

Arizona Health Care Cost Containment System

	FY 2022 ACTUAL	FY 2023 ESTIMATE	FY 2024 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	2,348.3	2,348.3	2,358.3 ^{1/}
Personal Services	44,563,400	53,542,000	53,542,000
Employee Related Expenditures	17,948,400	20,793,400	19,882,400
Professional and Outside Services	10,040,800	18,387,700	23,453,800
Travel - In State	1,900	28,500	28,500
Travel - Out of State	18,200	376,300	376,300
Other Operating Expenditures	23,356,600	40,254,700	39,160,400
Equipment	365,700	574,000	574,000
OPERATING SUBTOTAL	96,295,000	133,956,600	137,017,400 ^{2/3/}
SPECIAL LINE ITEMS			
Administration			
AHCCCS Data Storage	15,587,700	19,325,800	19,325,800
DES Eligibility	75,612,300	97,074,500	97,074,500 ^{4/}
Proposition 204 - AHCCCS Administration	20,230,700	15,367,300	15,222,200 ^{5/}
Proposition 204 - DES Eligibility	36,965,300	44,358,700	44,358,700 ^{5/}
Medicaid Services			
Traditional Medicaid Services	7,499,245,100	9,064,004,400	7,978,162,400 ^{6/-10/}
Proposition 204 Services	6,824,672,900	9,130,046,400	7,038,319,000 ^{5/8/9/}
Adult Expansion Services	1,210,747,900	1,376,611,000	926,824,300 ^{8/9/}
Comprehensive Medical and Dental Program	235,238,000	224,469,700	203,903,500 ^{8/}
KidsCare Services	172,211,900	239,297,900	186,394,000
ALTCS Services	2,105,955,500	2,488,065,200	2,680,175,800 ^{11/-14/}
Behavioral Health Services in Schools	10,003,300	9,891,200	9,120,600
Non-Medicaid Behavioral Health Services			
Non-Medicaid Seriously Mentally Ill Services	73,341,200	77,646,900	77,646,900 ^{15/}
One-Time Substance Use Disorder Services Fund Deposit	6,000,000	0	0
Supported Housing	5,087,500	65,324,800	65,324,800
Crisis Services	16,306,000	16,391,300	16,391,300
Children's Behavioral Health Services Fund Deposit	0	0	250,000
Hospital Payments			
Disproportionate Share Payments	4,742,800	5,087,100	5,087,100 ^{16/}
DSH Payments - Voluntary Match	35,870,100	37,425,900	69,735,200 ^{9/17/}
Graduate Medical Education	373,004,400	393,232,100	426,531,500 ^{9/18/-21/}
Rural Hospitals	36,068,900	28,612,400	41,074,400
Targeted Investments Program	8,381,200	50,000,000	26,000,000
On-Call Obstetrics and Gynecological Services	0	0	7,500,000 ^{22/}
AGENCY TOTAL	18,861,567,700	23,516,189,200	20,071,439,400 ^{23/-27/}
FUND SOURCES			
General Fund	1,858,004,900	2,296,039,900	2,515,401,900
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	4,076,200	4,303,100	4,669,300
Children's Health Insurance Program Fund	147,543,100	211,354,300	150,833,600
Prescription Drug Rebate Fund - State	174,892,200	165,160,800	165,410,500
Seriously Mentally Ill Housing Trust Fund	0	217,300	217,700
Substance Abuse Services Fund	2,250,200	2,250,200	2,250,200
Tobacco Products Tax Fund - Emergency Health Services Account	17,921,600	17,448,300	17,458,500
Tobacco Tax and Health Care Fund - Medically Needy Account	66,291,400	67,179,700	67,258,900

	FY 2022 ACTUAL	FY 2023 ESTIMATE	FY 2024 APPROVED
SUBTOTAL - Other Appropriated Funds	412,974,700	467,913,700	408,098,700
SUBTOTAL - Appropriated Funds	2,270,979,600	2,763,953,600	2,923,500,600
<u>Expenditure Authority Funds</u>			
Arizona Tobacco Litigation Settlement Fund	108,433,100	102,000,000	102,000,000
County Funds	0	311,778,400	409,939,100
Delivery System Reform Incentive Payment Fund	2,513,500	15,495,200	8,321,200
Federal Medicaid Authority	14,554,953,300	18,367,356,900	14,560,642,600
Health Care Investment Fund	267,186,500	464,700,800	588,163,600
Hospital Assessment Fund	547,618,700	647,454,600	606,180,400
Nursing Facility Provider Assessment Fund	29,668,300	32,989,600	32,989,600
Political Subdivision Funds	134,041,600	164,563,700	193,784,400
Prescription Drug Rebate Fund - Federal	908,537,700	609,060,300	609,060,300
Third Party Liability and Recovery Fund	0	194,700	194,700
Tobacco Products Tax Fund - Proposition 204 Protection Account	37,635,400	36,641,400	36,662,900
SUBTOTAL - Expenditure Authority Funds	16,590,588,100	20,752,235,600	17,147,938,800
SUBTOTAL - Appropriated/Expenditure Authority Funds	18,861,567,700	23,516,189,200	20,071,439,400
Other Non-Appropriated Funds	119,709,400	121,935,600	121,935,600
Federal Funds	195,566,800	280,796,300	280,796,300
TOTAL - ALL SOURCES	19,176,843,900	23,918,921,100	20,474,171,300

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 2024.
- 2/ Of the amount appropriated in the operating lump sum, \$700,000 from the state general fund and \$6,300,000 from expenditure authority is for replacement of the prepaid medicaid management information system and is exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations, until June 30, 2025. (General Appropriation Act footnote)
- 3/ 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)
- 4/ 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)
- 5/ 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)
- 6/ 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 2023-2024 to the attorney general for costs associated with e-cigarette enforcement and tobacco settlement litigation. (General Appropriation Act footnote)
- 7/ The Arizona health care cost containment system administration shall transfer \$836,000 from the traditional medicaid services line item for fiscal year 2023-2024 to the department of revenue for enforcement costs associated with the March 13, 2013 master settlement agreement with tobacco companies. (General Appropriation Act footnote)
- 8/ 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)

- 9/ 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 2023-2024 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)
- 10/ Of the amount appropriated in the traditional medicaid services line item, \$160,000 from the state general fund and \$326,500 from expenditure authority is for pilot coverage of rapid whole genome sequencing and is exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations, until June 30, 2026. (General Appropriation Act footnote)
- 11/ 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)
- 12/ Pursuant to section 11-292, subsection B, Arizona Revised Statutes, the county portion of the fiscal year 2023-2024 nonfederal costs of providing long-term care system services is \$366,205,400. This amount is included in the expenditure authority fund source. (General Appropriation Act footnote)
- 13/ Any supplemental payments received in excess of \$101,756,900 for nursing facilities that serve Arizona long-term care system medicaid patients in fiscal year 2023-2024, including any federal matching monies, by the Arizona health care cost containment system administration are appropriated to the administration in fiscal year 2023-2024. 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)
- 14/ The amount appropriated for the ALTCS services line item includes \$347,740,500 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 2023-2024. 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, 2023, 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 in fiscal year 2023-2024, \$347,740,500 is exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations. (General Appropriation Act footnote)
- 15/ On or before June 30, 2024, 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)
- 16/ The \$5,087,100 appropriation for disproportionate share payments for fiscal year 2023-2024 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)
- 17/ 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 2023-2024 by the Arizona health care cost containment system administration in excess of \$69,735,200 are appropriated to the administration in fiscal year 2023-2024. 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)
- 18/ Any monies for graduate medical education received in fiscal year 2023-2024, including any federal matching monies, by the Arizona health care cost containment system administration in excess of \$426,531,500 are appropriated to the administration in fiscal year 2023-2024. 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)
- 19/ 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 \$15,721,100 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)

