

## Arizona Health Care Cost Containment System

	FY 2024 ACTUAL	FY 2025 ESTIMATE	FY 2026 APPROVED
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	2,358.3	2,459.3	2,459.3
Personal Services	60,900,700	63,636,400	63,636,400
Employee Related Expenditures	33,431,600	34,938,900	37,705,600
Professional and Outside Services	10,457,700	11,698,200	13,073,200
Travel - In State	27,700	23,400	23,400
Travel - Out of State	57,400	56,100	56,100
Other Operating Expenditures	49,557,000	45,299,900	81,783,600
Equipment	1,138,200	984,900	984,900
<b>OPERATING SUBTOTAL</b>	<b>155,570,300</b>	<b>156,637,800</b>	<b>197,263,200 <sup>1/2/</sup></b>
<b>SPECIAL LINE ITEMS</b>			
<b>Administration</b>			
AHCCCS Data Storage	16,877,400	19,325,800	19,605,800
DES Eligibility	116,083,200	98,906,500	99,294,500 <sup>3/</sup>
Proposition 204 - AHCCCS Administration	12,748,900	15,625,100	15,916,000 <sup>4/</sup>
Proposition 204 - DES Eligibility	45,763,300	44,358,700	44,358,700 <sup>4/</sup>
<b>Medicaid Services <sup>5/6/7/</sup></b>			
Traditional Medicaid Services	7,148,662,600	8,556,251,200	10,124,311,200 <sup>8/-13/</sup>
Proposition 204 Services	7,103,940,200	7,769,810,300	7,450,961,800 <sup>12/-14/</sup>
Adult Expansion Services	687,387,300	740,010,600	798,727,300 <sup>12/13/</sup>
Comprehensive Health Plan	151,588,400	177,233,200	178,650,800 <sup>12/</sup>
KidsCare Services	161,356,400	229,689,800	257,635,300
ALTCS Services	2,207,370,200	2,534,184,700	2,457,084,800 <sup>15/-17/</sup>
Behavioral Health Services in Schools	9,120,600	8,630,600	8,445,400
<b>Non-Medicaid Behavioral Health Services</b>			
Non-Medicaid Seriously Mentally Ill Services	76,644,300	77,646,900	77,646,900 <sup>18/</sup>
Case Management Provider Wage Increases	0	1,000,000	0
Supported Housing	5,305,100	65,324,800	65,324,800
Crisis Services	16,276,000	16,391,300	16,391,300
Secure Behavioral Health Residential Facilities	0	0	5,000,000 <sup>19/-21/</sup>
<b>Hospital Payments</b>			
Disproportionate Share Payments - Private Hospitals	19,583,900	5,087,100	884,800
DSH Payments - Voluntary Match	33,221,100	65,330,500	205,641,700 <sup>13/22/</sup>
Graduate Medical Education	406,203,300	469,246,600	540,065,700 <sup>13/23/-28/</sup>
Critical Access Hospitals	30,257,400	28,416,700	28,512,600
Targeted Investments Program	30,914,800	56,000,000	67,000,000
<b>AGENCY TOTAL</b>	<b>18,434,874,700</b>	<b>21,135,108,200</b>	<b>22,658,722,600 <sup>29/-31/</sup></b>
<b>FUND SOURCES</b>			
General Fund	2,401,019,000	2,577,512,100	2,613,652,600
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	4,669,300	4,914,300	5,112,300
Children's Health Insurance Program Fund	128,657,800	174,041,000	194,444,800
IGA & ISA Fund	0	0	3,200,000
Prescription Drug Rebate Fund - State	164,907,400	189,832,200	341,207,900
Seriously Mentally Ill Housing Trust Fund	423,300	217,700	2,017,700
Substance Abuse Services Fund	2,250,200	2,250,200	2,250,200
Tobacco Products Tax Fund - Emergency Health Services Account	16,515,600	17,458,500	15,400,000
Tobacco Tax and Health Care Fund - Medically Needy Account	60,160,100	66,586,300	57,545,600

	FY 2024 ACTUAL	FY 2025 ESTIMATE	FY 2026 APPROVED
SUBTOTAL - Other Appropriated Funds	377,583,700	455,300,200	621,178,500
<b>SUBTOTAL - Appropriated Funds</b>	<b>2,778,602,700</b>	<b>3,032,812,300</b>	<b>3,234,831,100</b>
<u>Expenditure Authority Funds</u>			
AHCCCS Fund	11,809,438,100	13,434,104,500	14,556,355,700
Arizona Tobacco Litigation Settlement Fund	88,272,600	102,000,000	102,000,000
Delivery System Reform Incentive Payment Fund	3,656,900	17,922,700	24,321,800
Health Care Investment Fund	529,190,200	911,052,600	1,073,199,200
Hospital Assessment Fund	546,269,700	694,319,800	622,867,900
Long Term Care System Fund	1,707,996,000	1,959,660,600	1,869,102,100
Nursing Facility Provider Assessment Fund	100,283,100	94,906,800	93,066,100
Political Subdivision Funds	227,965,900	242,411,000	441,383,700
Prescription Drug Rebate Fund - Federal	609,060,300	609,060,300	609,060,300
Third Party Liability and Recovery Fund	194,700	194,700	194,700
Tobacco Products Tax Fund - Proposition 204 Protection Account	33,944,500	36,662,900	32,340,000
SUBTOTAL - Expenditure Authority Funds	15,656,272,000	18,102,295,900	19,423,891,500
<b>SUBTOTAL - Appropriated/Expenditure Authority Funds</b>	<b>18,434,874,700</b>	<b>21,135,108,200</b>	<b>22,658,722,600</b>
Other Non-Appropriated Funds	151,730,300	165,318,300	165,318,300
Federal Funds	150,981,400	186,030,400	186,030,400
<b>TOTAL - ALL SOURCES</b>	<b>18,737,586,400</b>	<b>21,486,456,900</b>	<b>23,010,071,300</b>

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

#### FOOTNOTES

- 1/ Before spending the monies for the replacement of the prepaid medicaid management information system, the Arizona strategic enterprise technology office shall submit, on behalf of the Arizona health care cost containment system, an expenditure plan for review by the joint legislative budget committee. The report shall include the project cost, deliverables, the timeline for completion and the method of procurement that are consistent with the department's prior reports for its appropriations from the automation projects fund. (General Appropriations Act footnote)
- 2/ Of the amount appropriated for the operating lump sum, \$100,000 from the prescription drug rebate fund - state may be used for the administrative costs of granting one-year extensions for all managed care organizations with existing Arizona health care cost containment system administration complete care contracts and regional behavioral health agreements. (General Appropriations 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 Appropriations 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 Appropriations Act footnote)
- 5/ Before making fee-for-service program or rate changes that pertain to fee-for-service rate categories, the Arizona health care cost containment system administration shall report its expenditure plan for review by the joint legislative budget committee. (General Appropriations Act footnote)
- 6/ The Arizona health care cost containment system administration shall report to the joint legislative budget committee on or before March 1, 2026 on preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum may not be more than two percent. Before implementing any changes in capitation rates, the administration shall report its expenditure plan for review by the joint legislative budget committee. Before the administration implements any change in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the administration shall prepare a fiscal impact analysis on the potential effects

of this change on the following year's capitation rates. If the fiscal impact analysis demonstrates that this change will result in additional state costs of \$1,000,000 or more for any fiscal year, the administration shall submit the policy change for review by the joint legislative budget committee. (General Appropriations Act footnote)

