Arizona Health Care Cost Containment System

	FY 2025 ACTUAL	FY 2026 ESTIMATE	FY 2027 APPROVED
OPERATING BUDGET			
Full Time Equivalent Positions	2,459.3	2,459.3	2,428.3
Personal Services	56,810,900	56,834,000	57,320,600
Employee Related Expenditures	23,473,500	24,317,900	28,332,600
Professional and Outside Services	12,462,400	22,146,700	22,146,700
Travel - In State	106,200	169,900	169,900
Travel - Out of State	65,300	101,800	101,800
Other Operating Expenditures	50,306,700	93,560,600	118,575,300
Equipment	164,900	260,100	260,100
OPERATING SUBTOTAL	**143,389,900**	**197,391,000**	**226,907,000** 1/
SPECIAL LINE ITEMS			
Administration			
AHCCCS Data Storage	17,086,000	19,605,800	19,605,800
DES Eligibility	95,255,700	99,294,500	97,074,500 2/
Proposition 204 - AHCCCS Administration	30,324,500	15,788,200	16,474,200 3/
Proposition 204 - DES Eligibility	39,523,700	44,358,700	44,358,700 3/
H.R. 1 Implementation - Medicaid	0	0	51,500,000 4/5/
Medicaid Services 6/-9/			
Traditional Medicaid Services	8,085,122,300	10,311,577,900	10,308,634,300 10/-14/
Proposition 204 Services	6,880,264,000	7,698,377,600	7,193,353,000 3/13/14/
Adult Expansion Services	671,925,500	882,372,100	844,120,200 13/14/
Comprehensive Health Plan	153,596,400	178,650,800	200,180,300 13/14/
KidsCare Services	200,218,800	258,293,100	257,442,000
ALTCS Services	2,255,770,600	2,514,569,900	2,663,643,700 15/-17/
Behavioral Health Services in Schools	8,630,600	8,445,400	8,289,600
Enhanced Residential Treatment Program	0	0	7,812,000 18/
Non-Medicaid Behavioral Health Services			
Non-Medicaid Seriously Mentally Ill Services	82,029,600	77,646,900	77,646,900 19/
Case Management Provider Wage Increases	1,000,000	0	0
Supported Housing	14,322,300	65,324,800	65,324,800
Crisis Services	15,800,500	16,391,300	20,391,300
Secure Behavioral Health Residential Facilities	0	5,000,000	0
Hospital Payments			
Disproportionate Share Payments - Private Hospitals	18,745,600	884,800	884,800
DSH Payments - Voluntary Match	47,630,600	205,641,700	207,593,800 14/20/
Graduate Medical Education	390,121,400 21/	540,065,700	569,176,800 14/22/-26/
Critical Access Hospitals	28,416,700	28,512,600	28,336,000
Targeted Investments Program	55,081,300	67,000,000	56,000,000
AGENCY TOTAL	**19,234,256,000**	**23,235,192,800**	**22,964,749,700** 27/-29/
FUND SOURCES			
General Fund	2,535,430,400	2,718,381,000	2,920,591,900
Other Appropriated Funds			
Budget Neutrality Compliance Fund	4,914,300	5,112,300	5,304,500
Children's Health Insurance Program Fund	154,309,300	194,444,800	193,510,000
IGA and ISA Fund	0	3,200,000	0
Prescription Drug Rebate Fund - State	189,679,500	341,207,900	291,209,300
Seriously Mentally Ill Housing Trust Fund	6,819,000	2,017,700	2,957,300
Substance Abuse Services Fund	1,765,200	2,250,200	2,250,200
Tobacco Products Tax Fund - Emergency Health Services Account	13,414,200	15,400,000	13,467,800

	FY 2025 ACTUAL	FY 2026 ESTIMATE	FY 2027 APPROVED
Tobacco Tax and Health Care Fund - Medically Needy Account	50,577,400	57,545,600	51,482,300
SUBTOTAL - Other Appropriated Funds	421,478,900	621,178,500	560,181,400
SUBTOTAL - Appropriated Funds	**2,956,909,300**	**3,339,559,500**	**3,480,773,300**
Expenditure Authority Funds			
AHCCCS Fund	12,242,658,700	14,873,753,600	14,165,814,200
Arizona Tobacco Litigation Settlement Fund	83,737,000	102,000,000	102,000,000
Delivery System Reform Incentive Payment Fund	18,817,700	24,321,800	20,612,000
Health Care Investment Fund	695,072,800	1,073,417,100	1,079,429,900
Hospital Assessment Fund	564,108,200	648,223,600	517,230,900
Long Term Care System Fund	1,685,755,000	1,923,512,300	2,030,235,000
Nursing Facility Provider Assessment Fund	92,151,000	93,066,100	91,909,500
Political Subdivision Funds	257,621,500	519,773,200	519,220,400
Prescription Drug Rebate Fund - Federal	609,060,300	609,060,300	929,047,500 27/
Third Party Liability and Recovery Fund	194,700	194,700	194,700
Tobacco Products Tax Fund - Proposition 204 Protection Account	28,169,800	28,310,600	28,282,300
SUBTOTAL - Expenditure Authority Funds	16,277,346,700	19,895,633,300	19,483,976,400 9/14/
SUBTOTAL - Appropriated/Expenditure Authority Funds	**19,234,256,000**	**23,235,192,800**	**22,964,749,700**
Other Non-Appropriated Funds	160,723,500	177,556,600	177,752,000
Federal Funds	175,197,600	193,303,700	109,563,000
TOTAL - ALL SOURCES	19,570,177,100	23,606,053,100	23,252,064,700

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

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 must include the project cost, deliverables, the timeline for completion and the method of procurement that are consistent with the department's prior reports for its appropriations from the automation projects fund. (General Appropriations Act footnote)

2/ The amount appropriated for the DES eligibility line item shall be used for intergovernmental agreements with the department of economic security for eligibility determination and other functions. The state general fund share may be used for eligibility determination for other programs administered by the division of benefits and medical eligibility based on the results of the Arizona random moment sampling survey. (General Appropriations Act footnote)

3/ The amounts included in the proposition 204 — AHCCCS administration, proposition 204 — DES eligibility and proposition 204 services line items include all available sources of funding consistent with section 36-2901.01, subsection B, Arizona Revised Statutes. (General Appropriations Act footnote)

4/ The amount appropriated for the Public Law 119-21 implementation - medicaid line item is exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations, until June 30, 2028. (General Appropriations Act footnote)