- 20/ 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 \$12,576,900 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)
- 21/ 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)
- 22/ The Arizona health care cost containment system administration shall allocate the amount appropriated for the on-call obstetrics and gynecological services line item to maintain service availability in low-volume obstetric delivery areas and rural communities. The administration shall distribute up to \$2,500,000 each year to qualifying community health centers for the unreimbursed cost necessary to maintain the availability of on-call obstetrics and gynecological services in low-volume obstetric delivery areas and rural communities. The administration may use up to five percent of the monies appropriated in this line item for the administrative costs to implement the program. On or before July 1 in 2024, 2025 and 2026, the Arizona health care cost containment system administration shall submit a report to the joint legislative budget committee regarding the use of the monies from the on-call obstetrics and gynecological services line item, including the number of deliveries and emergency procedures provided by the on-call health care providers for which the monies were spent. The appropriated amount for the on-call obstetrics and gynecological services line item is exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations, until June 30, 2026 (General Appropriation Act footnote). The General Appropriation Act also included a reference to this line item being permanently exempt from lapsing. Based on guidance from Legislative Council, the operative lapsing date is June 30, 2026.
- 23/ 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)
- 24/ 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)
- 25/ The Arizona health care cost containment system administration shall report to the joint legislative budget committee on or before March 1, 2024 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)
- 26/ On or before July 1, 2024, 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, 2023. (General Appropriation Act footnote)
- 27/ General Appropriation Act funds are appropriated as Operating Lump Sum with Special Line Items by Agency.

Summary

AHCCCS's FY 2024 General Fund spending increases by \$219,362,000 from FY 2023. This amount includes:

- \$201,416,800 for formula adjustments.
- \$200,000 for Arizona Advisory Council on Indian Health Care positions.
- \$700,000 for one-time PMMIS replacement costs.

- \$(500,000) for removal of one-time funding for PMMIS replacement.
- \$280,300 for implementation of a newborn screening fee.
- \$800,000 for chiropractic services.
- \$160,000 one-time for rapid whole genome sequencing pilot funding.
- \$4,973,000 for a KidsCare expansion from 200% to 225% of the federal poverty level (FPL).

Table 1**AHCCCS State Match Spending Changes** (in millions) ^{1/}**State Match Formula Adjustments**

FY 2023 Rebase	(247)
FY 2024 Caseload Growth	(354)
FY 2024 Inflation Increase	156
FY 2024 Federal Medicaid Match Rate Change	<u>865</u>
<i>State Match Costs Subtotal</i>	<i>420</i>

Non-General Fund State Match Offsets

Political Subdivisions Fund Increase	13
County Funds Increase	13
Hospital Assessment Fund	57
Health Care Investment Fund	<u>135</u>
<i>General Fund Offsets Subtotal</i>	<i>218</i>

Non-Formula Adjustments

KidsCare Expansion to 225% FPL	5
On-Call OBGYN Services	8
Critical Access Hospital Payments	4
Other Adjustments	<u>1</u>
<i>Non-Formula Subtotal</i>	<i>18</i>

Total General Fund Spending Change **\$219**^{1/} Numbers may not sum due to rounding.

- \$4,200,000 one-time for critical access hospital supplemental payments.
- \$7,500,000 one-time for on-call obstetrics and gynecological services.
- \$(195,000) for removal of one-time funding for federal IT regulation compliance.
- \$(173,100) for statewide adjustments.

Below is an overview of FY 2024 formula adjustments, which *Table 1* summarizes, as well as any non-formula adjustments. As part of the budget's 3-year spending plan, AHCCCS's General Fund costs are projected to increase by \$137,312,900 in FY 2025 above FY 2024 and by \$109,694,600 in FY 2026 above FY 2025. (See the *Other Issues* section for more information.)

Formula Adjustments

Formula adjustments represent changes that occur under current law, including caseload, capitation, and federal match rate revisions. The budget includes an increase of \$201,416,800 from the General Fund in FY 2024 for the following AHCCCS formula adjustments. This amount includes:

- \$419,706,200 for state match expenses associated with formula adjustments.
- \$(218,289,400) for changes in General Fund offsets.

FY 2023 Base Adjustment

The budget includes a decrease of \$(247,003,300) from state match and a Total Funds decrease of \$(1,951,699,000) in FY 2024 for an FY 2023 base adjustment. The decrease consists of a \$3,097,906,300 increase for higher-than-budgeted AHCCCS formula expenses for FY 2023, offset by a decrease of \$(5,049,605,300) to remove one-time supplemental funding provided pursuant to Laws 2023, Chapter 17 and Laws 2023, Chapter 113. The base adjustment is primarily associated with the temporary extension of the federal public health emergency (PHE). Through March 2023, AHCCCS received a 6.2% increase to the regular federal match rate due to the extension of the PHE. In addition, pursuant to a provision in the federal 2023 Consolidated Appropriations Act, AHCCCS received a phased-down version of the enhanced federal match rate of 5.0% in April 2023 through June 2023. These increases lower AHCCCS costs relative to the enacted budget.

The 2020 Families First Coronavirus Response Act prohibited disenrolling members for exceeding income eligibility limits while the COVID Public Health Emergency (PHE) was in effect. The enacted FY 2023 budget assumed that the PHE would no longer be in effect in FY 2023. The disenrollment prohibition, however, was continued by federal executive action until April 1, 2023. At that time, AHCCCS resumed disenrolling members pursuant to the 2023 Consolidated Appropriations Act. As a result, enrollment is higher than assumed in the enacted FY 2023 budget.

The savings from the higher match rate, however, will exceed the cost of the higher enrollment. As a result, the budget assumes there will be an FY 2023 General Fund surplus within AHCCCS of \$(268,000,000). The FY 2024 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, the budget includes a \$5,049,605,300 supplemental in FY 2023 from Expenditure Authority sources and the CHIP Fund associated with the base adjustment. (See *FY 2023 Supplemental in Other Issues* for additional information.)

FY 2024 Caseload Adjustment

Formula adjustments reflect a (13.6)% enrollment decline in FY 2024 due to the elimination of the disenrollment provision discussed above. *Table 2* displays historical and forecasted member months across AHCCCS populations.

The expiration of continuous enrollment is assumed to result in AHCCCS enrollment returning to pre-pandemic levels by June 2024, adjusted for state population growth since that time. Thereafter, enrollment is assumed to grow at an annualized average rate of 1.0% based on

Table 2

AHCCCS Enrollment ^{3/}

Population	June 2022 (Actual)	June 2023 (Actual)	June 2024 (Forecast)^{2/}	'23-'24 % Change
Traditional	1,226,158	1,156,054	1,100,495	(4.8)%
Prop 204 Childless Adults	503,329	552,488	357,792	(35.2)%
Other Proposition 204	194,235	196,834	188,655	(4.2)%
Adult Expansion	146,391	103,521	82,361	(20.4)%
KidsCare ^{3/}	65,728	65,489	39,247	(40.0)%
CMDP	12,829	10,169	11,761	15.7%
ALTCS - Elderly & Physically Disabled ^{4/}	27,939	28,028	32,301	15.2%
Emergency Services	<u>136,968</u>	<u>141,388</u>	<u>134,593</u>	<u>(4.8)%</u>
Total Enrollment	2,313,577	2,253,971	1,947,232	(13.6)%

- ^{1/} The figures represent June 1 enrollment for both capitated and fee-for-service members.
- ^{2/} The forecasted numbers account for caseload decreases associated with the end to a prohibition of disenrollment on April 1, 2023, established by the 2023 Consolidated Appropriations Act.
- ^{3/} The above KidsCare numbers reflect current law formula growth only and therefore do not account for additional enrollment associated with the expansion from 200% to 225% FPL beginning October 1, 2023. The budget includes an additional \$4,973,000 General Fund and \$21,593,800 Total Funds for the eligibility expansion, which we estimate would be sufficient to fund an estimated 13,700 additional enrollees.
- ^{4/} The ALTCS program is funded in AHCCCS. An additional 40,204 people received Medicaid services through the Department of Economic Security's Developmental Disabilities program as of June 1, 2023.