- 7/ On or before March 31, 2026, the Arizona health care cost containment system administration shall submit a report to the director of the joint legislative budget committee and the governor's office of strategic planning and budgeting on the amount of directed payments that the Maricopa county special health care district will receive from the safety net services initiative in fiscal year 2025-2026, disaggregated by state match and by federal match. (General Appropriations Act footnote)
- 8/ The Arizona health care cost containment system administration shall transfer up to \$1,200,000 from the traditional medicaid services line item for fiscal year 2025-2026 to the attorney general for costs associated with e-cigarette enforcement and tobacco settlement litigation. (General Appropriations Act footnote)
- 9/ The Arizona health care cost containment system administration shall transfer \$836,000 from the traditional medicaid services line item for fiscal year 2025-2026 to the department of revenue for enforcement costs associated with the March 13, 2013 master settlement agreement with tobacco companies. (General Appropriations Act footnote)
- 10/ The amount appropriated for the traditional medicaid services line item includes \$4,098,200 from the state general fund and \$8,059,900 from expenditure authority for inpatient payments to rural hospitals as defined in section 36-2905.02, Arizona Revised Statutes. (General Appropriation Act footnote)
- 11/ Of the amount appropriated from the expenditure authority fund source, \$4,244,300,000 is for hospital enhanced access leading to health improvements initiative payments in fiscal year 2025-2026. This amount includes monies from hospital assessments collected pursuant to section 36-2999.72, Arizona Revised Statutes, and any federal monies used to match those payments. (General Appropriations Act footnote)
- 12/ The legislature intends that the percentage attributable to administration and profit for the regional behavioral health authorities be nine percent of the overall capitation rate. (General Appropriations Act footnote)
- 13/ The expenditure authority fund source includes voluntary payments made from political subdivisions for payments to hospitals that operate a graduate medical education program or treat low-income patients and for payments to qualifying providers affiliated with teaching hospitals. The political subdivision portions of the fiscal year 2025-2026 costs of graduate medical education, disproportionate share payments — voluntary match, traditional medicaid services, proposition 204 services and adult expansion services line items are included in the expenditure authority fund source. (General Appropriations Act footnote)
- 14/ Of the amount appropriated for the proposition 204 services line item, \$100,000,000 shall be used from the hospital assessment fund established by section 36-2901.09, Arizona Revised Statutes, to cover a portion of the nonfederal share of the costs of services described in section 36-2907, subsection F, Arizona Revised Statutes. This amount is included in the expenditure authority fund source. (General Appropriations Act footnote)
- 15/ Any federal monies that the Arizona health care cost containment system administration passes through to the department of economic security for use in long-term care for persons with developmental disabilities do not count against the long-term care expenditure authority. (General Appropriations Act footnote)
- 16/ Pursuant to section 11-292, subsection B, Arizona Revised Statutes, the county portion of the fiscal year 2025-2026 nonfederal costs of providing long-term care system services is \$409,537,600. This amount is included in the expenditure authority fund source. (General Appropriations Act footnote)
- 17/ Any supplemental payments received in excess of \$93,066,100 for nursing facilities that serve Arizona long-term care system medicaid patients in fiscal year 2025-2026, including any federal matching monies, by the Arizona health care cost containment system administration are appropriated to the administration in fiscal year 2025-2026. Before spending these increased monies, the administration shall notify the joint legislative budget committee and the governor's office of strategic planning and budgeting of the amount of monies that will be spent under this provision. These payments are included in the expenditure authority fund source. (General Appropriations Act footnote)
- 18/ On or before June 30, 2026, the Arizona health care cost containment system administration shall report to the joint legislative budget committee on the progress in implementing the Arnold v. Sarn lawsuit settlement. The report shall include, at a minimum, the administration's progress toward meeting all criteria specified in the 2014 joint stipulation, including the development and estimated cost of additional behavioral health service capacity in Maricopa county for supported housing services for 1,200 class members, supported employment services for 750 class members, eight assertive community treatment teams and consumer operated services for 1,500 class members. The administration shall also report by fund source the amounts it plans to use to pay for expanded services. (General Appropriations Act footnote)
- 19/ The Arizona health care cost containment system administration shall distribute the appropriated monies in the secure behavioral health residential facilities line item to secure behavioral health residential facilities that intend to apply for licensure with the department of health services pursuant to section 36-425.06, Arizona Revised Statutes, and that provide secure on-site supportive treatment to persons who are determined to be seriously mentally ill, who are chronically resistant to treatment and who are placed in the facility pursuant to a court order pursuant to section 36-

550.09, Arizona Revised Statutes, or who have been committed pursuant to a court order issued pursuant to section 13-4521, Arizona Revised Statutes. (General Appropriations Act footnote)

- 20/ On or before February 1, 2026, the Arizona health care cost containment system administration and the department of health services shall coordinate to produce an implementation plan that contains recommendations regarding secure behavioral health facilities for populations subject to section 36-425.06 or 13-4521, Arizona Revised Statutes, to the governor, the president of the senate and the speaker of the house of representatives and shall include analysis regarding:
1. A proposed fee schedule for secure behavioral health residential facilities, including possible enhancement rates and modifiers.
  2. Utilization projections for medicaid eligible and non-title XIX members of the Arizona health care cost containment system, incorporating existing network analysis.
  3. Potential impacts to capitation rates given utilization projections for medicaid eligible members of the Arizona health care cost containment system.
  4. Whether utilization projections for medicaid eligible and non-title XIX members of the Arizona health care cost containment system will impact the state general fund or require reductions in other covered services.
  5. A network adequacy evaluation and proposed mitigation of any network issues.
  6. Whether the Arizona health care cost containment system will be required to submit a proposed 1115 waiver amendment to the centers for medicare and medicaid services, and any other considerations regarding maximizing matching federal monies.
  7. Whether additional licensing statutes and regulations should be updated.
  8. Proposed policies regarding secure behavioral health facilities for the Arizona health care cost containment system medical policy manual, including policies regarding discharge readiness indicators.
  9. After coordinating with the Arizona office of the courts and other relevant stakeholders, proposed updates to any relevant court ordered treatment forms or proposed orders.
  10. Analysis regarding whether providing covered services in secure behavioral health facilities would violate the laws of this state or federal law, including relevant precedent related to disability rights, including *Olmstead v. L.C.* and *Arnold v. Sarn*. (General Appropriations Act footnote)
- 21/ The Arizona health care cost containment system administration, in consultation with the department of administration, shall issue a request for proposals for the secure behavioral health residential facilities prescribed by this act on or before May 1, 2026. In determining the entity or entities that will receive monies appropriated by this act, the Arizona health care cost containment system administration shall:
1. Prioritize facilities that can open within twelve months after the effective date of this act.
  2. Prioritize facilities that meet the geographic needs of this state.
  3. Consider an entity's experience in operating behavioral health facilities.
  4. Consider the benefits of selecting one entity or multiple entities to receive the monies appropriated by this act.
  5. Award the contract or contracts to the best qualified bidder or bidders.
- In order to receive an award, an entity must submit a bid that includes the entity's plan to either construct a new secure behavioral health residential facility, or retrofit an existing building to become a secure behavioral health residential facility, subject to prior approval from the Arizona health care cost containment system administration. (General Appropriations Act footnote)
- 22/ Any monies received for disproportionate share hospital payments from political subdivisions of this state, tribal governments and any university under the jurisdiction of the Arizona board of regents, and any federal monies used to match those payments, in fiscal year 2025-2026 by the Arizona health care cost containment system administration in excess of \$155,153,000 are appropriated to the administration in fiscal year 2025-2026. Before spending these increased monies, the administration shall notify the joint legislative budget committee and the governor's office of strategic planning and budgeting of the amount of monies that will be spent under this provision. (General Appropriations Act footnote)
- 23/ Any monies for graduate medical education received in fiscal year 2025-2026, including any federal matching monies, by the Arizona health care cost containment system administration in excess of \$528,558,300 are appropriated to the administration in fiscal year 2025-2026. Before spending these increased monies, the administration shall notify the joint legislative budget committee and the governor's office of strategic planning and budgeting of the amount of monies that will be spent under this provision. (General Appropriations Act footnote)
- 24/ If any graduate medical education monies remain after the Arizona health care cost containment system administration has funded all eligible graduate medical education programs in counties with a population of less than five hundred thousand persons, the administration may fund the costs of graduate medical education programs operated by community health centers and rural health clinics. (General Appropriations Act footnote)