5/ Of the amount appropriated for the Public Law 119-21 implementation - medicaid line item, $4,000,000 from the state general fund and $24,400,000 from expenditure authority shall be expended for information technology system upgrades. Any information technology projects funded from the Public Law 119-21 implementation – medicaid line item are exempt from review by the information technology authorization committee established by section 18-121, Arizona Revised Statutes. (General Appropriations Act footnote)

6/ 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)

7/ The Arizona health care cost containment system administration shall report to the joint legislative budget committee on or before March 1, 2027 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)

8/ On or before March 31, 2027, 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 2026-2027, disaggregated by state match and by federal match. (General Appropriations Act footnote)

9/ 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 2026-2027. 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)

10/ 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 2026-2027 to the attorney general for costs associated with e-cigarette enforcement and tobacco settlement litigation. (General Appropriations Act footnote)

11/ The Arizona health care cost containment system administration shall transfer $836,000 from the traditional medicaid services line item for fiscal year 2026-2027 to the department of revenue for enforcement costs associated with the March 13, 2013 master settlement agreement with tobacco companies. (General Appropriations Act footnote)

12/ The amount appropriated for the traditional medicaid services line item includes $4,400,000 from the state general fund and $7,758,100 from expenditure authority for inpatient payments to rural hospitals as defined in section 36-2905.02, Arizona Revised Statutes. (General Appropriations Act footnote)

13/ 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)

14/ 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 2026-2027 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)

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 2026-2027 nonfederal costs of providing long-term care system services is $445,813,900. This amount is included in the expenditure authority fund source. (General Appropriations Act footnote)

17/ Any supplemental payments received in excess of $91,455,300 for nursing facilities that serve Arizona long-term care system medicaid patients in fiscal year 2026-2027, including any federal matching monies, by the Arizona health care cost containment system administration are appropriated to the administration in fiscal year 2026-2027. 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/ The amount appropriated for the enhanced residential treatment program line item is exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations. The legislature intends to continue to fund $2,739,600 from the seriously mentally ill housing trust fund established by section 41-3955.01, Arizona Revised Statutes, and $5,072,400 from expenditure authority for the enhanced residential treatment program in fiscal years 2027-2028 and 2028-2029 as part of a three-year pilot program. (General Appropriations Act)

19/ On or before June 30, 2027, 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 must 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 one thousand two hundred class members, supported employment services for seven hundred fifty class members, eight assertive community treatment teams and consumer operated services for one

thousand five hundred 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)

20/ 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 2026-2027 by the Arizona health care cost containment system administration in excess of $208,478,600 are appropriated to the administration in fiscal year 2026-2027. 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). NOTE: The footnote reference to $208,478,600 is incorrect. The correct number is $207,593,800.

21/ Monies appropriated for graduate medical education by Laws 2024, chapter 209, section 19 are exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations, until December 31, 2026. (General Appropriations Act footnote)

22/ Any monies for graduate medical education received in fiscal year 2026-2027, including any federal matching monies, by the Arizona health care cost containment system administration in excess of $569,176,800 are appropriated to the administration in fiscal year 2026-2027. 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/ 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)

24/ Notwithstanding section 36-2903.01, subsection G, paragraph 9, subdivisions (a), (b) and (c), Arizona Revised Statutes, the amount for graduate medical education includes $5,000,000 from the state general fund and $9,152,300 from expenditure authority for the direct and indirect costs of graduate medical education programs located in counties with a population of less than five hundred thousand persons. The state general fund amount may supplement, but not supplant, voluntary payments made from political subdivisions for payments to hospitals that operate a graduate medical education program. The administration shall prioritize distribution to programs at hospitals in counties with a higher percentage of persons residing in a health professional shortage area as defined in 42 Code of Federal Regulations part 5. (General Appropriations Act footnote)

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 $4,000,000 from the state general fund and $7,321,800 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)

26/ 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, 2028. (General Appropriations Act footnote)

27/ 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)

28/ On or before July 1, 2027, 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, 2026. (General Appropriations Act footnote)

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

Operating Budget

The budget includes $226,907,000 and 1,150.2 FTE Positions in FY 2027 for the operating budget. These amounts consist of:

	FY 2027
General Fund	$41,747,000
Children's Health Insurance Program (CHIP) Fund	5,569,100
Health Care Investment Fund	2,516,500
Prescription Drug Rebate Fund (PDRF) - State	2,101,200
Nursing Facility Provider Assessment Fund	454,200
Seriously Mentally Ill (SMI) Housing Trust Fund	217,700
AHCCCS Fund	174,301,300

Adjustments are as follows:

FY 2027 External Legal Costs

The budget includes a one-time increase of $1,375,000 from PDRF - State in FY 2027 to continue to fund external legal costs related to sober living home fraud.

Remove FY 2026 External Legal Costs

The budget includes a decrease of $(1,375,000) from PDRF - State in FY 2027 to remove one-time funding for external legal costs related to sober living home fraud.

FY 2027 MES Replacement Funding

The budget includes a one-time increase of $82,700,000 from the AHCCCS Fund in FY 2027 to continue to fund the replacement of AHCCCS' Medicaid Enterprise System (MES), formerly known as the Prepaid Medicaid Management Information System (PMMIS). The corresponding General Fund state match amount of $12,940,000 is included in the Arizona Department of Administration – Automation Projects Fund. *(Please see ADOA – Automation Projects Fund narrative for additional information.)*

Remove FY 2026 MES Replacement Funding

The budget includes a decrease of $(57,540,000) from the AHCCCS Fund in FY 2027 to remove one-time funding for replacement of AHCCCS' MES. The corresponding General Fund state match reduction of $(1,800,000) is included in the Arizona Department of Administration – Automation Projects Fund. *(Please see ADOA – Automation Projects Fund narrative for additional information.)*

Fraud Enforcement Staff

The budget includes an increase of $730,000 and 7 FTE Positions in FY 2027 for fraud enforcement staff. This amount consists of:

General Fund	365,000
AHCCCS Fund	365,000

The additional staff will be located in the agency's Office of Inspector General (OIG) and will assist with the investigation, enforcement, and prosecution of fraudulent activity within the Medicaid system.

Statewide Adjustments

The budget includes an increase of $3,626,000 in FY 2027 for statewide adjustments. This amount consists of:

General Fund	913,700
CHIP Fund	79,900
Health Care Investment Fund	18,000
PDRF - State	1,400
Nursing Facility Provider Assessment Fund	800
AHCCCS Fund	2,612,200

(Please see the Agency Detail and Allocations section.)

Administration

AHCCCS Data Storage

The budget includes $19,605,800 in FY 2027 for AHCCCS Data Storage. This amount consists of:

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

These amounts are unchanged from FY 2026.

