHCCCS State Match Appropriation	\$ 34,797,900	\$ 37,635,400
Administrative Adjustments	<u>0</u>	<u>0</u>
Balance Forward	\$ 6,166,000	\$ 5,759,000
AHCCCS Emergency Health Services Account		
<u>Funds Available</u>		
Balance Forward	\$ 1,852,600	\$ 3,290,300
Transfer In - Tobacco Products Tax Fund	<u>17,654,000</u>	<u>17,727,800</u>
Total Funds Available	\$ 19,506,600	\$ 21,018,100
<u>Allocations</u>		
AHCCCS State Match Appropriation	\$ 16,216,300	\$ 17,921,600
Administrative Adjustments	<u>0</u>	<u>0</u>
Balance Forward ^{1/}	\$ 3,290,300	\$ 3,096,500
DHS Health Education Account		
<u>Funds Available</u>		
Balance Forward	\$ 5,542,100	\$ 10,994,400
Transfer In - Tobacco Tax and Health Care Fund	14,431,600	12,946,000
Transfer In - Tobacco Products Tax Fund	<u>2,090,900</u>	<u>2,107,500</u>
Total Funds Available	\$ 22,064,600	\$ 26,047,900
<u>Allocations</u>		
Tobacco Education and Prevention Program	\$ 9,605,800	\$ 17,507,100
Leading Causes of Death - Prevention and Detection	<u>1,464,400</u>	<u>2,292,900</u>
Balance Forward	\$ 10,994,400	\$ 6,247,900
Health Research Account		
<u>Funds Available</u>		
Balance Forward	\$ 2,391,600	\$ 1,866,900
Transfer In - Tobacco Tax and Health Care Fund	3,135,100	3,195,100
Transfer In - Tobacco Products Tax Fund	<u>4,430,800</u>	<u>4,515,600</u>
Total Funds Available	\$ 9,957,500	\$ 9,577,600
<u>Allocations</u>		
Biomedical Research Support	\$ 1,500,600	\$ 0
Alzheimer's Disease Research	1,000,000	0
Research Grants	<u>5,590,000</u>	<u>7,829,100</u>
Balance Forward	\$ 1,866,900	\$ 1,748,500 *

^{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.