

## Arizona Health Care Cost Containment System

	FY 2025 ACTUAL	FY 2026 ESTIMATE	FY 2027 BASELINE
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	2,459.3	2,459.3	2,459.3
Personal Services	56,810,900	56,834,000	56,834,000
Employee Related Expenditures	23,473,500	24,317,900	24,317,900
Professional and Outside Services	12,462,400	22,146,700	20,771,700
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	36,020,600
Equipment	164,900	260,100	260,100
<b>OPERATING SUBTOTAL</b>	<b>143,389,900</b>	<b>197,391,000</b>	<b>138,476,000 <sup>1/</sup></b>
<b>SPECIAL LINE ITEMS</b>			
<b>Administration</b>			
AHCCCS Data Storage	17,086,000	19,605,800	19,605,800
DES Eligibility	95,255,700	99,294,500	97,074,500 <sup>2/</sup>
Proposition 204 - AHCCCS Administration	30,324,500	15,788,200	15,788,200 <sup>3/</sup>
Proposition 204 - DES Eligibility	39,523,700	44,358,700	44,358,700 <sup>3/</sup>
<b>Medicaid Services <sup>4/-5/</sup></b>			
Traditional Medicaid Services	8,085,122,300	10,124,311,200	10,401,157,200 <sup>7/-12/</sup>
Proposition 204 Services	6,880,264,000	7,450,961,800	7,347,553,000 <sup>3/-11/12/</sup>
Adult Expansion Services	671,925,500	798,727,300	860,120,200 <sup>11/12/</sup>
Comprehensive Health Plan	153,596,400	178,650,800	200,180,300 <sup>11/</sup>
KidsCare Services	200,218,800	257,635,300	257,442,000
ALTCS Services	2,255,770,600	2,457,084,800	2,663,643,700 <sup>13/-15/</sup>
Behavioral Health Services in Schools	8,630,600	8,445,400	8,289,600
<b>Non-Medicaid Behavioral Health Services</b>			
Non-Medicaid Seriously Mentally Ill Services	82,029,600	77,646,900	77,646,900 <sup>16/</sup>
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	16,391,300
Secure Behavioral Health Residential Facilities	0	5,000,000	0
<b>Hospital Payments</b>			
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 <sup>12/-17/</sup>
Graduate Medical Education	390,121,400	540,065,700	569,176,800 <sup>12/-18/-22/</sup>
Critical Access Hospitals	28,416,700	28,512,600	16,454,300
Targeted Investments Program	55,081,300	67,000,000	56,000,000
<b>AGENCY TOTAL</b>	<b>19,234,256,000</b>	<b>22,658,722,600</b>	<b>23,063,161,900 <sup>23/-25/</sup></b>
<b>FUND SOURCES</b>			
General Fund	2,535,430,400	2,613,652,600	2,942,224,700
<u>Other Appropriated Funds</u>			
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	193,430,100
IGA and ISA Fund	0	3,200,000	0
Prescription Drug Rebate Fund - State	189,679,500	341,207,900	289,832,900
Seriously Mentally Ill Housing Trust Fund	6,819,000	2,017,700	217,700
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
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	555,985,500
<b>SUBTOTAL - Appropriated Funds</b>	<b>2,956,909,300</b>	<b>3,234,831,100</b>	<b>3,498,210,200</b>

	FY 2025 ACTUAL	FY 2026 ESTIMATE	FY 2027 BASELINE
<b><u>Expenditure Authority Funds</u></b>			
AHCCCS Fund	12,242,658,700	14,556,355,700	14,221,285,400
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	1,073,199,200	1,079,411,900
Hospital Assessment Fund	564,108,200	622,867,900	538,430,900
Long Term Care System Fund	1,685,755,000	1,869,102,100	2,034,557,900
Nursing Facility Provider Assessment Fund	92,151,000	93,066,100	91,908,700
Political Subdivision Funds	257,621,500	441,383,700	519,220,400
Prescription Drug Rebate Fund - Federal	609,060,300	609,060,300	929,047,500 <sup>23/</sup>
Third Party Liability and Recovery Fund	194,700	194,700	194,700
Tobacco Products Tax Fund - Proposition 204 Protection Account	28,169,800	32,340,000	28,282,300
<b>SUBTOTAL - Expenditure Authority Funds</b>	<b>16,277,346,700</b>	<b>19,423,891,500</b>	<b>19,564,951,700 <sup>10/</sup></b>
<b>SUBTOTAL - Appropriated/Expenditure Authority Funds</b>	<b>19,234,256,000</b>	<b>22,658,722,600</b>	<b>23,063,161,900</b>
Other Non-Appropriated Funds	160,723,500	177,556,600	177,752,000
Federal Funds	175,197,600	193,303,700	109,563,000
<b>TOTAL - ALL SOURCES</b>	<b>19,570,177,100</b>	<b>23,029,582,900</b>	<b>23,350,476,900</b>