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 2027 for DES Eligibility services. These amounts consist of:

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

Adjustments are as follows:

Remove One-Time Income Eligibility Verification Funding

The budget includes a decrease of $(2,220,000) from the General Fund in FY 2027 to remove one-time funding used to backfill a loss in federal funding associated with income eligibility verification. This funding was continued, however, as part of the budget's one-time funding for H.R. 1 implementation. *(Please see the H.R. 1 Implementation - Medicaid line item for additional information.)*

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

Proposition 204 - AHCCCS Administration

The budget includes $16,474,200 and 131 FTE Positions in FY 2027 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	5,109,800
AHCCCS Fund	11,364,400

Adjustments are as follows:

Statewide Adjustments

The budget includes an increase of $686,000 in FY 2027 for statewide adjustments. This amount consists of:

General Fund	167,500
AHCCCS Fund	518,500

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 2027 for Proposition 204 - DES Eligibility costs. These amounts consist of:

General Fund	15,417,700
Budget Neutrality Compliance Fund (BNCF)	5,304,500
AHCCCS Fund	23,636,500

Adjustments are as follows:

Formula Adjustments

The budget includes a decrease of $(192,200) from the General Fund and a corresponding increase of $192,200 from the BNCF in FY 2027 to reflect an increase of county contributions in FY 2027. This adjustment assumes an inflation adjustment of 2.48% and a state population adjustment of 1.28% 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.

H.R. 1 Implementation - Medicaid

The budget includes $51,500,000 and 75 FTE Positions in FY 2027 for H.R. 1 Implementation - Medicaid. These amounts consist of:

General Fund	10,200,000
AHCCCS Fund	41,300,000

Adjustments are as follows:

H.R. 1 Implementation Funding

The budget includes a one-time increase of $51,500,000 and 75 FTE Positions in FY 2027 for the administrative costs associated with implementation of H.R. 1. These amounts consist of:

General Fund	10,200,000
AHCCCS Fund	41,300,000

This funding is for the administrative costs of implementing the Medicaid provisions of H.R. 1, the federal budget reconciliation bill that was signed into law on July 4, 2025. *(Please see the Medicaid Services section for additional details on H.R. 1-related changes.)* The funding will be used for:

- Additional AHCCCS administrative staff.
- Additional DES eligibility staff.
- Information technology (IT) modifications.
- Continuing funding for income eligibility verification that was labeled as one-time in the FY 2026 budget. *(Please see the DES Eligibility line item for additional information.)*
- Additional income eligibility verification costs specific to H.R. 1-related changes.

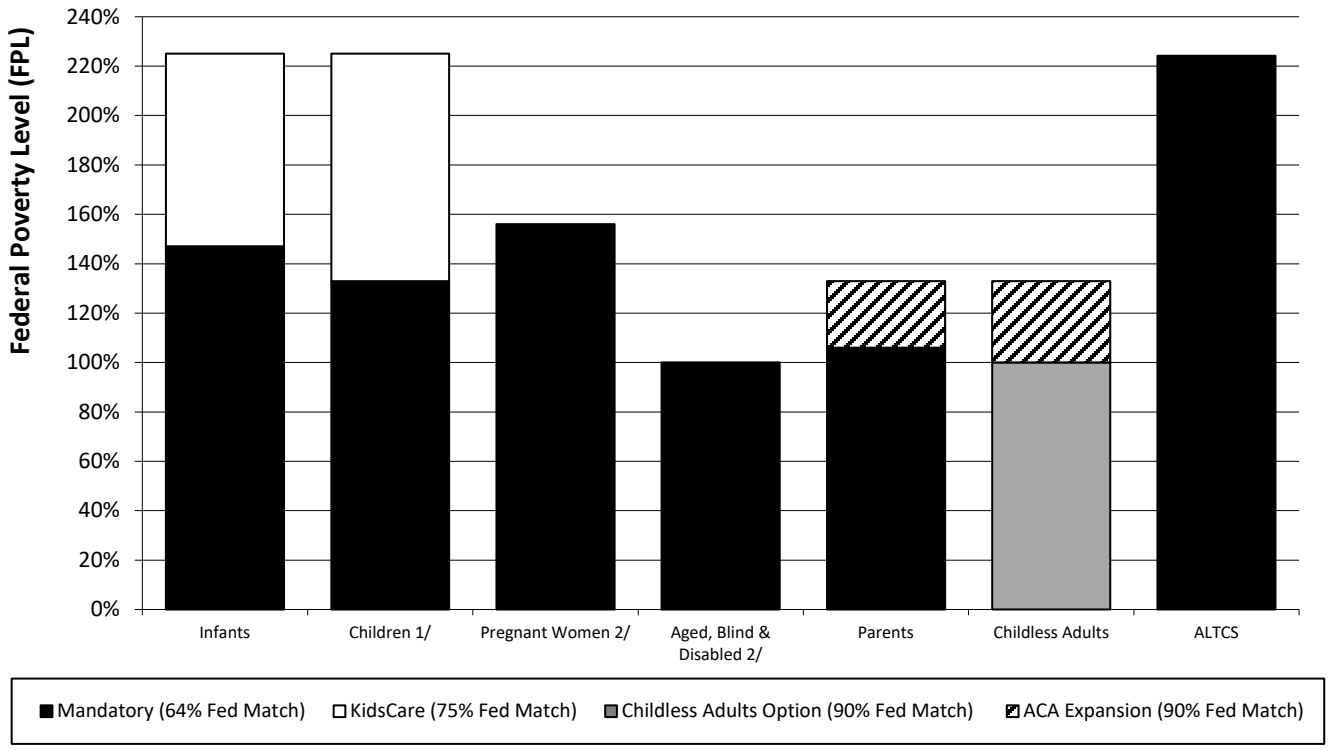
The budget adds a footnote making the monies non-lapsing through June 30, 2028. Additionally, the budget adds a footnote specifying that of the total funding for H.R. 1 implementation, $28,400,000 is for IT projects that are exempt from review by the Information Technology Authorization Committee (ITAC). The General Appropriations Act refers to H.R. 1 as "Public Law 119-21."

Medicaid Services

Medicaid services line items include funding for physical health services, behavioral health services, and long-term care services for Medicaid enrollees. The services include:

- Capitation: These are payments to contracted health plans at a fixed monthly rate per enrollee determined by AHCCCS actuaries. The contractors use capitation revenues to pay for covered Medicaid health services and related administrative costs.
- Fee-For-Service: These are payments AHCCCS makes directly to health care providers for AHCCCS members that are not enrolled in a contracted health plan.
- Medicare Premiums: These are payments AHCCCS makes to cover the out-of-pocket expenses associated with the Medicare program for low-income elderly individuals.