- 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 \$7,200,000 from the state general fund and \$13,513,400 from expenditure authority for the direct and indirect costs of graduate medical education programs located in counties with a population of less than five hundred thousand persons. The state general fund amount may supplement, but not supplant, voluntary payments made from political subdivisions for payments to hospitals that operate a graduate medical education program. The administration shall prioritize distribution to programs at hospitals in counties with a higher percentage of persons residing in a health professional shortage area as defined in 42 Code of Federal Regulations part 5. (General Appropriations Act footnote)
- 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 \$5,800,000 from the state general fund and \$10,886,000 from expenditure authority for the direct and indirect costs of graduate medical education programs located in counties with a population of more than five hundred thousand persons. The state general fund amount may supplement, but not supplant, voluntary payments made from political subdivisions for payments to hospitals that operate a graduate medical education program. (General Appropriations Act footnote)
- 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, 2027. (General Appropriations Act footnote)
- 28/ Of the amount appropriated for the graduate medical education line item, \$4,000,000 from the state general fund and \$7,507,400 from expenditure authority are exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations. (General Appropriations Act footnote)
- 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 Appropriations Act footnote)
- 30/ On or before July 1, 2026, the Arizona health care cost containment system administration shall report to the director of the joint legislative budget committee the total amount of medicaid reconciliation payments and penalties received on or before that date since July 1, 2025. (General Appropriations Act footnote)
- 31/ General Appropriations Act funds are appropriated as Operating Lump Sum with Special Line Items by Agency.

### Summary

AHCCCS's FY 2026 General Fund spending increases by \$36,140,500, or 1.4%, from FY 2025. This amount includes:

- \$180,332,800 for formula adjustments, which includes an FY 2025 ex-appropriation backfill.
- \$2,220,000 for one-time funding of eligibility income verification services.
- \$(150,000,000) to shift Medicaid services costs to PDRF - State.
- \$100,000 for coverage of traditional healing services.
- \$274,200 for coverage of outpatient speech therapy and Cochlear implants.
- \$4,000,000 for one-time graduate medical education funding.
- \$100,000 to increase one-time funding for critical access hospital supplemental payments from \$4,200,000 to \$4,300,000.
- \$(1,000,000) for removal of one-time case management provider wage increases.
- \$(1,832,000) for removal of one-time supplemental funding for eligibility income verification.
- \$1,945,500 for statewide adjustments.

Below is an overview of FY 2026 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 \$314,265,300 in FY 2027 above FY 2026 and by

\$167,238,400 in FY 2028 above FY 2027. (See the *Other Issues* section for more information.)

### Formula Adjustments

Formula adjustments represent changes that occur under current law, including caseload, capitation, and federal match rate revisions. The budget includes an increase of \$180,332,800 from the General Fund in FY 2026 for the following AHCCCS formula adjustments. This amount includes:

- \$123,569,200 for state match expenses associated with formula adjustments.
- \$(37,288,000) for changes in General Fund offsets.
- \$94,051,600 to backfill an FY 2025 ex-appropriation.

#### FY 2025 Base Adjustment

The budget includes a decrease of \$(102,214,900) from state match and a Total Funds decrease of \$(305,138,400) in FY 2026 for an FY 2025 base adjustment. The base adjustment is primarily associated with enrollment and capitation adjustments that occurred following the adoption of the enacted budget. Through June 2025, AHCCCS capitated enrollment was 1.58 million, or (190,000) below the enacted budget assumption of 1.77 million.

**Table 1****AHCCCS State Match Spending Changes** (in millions) <sup>1/</sup>**State Match Formula Adjustments**

FY 2025 Rebase	(102)
FY 2026 Caseload Growth	(186)
FY 2026 Inflation Increase	351
FY 2026 Federal Medicaid Match Rate Change	<u>61</u>
<i>State Match Costs Subtotal</i>	<i>124</i>

**Non-General Fund State Match Offsets**

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

**Other Formula Adjustments**

Backfill FY 2025 General Fund Ex-Appropriation	94
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**Non-Formula Adjustments**

Prescription Drug Rebate Fund Shift	(150)
Eligibility Income Verification	2
Traditional Healing Services Coverage	<1
Outpatient Speech Therapy/Cochlear Implants	<1
Critical Access Hospital Payments	4
Graduate Medical Education Funding	4
Remove FY 2025 One-Time Funding	(7)
Statewide Adjustments	<u>2</u>
<i>Non-Formula Subtotal</i>	<i>(147)</i>

**Total General Fund Spending Change** **\$36**

<sup>1/</sup> Numbers may not sum due to rounding.

<sup>2/</sup> County funds for the acute care program are displayed within the AHCCCS Fund. County funds for ALTCS are displayed within the Long Term Care System Fund.

The FY 2025 base adjustment is the net result of the lower-than-budgeted caseloads, as well as the October 2024 and April 2025 capitation adjustments implemented by AHCCCS. In the October 2024 adjustment, members between the ages of 1 and 20 received the largest rate increase of any group, which has an outsized impact on General Fund formula costs. We estimate the capitation adjustments resulted in \$55,575,200 of General Fund expenses above the enacted budget. Combined with the lower-than-budgeted caseloads, on net, the budget assumes that AHCCCS will end FY 2025 with an FY 2025 General Fund surplus of \$(64,351,600).

Additionally, federal regulators announced in November 2024 that Arizona recently qualified for a one-time upward revision to its federal match rate. This further increases the FY 2025 General Fund surplus by an estimated \$(29,700,000). Because the revision is one-time, its impact is excluded from the FY 2025 base adjustment amount and is discussed separately below. As a result of these factors, the FY 2026 budget includes a total \$(94,051,600) General Fund FY 2025 ex-

appropriation. (See FY 2025 Ex-Appropriation in Other Issues for additional information.) The budget backfills the General Fund ex-appropriation in FY 2026, which is displayed separately from formula adjustments within the Medicaid Services line items.

**FY 2026 Caseload Adjustment**

Formula adjustments reflect 1.2% enrollment growth in FY 2026. Table 2 displays historical and forecasted member months across AHCCCS populations. The budget assumes each individual category will increase based on estimated population growth rates among children and adults, or approximately 1.2% as a weighted average across all populations.

We estimate, however, that the 1.2% enrollment growth nevertheless results in a significant amount of General Fund caseload savings. This is due to the annualization of caseload declines that have occurred throughout FY 2025, as discussed above. Overall, caseload declines are expected to decrease state match expenses by \$(186,401,300) and Total Funds expenses by \$(127,391,800) in FY 2026.

**FY 2026 Inflation Adjustments**

The budget assumes a 3.0% inflation adjustment for capitation, fee-for-service, and reinsurance effective October 1, 2025. This increase is based on several factors, including the medical care consumer price index and the growth certain categories experienced in the October 2024 capitation rate adjustment. The budget also annualizes the October 2024 and April 2025 capitation rate adjustments. Inflation adjustments increase AHCCCS state costs by \$351,344,000 and Total Funds costs by \$736,503,100 in FY 2026.

**FY 2026 Federal Match Rate Changes**

The Federal Medical Assistance Percentage (FMAP) is the rate at which the federal government matches state contributions to the Medicaid programs. These rates are set on a state-by-state basis and are revised each year.