**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 shall include the project cost, deliverables, the timeline for completion and the method of procurement that are consistent with the department's prior reports for its appropriations from the automation projects fund. (General Appropriations Act footnote)
- 2/ The amount appropriated for the DES eligibility line item shall be used for intergovernmental agreements with the department of economic security for eligibility determination and other functions. The state general fund share may be used for eligibility determination for other programs administered by the division of benefits and medical eligibility based on the results of the Arizona random moment sampling survey. (General Appropriations Act footnote)
- 3/ The amounts included in the proposition 204 — AHCCCS administration, proposition 204 — DES eligibility and proposition 204 services line items include all available sources of funding consistent with section 36-2901.01, subsection B, Arizona Revised Statutes. (General Appropriations Act footnote)
- 4/ Before making fee-for-service program or rate changes that pertain to fee-for-service rate categories, the Arizona health care cost containment system administration shall report its expenditure plan for review by the joint legislative budget committee. (General Appropriations Act footnote)
- 5/ The Arizona health care cost containment system administration shall report to the joint legislative budget committee on or before March 1, 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)
- 6/ 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)

- 7/ The Arizona health care cost containment system administration shall transfer up to \$1,200,000 from the traditional medicaid services line item for fiscal year 2026-2027 to the attorney general for costs associated with e-cigarette enforcement and tobacco settlement litigation. (General Appropriations Act footnote)
- 8/ The Arizona health care cost containment system administration shall transfer \$836,000 from the traditional medicaid services line item for fiscal year 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)
- 9/ 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)
- 10/ 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)
- 11/ The legislature intends that the percentage attributable to administration and profit for the regional behavioral health authorities be nine percent of the overall capitation rate. (General Appropriations Act footnote)
- 12/ The expenditure authority fund source includes voluntary payments made from political subdivisions for payments to hospitals that operate a graduate medical education program or treat low-income patients and for payments to qualifying providers affiliated with teaching hospitals. The political subdivision portions of the fiscal year 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)
- 13/ Any federal monies that the Arizona health care cost containment system administration passes through to the department of economic security for use in long-term care for persons with developmental disabilities do not count against the long-term care expenditure authority. (General Appropriations Act footnote)
- 14/ 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 \$450,136,800. This amount is included in the expenditure authority fund source. (General Appropriations Act footnote)
- 15/ 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)
- 16/ 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 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)
- 17/ Any monies received for disproportionate share hospital payments from political subdivisions of this state, tribal governments and any university under the jurisdiction of the Arizona board of regents, and any federal monies used to match those payments, in fiscal year 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)
- 18/ 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)
- 19/ 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)

20/ Notwithstanding section 36-2903.01, subsection G, paragraph 9, subdivisions (a), (b) and (c), Arizona Revised Statutes, the amount for graduate medical education includes \$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)

21/ Notwithstanding section 36-2903.01, subsection G, paragraph 9, subdivisions (a), (b) and (c), Arizona Revised Statutes, the amount for graduate medical education includes \$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)

22/ 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)

23/ The nonappropriated portion of the prescription drug rebate fund established by section 36-2930, Arizona Revised Statutes, is included in the federal portion of the expenditure authority fund source. (General Appropriations Act footnote)

24/ 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)

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

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### ***Operating Budget***

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The Baseline includes \$138,476,000 and 1,143.2 FTE Positions in FY 2027 for the operating budget. These amounts consist of:

	<b><i>FY 2027</i></b>
General Fund	\$40,468,300
Children's Health Insurance Program (CHIP) Fund	5,489,200
Health Care Investment Fund	2,498,500
Prescription Drug Rebate Fund (PDRF) - State	724,800
Nursing Facility Provider Assessment Fund	453,400
Seriously Mentally Ill (SMI) Housing Trust Fund	217,700
AHCCCS Fund	88,624,100

Adjustments are as follows:

#### **Remove One-Time External Legal Costs**

The Baseline 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.