Chart 1



1/ Children ages 6 to 18 years in families with incomes between 100% FPL and 133% FPL are eligible to receive an 74.76% federal match in FFY 2027.

2/ Women diagnosed with breast or cervical cancer by a provider recognized by the Well Women Healthcheck program and those in the "Freedom to Work" program up to 250% FPL receive coverage at the regular (mandatory) federal match.

- Reinsurance: These are reimbursements AHCCCS makes to contracted health plans for members incurring medical expenses above certain high-cost thresholds specified in AHCCCS contracts.
- Medicare Clawback: These are payments AHCCCS makes to the federal government to cover a portion of the cost of Medicare prescription drug coverage for AHCCCS enrollees.

The Medicaid Services line items are delineated by basis for eligibility. *Chart 1* shows the income eligibility limits for each AHCCCS population in FY 2027. *Table 1* displays actual and estimated AHCCCS enrollment by basis of eligibility. The budget applies "formula adjustments" to each line item based on estimated changes in enrollment, the federal match rate, and inflation.

The budget includes an increase of $141,092,100 from the General Fund and $192,246,500 in Total Funds in FY 2027 for formula adjustments. The main formula assumptions for the FY 2027 budget include:

- Enrollment decline of (190,000) members, or (10.3)%, between June 2025 and June 2026. The budget assumes an additional enrollment decline of (42,000), or (2.5)%, between June 2026 and June 2027 based on 3 factors: base enrollment changes, H.R. 1 provisions affecting enrollment, and FY 2027 Health Care Budget Reconciliation Bill (BRB) changes to eligibility verification. The budget assumes that the combined impact of these factors will result in 1.61 million members by June 2027 *(See Table 1)*. H.R. 1 and Health Care BRB changes are described in more detail below.
- 14.1% inflation in capitation payments in FY 2026 and 3.0% inflation in capitation payments in FY 2027. *(See FY 2026 Supplemental in the Other Issues section for more information on the FY 2026 inflation adjustment.)* The budget assumes that the average capitation rate will be $753 per member, per month in FY 2027 (or $9,036 annually).
- A reduction in the regular federal match rate from 64.48% in FY 2026 to 63.94% in FY 2027.

The budget also includes a decrease of $(104,728,400) from the General Fund and $(576,470,200) in Total Funds in FY 2027 to remove a FY 2026 supplemental. *(See FY 2026 Supplemental in Other Issues for additional*

Table 1

AHCCCS Enrollment [1/]

Population	June 2025 (Actual)	June 2026 (Prior Est.)[2/]	June 2026 (Actual)	June 2027 (Forecast)	'26-'27 % Change
Traditional	1,004,724	1,014,001	894,693	888,502	(0.7)%
Prop 204 Childless Adults	396,300	400,251	346,247	322,412	(6.9)%
Other Prop 204	158,815	161,311	143,863	133,961	(6.9)%
Adult Expansion	61,219	61,830	53,489	51,689	(3.4)%
KidsCare	53,547	56,587	54,254	54,254	0.0%
CHP	7,190	7,397	6,506	6,506	0.0%
ALTCS - Elderly & Physically Disabled [3/]	28,440	29,002	28,348	28,632	1.0%
Emergency Services	130,503	124,973	122,975	122,975	0.0%
Total Enrollment	**1,840,738**	**1,855,352**	**1,650,479**	**1,608,931**	**(2.5)%**

1/ The figures represent June 1 enrollment for both capitated and fee-for-service members.
2/ The figures in this column represent enrollment estimates included in the FY 2026 enacted budget.
3/ The ALTCS - Elderly and & Physically Disabled program is funded in AHCCCS. An additional 48,477 people received Medicaid services through the Department of Economic Security's ALTCS - Developmental Disabilities program as of June 2026.

information.) This is displayed separately from formula adjustments within the Medicaid Services line items.

H.R. 1 - Enrollment Changes

H.R. 1's primary impact on AHCCCS benefit spending results from provisions that potentially reduce the number of Medicaid participants. The budget incorporates these reductions as part of formula adjustments. The two most significant provisions are scheduled to begin on January 1, 2027:

- Redetermine eligibility of the "expansion" population semiannually rather than once a year.
- Require the Medicaid expansion population to work or participate in "community engagement" activities for 80 hours a month. The federal Department of Health and Human Services (HHS) may allow a state to delay implementation to no later than January 1, 2029, if the state is demonstrating a good faith effort to comply.

Health Care BRB Changes

Additionally, the FY 2027 Health Care BRB makes the following changes in AHCCCS enrollment verification in FY 2027:

- Requires AHCCCS to comply with federal Medicaid law and regulations on member eligibility redeterminations, including new H.R. 1 requirements.
- Requires AHCCCS to do the following when determining member eligibility:
  - Review Department of Health Services death records.
  - Review federal data on out-of-state enrollment in Medicaid, Temporary Assistance for Needy Families (TANF), and the Supplemental Nutrition Assistance Program (SNAP), as well as out-of-state vital death records, to identify potential changes in residency.
  - Review DES information on changes to unemployment benefits, employment status, or wages.
  - Review Arizona Lottery Commission and Department of Gaming information to identify substantial lottery or gambling winnings, including online gambling winnings.
- Prohibits the use of self-attestation in verifying residency.
- Prohibits the agency from accepting eligibility determinations made under the federal health insurance exchange without independent agency verification.

Traditional Medicaid Services

The budget includes $10,308,634,300 in FY 2027 for Traditional Medicaid Services. This amount consists of:

General Fund	1,928,703,000
Health Care Investment Fund	762,017,400
Political Subdivision Funds	161,875,400
PDRF - State	281,529,700
TTHCF - Medically Needy Account	51,482,300
Third Party Liability and Recovery Fund	194,700
PDRF - In Lieu of Federal Funds	892,625,500
AHCCCS Fund	6,230,206,300

Adjustments are as follows:

Formula Adjustments

The budget includes an increase of $176,723,100 in FY 2027 for formula adjustments. This amount consists of:

General Fund	103,696,400

Health Care Investment Fund	3,418,300
Political Subdivision Funds	39,120,000
TTHCF - Medically Needy Account	(6,063,300)
PDRF - In Lieu of Federal Funds	319,987,200
AHCCCS Fund	(283,435,500)

Besides the formula adjustments referenced above, these amounts include $5,528,900 from the General Fund and $9,804,800 from the AHCCCS Fund for limited prerelease services for incarcerated individuals. The FY 2026 Health Care BRB authorized AHCCCS to cover limited prerelease services up to 90 days prior to their release. The FY 2026 budget, however, did not include an increase in funding for these services.