Arizona population growth projections. Overall, caseload declines are expected to decrease state match expenses by \$(353,509,900) and Total Funds expenses by \$(2,390,722,400) in FY 2024. (See the Other Issues section for more information.)

In addition, pursuant to a provision of the 2023 Consolidated Appropriations Act, AHCCCS will be required to guarantee eligibility to children for 12 months after the date they are first determined eligible for the program. Laws 2022, Chapter 338 provided this for children in the KidsCare program, but this extends the 12-month guarantee to all children within AHCCCS. We estimate this will annually increase state match expenses by \$20,000,000 and Total Funds expenses by \$60,000,000. However, the requirement will not go into effect until January 1, 2024, so the FY 2024 state match expense would increase by \$10,000,000 and Total Funds expenses by \$30,000,000. The budget does not account for these increases due to their small size relative to the overall AHCCCS budget.

FY 2024 Inflation Adjustments

The budget assumes a 3.1% inflation adjustment for capitation, fee-for-service, and reinsurance effective October 1, 2023. This increase is based on a 5-year average of the medical care consumer price index. The budget also annualizes the FY 2023 capitation rate adjustment of 0.6%. Inflation adjustments increase

AHCCCS state costs by \$155,529,500 and Total Funds costs by \$811,625,600 in FY 2024.

FY 2024 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 2024, the standard FMAP rates will be as follows:

- Traditional Medicaid rate will decrease to 67.11% (a 2.56 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 76.97% (a 1.80 percentage point decrease).
- The additional 6.2% enhanced match rate will not be available in FY 2024. Instead, the 2023 Consolidated Appropriations Act phases down the enhanced match to a 2.5% enhanced match in July 2023 through September 2023 and a 1.5% enhanced match in October 2023 through December 2023. The enhanced match will be eliminated starting January 2024.

The budget includes an increase of \$864,689,900 in state costs and a corresponding decrease of \$(864,689,900) in Federal Medicaid Authority in FY 2024 as a result of these FMAP adjustments.

Non-General Fund State Match Items

The gross state match contribution from the FY 2023 base adjustment, FY 2024 caseload growth, inflation, and federal match rate changes is projected to increase by \$419,706,200. The Non-General Fund state match is projected to increase by \$218,289,400, resulting in a net General Fund change of \$201,416,800.

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

- An increase of \$13,159,300 in Political Subdivision Funds, mostly for Traditional.
- An increase of \$12,690,100 in County Funds (including the Budget Neutrality Compliance Fund), mostly for ALTCS.
- An increase of \$57,269,900 from the Hospital Assessment Fund in FY 2024 for physical health costs of enrollees in the Proposition 204 and Adult Expansion programs.
- An increase of \$135,059,200 from the Health Care Investment Fund. The increase primarily covers the lower federal match for directed payments to hospitals in FY 2024. In its May 2023 presentation to Arizona hospitals, AHCCCS proposed a 5.17%

assessment rate for FY 2024, which it estimates would generate \$1,961,300,291 Total Funds (HCIF and federal match) for directed payments. The budget includes \$2,215,221,200 Total Funds within the agency's overall expenditure authority for directed payments based on AHCCCS estimates from its FY 2024 budget submittal.

- An increase of \$110,900 from increased tobacco tax revenues.

Operating Budget

The budget includes \$137,017,400 and 1,042.2 FTE Positions in FY 2024 for the operating budget. These amounts consist of:

	FY 2024
General Fund	\$36,689,500
Children's Health Insurance Program (CHIP) Fund	5,726,500
Health Care Investment Fund	2,472,300
Prescription Drug Rebate Fund (PDRF) - State	662,600
Seriously Mentally Ill (SMI) Housing Trust Fund	217,700
Federal Medicaid Authority (FMA)	91,248,800

Adjustments are as follows:

Additional Arizona Advisory Council on Indian Health Care Positions

The budget includes an increase of \$500,000 and 4 FTE Positions in FY 2024 to allow the council to hire additional staff to assist with tribal outreach, health data utilization, legislative liaising, and business operations. These amounts consist of:

General Fund	200,000
Federal Medicaid Authority	300,000

The Arizona Advisory Council on Indian Health Care Positions, as established in A.R.S. § 36-2902.01, gives Arizona tribal governments representation in shaping state Medicaid and health care policy. The council's budget resides within AHCCCS's operating budget.

PMMIS Replacement – Systems Integrator Funding

The budget includes a one-time increase of \$7,500,000 from Federal Medicaid Authority in FY 2024 to fund the services of a Systems Integration provider to replace AHCCCS's Prepaid Medicaid Management Information System (PMMIS). The corresponding General Fund state match amount is \$2,000,000. The Executive will cover the \$2,000,000 cost using a \$15,000,000 General Fund appropriation to Arizona Department of Administration – Automation Projects Fund for health and human services

information technology projects within state agencies. *(Please see ADOA – Automation Projects Fund narrative for additional information.)*

PMMIS Replacement – Roadmap Implementation Funding

The budget includes a one-time increase of \$7,000,000 in FY 2024 to fund implementation of the draft roadmap associated with replacement of AHCCCS's PMMIS. This increase was included in the 3-year spending plan associated with the enacted FY 2023 budget. This amount consists of:

General Fund	700,000
Federal Medicaid Authority	6,300,000

Remove PMMIS Replacement Funding

The budget includes a decrease of \$(9,500,000) in FY 2024 to remove one-time funding for AHCCCS to contract the services of a Systems Integration provider to replace AHCCCS's PMMIS. This amount consists of:

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

AIHP FTE Adjustment

The budget includes an increase of 7 FTE Positions in FY 2024 for the American Indian Health Program (AIHP). This includes 2.1 FTE Positions from the General Fund and 4.9 FTE Positions from Federal Medicaid Authority. These increases adjust AHCCCS FTE authority to account for funding already provided in the enacted FY 2023 budget. The 7 positions include 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 transferred from contracted Regional Behavioral Health Authorities (RBHAs) to AIHP in October 2022.

Suicide Prevention FTE Adjustment

The budget includes a decrease of (1) FTE Position in FY 2024 to transfer the suicide prevention coordinator position to the Department of Health Services. This decrease adjusts AHCCCS FTE authority to account for a funding transfer included in the enacted FY 2023 budget.

Remove Federal IT Regulation Compliance Funding

The budget includes a decrease of \$(1,950,000) in FY 2024 to eliminate one-time funding for federal IT regulation compliance. This amount consists of:

General Fund	(195,000)
Federal Medicaid Authority	(1,755,000)

Statewide Adjustments

The budget includes an increase of \$(489,200) in FY 2024 for statewide adjustments. This amount consists of:

General Fund	(155,900)
CHIP Fund	(2,000)
PDRF - State	(300)
SMI Housing Trust Fund	400
Federal Medicaid Authority	(331,400)

(Please see the Agency Detail and Allocations section.)

Administration

AHCCCS Data Storage

The budget includes \$19,325,800 in FY 2024 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 2023.

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 2024 for DES Eligibility services. These amounts consist of:

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

These amounts are unchanged from FY 2023.