During SFY 2026, the standard FMAP rates will be as follows:

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

Additionally, the budget includes an FY 2025 General Fund ex-appropriation of \$(29,700,000) and a one-time

Table 2

AHCCCS Enrollment <sup>1/</sup>

	June 2024	June 2025	June 2025	June 2026	'25-'26 %
<b>Population</b>	<b>(Actual)</b>	<b>(Prior Est.)<sup>2/</sup></b>	<b>(Actual)</b>	<b>(Forecast)</b>	<b>Change</b>
Traditional	1,075,839	1,051,118	1,004,550	1,014,001	0.9%
Prop 204 Childless Adults	506,129	513,136	396,300	400,251	1.0%
Other Prop 204	184,106	175,254	158,815	161,311	1.6%
Adult Expansion	76,801	72,608	61,219	61,830	1.0%
KidsCare	62,025	69,628	53,547	56,587	5.7%
CHP	8,705	9,802	7,364	7,397	0.4%
ALTCS - Elderly & Physically Disabled <sup>3/</sup>	28,345	30,455	28,518	29,002	1.7%
Emergency Services	132,594	129,547	123,808	124,973	0.9%
<b>Total Enrollment</b>	<b>2,074,544</b>	<b>2,051,548</b>	<b>1,834,121</b>	<b>1,855,352</b>	<b>1.2%</b>

<sup>1/</sup> The figures represent June 1 enrollment for both capitated and fee-for-service members.

<sup>2/</sup> The figures in this column represent enrollment estimates included in the FY 2025 enacted budget.

<sup>3/</sup> The ALTCS - Elderly and & Physically Disabled program is funded in AHCCCS. An additional 43,364 people received Medicaid services through the Department of Economic Security's ALTCS - Developmental Disabilities program as of June 2024.

decrease of \$(6,000,000) from the General Fund in FY 2026 due to revisions to the state's FMAP.

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

This results in the following match rates:

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

The budget assumes this adjustment generates \$(262,550,000) of General Fund savings across the AHCCCS, DES, and DCS budgets. Of this amount, \$(171,500,000) is within the AHCCCS budget. The \$(171,500,000) consists of the adjustments described above, as well as approximately \$(135,800,000) that would be realized through higher General Fund revenue via reconciliation payments associated with both FY 2025 and FY 2026.

In total, the budget includes an increase of \$60,841,400 in state costs and a corresponding decrease of \$(60,841,400) in federal match costs in FY 2026 as a result of these FMAP adjustments.

#### Non-General Fund State Match Items

The gross state match contribution from the FY 2025 base adjustment and FY 2026 caseload growth, inflation, and federal match rate changes is projected to increase by \$123,569,200. The Non-General Fund state match is

projected to increase by \$37,288,000, resulting in a net General Fund change of \$86,281,200.

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

- An increase of \$113,780,900 in Political Subdivision Funds, mostly for the state match costs of a new directed payments program called the Safety Net Services Initiative (SNSI). (*Please see the Valleywise Directed Payments section for additional information.*) The increase in expenditure authority in FY 2026 for this program is displayed separately from formula adjustments among the Medicaid Services line items.
- An increase of \$9,501,500 in County Funds, mostly for ALTCS. County Funds are displayed within the Budget Neutrality Compliance Fund, the AHCCCS Fund under the Traditional Medicaid Services line item, and the Long Term Care System Fund. (*Please see County Contributions in Other Issues for additional information.*)
- A decrease of \$(71,451,900) from the Hospital Assessment Fund in FY 2026 for physical health costs of enrollees in the Proposition 204 and Adult Expansion programs. AHCCCS estimates that the average member will receive a lower share of physical health services and a higher share of behavioral health services in FY 2026 than in prior years. Combined with a decline in enrollment among the Proposition 204 population, this lowers Hospital Assessment Fund costs.
- A decrease of \$(1,840,700) from the Nursing Facility Provider Assessment Fund within ALTCS.
- An increase of \$2,720,300 from the Health Care Investment Fund, mostly within Traditional.
- A decrease of \$(15,422,100) from lower tobacco tax revenues.

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## Hospital Assessment

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

### Background

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

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

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

### FY 2025 Budget

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

- One-Time Behavioral Health Shift: Section 6 of the FY 2025 Health BRB (Laws 2024, Chapter 215) stipulates that, as session law, for FY 2025 and FY 2026, AHCCCS may increase the levy for the HAF to cover a portion of the behavioral health costs of the Proposition 204 and Adult Expansion populations. Under permanent law, behavioral health expenses for those populations would otherwise be covered by the General Fund. The enacted budget reduced AHCCCS' General Fund budget by \$(100,000,000) to account for the shift. The 3-year spending plan associated with the enacted budget assumed this shift would end after FY 2026.
- HCIF Hospital Payments Increase: The enacted budget included total expenditure authority of

\$3,606,700,000 for HEALTHII payments to hospitals to offset the financial impact of the behavioral health shift. This figure was based on an estimate of \$3,106,700,000 in HEALTHII payments to hospitals, plus \$500,000,000 as a "buffer" to ensure AHCCCS could increase HEALTHII payments above the \$3,106,700,000 level without a supplemental appropriation.

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

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

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

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

### FY 2026 Budget

Pursuant to the 3-year spending plan associated with the enacted FY 2025 budget, the enacted FY 2026 budget continues to cover \$100,000,000 of behavioral health expenses for Proposition 204 and Adult Expansion combined in FY 2026.

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

The budget includes an increase of \$637,600,000 in FY 2026 from expenditure authority funds for AHCCCS to make its projected level of payments in FY 2026. The budgets also modifies a footnote to now specify that \$4,244,300,000 of the agency's expenditure authority is for HEALTHII payments in FY 2026. AHCCCS is currently in the process of finalizing its FY 2026 levy.



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**Valleywise Directed Payments**

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

The budget includes an increase of \$395,282,000 in FY 2026 from expenditure authority funds for AHCCCS to make its requested level of SNSI payments in FY 2026.

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

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

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

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

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**Operating Budget**

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The budget includes \$197,263,200 and 1,143.2 FTE Positions in FY 2026 for the operating budget. These amounts consist of:

	<b>FY 2026</b>
General Fund	\$40,401,400
Children's Health Insurance Program (CHIP) Fund	5,489,200
Health Care Investment Fund	2,498,500

Prescription Drug Rebate Fund (PDRF) - State	2,038,900
Nursing Facility Provider Assessment Fund	453,400
Seriously Mentally Ill (SMI) Housing Trust Fund	217,700
AHCCCS Fund	146,164,100

Adjustments are as follows:

**Shift Funding to AHCCCS Data Storage**

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

**One-Time External Legal Costs**

The budget includes a one-time increase of \$1,375,000 from PDRF - State in FY 2026 to fund projected external legal costs related to sober living home fraud.

**One-Time MES Modernization Funding**

The budget includes a one-time increase of \$57,540,000 from the AHCCCS Fund in FY 2026 for replacement of AHCCCS's Medicaid Enterprise System (MES), formerly known as the Prepaid Medicaid Management Information System (PMMIS). The corresponding General Fund state match amount of \$1,800,000 was included in the Arizona Department of Administration – Automation Projects Fund. *(Please see ADOA – Automation Projects Fund narrative for additional information.)*

**Remove One-Time MES Modernization Funding**

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

**Statewide Adjustments**

The budget includes an increase of \$3,901,400 in FY 2026 for statewide adjustments. This amount consists of:

General Fund	1,878,600
CHIP Fund	27,600
Health Care Investment Fund	26,300
PDRF - State	700
AHCCCS Fund	1,968,200

*(Please see the Agency Detail and Allocations section.)*

Additionally, the budget adds a footnote specifying that \$100,000 from the PDRF within the agency's operating budget may be used for the administrative costs of granting one-year extensions for all managed care organizations with existing AHCCCS acute care contracts.