Remove FY 2026 Supplemental

The budget includes a decrease of $(187,266,700) in FY 2027 for the removal of one-time supplemental formula funding in FY 2026. This amount consists of:

General Fund	(87,582,000)
Political Subdivision Funds	(27,745,400)
AHCCCS Fund	(71,939,300)

Urban Traditional Healing Services Pilot Coverage

The budget includes an increase of $1,600,000 in FY 2027 for urban traditional healing services pilot coverage. This amount consists of:

General Fund	421,000
AHCCCS Fund	1,179,000

The FY 2027 Health Care BRB, conditional on federal approval, establishes a 3-year pilot program in FY 2027 through FY 2029 for AHCCCS to cover traditional healing services when delivered at an Urban Indian Organization (UIO) facility. The 3-year spending plan associated with the FY 2027 enacted budget includes one-time funding of $421,000 from the General Fund and $1,179,000 from the AHCCCS Fund for the program in FY 2027, FY 2028, and FY 2029.

Backfill One-Time FMAP Savings

The budget includes an increase of $6,000,000 from the General Fund in FY 2027 to backfill one-time FMAP savings. The FY 2026 enacted budget included a one-time decrease of $(6,000,000) from the General Fund due to revisions to the state's FMAP in FFY 2025. This increase backfills those one-time savings in FY 2027.

Backfill Prescription Drug Rebate Shift

The budget includes an increase of $50,000,000 from the General Fund and a corresponding decrease of $(50,000,000) from PDRF - State in FY 2027 to backfill a portion of an FY 2026 General Fund offset. The 3-year spending plan associated with the FY 2026 enacted budget included a $150,000,000 offset in FY 2026 but assumed the offset would be reduced to $100,000,000 beginning in FY 2027.

Background – Traditional Medicaid Services funds physical health and behavioral health services of the following populations with the following net incomes:

- Children under 1, up to 147% of the federal poverty level (FPL).
- Children aged 1-5, up to 141% FPL.
- Children aged 6-18, up to 133% FPL.
- Pregnant women (including 1 year postpartum), up to 156% FPL.
- Aged, blind, and disabled adults, up to 75% FPL for an individual and 83% FPL for a couple.
- Parents and caretaker relatives, up to 15% FPL.
- Women diagnosed with breast or cervical cancer by a provider recognized by DHS' Well Women Healthcheck program.
- Working individuals aged 16-64 that are blind or have a disability, up to 250% FPL ("Freedom to Work").

Proposition 204 Services

The budget includes $7,193,353,000 in FY 2027 for Proposition 204 Services. This amount consists of:

General Fund	187,697,200
Health Care Investment Fund	243,092,300
Hospital Assessment Fund	455,223,700
Political Subdivision Funds	61,574,500
Tobacco Litigation Settlement Fund	102,000,000
TPTF - Emergency Health Services Account	13,467,800
TPTF - Proposition 204 Protection Account	28,282,300
AHCCCS Fund	6,102,015,200

Adjustments are as follows:

Formula Adjustments

The budget includes a decrease of $(257,608,800) in FY 2027 for formula adjustments. This amount consists of:

General Fund	(11,821,500)
Health Care Investment Fund	(133,000)
Hospital Assessment Fund	(20,769,500)
Political Subdivision Funds	13,799,400
TPTF - Emergency Health Services Account	(1,932,200)
TPTF - Proposition 204 Protection Account	(4,057,700)
AHCCCS Fund	(232,694,300)

Remove FY 2026 Supplemental

The budget includes a decrease of $(247,415,800) in FY 2027 for the removal of one-time supplemental formula funding in FY 2026. This amount consists of:

General Fund	(12,618,000)
Health Care Investment Fund	(800)
Hospital Assessment Fund	(19,737,700)
Political Subdivision Funds	(50,097,300)
TPTF - Proposition 204 Protection Account	4,029,400
AHCCCS Fund	(168,991,400)

Backfill Hospital Assessment Behavioral Health Shift

The budget includes an increase of $100,000,000 from the General Fund and a corresponding decrease of $(100,000,000) from the Hospital Assessment Fund in FY 2027 to backfill a portion of the behavioral health costs of the Proposition 204 population. The FY 2025 Health Care BRB only permitted the use of the Hospital Assessment in FY 2025 and FY 2026 to cover behavioral health expenses. The 3-year spending plan therefore included this FY 2027 increase. *(Please see the FY 2026 Appropriations Report for additional information.)*

The FY 2027 Health Care BRB exempts AHCCCS from rulemaking requirements for implementing the hospital assessment in FY 2027 and makes the rulemaking exemption retroactive to July 1, 2026.

Beginning in FY 2028, H.R. 1 reduces the maximum assessment rate by (0.5)% each year until it reaches 3.5% by FY 2032. AHCCCS currently levies a 6.0% assessment, the maximum allowed under prior federal law.

Background – The Proposition 204 program serves adults with incomes that exceed the income limits for the Traditional population but are below 100% FPL (childless adults, aged, blind, and disabled adults) or below 106% FPL (parents and caretaker relatives).

Adult Expansion Services

The budget includes $844,120,200 in FY 2027 for Adult Expansion Services. This amount consists of:

General Fund	9,108,700
Health Care Investment Fund	19,867,100
Hospital Assessment Fund	62,007,200
Political Subdivision Funds	3,557,600
AHCCCS Fund	749,579,600

Adjustments are as follows:

Formula Adjustments

The budget includes an increase of $45,392,900 in FY 2027 for formula adjustments. This amount consists of:

General Fund	773,900
Health Care Investment Fund	1,100
Hospital Assessment Fund	15,132,500
Political Subdivision Funds	736,600
AHCCCS Fund	28,748,800

Remove FY 2026 Supplemental

The budget includes a decrease of $(83,644,800) in FY 2027 for the removal of one-time supplemental formula funding in FY 2026. This amount consists of:

General Fund	(1,633,500)
Health Care Investment Fund	(37,100)
Hospital Assessment Fund	(5,618,000)
Political Subdivision Funds	111,000
AHCCCS Fund	(76,467,200)

Background – The Adult Expansion Services line item funds Medicaid services for adults aged 19-64 with net incomes above the Proposition 204 income thresholds but at or below 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 $200,180,300 in FY 2027 for the Comprehensive Health Plan (CHP). This amount consists of:

General Fund	62,906,500
Health Care Investment Fund	9,092,200
AHCCCS Fund	128,181,600

Adjustments are as follows:

Formula Adjustments

The budget includes an increase of $21,529,500 in FY 2027 for formula adjustments. This amount consists of:

General Fund	6,729,800
Health Care Investment Fund	2,503,900
AHCCCS Fund	12,295,800

These amounts consist of a decrease of $(2,228,500) for standard formula adjustments, as well as a one-time increase of $23,758,000 for a CHP reconciliation payment. The payment is associated with a CHP operating costs shortfall for the contract year ending on September 30, 2024.