#### **Remove One-Time MES Replacement Funding**

The Baseline includes a decrease of \$(57,540,000) from the AHCCCS Fund in FY 2027 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 \$1,800,000 was included in the Arizona Department of Administration – Automation Projects Fund. (Please see ADOA – Automation Projects Fund narrative for additional information.)

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### ***Administration***

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#### ***AHCCCS Data Storage***

The Baseline 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 Baseline 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 Eligibility Income Verification Funding

The Baseline 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 eligibility income verification.

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

## Proposition 204 - AHCCCS Administration

The Baseline includes \$15,788,200 and 131 FTE Positions in FY 2027 for Proposition 204 - AHCCCS Administration costs. These amounts consist of:

General Fund	4,942,300
AHCCCS Fund	10,845,900

These amounts are unchanged from FY 2026.

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

## Proposition 204 - DES Eligibility

The Baseline includes \$44,358,700 and 300.1 FTE Positions in FY 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 Baseline 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.

## 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.
- 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 Baseline applies "formula adjustments" to each line item based on estimated changes in enrollment, the federal match rate, and inflation. The Baseline includes an increase of \$183,092,100 from the General Fund and \$456,569,400 in Total Funds in FY 2027 for formula adjustments.

The main formula assumptions for the FY 2027 Baseline include:

Table 1

	AHCCCS Enrollment <sup>1/</sup>					'26-'27 %
	June 2025 <u>(Actual)</u>	June 2026 <u>(Enacted)<sup>2/</sup></u>	June 2026 <u>(Forecast)</u>	June 2027 <u>(Forecast)</u>	'26-'27 <u>Change</u>	
<b>Population</b>						
Traditional	1,004,724	1,014,001	914,599	914,599	0.0%	
Prop 204 Childless Adults	396,300	400,251	355,708	355,708	0.0%	
Other Prop 204	158,815	161,311	145,752	145,752	0.0%	
Adult Expansion	61,219	61,830	53,797	53,797	0.0%	
KidsCare	53,547	56,587	52,549	52,549	0.0%	
CHP	7,190	7,397	6,657	6,657	0.0%	
ALTCS - Elderly & Physically Disabled <sup>3/</sup>	28,440	29,002	28,998	29,288	1.0%	
Emergency Services	<u>130,503</u>	<u>124,973</u>	<u>118,797</u>	<u>118,797</u>	<u>0.0%</u>	
<b>Total Enrollment</b>	<b>1,840,738</b>	<b>1,855,352</b>	<b>1,676,857</b>	<b>1,677,147</b>	<b>0.0%</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 2026 enacted budget.

<sup>3/</sup> The ALTCS - Elderly and & Physically Disabled program is funded in AHCCCS. An additional 46,501 people received Medicaid services through the Department of Economic Security's ALTCS - Developmental Disabilities program as of June 2025.

- Enrollment decline of (164,000) members, or (8.9)% between June 2025 and June 2026 and flat enrollment between June 2026 and June 2027. The Baseline assumes that enrollment will total 1.68 million members by June 2027.
- 14.4% inflation in capitation payments in FY 2026 and 3.0% inflation in capitation payments in FY 2027. (See the *Other Issues* section for more information on the FY 2026 inflation adjustment.) The Baseline 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.

In addition to these standard formula assumptions, H.R. 1, the federal budget reconciliation bill that was signed into law on July 4, 2025, contains numerous provisions that will impact the AHCCCS budget. The Baseline includes adjustments to account for several of these provisions, which we briefly describe below. (Please see [H.R. 1 Federal Budget Reconciliation Bill Impact](#) on the JLBC website for a detailed analysis.)

#### Enrollment Changes

H.R. 1's primary impact on AHCCCS benefit spending results from provisions that potentially reduce the number of Medicaid participants. These provisions are expected to reduce AHCCCS Total Fund spending by \$(434,000,000) starting in FY 2027. The General Fund share of the benefit savings is projected to be \$(15,400,000) and the Hospital Assessment Fund share is projected to be \$(17,761,300). The Baseline 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. We project this requirement would generate Total Fund savings of \$(122,600,000) in FY 2027, including \$(3,700,000) from the General Fund.
- Require the Medicaid expansion population to work or participate in "community engagement" activities for 80 hours a month. We project this requirement will generate Total Fund savings of \$(298,800,000) in FY 2027, including \$(9,000,000) from the General Fund. 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.

In developing our analysis, we relied on a prorated share of the Congressional Budget Office (CBO) estimates for the federal legislation. We consider the estimated impacts of enrollment changes to be highly speculative. H.R. 1 is complicated legislation and our current interpretations are subject to change pending additional implementation guidance from the federal government.