## Administration

### AHCCCS Data Storage

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

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

Adjustments are as follows:

#### Funding Shift

The budget includes an increase of \$280,000 from the CHIP Fund in FY 2026 for data costs related to the Children's Health Insurance Program. The budget shifts this funding from the Operating Lump Sum for no net overall change to agency resources.

This line item funds charges paid by AHCCCS to ADOA pursuant to an interagency service agreement through which ADOA provides mainframe computing services to AHCCCS. Funds may also be used for broader computing expenses, including cloud migration and storage costs.

### DES Eligibility

The budget includes \$99,294,500 and 885 FTE Positions in FY 2026 for DES Eligibility services. These amounts consist of:

General Fund	32,411,200
AHCCCS Fund	66,883,300

Adjustments are as follows:

#### One-Time Eligibility Income Verification Funding

The budget includes an increase of \$2,220,000 from the General Fund in FY 2026 to backfill a loss in federal funding associated with eligibility income verification.

#### Remove FY 2025 Supplemental Eligibility Income Verification Funding

The budget includes a decrease of \$(1,832,000) from the General Fund in FY 2026 to remove one-time supplemental funding to backfill a loss in federal funding

associated with eligibility income verification. (Please see *Other Issues* section for further details.)

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

### Proposition 204 - AHCCCS Administration

The budget includes \$15,916,000 and 131 FTE Positions in FY 2026 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	5,009,200
PDRF - State	60,900
AHCCCS Fund	10,845,900

Adjustments are as follows:

#### Statewide Adjustments

The budget includes an increase of \$290,900 in FY 2026 for statewide adjustments. This amount consists of:

General Fund	66,900
AHCCCS Fund	224,000

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 2026 for Proposition 204 - DES Eligibility costs. These amounts consist of:

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

Adjustments are as follows:

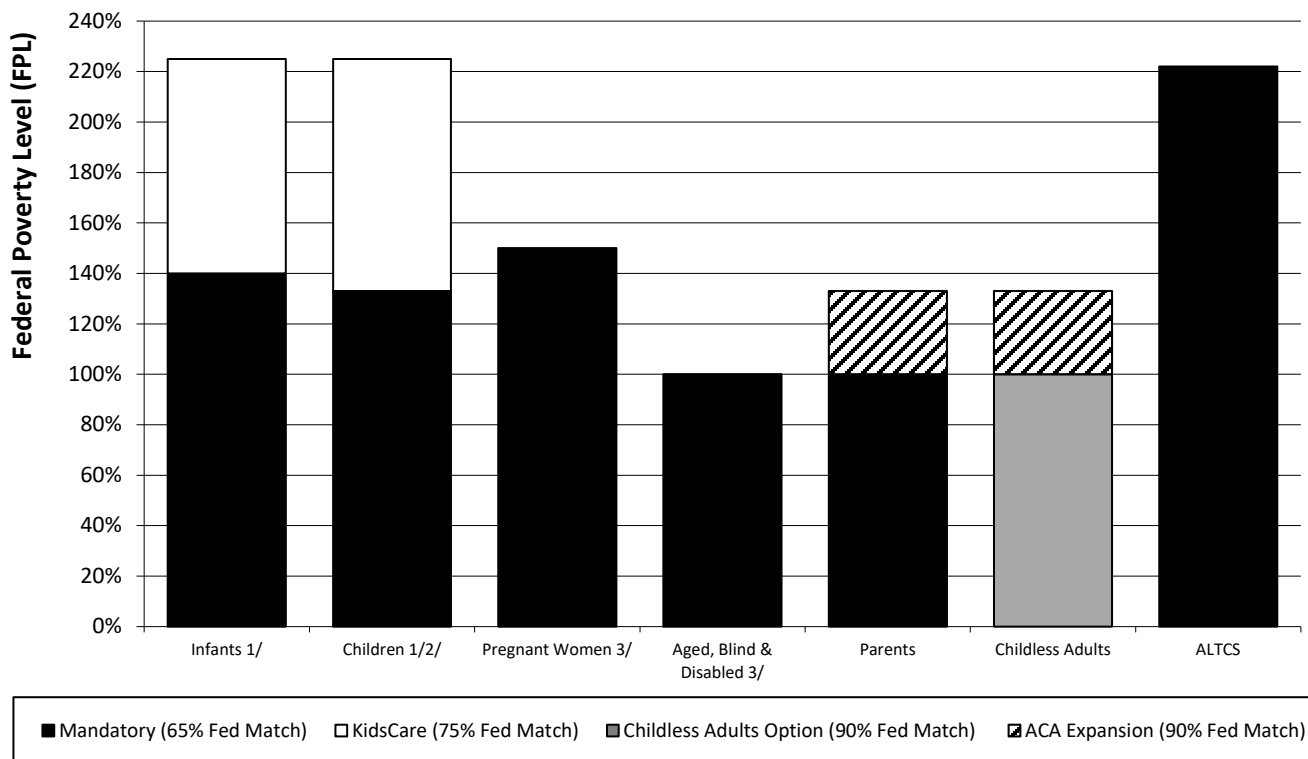
#### Formula Adjustments

The budget includes a decrease of \$(198,000) from the General Fund and a corresponding increase of \$198,000 from the BNCF in FY 2026 to reflect an increase of county contributions in FY 2026. This adjustment assumes an inflation adjustment of 2.39% and a state population adjustment of 1.64% pursuant to A.R.S. § 11-292.

*Background* – The BNCF is comprised of contributions from Arizona counties for administrative costs of the implementation of Proposition 204. Prior to the proposition, the counties funded and administered the health care program for some of the Proposition 204

Chart 1

## AHCCCS Eligibility



1/ The KidsCare expansion from 200% to 225% FPL is in effect beginning April 1, 2024.

2/ Children ages 6 to 18 years in families with incomes between 100% FPL and 133% FPL are eligible to receive an 75.04% federal match in FFY 2026.

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.

population. This line item contains funding for eligibility costs in DES for the Proposition 204 program.

### Medicaid Services

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

Chart 1 shows the income eligibility limits for each AHCCCS population in FY 2026. A description of program components can be found in the *Other Issues* section.

#### Traditional Medicaid Services

The budget includes \$10,124,311,200 in FY 2026 for Traditional Medicaid Services. This amount consists of:

General Fund	1,768,585,600
Health Care Investment Fund	758,599,100
Political Subdivision Funds	122,755,400
PDRF - State	331,529,700
TTHCF - Medically Needy Account	57,545,600

Third Party Liability and Recovery Fund	194,700
PDRF - In Lieu of Federal Funds	572,638,300
AHCCCS Fund	6,512,462,800

Adjustments are as follows:

#### Formula Adjustments

The budget includes an increase of \$446,695,000 in FY 2026 for formula adjustments. This amount consists of:

General Fund	89,863,500
Health Care Investment Fund	2,203,900
Political Subdivision Funds	6,744,500
TTHCF - Medically Needy Account	(9,040,700)
AHCCCS Fund	356,923,800

#### Backfill FY 2025 Ex-Appropriation

The budget includes an increase of \$94,051,600 from the General Fund in FY 2026 to backfill funding that was ex-appropriated in FY 2025. (See FY 2025 Ex-Appropriation in *Other Issues* for additional information.)

### New Valleywise Directed Payments Program

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

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

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

### Prescription Drug Rebate Shift

The budget includes a decrease of \$(150,000,000) from the General Fund and a corresponding increase of \$150,000,000 from PDRF - State in FY 2026 to further offset the General Fund costs of the AHCCCS Medicaid program. The 3-year spending plan associated with the FY 2026 enacted budget assumes the offset will be reduced to \$100,000,000 beginning in FY 2027.