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 $257,442,000 in FY 2027 for KidsCare Services. This amount consists of:

General Fund	54,834,700
Health Care Investment Fund	12,911,500
Political Subdivision Funds	2,194,900
CHIP Fund	187,500,900

Adjustments are as follows:

Formula Adjustments

The budget includes a decrease of $(193,300) in FY 2027 for formula adjustments. This amount consists of:

General Fund	452,800
Health Care Investment Fund	(99,100)
Political Subdivision Funds	467,700
CHIP Fund	(1,014,700)

Remove FY 2026 Supplemental

The budget includes a decrease of $(657,800) from Political Subdivision Funds in FY 2027 for the removal of one-time supplemental formula funding in FY 2026.

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.

State law requires AHCCCS to adopt rules for the collection of premiums from families with incomes above 150% FPL. Prior to the COVID-19 pandemic, households were charged a monthly premium of $10 to $70, depending on the family's income and number of children enrolled in the program. However, AHCCCS has paused premium collections "until further notice" as it develops changes to its premium policies. In anticipation of these changes, AHCCCS has applied for and received federal approval to waive any consequences for failure to pay KidsCare premiums.

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 $2,663,643,700 in FY 2027 for ALTCS Services. This amount consists of:

General Fund	445,072,900
Health Care Investment Fund	29,932,900
Political Subdivision Funds	22,947,200
PDRF - State	7,578,400
PDRF - In Lieu of Federal Funds	36,422,000
Nursing Facility Provider Assessment Fund	91,455,300
Long Term Care System Fund	2,030,235,000

Adjustments are as follows:

Formula Adjustments

The budget includes an increase of $206,558,900 in FY 2027 for formula adjustments. This amount consists of:

General Fund	41,361,000
Health Care Investment Fund	521,500
Political Subdivision Funds	4,700,900
Nursing Facility Provider Assessment Fund	(1,157,400)
Long Term Care System Fund	161,132,900

Remove FY 2026 Supplemental

The budget includes a decrease of $(57,485,100) in FY 2027 for the removal of one-time supplemental formula funding in FY 2026. This amount consists of:

General Fund	(2,894,900)
Health Care Investment Fund	(180,000)
Long Term Care System Fund	(54,410,200)

Additionally, the FY 2027 Health Care BRB exempts AHCCCS from rulemaking requirements related to service frequency and hour limitation policy changes in FY 2027. This exemption affects AHCCCS' proposed restrictions on attendant care/habilitation service utilization among ALTCS children, including children receiving services via the Parents as Paid Caregivers (PPCG) program. These

restrictions are related to statutory changes to PPCG required by HB 2945 from the 2025 session. Although these restrictions would primarily affect the Developmental Disabilities (DD) program within DES, approximately 406 children with physical disabilities under AHCCCS would potentially be affected as well.

Background – ALTCS provides coverage for individuals up to 224% of the FPL, or $35,784 per person. The federal government requires coverage of individuals up to 100% of the Supplemental Security Income limit (SSI), which is approximately 75% of FPL, or $11,928 per person annually.

Pursuant to A.R.S. § 11-292, counties and the state jointly (E) 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 $445,813,900 in FY 2027.

Behavioral Health Services in Schools

The budget includes $8,289,600 in FY 2027 for Behavioral Health Services in Schools. This amount consists of:

General Fund	3,000,000
AHCCCS Fund	5,289,600

Adjustments are as follows:

Formula Adjustments

The budget includes a decrease of $(155,800) from the AHCCCS Fund in FY 2027 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.

Enhanced Residential Treatment Program

The budget includes $7,812,000 and 7 FTE Positions in FY 2027 for the Enhanced Residential Treatment Program. These amounts consist of:

Seriously Mentally Ill (SMI) Housing Trust Fund	2,739,600
AHCCCS Fund	5,072,400

Adjustments are as follows:

Enhanced Residential Treatment Program Funding

The budget includes an increase of $7,812,000 and 7 FTE Positions in FY 2027 for Enhanced Residential Treatment Program funding. These amounts consist of:

Seriously Mentally Ill (SMI) Housing Trust Fund	2,739,600
AHCCCS Fund	5,072,400

This funding is for the administrative and benefit costs of implementing a 3-year pilot program established by Laws 2026, Chapter 237. The budget adds a footnote stating it is the intent of the Legislature to continue the funding in FY 2028 and FY 2029. The monies are appropriated as non-lapsing.

The Medicaid-funded pilot program, subject to federal approval, will cover standard AHCCCS physical/behavioral health services, as well as stays in enhanced residential treatment facilities, which provide continuous supervision and structured day-to-day supports. Eligibility is limited to individuals that: have a serious mental illness (SMI), require an enhanced level of care, and have incomes up to 224% of the FPL, or $35,784 per year. Laws 2026, Chapter 237 establishes an enrollment cap of up to 60 qualifying SMI adults to be placed at one of these facilities. Additionally, AHCCCS may choose to increase the number of enrollees in the program, subject to available funding and review by the JLBC.

The Department of Health Services (DHS) is responsible for licensing and implementing standards for these facilities. The FY 2027 budget includes one-time funding for licensing costs. *(Please see the DHS narrative for additional details.)*

Non-Medicaid Behavioral Health Services

Non-Medicaid Seriously Mentally Ill Services

The budget includes $77,646,900 from the General Fund in FY 2027 for Non-Medicaid Seriously Mentally Ill (SMI) Services. This amount is unchanged from FY 2026.

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 2027 for Case Management Provider Wage Increases. This amount is unchanged from FY 2026.

Supported Housing

The budget includes $65,324,800 in FY 2027 for Supported Housing. This amount consists of:

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

These amounts are unchanged from FY 2026.

Background – This line item funds housing services that enable individuals to live in the community. These funds may serve Medicaid recipients authorized via a federal waiver 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.