#### Administrative Costs

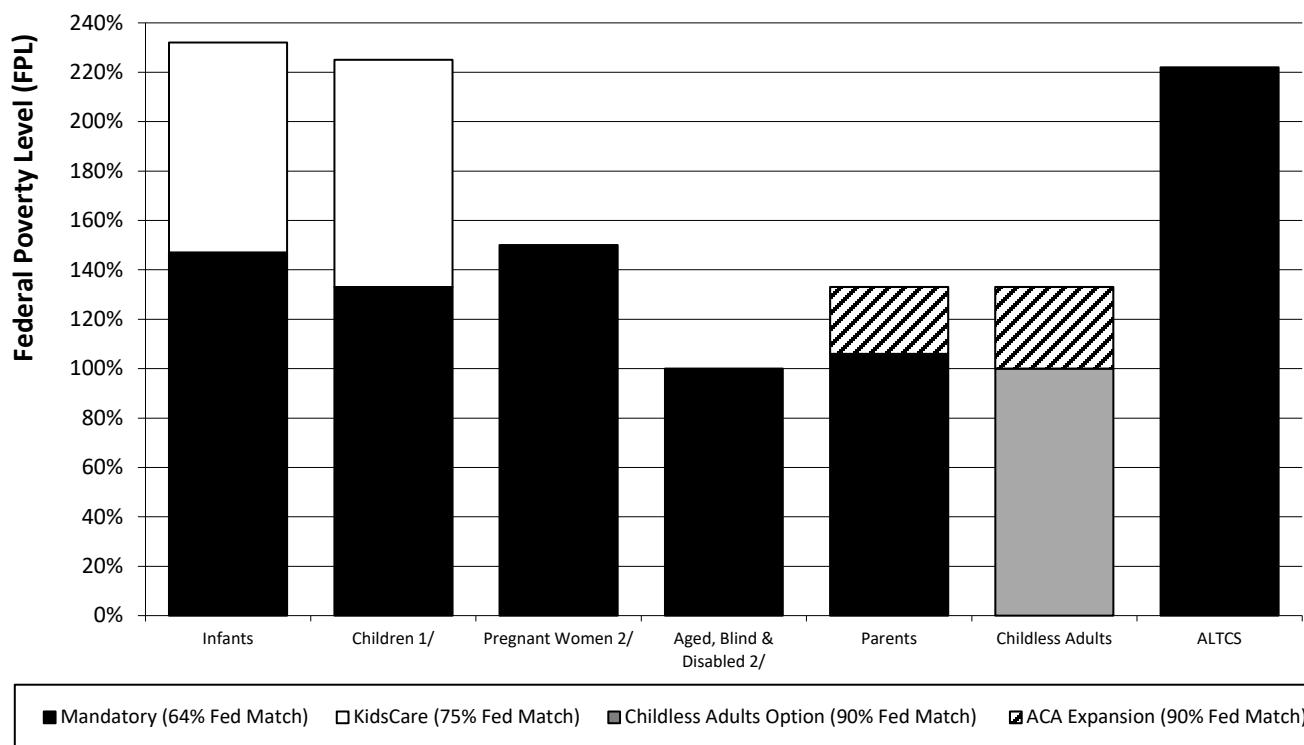
Implementing the redetermination and work-related eligibility requirements will result in new AHCCCS administrative costs. Unlike the benefit estimates, the CBO did not disaggregate any specific administrative costs associated with H.R. 1. The Baseline does not include increases for administrative costs.

#### Provider Payment Reductions

The two most significant provisions that reduce payments to providers are as follows:

Chart 1

## AHCCCS Eligibility



■ Mandatory (64% Fed Match) □ KidsCare (75% Fed Match) ■ Childless Adults Option (90% Fed Match) □ ACA Expansion (90% Fed Match)

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.

- Prohibit states from establishing any new provider assessments or increasing existing assessments. Additionally, reduces the maximum assessment rate by (0.5)% each year between FY 2028 and FY 2032. The AHCCCS Hospital Assessment rate would fall to 5.5% in FY 2028 and eventually reach 3.5% in FY 2032.
- Reduce the maximum level of State Directed Payments (SDPs). H.R. 1 gradually phases down the payment from the average commercial rate to the lower Medicare payment rate beginning January 1, 2028.

Neither of these provisions are expected to impact AHCCCS General Fund spending. Nonetheless, these provisions could significantly reduce payments to hospitals and other providers beginning in FY 2028.