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

Proposition 204 - AHCCCS Administration

The budget includes \$15,222,200 and 131 FTE Positions in FY 2024 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	4,821,700
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PDRF - State	60,900
Federal Medicaid Authority	10,339,600

Adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$(145,100) in FY 2024 for statewide adjustments. This amount consists of:

General Fund	(17,200)
Federal Medicaid Authority	(127,900)

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 2024 for Proposition 204 - DES Eligibility costs. These amounts consist of:

General Fund	16,052,900
Budget Neutrality Compliance Fund (BNCF)	4,669,300
Federal Medicaid Authority	23,636,500

Adjustments are as follows:

Formula Adjustments

The budget includes a decrease of \$(366,200) from the General Fund and a corresponding increase of \$366,200 from the BNCF in FY 2024 to reflect an increase of county contributions in FY 2024. This adjustment assumes an inflation adjustment of 7.01% 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.

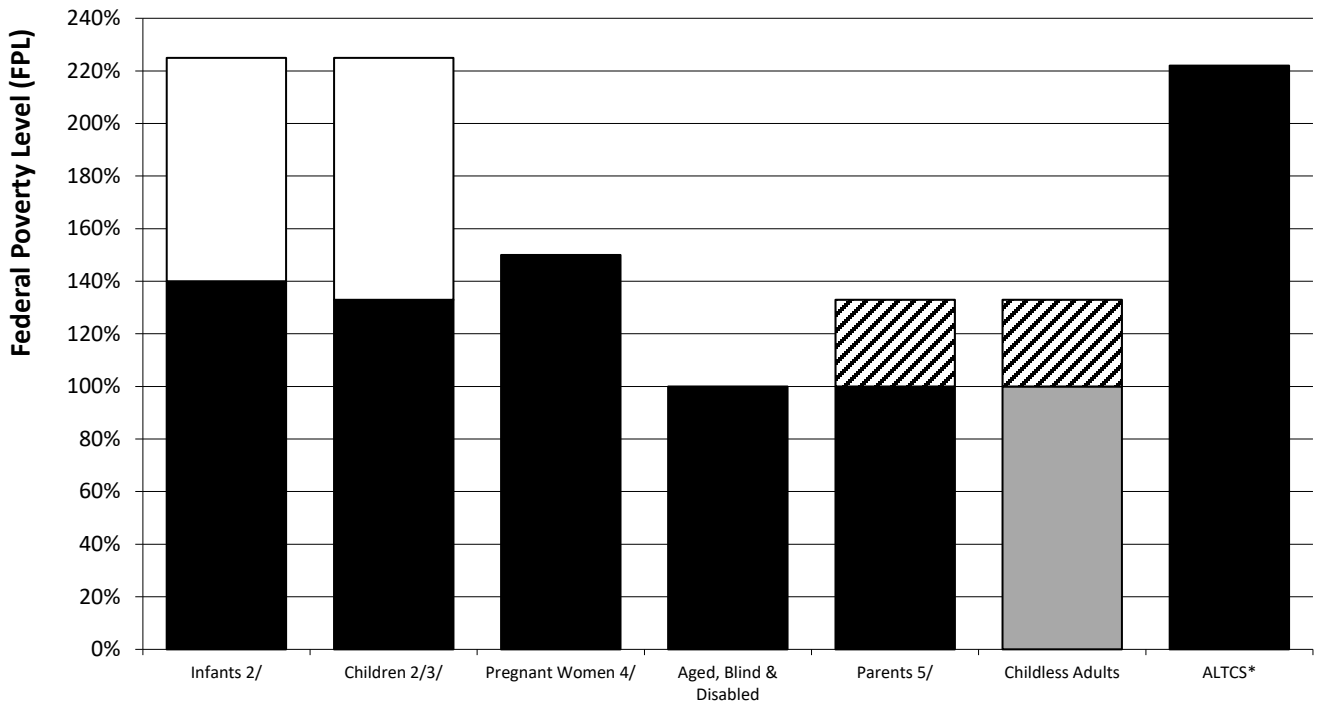
Medicaid Services

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 2024. A description of program components can be found in the *Other Issues* section.

Chart 1

AHCCCS Eligibility ^{1/}



■ Mandatory (70% Fed Match) □ KidsCare (79% Fed Match) ■ Childless Adults Option (90% Fed Match) ▨ ACA Expansion (90% Fed Match)

- 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/ The KidsCare expansion from 200% to 225% FPL is in effect beginning October 1, 2023.
- 3/ 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.
- 4/ 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.
- 5/ Mandatory Status of Parents is subject to interpretation.

Traditional Medicaid Services

The budget includes \$7,978,162,400 in FY 2024 for Traditional Medicaid Services. This amount consists of:

General Fund	1,721,379,700
County Funds	43,733,700
Health Care Investment Fund	384,822,000
Political Subdivision Funds	50,319,400
PDRF - State	156,858,600
TTHCF - Medically Needy Account	67,258,900
Third Party Liability and Recovery Fund	194,700
PDRF - In Lieu of Federal Funds	572,638,300
Federal Medicaid Authority	4,980,957,100

Adjustments are as follows:

One-Time Rapid Whole Genome Sequencing Pilot Funding

The budget includes an increase of \$486,500 in FY 2024 for the cost of providing pilot coverage of rapid whole genome sequencing. This amount consists of:

General Fund	160,000
Federal Medicaid Authority	326,500

Rapid whole genome sequencing involves examining the patient's entire human genome to identify disease-causing genetic changes to diagnose and treat the patient. The FY 2024 Health Care Budget Reconciliation Bill (BRB) specifies that rapid whole genome sequencing is available for AHCCCS members under the age of 1 who meet certain criteria.

A General Appropriation Act footnote makes these monies non-lapsing through FY 2026. The program is repealed after December 31, 2026.

Formula Adjustments

The budget includes an increase of \$670,783,600 in FY 2024 for formula adjustments. This amount consists of:

General Fund	198,485,900
County Funds	(1,183,800)
Health Care Investment Fund	93,929,500
Political Subdivision Funds	10,176,500
TTHCF - Medically Needy Account	79,200
Federal Medicaid Authority	369,296,300

Remove FY 2023 Supplemental

The budget includes a decrease of \$(1,760,396,300) in FY 2024 for the removal of one-time supplemental funding associated with the enhanced federal match rate. This amount consists of:

Health Care Investment Fund	(2,849,300)
Political Subdivision Funds	3,319,900
Federal Medicaid Authority	(1,760,866,900)

(See the FY 2023 Supplemental narrative for more information.)

Newborn Screening Fee Increase

The budget includes an increase of \$852,100 in FY 2024 for increased newborn screening fees. This amount consists of:

General Fund	280,300
Federal Medicaid Authority	571,800

The FY 2022 Health 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 2024. The 3-year spending plan associated with the enacted FY 2022 budget assumed this increase in FY 2024.

Chiropractic Services Increase

The budget includes an increase of \$2,432,100 in FY 2024 for the full-year cost of implementing chiropractic services. This amount consists of:

General Fund	800,000
Federal Medicaid Authority	1,632,100

Laws 2022, Chapter 314 authorized 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. The FY 2023 budget's 3-year spending plan assumed this \$800,000 increase in FY 2024.