Crisis Services

The budget includes $20,391,300 in FY 2027 for Crisis Services. This amount consists of:

General Fund	18,141,100
Substance Abuse Services Fund	2,250,200

Adjustments are as follows:

Crisis Services Hotline Funding

The budget includes a one-time increase of $4,000,000 from the General Fund in FY 2027 for crisis services hotline funding. The funding is for AHCCCS to address higher usage of the 24-hour 9-8-8 crisis services hotline, particularly increased usage among individuals not eligible for Medicaid.

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 2027 for Secure Behavioral Health Residential Facilities. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of $(5,000,000) in FY 2027 to remove one-time funding for new Secure Behavioral Health Residential Facility (SBHRF) construction or retrofitting of an existing building to become an SBHRF facility. This amount consists of:

SMI Housing Trust Fund	(1,800,000)
IGA and ISA Fund	(3,200,000)

The FY 2026 budget directed 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 issued a Request for Proposal (RFP) on April 30, 2026, based on an FY 2026 budget requirement. AHCCCS must 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 Payments - Private Hospitals

The budget includes $884,800 in FY 2027 for Disproportionate Share Payments (DSH) to private hospitals. This amount consists of:

General Fund	320,200
AHCCCS Fund	564,600

Adjustments are as follows:

Formula Adjustments

The budget includes an increase of $4,700 from the General Fund and a corresponding decrease of $(4,700) from the AHCCCS Fund in FY 2027 to reflect a change in the federal match rate.

This line item funds supplemental payments to private hospitals that serve a high share of Medicaid recipients and uninsured individuals. In FY 2025, there were 13

private hospitals that received DSH payments. *(For additional DSH program history, please refer to the FY 2026 Appropriations Report.)*

DSH Payments - Voluntary Match

The budget includes $207,593,800 in FY 2027 for DSH Payments - Voluntary Match. This amount consists of:

Political Subdivision Funds	75,128,200
AHCCCS Fund	132,465,600

Adjustments are as follows:

Funding Adjustment

The budget includes an increase of $1,952,100 in FY 2027 due to DSH formula adjustments. This amount consists of:

Political Subdivision Funds	1,796,400
AHCCCS Fund	155,700

Background – This line item provides DSH payments to hospitals that serve a high share of Medicaid recipients and uninsured individuals 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.

Graduate Medical Education

The budget includes $569,176,800 in FY 2027 for Graduate Medical Education (GME) expenditures. This amount consists of:

General Fund	9,000,000
Political Subdivision Funds	191,942,600
AHCCCS Fund	368,234,200

Adjustments are as follows:

Funding Adjustment

The budget includes an increase of $40,618,500 in FY 2027 for a GME funding adjustment. This amount consists of:

Political Subdivision Funds	17,215,700
AHCCCS Fund	23,402,800

The funding adjustment reflects AHCCCS' estimate of hospital participation in the program in FY 2027, as well as changes in the federal match rate.

Remove One-Time HPSA Funding

The budget includes a decrease of $(11,507,400) in FY 2027 to remove one-time funding used to supplement GME payments to hospitals located in health professional shortage areas (HPSA). This amount consists of:

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

As of the FY 2027 budget, the non-lapsing status of GME funding over the past 3 years is as follows:

- FY 2025 funding is non-lapsing through December 31, 2026.
- FY 2026 funding is non-lapsing through June 30, 2027, except for the one-time funding for HPSA, which is continuously non-lapsing.
- FY 2027 funding is non-lapsing through June 30, 2028.

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.

Critical Access Hospitals

The budget includes $28,336,000 in FY 2027 for Critical Access Hospitals (CAH). This amount consists of:

General Fund	10,254,800
AHCCCS Fund	18,081,200

Adjustments are as follows:

Formula Adjustments

The budget includes an increase of $87,200 from the General Fund and a corresponding decrease of $(87,200) from the AHCCCS Fund in FY 2027 due to a change in the federal match.

FY 2027 Supplemental Pool Increase

The budget includes a one-time increase of $11,881,700 in FY 2027 to continue supplemental payments to Critical Access Hospitals. This amount consists of:

General Fund	4,300,000
AHCCCS Fund	7,581,700

Remove FY 2026 Supplemental Pool Increase

The budget includes a decrease of $(12,058,300) in FY 2027 to remove one-time funding for supplemental payments to Critical Access Hospitals. This amount consists of:

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

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 2026, 12 hospitals qualified for funding from CAH.

Additionally, Arizona received $166,989,000 in non-appropriated grant monies from the federal government as part of the first year of the Rural Health Transformation (RHT) program. H.R. 1 appropriated $50,000,000,000 nationwide over 5 years ($10,000,000,000 annually) to support rural health initiatives such as provider payments, disease prevention, and workforce development. The program is designed to improve rural health care access and may offset at least a portion of the losses to rural hospitals from the new limitations on provider assessments and provisions expected to reduce Medicaid enrollment. The average grant award per state was $200,000,000.

The FY 2027 Health Care BRB establishes the non-appropriated Arizona Rural Health Transformation Fund under AHCCCS for these federal RHT grants. The BRB requires AHCCCS to hold 3 meetings and submit its expenditure plan to the JLBC for review prior to spending monies in this fund.

Targeted Investments Program

The budget includes $56,000,000 in FY 2027 for the Targeted Investments (TI) Program. This amount consists of:

Delivery System Reform Incentive Payment (DSRIP) Fund	20,612,000
AHCCCS Fund	35,388,000

Adjustments are as follows:

Funding Adjustment

The budget includes a decrease of $(11,000,000) in FY 2027 for a funding adjustment. This amount consists of:

DSRIP Fund	(3,709,800)
AHCCCS Fund	(7,290,200)

This adjustment is based on AHCCCS' estimated level of TI program payments in FY 2027.

Background – This program makes incentive payments to Medicaid providers that adopt processes to integrate physical care and behavioral health services. In October 2022, CMS authorized the program at a total funding level of $250,000,000 over 5 years. 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 2026 Supplemental
- Reduce Vacant FTE Positions
- Statutory Changes
- Long-Term Budget Impacts
- County Contributions

FY 2026 Supplemental

The budget includes an FY 2026 supplemental of $104,728,400 from the General Fund and $471,741,800 from expenditure authority to account for a projected formula funding shortfall. The General Fund supplemental consists of the following factors, which are described in more detail below:

- $(105,621,600) for lower-than-anticipated enrollment.
- $169,757,700 for a higher-than-anticipated capitation rate adjustment.
- $40,592,300 for all other factors.

The FY 2026 enacted budget assumed that AHCCCS enrollment would increase by approximately 15,000 throughout FY 2026 and total 1.86 million by June 2026. However, enrollment instead declined by (190,000), totaling 1.65 million by June 2026. The FY 2027 budget assumes that these enrollment declines are expected to generate $(105,621,600) in FY 2026 General Fund savings compared to the FY 2026 enacted budget.