### Traditional Healing Services Coverage

The budget includes an increase of \$222,957,900 in FY 2026 for coverage of traditional healing services. This amount consists of:

General Fund	100,000
AHCCCS Fund	222,857,900

These services encompass a variety of holistic practices used by different native tribes to promote health and wellbeing. These services are not normally federally reimbursed via Medicaid, but AHCCCS applied for and received approval from the federal government to cover these services when delivered at a Indian Health Service (IHS) or Tribal 638 facility. While IHS facility services typically receive 100% federal funding, the state is required to contribute a state match at the regular rate for non-tribal members that receive these services.

The FY 2026 Health Care Budget Reconciliation Bill (BRB) includes a provision that adds traditional healing services as an AHCCCS-covered benefit. The Health Care BRB also includes a provision that states the Legislature finds that the original 1115 waiver submission associated with traditional healing services was not subject to a requirement that 1115 waivers be authorized by the Legislature in the form of a statute prior to submission. This requirement was implemented by Laws 2025, Chapter 93, which was enacted after AHCCCS' original waiver submission for traditional healing services. The provision also states the Legislature finds that an 1115 waiver for traditional healing services subject to the requirement for legislative authorization would comply with this requirement under the statutory changes made by the FY 2026 Health Care BRB.

### Outpatient Speech Therapy and Cochlear Implant Coverage

The budget includes an increase of \$1,423,800 in FY 2026 for coverage of outpatient speech therapy and cochlear implants. This amount consists of:

General Fund	274,200
AHCCCS Fund	1,149,600

Speech therapy entails treatment for problems with language, speaking, or swallowing, including such services as lip reading, non-oral language training, and articulation training. A cochlear implant is a surgically implanted device used to treat hearing loss. Adults ages 21+ were previously excluded from coverage of outpatient speech therapy and cochlear implants. However, the FY 2026 Health Care BRB includes a provision that adds these services as AHCCCS-covered benefits for this population.

### Additional Expenditure Authority for Hospital Directed Payments

The budget includes an increase of \$637,600,000 in FY 2026 for additional expenditure authority for hospital directed payments. This amount consists of:

Health Care Investment Fund	159,400,000
AHCCCS Fund	478,200,000

*(Please see the Hospital Assessment section for additional information.)*

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

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

### Proposition 204 Services

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

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

Adjustments are as follows:

#### Formula Adjustments

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

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

#### New Valleywise Directed Payments Program

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

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

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

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

#### Adult Expansion Services

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

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

Adjustments are as follows:

#### Formula Adjustments

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

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

#### New Valleywise Directed Payments Program

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

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

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

**Background** – The Adult Expansion Services line item funds Medicaid services for adults from 100% to 133% FPL who are not eligible for another Medicaid program. Pursuant to A.R.S. § 36-2901.07 and Laws 2013, First Special Session, Chapter 10, coverage of this population is discontinued if any of the following occur: 1) the federal matching rate for adults in this category or childless adults falls below 80%; 2) the maximum amount that can be generated from the hospital assessment is insufficient to pay for the newly-eligible populations; or 3) the Federal ACA is repealed.

#### Comprehensive Health Plan

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

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

Adjustments are as follows:

#### Formula Adjustments

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

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

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

transferred to DCS, where they appear as expenditure authority.

### **KidsCare Services**

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

General Fund	54,381,900
Health Care Investment Fund	13,010,600
Political Subdivision Funds	1,727,200
CHIP Fund	188,515,600

Adjustments are as follows:

#### **Formula Adjustments**

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

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

#### **New Valleywise Directed Payments Program**

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

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

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

**Background** – The KidsCare program, also referred to as the Children’s Health Insurance Program (CHIP), provides health coverage to children in families with incomes between 133% and 225% FPL. Laws 2023, Chapter 139 raised the upper limit, previously 200% FPL, which went into effect on April 1, 2024. Households are charged a monthly premium of \$10 to \$70, depending on the family's income and number of children enrolled in the program. KidsCare is funded with the federal CHIP Block Grant and state matching dollars. The federal monies are deposited into the CHIP Fund, and the CHIP Fund is then appropriated, along with the General Fund match, to fund KidsCare. *(For additional program history, please refer to the FY 2020 Appropriations Report.)*

### **ALTCS Services**

The budget includes \$2,457,084,800 in FY 2026 for ALTCS Services. This amount consists of:

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

Adjustments are as follows:

#### **Formula Adjustments**

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

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

#### **New Valleywise Directed Payments Program**

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

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

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

**Background** – ALTCS provides coverage for individuals up to 222% of the FPL, or \$33,433 per person. The federal government requires coverage of individuals up to 100% of the Supplemental Security Income limit (SSI), which is equivalent to approximately 75% of FPL, or \$11,295 per person.

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

Clients contribute to the cost of their care based on their income and living arrangement, with institutionalized members contributing more of their income to the cost of their care. For FY 2025, AHCCCS estimates that client contributions will pay for 3.8%, or \$66,122,000, of the cost of care.

A.R.S. § 36-2999.52 authorizes AHCCCS to set the amount of and charge a provider assessment on health items and services provided to ALTCS enrollees by nursing facilities that are not paid for by Medicare. Laws 2022, Chapter 64 continued the assessment through September 30, 2031. The assessment ranges from \$1.80 to \$15.63 per day of patient care. AHCCCS may not increase rates to a level that generates assessment revenues more than 3.5% of facilities' net patient revenues.

#### **Behavioral Health Services in Schools**

The budget includes \$8,445,400 in FY 2026 for Behavioral Health Services in Schools. This amount consists of:

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

Adjustments are as follows:

##### **Formula Adjustments**

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

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

#### **Non-Medicaid Behavioral Health Services**

#### **Non-Medicaid Seriously Mentally Ill Services**

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

*Background* – This line item provides funding for Non-Medicaid SMI clients. The state was a longstanding defendant in the *Arnold v. Sarn* litigation concerning the level of services provided to the SMI population. *(Please see footnotes for more information on service targets established by the Arnold v. Sarn exit agreement and see the FY 2015 Appropriations Report for a history of the case.)*

#### **Case Management Provider Wage Increases**

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

#### **Remove One-Time Funding**

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

#### **Supported Housing**

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

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

These amounts are unchanged from FY 2025.

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

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

In addition to the \$5,324,800 General Fund appropriation for Supported Housing in this line item, the RBHAs may also expend monies in the Non-Medicaid Seriously Mentally Ill Services line item on Supported Housing services. AHCCCS reports \$24,501,200 General Fund was spent for Supported Housing services from the Non-Medicaid Seriously Mentally Ill Services line item in FY 2024. These amounts are used to draw down federal funding for the H2O program. AHCCCS reports that the approved waiver would allow the agency to draw down

an estimated \$68.9 million in Federal Funds annually for housing initiatives through FY 2027.

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

### **Crisis Services**

The budget includes \$16,391,300 in FY 2026 for Crisis Services. This amount consists of:

General Fund	14,141,100
Substance Abuse Services Fund	2,250,200

These amounts are unchanged from FY 2025.

*Background* – This line item provides funding for persons in need of emergency behavioral health assistance. These services may include 24-hour crisis telephone lines, crisis mobile teams, and facility-based crisis services.

### **Secure Behavioral Health Residential Facilities**

The budget includes \$5,000,000 in FY 2026 for Secure Behavioral Health Residential Facilities. This amount consists of:

SMI Housing Trust Fund	1,800,000
IGA & ISA Fund	3,200,000

Adjustments are as follows:

#### **One-Time Funding**

The budget includes an increase of \$5,000,000 in FY 2026 to fund new Secure Behavioral Health Residential Facility (SBHRF) construction or retrofitting of an existing building to become an SBHRF facility.

A budget footnote directs AHCCCS to distribute monies to SBHRFs that intend to apply for DHS licensure and that provide secure on-site supportive treatment to persons that are determined to be seriously mentally ill, chronically resistant to treatment, and either civilly committed or deemed dangerous and incompetent to stand trial. AHCCCS would be required to produce an implementation plan by February 1, 2026, containing recommendations and analysis regarding secure behavioral health facilities. AHCCCS would additionally be required to issue a request for proposals for SBHRF facilities by May 1, 2026. AHCCCS should give priority to facilities that can open within 12 months and meet the geographic needs of the state.