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 \$7,038,319,000 in FY 2024 for Proposition 204 Services. This amount consists of:

General Fund	140,497,600
Health Care Investment Fund	146,321,500
Hospital Assessment Fund	542,059,500
Political Subdivision Funds	11,595,400
Tobacco Litigation Settlement Fund	102,000,000
TPTF - Emergency Health Services Account	17,458,500
TPTF - Proposition 204 Protection Account	36,662,900
Federal Medicaid Authority	6,041,723,600

Adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$647,422,800 in FY 2024 for formula adjustments. This amount consists of:

General Fund	(323,800)
Health Care Investment Fund	26,557,300
Hospital Assessment Fund	54,534,100
Political Subdivision Funds	2,951,400
TPTF - Emergency Health Services Account	10,200
TPTF - Proposition 204 Protection Account	21,500
Federal Medicaid Authority	563,672,100

Remove FY 2023 Supplemental

The budget includes a decrease of \$(2,739,150,200) in FY 2024 for the removal of one-time supplemental funding associated with the enhanced federal match rate. This amount consists of:

Health Care Investment Fund	(2,917,100)
Hospital Assessment Fund	(74,304,400)
Political Subdivision Funds	(647,300)

Federal Medicaid Authority (2,661,281,400)

(See the FY 2023 Supplemental narrative for more 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 budget includes \$926,824,300 in FY 2024 for Adult Expansion Services. This amount consists of:

General Fund	9,264,600
Health Care Investment Fund	14,882,700
Hospital Assessment Fund	64,120,900
Political Subdivision Funds	1,099,100
Federal Medicaid Authority	837,457,000

Adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$122,119,100 in FY 2024 for formula adjustments. This amount consists of:

General Fund	2,292,600
Health Care Investment Fund	4,084,000
Hospital Assessment Fund	2,735,800
Political Subdivision Funds	(122,600)
Federal Medicaid Authority	113,129,300

Remove FY 2023 Supplemental

The budget includes a decrease of \$(571,905,800) in FY 2024 for the removal of one-time supplemental funding associated with the enhanced federal match rate. This amount consists of:

Health Care Investment Fund	(3,518,100)
Hospital Assessment Fund	(24,239,700)
Political Subdivision Funds	216,500
Federal Medicaid Authority	(544,364,500)

(See the FY 2023 Supplemental narrative for more 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 Medical and Dental Program

The budget includes \$203,903,500 in FY 2024 for the Comprehensive Medical and Dental Program (CMDP). This amount consists of:

General Fund	57,155,700
Health Care Investment Fund	7,993,700
Federal Medicaid Authority	138,754,100

Adjustments are as follows:

Formula Adjustments

The budget includes a decrease of \$(41,002,800) in FY 2024 for formula adjustments. This amount consists of:

General Fund	(11,906,800)
Health Care Investment Fund	3,294,900
Federal Medicaid Authority	(32,390,900)

Remove FY 2023 Supplemental

The budget includes an increase of \$20,436,600 in FY 2024 for the removal of a one-time supplemental funding adjustment associated with the enhanced federal match rate and lower-than-anticipated enrollment in the CMDP program. This amount consists of:

Health Care Investment Fund	(1,351,200)
Federal Medicaid Authority	21,787,800

(See the FY 2023 Supplemental narrative for more information.)

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 \$186,394,000 in FY 2024 for KidsCare Services. This amount consists of:

General Fund	33,108,400
Health Care Investment Fund	7,826,100
Political Subdivision Funds	512,400
CHIP Fund	144,947,100

Adjustments are as follows:

Eligibility Expansion

The budget includes an increase of \$21,593,800 in FY 2024 for a KidsCare eligibility expansion. This amount consists of:

General Fund	4,973,000
CHIP Fund	16,620,800

Children in families with incomes above 200% FPL are currently ineligible for KidsCare. However, the FY 2024 Health Care BRB raises the income limit to 225% FPL beginning October 1, 2023. We estimate this amount would be sufficient to cover the expenses of an additional 13,700 enrollees by June 2024. The 3-year spending plan associated with the enacted FY 2024 budget includes an additional \$1,627,000 from the General Fund in FY 2025 to annualize the costs of the expansion.

Formula Adjustments

The budget includes a decrease of \$12,118,100 in FY 2024 for formula adjustments. This amount consists of:

General Fund	(1,382,900)
Health Care Investment Fund	4,854,500
Political Subdivision Funds	154,000
CHIP Fund	10,591,900
Federal Medicaid Authority	(2,099,400)

Remove FY 2023 Supplemental

The budget includes a decrease of \$(86,615,800) in FY 2024 for the removal of one-time supplemental funding associated with the enhanced federal match rate. This amount consists of:

Health Care Investment Fund	(1,342,300)
Political Subdivision Funds	(13,400)
CHIP Fund	(87,731,400)
Federal Medicaid Authority	2,471,300

(See the FY 2023 Supplemental narrative for more information.)

Background – The KidsCare program, also referred to as the Children’s Health Insurance Program (CHIP), provides health coverage to children in families with incomes between 133% and 200% FPL through September 30, 2023. The upper limit is raised to 225% FPL beginning October 1, 2023. 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 \$2,680,175,800 in FY 2024 for ALTCS Services. This amount consists of:

General Fund	329,568,900
County Funds	366,205,400
Health Care Investment Fund	23,845,300
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	1,877,338,400

Adjustments are as follows:

Formula Adjustments

The budget includes a decrease of \$(6,456,100) in FY 2024 for formula adjustments. This amount consists of:

General Fund	13,653,400
County Funds	13,507,700
Health Care Investment Fund	2,339,000
Federal Medicaid Authority	(35,956,200)

Remove FY 2023 Supplemental

The budget includes an increase of \$88,026,200 in FY 2024 for the removal of a one-time supplemental funding adjustment associated with the enhanced federal match rate and lower-than-anticipated enrollment in the ALTCS program. This amount consists of:

County Funds	85,836,800
Health Care Investment Fund	381,600
Political Subdivision Funds	(66,000)
Federal Medicaid Authority	1,873,800

(See the FY 2023 Supplemental narrative for more information.)

FY 2024 American Rescue Plan HCBS Spending

The budget includes an increase of \$110,540,500 from Federal Medicaid Authority in FY 2024 for home-and community-based services (HCBS). The increase will bring total appropriations of federal monies for ARPA within AHCCCS to \$347,740,500 in FY 2024, which is the final year of available funding. 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.

Background – ALTCS provides coverage for individuals up to 222% of the FPL, or \$30,169 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 \$10,192 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 2023, AHCCCS estimates that client contributions will pay for 4.5%, or \$71,700,000, 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.

An FY 2024 General Appropriations Act footnote allows AHCCCS to spend above the appropriation level of \$101,756,900 for supplemental payments to nursing facilities that serve ALTCS clients. The FY 2023 budget included a similar footnote. AHCCCS reported that it will spend \$121,292,200 in FY 2023 for these supplemental payments, or \$13,843,000 above the original appropriation.

Behavioral Health Services in Schools

The budget includes \$9,120,600 in FY 2024 for Behavioral Health Services in Schools. This amount consists of:

General Fund	3,000,000
Federal Medicaid Authority	6,120,600

Adjustments are as follows:

Formula Adjustments

The budget includes a decrease of \$(770,600) from Federal Medicaid Authority in FY 2024 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 2024 for Non-Medicaid Seriously Mentally Ill (SMI) Services. This amount is unchanged from FY 2023.

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.)

Supported Housing

The budget includes \$65,324,800 in FY 2024 for Supported Housing. This amount consists of:

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

This amount is unchanged from FY 2023.

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. In October 2021, AHCCCS shifted administration of its housing programs from RBHAs to 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. As of June 2023, 2,228 households are enrolled in AHCCCS's housing program.

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 \$23,918,800 was spent for Supported Housing services from the Non-Medicaid Seriously Mentally Ill Services line item in FY 2022.

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. While the "Housing and Health Opportunities" waiver amendment received CMS approval in October 2022, the implementation date of the program has been delayed until October 1, 2024. According to AHCCCS, CMS is requiring 2 additional deliverables defining the program's operational details before the program can start. AHCCCS submitted the first deliverable in April 2023, which addressed protocol for assessment of beneficiary eligibility, infrastructure planning, and provider qualifications for the program.