However, on October 1, 2025, AHCCCS implemented an average capitation rate increase of 5.5%. Compared to the FY 2026 enacted budget's assumption of a 3.0% increase, this generated AHCCCS costs. On December 11, 2025,

AHCCCS further increased the October 1, 2025 rates retroactively by an additional 8.6%. The combined increase of both adjustments totaled 14.1%. The budget assumes that these increases generate $169,757,700 in General Fund costs compared to the FY 2026 enacted budget. AHCCCS attributed the need for these rate increases to a variety of factors, including:

- The caseload declines discussed above have resulted in members with higher-than-average health care costs remaining on the program.
- Significant increases in utilization of Applied Behavior Analysis (ABA) services.
- General medical inflation.

The budget assumes an additional $40,592,300 in above-budget General Fund costs from the following factors:

- The resolution of a backlog in provider prepayment reviews that resulted in a one-time increase in fee-for-service costs.
- Backfilling a larger-than-anticipated decline in tobacco tax revenue.
- An increase in the number of members receiving retroactive coverage.

The budget projects that the net impact of these factors results in a General Fund shortfall of $(104,728,400) in FY 2026. In addition to including an FY 2026 supplemental to account for this, the budget also includes a base adjustment as part of its formula adjustments for FY 2027.

Reduce Vacant FTE Positions

The FY 2027 budget reduces the FTE count for AHCCCS by (120) Positions. While the agency table reflects the correct appropriated FTE, the narrative does not attempt to allocate this reduction in the agency budget. Agencies may use their discretion in allocating this FTE reduction within their budget and should reflect the changes in their FY 2028 budget request submitted pursuant to A.R.S. § 35-113. The FY 2028 JLBC Baseline will incorporate the changes as allocated by the agency.

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 session law, continues to mandate reporting by January 31, 2027, on aggregate spending and aggregate utilization of mental health medications, including antipsychotics and antidepressants, during the contract year ending on September 30, 2025.
- As session law, conditional on federal approval, establishes a 3-year pilot program in FY 2027 through FY 2029 for AHCCCS to cover traditional healing services when delivered at an Urban Indian Organization facility.
- As session law, exempts AHCCCS from rulemaking requirements for policy changes related to service frequency or hour limitations in FY 2027. Requires that the agency provide an opportunity for public comment at least 30 days before implementing the changes.

Counties

- As session law, continues to exclude Proposition 204 administration costs from county expenditure limitations.
- As session law, sets the FY 2027 County Acute Care contribution at $42,447,600.
- As session law, continues to require AHCCCS to transfer any excess monies back to the counties by December 31, 2027, 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 2027 county Arizona Long Term Care System (ALTCS) contributions at $445,813,900.

Hospitals

- As session law, continues to establish FY 2027 disproportionate share (DSH) distributions to the Arizona State Hospital, private qualifying disproportionate share hospitals, and Yuma Regional Medical Center.
- 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 2027 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.
- As session law, exempts AHCCCS from rulemaking requirements for implementing the hospital assessment in FY 2027 and makes the rulemaking exemption retroactive to July 1, 2026.

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.

H.R. 1 Implementation

- As session law, makes various changes to AHCCCS enrollment verification and presumptive eligibility policies in FY 2027. *(Please see the Medicaid Services section for additional details.)*
- As permanent law, establishes the Arizona Rural Health Transformation (RHT) Fund as a non-appropriated fund under AHCCCS for federal RHT grants. Requires AHCCCS to hold 3 public meetings and provide a report to the Joint Legislative Budget Committee detailing its expenditure plan for federal RHT grants before the Executive branch may spend any of the monies from the fund.

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, AHCCCS' General Fund costs are projected to increase by $113,035,200 in FY 2028 above FY 2027 and by $122,642,800 in FY 2029 above FY 2028.

The FY 2028 estimate is based on:

- $131,535,200 for 1% caseload growth, 3.0% capitation growth, an estimated 63.81% FMAP, phasing in the impacts of H.R. 1 and the FY 2027 Health Care BRB, and the removal of funding for a one-time CHP reconciliation payment.
- $(18,500,000) to remove FY 2027 one-time funding.

The FY 2029 estimate is based on:

- $122,642,800 for 1% caseload growth, 3.0% capitation growth, an estimated 63.81% FMAP, and phasing in the impacts of H.R. 1 and the FY 2027 Health Care BRB.

County Contributions

County governments make 3 different payments to defray the AHCCCS budget's costs, as summarized in *Table 2*. 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.

Table 2

County Contributions

	FY 2026			FY 2027		
County	**BNCF 1/**	**Acute 2/**	**ALTCS 3/**	**BNCF 1/**	**Acute 2/**	**ALTCS 3/**
Apache	$168,500	$268,800	$707,000	$174,800	$268,800	$792,400
Cochise	314,300	2,214,800	7,510,100	326,100	2,214,800	8,055,900
Coconino	310,100	742,900	2,122,700	321,700	742,900	2,378,900
Gila	127,300	1,413,200	3,173,800	132,100	1,413,200	3,365,400
Graham	90,500	536,200	2,339,400	93,900	536,200	2,320,400
Greenlee	23,300	190,700	66,900	24,100	190,700	138,200
La Paz	48,200	212,100	828,800	50,000	212,100	756,100
Maricopa	0	14,783,900	275,201,600	0	14,417,300	298,895,000
Mohave	361,900	1,237,700	10,438,200	375,500	1,237,700	12,022,500
Navajo	237,200	310,800	2,926,600	246,100	310,800	3,279,800
Pima	2,155,700	14,951,800	63,729,700	2,237,100	14,951,800	68,282,000
Pinal	421,800	2,715,600	17,094,300	437,700	2,715,600	19,662,800
Santa Cruz	99,700	482,800	2,949,900	103,400	482,800	3,204,100
Yavapai	398,500	1,427,800	7,808,600	413,400	1,427,800	8,793,400
Yuma	355,300	1,325,100	12,640,000	368,600	1,325,100	13,867,000
Subtotal	**$5,112,300**	**$42,814,200**	**$409,537,600**	**$5,304,500**	**$42,447,600**	**$445,813,900**
Total			**$457,464,100**			**$493,566,000**

1/ Numbers may not add to total due to rounding.
2/ County contributions to the acute care program are displayed within the AHCCCS Fund under the Traditional Medicaid Services line item.
3/ County contributions to the ALTCS program are displayed within the Long Term Care System Fund.