## **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 FY 2025 Federal Continuing Resolution delayed nationwide DSH payment reductions that were originally authorized by the federal Affordable Care Act (ACA) until October 1, 2025. 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 2026. The budget therefore assumes that Arizona's DSH allocation would be adjusted in FY 2026 through FY 2028 according to the regular federal formula, as outlined below.

#### *Distribution*

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

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

#### *Change in Uncompensated Care Payments*

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



**Table 3****Disproportionate Share Hospital Payments**

<b>Eligible Funding <sup>1/</sup></b>	<b>FY 2024 (Actual)</b>	<b>FY 2025 (Enacted)<sup>3/</sup></b>	<b>FY 2025 (Estimated)</b>	<b>FY 2026 (Estimated)</b>
Valleywise - CPE <sup>2/</sup>	\$ 0	\$ 92,291,200	\$ 0	\$ 0
ASH - CPE	28,474,900	28,474,900	28,474,900	28,474,900
Private Hospitals	884,800	884,800	884,800	884,800
DSH Voluntary Match	<u>163,429,900</u>	<u>65,330,500</u>	<u>197,948,100</u>	<u>205,641,700</u>
<b>Total Funding</b>	<b>\$ 192,789,600</b>	<b>\$ 186,981,400</b>	<b>\$ 227,307,800</b>	<b>\$ 235,001,400</b>
<b>General Fund</b>				
Retain FF of CPE (via Valleywise)	\$ 0	\$ 55,685,500	\$ 0	\$ 0
Retain FF of CPE (via ASH)	<u>18,876,000</u>	<u>18,477,400</u>	<u>18,693,800</u>	<u>18,320,800</u>
Subtotal - General Fund	\$ 18,876,000	\$ 74,162,900	\$ 18,693,800	\$ 18,320,800
<b>Other Entities</b>				
Valleywise	\$ 0	\$ 4,202,300	\$ 0	\$ 0
Private Hospitals	<u>884,800</u>	<u>884,800</u>	<u>884,800</u>	<u>884,800</u>
Subtotal - Other Entities	<u>884,800</u>	<u>5,087,100</u>	<u>884,800</u>	<u>884,800</u>
<b>Total DSH Distributions</b>	<b>\$ 19,760,800</b>	<b>\$ 80,590,400</b>	<b>\$ 19,578,600</b>	<b>\$ 19,205,600</b>
<b>Voluntary Match</b>	<b>\$ 163,429,900</b>	<b>\$ 65,330,500</b>	<b>\$ 197,948,100</b>	<b>\$ 205,641,700</b>
<b>Total Distributions</b>	<b>\$ 183,190,700</b>	<b>\$ 145,920,900</b>	<b>\$ 217,526,700</b>	<b>\$ 224,847,300</b>

<sup>1/</sup> Amounts include state and federal match funding.

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

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

match. (See the Hospital Payments program summary on the JLBC website.)

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

**Disproportionate Share Payments - Private Hospitals**

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

General Fund	315,500
AHCCCS Fund	569,300

Adjustments are as follows:

**Formula Adjustments**

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

**Eliminate Valleywise Distribution**

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

In FY 2024, there were 19 private hospitals that received DSH payments.

**DSH Payments - Voluntary Match**

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

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

Adjustments are as follows:

**Increased Funding**

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

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

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

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

#### **Graduate Medical Education**

The budget includes \$540,065,700 in FY 2026 for Graduate Medical Education (GME) expenditures. This amount consists of:

General Fund	13,000,000
Political Subdivision Funds	174,726,900
AHCCCS Fund	352,338,800

Adjustments are as follows:

##### **Funding Adjustment**

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

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

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

##### **One-Time HPSA Funding**

The budget includes a one-time increase of \$11,507,400 in FY 2026 to supplement GME payments to hospitals located in health professional shortage areas. This amount consists of:

General Fund	4,000,000
AHCCCS Fund	7,507,400

*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 2025, 34 hospitals received a total of \$459,719,900 for Graduate Medical Education.

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

The budget also continues a footnote making monies appropriated for the GME program non-lapsing through the end of the following fiscal year (FY 2027), with the exception of the FY 2026 HPSA appropriation, which a separate footnote makes continuously non-lapsing.

#### **Critical Access Hospitals**

The budget includes \$28,512,600 in FY 2026 for Critical Access Hospitals (CAH). This amount consists of:

General Fund	10,167,600
AHCCCS Fund	18,345,000

Adjustments are as follows:

##### **Formula Adjustments**

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

##### **FY 2026 Supplemental Pool Increase**

The budget includes a one-time increase of \$12,058,300 in FY 2026 for supplemental payments to Critical Access Hospitals. This amount consists of:

General Fund	4,300,000
AHCCCS Fund	7,758,300

##### **Remove FY 2025 Supplemental Pool Increase**

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

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

*Background* – This line item funds the CAH program, which provides increased reimbursement to small rural hospitals that are federally designated as CAHs. To be eligible as a CAH, the hospital must be in a rural area more than 35 miles from the nearest hospital and

maintain no more than 25 inpatient beds. Funding is distributed according to a hospital's share of the cost in serving Medicaid enrollees during the prior year. In FY 2024, 12 hospitals qualified for funding from CAH.

### Targeted Investments Program

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

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

Adjustments are as follows:

#### Funding Adjustment

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

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

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

*Background* – In January 2017, CMS approved AHCCCS's request to create a Targeted Investments Program. AHCCCS began using the program in FY 2018 to make incentive payments to Medicaid providers that adopt processes to integrate physical care and behavioral health services. CMS initially authorized up to \$300,000,000 in total funds for the program from FY 2018 through FY 2022. In October 2022, CMS granted a 5-year extension of the program at a total funding level of \$250,000,000. The state portion of the program's cost is funded from certified public expenditures for existing state-funded programs and voluntary contributions from local governments and public universities.

### Other Issues

This section includes information on the following topics:

- FY 2025 Ex-Appropriation
- FY 2025 Supplemental
- Statutory Changes
- Long-Term Budget Impacts
- County Contributions
- Program Components
- Tobacco Master Settlement Agreement

- Tobacco Tax Allocations

### FY 2025 Ex-Appropriation

The budget includes an FY 2025 ex-appropriation of \$(94,051,600) to account for an estimated General Fund surplus. The \$(94,051,600) surplus consists of:

- \$(64,351,600) for lower-than-budgeted caseloads.
- \$(29,700,000) for revisions to the state's FMAP.

(See Formula Adjustments for additional information.)

### FY 2025 Supplemental

The FY 2026 budget includes an FY 2025 supplemental appropriation of \$1,832,000 from the General Fund to backfill a loss in federal funding associated with eligibility income verification.

Prior to July 1, 2024, CMS provided free income verification services for the administration of Medicaid benefits. The supplemental represents increased contract costs associated with adding eligibility income verification services to an existing DES vendor contract.

### Statutory Changes

The Health Care BRB makes the following statutory changes:

#### Rates and Services

- As session law, continues the FY 2010 risk contingency rate reduction for all managed care organizations. Continues to allow AHCCCS to impose a reduction on funding for all managed care organizations administrative funding levels.
- As permanent law, adds traditional healing services as AHCCCS-covered benefits.
- As permanent law, adds limited prerelease services as AHCCCS-covered benefits for incarcerated individuals up to 90 days prior to their release.
- As session law, states the Legislature finds that the 1115 waiver submissions associated with traditional healing services and limited prerelease services for incarcerated individuals were not subject to a requirement that 1115 waivers be authorized by the Legislature in the form of a statute prior to submission. Also states the Legislature finds that an 1115 waiver for traditional healing services coverage or limited prerelease services subject to the requirement for legislative authorization would comply with this requirement under the statutory changes made by this legislation.