The new funds will 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. 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. AHCCCS reports that the approved waiver would allow the agency to draw down an estimated \$73.8 million in Federal Funds annually for housing initiatives through FY 2027. Obtaining the full federal allocation, however, would require AHCCCS to identify \$5.5 million in additional state monies over and above existing state housing funding. AHCCCS is still exploring potential sources for the state share of funding.

Crisis Services

The budget includes \$16,391,300 in FY 2024 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 2023.

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 no funding in FY 2024 for Secure Behavioral Health Residential Facilities. This amount is unchanged from FY 2023.

The enacted FY 2023 budget appropriated \$25,000,000 from the General Fund for the construction of 5 secure

behavioral health residential facilities. AHCCCS did not, however, enter into any contracts to construct the facilities during FY 2023. As a result, the enacted budget ex-appropriates the \$(25,000,000). In addition, the budget does not include a \$10,000,000 ongoing General Fund increase for secure behavioral health residential facilities in FY 2024 that was originally intended to fund a higher reimbursement rate for such facilities. The \$10,000,000 increase had previously been included in the 3-year spending plan associated with the enacted FY 2023 budget. *(Please see the FY 2023 Appropriations Report for more information.)*

Children's Behavioral Health Services Fund Deposit

The budget includes \$250,000 from PDRF - State in FY 2024 for Children's Behavioral Health Services Fund Deposit. Adjustments are as follows:

One-Time Deposit

The budget includes an increase of \$250,000 from PDRF - State in FY 2024 for a deposit into the Children's Behavioral Health Services Fund established by A.R.S. § 36-3436.

This line item funds behavioral health services rendered to low-income, non-Medicaid students who are referred through an educational institution.

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 2024

Table 3			
Disproportionate Share Hospital Payments			
Eligible Funding ^{1/}	FY 2023 (Enacted)	FY 2023 (Actual)	FY 2024 (Enacted)
Valleywise - CPE ^{2/}	\$ 92,291,200	\$ 112,235,500	\$ 92,291,200
ASH - CPE	28,474,900	28,474,900	28,474,900
Private Hospitals	884,800	884,800	884,800
DSH Voluntary Match	57,739,100	39,025,900	69,735,200
Total Funding	\$ 179,390,000	\$ 180,621,100	\$ 191,386,100
General Fund			
Retain FF of CPE (via Valleywise)	\$ 63,788,100	\$ 76,908,100	\$ 56,977,500
Retain FF of CPE (via ASH)	20,689,900	21,230,900	18,876,000
Subtotal - General Fund	\$ 84,478,000	\$ 98,139,000	\$ 75,853,500
Other Entities			
State MIHS	\$ 4,202,300	\$ 4,202,300	\$ 4,202,300
Private Hospitals	884,800	884,800	884,800
Subtotal - Other Entities	\$ 5,087,100	\$ 5,087,100	\$ 5,087,100
Total DSH Distributions	\$ 89,565,100	\$ 103,226,100	\$ 80,940,600
Voluntary Match	\$ 57,739,100	\$ 39,025,900	\$ 69,735,200
Total Distributions	\$ 147,304,200	\$ 142,252,000	\$ 150,675,800
^{1/} Amounts include state and federal match funding.			
^{2/} The budget continues a Valleywise DSH limit of \$113,818,500 in the FY 2024 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 2023 and FY 2024. After passage of the budget, AHCCCS reported the actual amount of uncompensated care was \$112,235,500 in FY 2023.			

through FY 2026 according to the regular federal formula, as outlined below.

Distribution

The budget continues to appropriate \$4,202,300 of federal DSH funds associated with uncompensated care at Maricopa Integrated Health System (Valleywise) for distribution to Valleywise. The remaining \$75,853,500 of federal DSH funds associated with uncompensated care in public hospitals (Valleywise and the Arizona State Hospital) are available for General Fund deposit. The \$75,853,500 assumes Valleywise would report uncompensated care of \$92,291,200 in FY 2024.

Increase in Uncompensated Care Payments

In FY 2024, the state's total DSH payments are estimated to increase by \$15,386,200 from \$175,999,900 in FY 2023 (originally budgeted) to \$191,386,100 due to federal adjustments for inflation. Of the \$191,386,100 of eligible DSH funding in FY 2024, \$150,675,800 is distributed according to the allocations described below and listed in Table 3. The remaining \$40,710,300 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 2024 for Disproportionate Share Payments. This amount consists of:

General Fund	298,300
Federal Medicaid Authority	4,788,800

Adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$29,000 from the General Fund and a corresponding decrease of \$(29,000) from Federal Medicaid Authority in FY 2024 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 \$298,300 from the General Fund and \$586,500 in federal expenditure authority. In FY 2022, there were 25 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 \$69,735,200 in FY 2024 for DSH Payments - Voluntary Match. This amount consists of:

Political Subdivision Funds	23,507,700
Federal Medicaid Authority	46,227,500

Adjustments are as follows:

Increased Funding

The budget includes an increase of \$32,309,300 in FY 2024 due to DSH Formula adjustments. This amount consists of:

Political Subdivision Funds	12,082,000
Federal Medicaid Authority	20,227,300

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 2024. (Please see Table 3.)

Graduate Medical Education

The budget includes \$426,531,500 in FY 2024 for Graduate Medical Education (GME) expenditures. This amount consists of:

General Fund	9,000,000
Political Subdivision Funds	100,522,600
Federal Medicaid Authority	317,008,900

Adjustments are as follows:

Funding Adjustment

The budget includes an increase of \$33,299,400 in FY 2024 for GME formula adjustments. This amount consists of:

Political Subdivision Funds	1,169,700
Federal Medicaid Authority	32,129,700

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 2022, 22 hospitals

received a total of \$373,004,355 for Graduate Medical Education.

An FY 2024 General Appropriations Act footnote allows AHCCCS to spend above the appropriation level of \$426,531,500. The FY 2023 budget included a similar footnote. AHCCCS reported that it will spend \$438,232,100 in FY 2023 for the GME program, or \$45,000,000 from the Federal Medicaid Authority above the original appropriation.

Laws 2021, Chapter 81 required AHCCCS to establish a separate GME program for qualifying community health centers and rural health clinics with primary care graduate medical education programs. In May 2023, AHCCCS reported that CMS denied approval of Medicaid funding for the separate GME program. Given that program implementation was contingent on CMS approval, AHCCCS will not be establishing the program. However, the FY 2024 General Appropriations Act includes a one-time appropriation of \$5 million to the Arizona Area Health Education System for primary care residency programs at qualifying community health centers, rural health clinics, and tribal health clinics. (Please see Arizona Board of Regents narrative for additional information.)

Rural Hospitals

The budget includes \$41,074,400 in FY 2024 for Rural Hospitals, which includes Critical Access Hospitals (CAH). This amount consists of:

General Fund	13,845,200
Federal Medicaid Authority	27,229,200

Adjustments are as follows:

One-Time Supplemental Pool Increase

The budget includes an increase of \$12,462,000 in FY 2024 to supplement payments to Critical Access Hospitals. This amount consists of:

General Fund	4,200,000
Federal Medicaid Authority	8,262,000

Formula Adjustments

The budget includes an increase of \$935,600 from the General Fund and a corresponding decrease of \$(935,600) from Federal Medicaid Authority in FY 2024 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 \$28,916,300 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 2022, 20 hospitals qualified for funding from Rural Hospital Reimbursement, and in FY 2023, 12 hospitals qualified for funding from CAH.

Targeted Investments Program

The budget includes \$26,000,000 in FY 2024 for the Targeted Investments Program. This amount consists of:

Delivery System Reform	8,321,200
Incentive Payment (DSRIP) Fund	
Federal Medicaid Authority	17,678,800

Adjustments are as follows:

Funding Adjustment

The budget includes a decrease of \$(24,000,000) in FY 2024 for a revised expenditure estimate. This amount consists of:

Delivery System Reform	(7,174,000)
Incentive Payment (DSRIP) Fund	
Federal Medicaid Authority	(16,826,000)

AHCCCS included waiver authority for this program as part of its 2022-2027 waiver renewal application, which received CMS approval in October 2022. Due to the timing of the waiver approval and AHCCCS's transition into the new waiver period, AHCCCS expects a reduction in its FY 2024 Targeted Investments allocation.

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 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.

On-Call Obstetrics and Gynecological Services

The budget includes \$7,500,000 from the General Fund in FY 2024 for On-Call Obstetrics and Gynecological Services. Adjustments are as follows:

One-Time Funding

The budget includes an increase of \$7,500,000 from the General Fund in FY 2024 for on-call obstetric and gynecological services in low-volume obstetric delivery areas and rural communities.

A General Appropriation Act footnote makes the monies non-lapsing until the end of FY 2026 and instructs AHCCCS to distribute up to \$2,500,000 annually to qualifying community health centers for the unreimbursed cost necessary to maintain on-call services. AHCCCS must submit a report by July 1 annually regarding the use of these monies, including the number of services provided by health care providers receiving funding from this appropriation.

Other Issues

This section includes information on the following topics:

- FY 2023 Supplemental
- Statutory Changes
- Long-Term Budget Impacts
- Health Workforce Development Funding
- Auditor General Report
- County Contributions
- Program Components
- Tobacco Master Settlement Agreement
- Tobacco Tax Allocations

FY 2023 Supplemental

The FY 2024 budget includes an FY 2023 supplemental appropriation of \$5,049,605,300 from Expenditure Authority sources and the CHIP Fund for net funding associated with the enhanced federal match rate and higher-than-budgeted enrollment associated with the federal prohibition on disenrollment during the public health emergency. However, the estimated cost of the enhanced match rate was only \$3,307,915,900. Laws 2023, Chapter 17 appropriated 50% of this amount, or \$1,653,958,000 from Expenditure Authority and \$29,243,800 from the CHIP Fund in FY 2023. Laws 2023, Chapter 113 subsequently appropriated an additional \$3,307,915,900 from Expenditure Authority and \$58,487,600 from the CHIP Fund. Chapters 17 and 113 result in a combined total of \$5,049,605,300.

The budget assumes AHCCCS General Fund formula expenses for FY 2023 will be \$(268,000,000) lower than the original FY 2023 General Fund appropriation. The FY 2024 budget does not, however, include an ex-appropriation to account for the savings. Instead, the

surplus would be realized through General Fund reverts.

The \$5,049,605,300 supplemental and the \$(268,000,000) surplus are partially based on the federal government's extension of the enhanced FMAP associated with the COVID-19 public health emergency. The FY 2023 enacted budget assumed the enhanced rate would not be extended into FY 2023. However, the 6.2% enhanced rate is currently available through March 2023, as well as a 5.0% enhanced rate in April 2023 through June 2023. (See *Formula Adjustments for additional information on the enhanced match rates.*)

The FY 2024 budget also includes an FY 2023 ex-appropriation of \$(25,000,000) from the General Fund to remove one-time funding for the construction of 5 secure behavioral health residential facilities. (See *Secure Behavioral Health Residential Facilities for additional information.*)

Including the secure behavioral health residential facilities ex-appropriation, the net AHCCCS FY 2023 supplemental is \$5,024,605,300. Table 4 shows the supplemental by fund source.

Table 4	
AHCCCS FY 2023 Supplemental by Fund Source (in millions)	
General Fund	(25)
Expenditure Authority	
County Funds	(86)
Health Care Investment Fund	12
Hospital Assessment Fund	99
Political Subdivisions Funds	(3)
Federal Medicaid Authority	4,940
<i>Expenditure Authority Subtotal</i>	4,962
Other Funds	
Children's Health Insurance Program Fund	88
<i>Other Funds Subtotal</i>	88
Supplemental Total Fund	\$5,025 ^{1/}
^{1/} The estimated cost of the enhanced match rate accounts for \$3,307,915,900 of the total supplemental.	

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, raise income eligibility for KidsCare to 225% FPL, conditional on approval of the Centers for Medicare and Medicaid Services.
- As session law, require AHCCCS to provide pilot coverage of rapid whole genome sequencing as a separately payable service for infant members that meet certain criteria. The service involves examining the patient's entire human genome to identify disease-causing genetic changes to diagnose and treat the patient. Includes a delayed repeal date of December 31, 2026.

Counties

- As session law, continue to exclude Proposition 204 administration costs from county expenditure limitations.
- As session law, set the FY 2024 County Acute Care contribution at \$43,733,700.
- As session law, continue to require AHCCCS to transfer any excess monies back to the counties by December 31, 2024, 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 2024 county Arizona Long Term Care System (ALTC) contributions at \$366,205,400.

Hospitals

- As session law, continue to establish FY 2024 disproportionate share (DSH) distributions to the Maricopa Special Healthcare District (Valleywise), the Arizona State Hospital, private qualifying disproportionate share hospitals, and Yuma Regional Medical Center. The Valleywise distribution would remain at \$113,818,500 in FY 2024.
- As session law, continue to require AHCCCS to give priority to rural hospitals in Pool 5 distribution, and allow Valleywise 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, continue to establish priority for payments to private hospitals via the DSH-Voluntary program in FY 2024 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 budget's 3-year spending plan, AHCCCS's General Fund costs are projected to increase by

\$137,282,200 in FY 2025 above FY 2024 and by \$109,694,600 in FY 2026 above FY 2025.

The FY 2025 estimate is based on:

- 1% caseload growth.
- 3.1% capitation growth.
- An estimated 66.13% FMAP.
- The loss of the FY 2024 enhanced match rates.
- \$1,627,000 for additional caseload growth associated with the KidsCare expansion to 225% FPL.
- \$(12,560,000) to remove one-time funding.

The FY 2026 estimate is based on:

- 1% caseload growth.
- 3.1% capitation growth.
- An estimated 66.27% FMAP.

Health Workforce Development Funding

The 3-year spending plan associated with the enacted FY 2023 budget assumed the Executive would spend \$27,000,000 in each of FY 2023, FY 2024, and FY 2025 from federal American Rescue Plan Act (ARPA) monies for the Student Nurse Clinical Rotation and Licensed or Certified Nurse Training Program established by Laws 2022, Chapter 330. The program is administered by AHCCCS and provides grants to hospitals, nursing facilities, and assisted living facilities to expand or create clinical training placements for undergraduate nursing students and licensed or certified nurses. AHCCCS designated the Arizona State Board of Nursing as the administrator of the program in December 2022. The Nursing Board opened the grant cycle for the program in January 2023. At the time of this writing, the grant's advisory board has recommended for approval 19 applications; an additional 13 applications require further clarification to make a determination.

The 3-year spending plan associated with the enacted FY 2023 budget also assumed \$5,000,000 in non-appropriated Federal Funds in each of FY 2023, FY 2024, and FY 2025 to expand behavioral health care worker training. Federal funding will be deposited into the Behavioral Health Training Pilot Program Fund, established by Laws 2022, Chapter 330. The funding will be used to create behavioral health curriculum in the Maricopa County and Navajo County Community College Districts. AHCCCS reported in February 2023 that Maricopa Community College District will receive \$3,425,600 annually and Navajo County Community College District will receive \$1,058,400 annually. The remaining \$500,000 will support joint programs administered by the community colleges.