- As session law, requires AHCCCS to offer a one-year extension of existing acute care contracts for all managed care organizations that would last through September 30, 2028.
- As permanent law, adds cochlear implants and outpatient speech therapy as AHCCCS-covered benefits for adults ages 21 and older.
- As session law, requires AHCCCS to report by January 31, 2026, on aggregate spending and aggregate utilization of mental health medications, including antipsychotics and antidepressants, during the contract year ending on September 30, 2024.

#### *Counties*

- As session law, continues to exclude Proposition 204 administration costs from county expenditure limitations.
- As session law, sets the FY 2026 County Acute Care contribution at \$42,814,200.
- As session law, continues to require AHCCCS to transfer any excess monies back to the counties by December 31, 2026, if the counties' proportion of state match exceeds the proportion allowed in order to comply with the Federal Affordable Care Act.
- As session law, sets the FY 2026 county Arizona Long Term Care System (ALTCS) contributions at \$409,537,600.

#### *Hospitals*

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

#### *Available Funding*

- As session law, continues 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 \$314,265,300 in FY 2027 above FY 2026 and by \$167,238,400 in FY 2028 above FY 2027.

The FY 2027 estimate is based on:

- 1% caseload growth.
- 3.0% capitation growth.
- An estimated 64.11% FMAP in SFY 2027.
- Adjustments to non-General Fund state match offsets.
- \$100,000,000 to backfill a portion of the behavioral health costs of certain AHCCCS expansion populations that would no longer be covered via the Hospital Assessment Fund.
- \$50,000,000 to backfill funding from the PDRF used to offset General Fund costs in FY 2026.
- \$6,000,000 to backfill funding for a one-time revision to state's FMAP.
- \$(10,520,000) to remove FY 2026 one-time funding.

The FY 2028 estimate is based on:

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

### **County Contributions**

County governments make 3 different payments to defray the AHCCCS budget's costs, as summarized in *Table 4*. The counties' single largest contribution is the ALTCS program. Pursuant to A.R.S. § 11-292, the state and the counties share in the growth of the ALTCS program. (*See the County Contributions program summary on the JLBC website.*)

### **Program Components**

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

#### Capitation

The majority of AHCCCS payments are made through monthly capitated payments to contracted health plans to cover Medicaid services. In FY 2026, the average capitation rate is expected to be approximately \$607 per member per month (or \$7,300 annually). Of that amount,

Table 4

## County Contributions

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

<sup>1/</sup> Numbers may not add to total due to rounding.

<sup>2/</sup> County contributions to the acute care program are displayed within the AHCCCS Fund under the Traditional Medicaid Services line item.

<sup>3/</sup> County contributions to the ALTCS program are displayed within the Long Term Care System Fund.

an average of \$161 is from state match and \$446 from federal Medicaid and CHIP funds.

#### Reinsurance

Reinsurance is a stop-loss program for health plans and program contractors for patients with unusually high costs. The health plan is responsible for paying all member costs until an annual deductible has been met.

#### Fee-For-Service

Rather than using Capitation, Fee-For-Service payments are made for 3 programs: 1) federally-mandated services for Native Americans living on reservations; 2) temporary Fee-For-Service coverage for those who leave AHCCCS before enrolling in a capitated plan, and 3) federally-mandated emergency services for unauthorized and qualified immigrants.

#### Medicare Premiums

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

#### Clawback

AHCCCS is not required to pay for prescription drug costs for members who are eligible for Medicare. Instead, AHCCCS is required to make “Clawback” payments to Medicare based on 75.0% of the estimated drug costs.

#### **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 2026 to assist in the enforcement of a multi-year settlement reached between tobacco companies and the state over the Master Settlement Agreement (MSA). This transfer amount consists of:

- Up to \$1,200,000 to the Attorney General for costs associated with tobacco settlement litigation.
- \$836,000 to the Department of Revenue to fund 6 positions that perform luxury tax enforcement and audit duties. (See the program summary on the JLBC website.)

#### **Tobacco Tax Allocations**

The budget projects AHCCCS and DHS will receive \$124,486,100 in transfers of tobacco tax collections in FY 2026. Table 5 summarizes tobacco tax transfers and allocations to the agencies.

Table 5

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

**Medically Needy Account**Funds Available

Balance Forward

	<u>FY 2024</u>	<u>FY 2025</u>
Balance Forward	\$ 0	\$ (1,446,100)

Transfer In - Tobacco Tax and Health Care Fund

37,924,000	37,544,800
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Transfer In - Tobacco Products Tax Fund

20,790,000	20,582,100
------------	------------

**Total Funds Available**

\$ 58,714,000	\$ 56,680,800
---------------	---------------

AllocationsAHCCCS

AHCCCS State Match Appropriation

\$ 59,460,100	\$ 65,886,300
---------------	---------------

Total AHCCCS Allocations

\$ 59,460,100	\$ 65,886,300
---------------	---------------

DHS

Folic Acid

\$ 400,000	\$ 400,000
------------	------------

Renal, Dental Care, and Nutrition Supplements

300,000	300,000
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Administrative Adjustments

0	0
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Total DHS Allocations

700,000	700,000
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**Balance Forward\***

\$ (1,446,100) *	\$ (9,905,500) *
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**AHCCCS Proposition 204 Protection Account**Funds Available

Balance Forward

\$ 780,000	\$ (824,500)
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Transfer In - Tobacco Products Tax Fund

32,340,000	32,016,600
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**Total Funds Available**

\$ 33,120,000	\$ 31,192,100
---------------	---------------

Allocations

AHCCCS State Match Appropriation

\$ 33,944,500	\$ 36,662,900
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Administrative Adjustments

0	0
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**Balance Forward**

\$ (824,500) *	\$ (5,470,800) *
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**AHCCCS Emergency Health Services Account**Funds Available

Balance Forward

\$ 723,000	\$ (392,600)
------------	--------------

Transfer In - Tobacco Products Tax Fund

15,400,000	15,246,000
------------	------------

**Total Funds Available**

\$ 16,123,000	\$ 14,853,400
---------------	---------------

Allocations

AHCCCS State Match Appropriation

\$ 16,515,600	\$ 17,458,500
---------------	---------------

Administrative Adjustments

0	0
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**Balance Forward <sup>1/</sup>**

\$ (392,600) *	\$ (2,605,100) *
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**DHS Health Education Account**Funds Available

Balance Forward

\$ 18,847,500	\$ 22,005,500
---------------	---------------

Transfer In - Tobacco Tax and Health Care Fund

12,460,800	12,336,200
------------	------------

Transfer In - Tobacco Products Tax Fund

1,540,000	1,524,600
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Smoke-Free Arizona Fund

303,700	300,700
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**Total Funds Available**

\$ 33,152,000	\$ 36,167,000
---------------	---------------

Allocations

Tobacco Education and Prevention Program

\$ 9,733,900	\$ 16,368,100
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Leading Causes of Death - Prevention and Detection

1,412,600	2,232,000
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**Balance Forward**

\$ 22,005,500	\$ 17,566,900
---------------	---------------

**Health Research Account**Funds Available

Balance Forward

\$ 9,788,700	\$ 12,344,300
--------------	---------------

Transfer In - Tobacco Tax and Health Care Fund

2,708,800	2,681,700
-----------	-----------

Transfer In - Tobacco Products Tax Fund

3,850,000	3,811,500
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**Total Funds Available**

\$ 16,347,500	\$ 18,837,500
---------------	---------------

Allocations

Research Grants

4,003,200	12,487,700
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**Balance Forward**

\$ 12,344,300	\$ 6,349,800
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<sup>1/</sup> 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.