These monies do not appear in the General Appropriations Act because they are non-appropriated Federal Funds.

Auditor General Report

Performance Audit and Sunset Review

In September 2022, the Auditor General published an audit of AHCCCS as part of the sunset review process prescribed in A.R.S. § 41-2951. The audit addressed AHCCCS's investigation of fraud and abuse, accuracy of eligibility determinations, review of contracted health plans and provider performance, and implementation of findings related to service delivery for members with a serious mental illness. In terms of budget implications, the Auditor General found that AHCCCS has taken over 1 year to investigate over half of potential fraud and abuse cases open as of May 2022, potentially resulting in unnecessary payments.

The Auditor General's report recommended AHCCCS conduct a workload/cost analysis to determine if its funding and staffing levels are sufficient to provide timely investigation of fraud and abuse cases.

After the release of the audit, AHCCCS released preliminary findings of fraud in an ongoing federal investigation. In May 2023, AHCCCS suspended payments to more than 100 unique, registered behavioral health residential and outpatient treatment providers alleged to have engaged in fraudulent billing activities, including billing for services that were never provided or not medically necessary. For example, some providers billed for services rendered to deceased AHCCCS members or for services rendered to AHCCCS members not physically present. While the exact amount defrauded is currently unknown, the Executive estimated it to be in the "hundreds of millions of dollars" since 2019. AHCCCS plans to contract a third-party forensic audit of all fee-for-service claims submitted in the past 6 years. As of this writing, the impact of the investigation on AHCCCS formula funding costs is unclear.

Beyond contracting a forensic audit, AHCCCS has taken other actions to eliminate fraudulent billing, such as:

- Recategorizing 3 behavioral health provider types as high-risk for all new registrants
- Imposing a moratorium on new provider registrations for specified provider types
- Adding new reporting to flag concerning claims prior to payment
- Setting billing thresholds and requiring prepayment review for specified scenarios

In the future, AHCCCS plans to implement additional fraud prevention measures, including mandating visual attestation of individual billers; requiring third-party billers to disclose terms of compensation; and implementing new rules that allow the administration to exclude payment of individuals affiliated with terminated or suspended providers.

County Contributions

County governments make 3 different payments to defray the AHCCCS budget's costs, as summarized in *Table 5*. 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 2024, the average capitation rate is expected to be approximately \$562 per

member per month (or \$6,700 annually). Of that amount, an average of \$136 is from state match and \$426 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.

Table 5

County Contributions

County	FY 2023			FY 2024		
	<u>BNCF ^{1/}</u>	<u>Acute</u>	<u>ALTCS</u>	<u>BNCF ^{1/}</u>	<u>Acute</u>	<u>ALTCS</u>
Apache	\$141,800	\$268,800	860,500	\$153,900	\$268,800	692,800
Cochise	264,500	2,214,800	6,320,300	287,100	2,214,800	6,587,900
Coconino	261,000	742,900	2,583,200	283,200	742,900	2,080,000
Gila	107,200	1,413,200	2,855,600	116,300	1,413,200	2,852,300
Graham	76,200	536,200	1,258,800	82,700	536,200	1,540,200
Greenlee	19,600	190,700	0	21,200	190,700	0
La Paz	40,600	212,100	653,700	44,000	212,100	682,700
Maricopa	0	16,887,200	229,265,800	0	15,703,400	240,195,400
Mohave	304,600	1,237,700	10,473,800	330,500	1,237,700	10,847,500
Navajo	199,700	310,800	3,561,400	216,700	310,800	2,867,700
Pima	1,814,500	14,951,800	54,350,500	1,968,900	14,951,800	56,396,600
Pinal	355,000	2,715,600	17,427,100	385,300	2,715,600	18,011,700
Santa Cruz	83,900	482,800	2,775,000	91,100	482,800	2,582,800
Yavapai	335,400	1,427,800	9,429,000	363,900	1,427,800	9,820,100
Yuma	299,000	1,325,100	10,883,000	324,500	1,325,100	11,047,700
Subtotal	\$4,303,100	\$44,917,500	\$352,697,700	\$4,669,300	\$43,733,700	\$366,205,400
Total			\$401,918,300			\$414,608,400

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

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 2024 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 \$142,829,200 in transfers of tobacco tax collections in FY 2024. This amount represents a decrease of \$(1,997,000) from the FY 2023 budgeted amount. *Table 6* summarizes tobacco tax transfers and allocations to the agencies.

Table 6

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

	<u>FY 2022</u>	<u>FY 2023</u>
Medically Needy Account		
<u>Funds Available</u>		
Balance Forward	\$ 2,981,600	\$ (163,100)
Transfer In - Tobacco Tax and Health Care Fund	40,438,600	40,519,500
Transfer In - Tobacco Products Tax Fund	23,408,100	23,454,900
Total Funds Available	\$ 66,828,300	\$ 63,811,300
<u>Allocations</u>		
<u>AHCCCS</u>		
AHCCCS State Match Appropriation	\$ 66,291,400	\$ 67,179,700
Total AHCCCS Allocations	\$ 66,291,400	\$ 67,179,700
<u>DHS</u>		
Folic Acid	\$ 400,000	\$ 400,000
Renal, Dental Care, and Nutrition Supplements	300,000	300,000
Administrative Adjustments	0	0
Total DHS Allocations	700,000	700,000
Balance Forward*	\$ (163,100) *	\$ (4,068,400) *
AHCCCS Proposition 204 Protection Account		
<u>Funds Available</u>		
Balance Forward	\$ 6,266,200	\$ 5,043,300
Transfer In - Tobacco Products Tax Fund	36,412,500	36,485,300
Total Funds Available	\$ 42,678,700	\$ 41,528,600
<u>Allocations</u>		
AHCCCS State Match Appropriation	\$ 37,635,400	\$ 36,641,400
Administrative Adjustments	0	0
Balance Forward	\$ 5,043,300	\$ 4,887,200
AHCCCS Emergency Health Services Account		
<u>Funds Available</u>		
Balance Forward	\$ 3,337,700	\$ 2,755,400
Transfer In - Tobacco Products Tax Fund	17,339,300	17,374,000
Total Funds Available	\$ 20,677,000	\$ 20,129,400
<u>Allocations</u>		
AHCCCS State Match Appropriation	\$ 17,921,600	\$ 17,448,300
Administrative Adjustments	0	0
Balance Forward ^{1/}	\$ 2,755,400	\$ 2,681,100
DHS Health Education Account		
<u>Funds Available</u>		
Balance Forward	\$ 10,994,400	\$ 16,127,700
Transfer In - Tobacco Tax and Health Care Fund	14,159,400	12,714,600
Transfer In - Tobacco Products Tax Fund	1,744,800	1,774,100
Smoke-Free Arizona Fund	357,700	295,700
Total Funds Available	\$ 27,256,300	\$ 30,912,100
<u>Allocations</u>		
Tobacco Education and Prevention Program	\$ 9,705,200	\$ 18,596,000
Leading Causes of Death - Prevention and Detection	1,423,400	3,179,000
Balance Forward	\$ 16,127,700	\$ 9,137,100
Health Research Account		
<u>Funds Available</u>		
Balance Forward	\$ 1,866,100	\$ 5,337,600
Transfer In - Tobacco Tax and Health Care Fund	2,888,500	2,894,300
Transfer In - Tobacco Products Tax Fund	4,334,800	4,343,500
Total Funds Available	\$ 9,089,400	\$ 12,575,400
<u>Allocations</u>		
Biomedical Research Support	\$ 499,400	\$ 0
Research Grants	3,252,400	9,285,500
Balance Forward	\$ 5,337,600	\$ 3,289,900

^{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.