#### Rural Hospital Grant 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 healthcare access and may offset at least a

portion of the losses to rural hospitals from the new limitations on provider assessments. AHCCCS applied for \$200,000,000 annually for the 5-year period. H.R. 1 requires that grant awards be announced by December 31, 2025.

#### Traditional Medicaid Services

The Baseline includes \$10,401,157,200 in FY 2027 for Traditional Medicaid Services. This amount consists of:

General Fund	1,964,704,900
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	6,286,727,300

Adjustments are as follows:

### Formula Adjustments

The Baseline includes an increase of \$270,846,000 in FY 2027 for formula adjustments. This amount consists of:

General Fund	140,119,300
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	(225,735,500)

These amounts include \$5,528,900 from the General Fund and \$9,804,800 from the AHCCCS Fund for limited prerelease services. The FY 2026 Health Care Budget Reconciliation Bill (BRB) authorized AHCCCS to cover limited prerelease services for incarcerated individuals up to 90 days prior to their release. The FY 2026 budget, however, did not include an increase in funding for these services. After passage of the budget, in the revised version of its FY 2027 budget submission, AHCCCS provided cost estimates for these services. Because limited prerelease services were authorized as permanent law, the Baseline incorporates the increases.

### Backfill One-Time FMAP Savings

The Baseline 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 Baseline 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 ages 6-19, up to 133% FPL.
- Pregnant women (including 1 year postpartum), up to 156% FPL.
- Aged, blind, and disabled adults, up to 74% FPL for an individual and 82% FPL for a couple.
- Parents and caretaker relatives, up to 16% 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 Baseline includes \$7,347,553,000 in FY 2027 for Proposition 204 Services. This amount consists of:

General Fund	197,297,200
Health Care Investment Fund	243,092,300
Hospital Assessment Fund	475,123,700
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	6,226,715,200

Adjustments are as follows:

### Formula Adjustments

The Baseline includes a decrease of \$(103,408,800) in FY 2027 for formula adjustments. This amount consists of:

General Fund	(2,221,500)
Health Care Investment Fund	(133,000)
Hospital Assessment Fund	(869,500)
Political Subdivision Funds	13,799,400
TPTF - Emergency Health Services Account	(1,932,200)
TPTF - Proposition 204 Protection Account	(4,057,700)
AHCCCS Fund	(107,994,300)

### Backfill Hospital Assessment Behavioral Health Shift

The Baseline 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 repeals AHCCCS' temporary authority for FY 2025 and FY 2026 to raise the Hospital Assessment to cover behavioral health expenses. The 3-year spending plan therefore included this increase. (Please see the FY 2026 Appropriations Report for additional information.)

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. (Please see [H.R. 1 Federal Budget Reconciliation Bill Impact](#) on the JLBC website for a detailed analysis of how H.R. 1 will impact hospital assessment collections.)

**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 Baseline includes \$860,120,200 in FY 2027 for Adult Expansion Services. This amount consists of:

General Fund	9,408,700
Health Care Investment Fund	19,867,100
Hospital Assessment Fund	63,307,200
Political Subdivision Funds	3,557,600
AHCCCS Fund	763,979,600

Adjustments are as follows:

#### **Formula Adjustments**

The Baseline includes an increase of \$61,392,900 in FY 2027 for formula adjustments. This amount consists of:

General Fund	1,073,900
Health Care Investment Fund	1,100
Hospital Assessment Fund	16,432,500
Political Subdivision Funds	736,600
AHCCCS Fund	43,148,800

**Background** – The Adult Expansion Services line item funds Medicaid services for adults 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 Baseline 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 Baseline 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 Baseline 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 Baseline 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)

**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. Households are charged a monthly premium of \$10 to \$70, depending on the family's income and number of children enrolled in the program. KidsCare is funded with the federal CHIP Block Grant and state matching dollars. The federal monies are

deposited into the CHIP Fund, and the CHIP Fund is then appropriated, along with the General Fund match, to fund KidsCare. (For additional program history, please refer to the FY 2020 Appropriations Report.)

#### **ALTCS Services**

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

General Fund	440,750,000
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	2,034,557,900

Adjustments are as follows:

#### **Formula Adjustments**

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

General Fund	37,038,100
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	165,455,800

**Background** – ALTCS provides coverage for individuals up to 222% of the FPL, or \$34,743 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 \$11,604 per person annually.

Pursuant to A.R.S. § 11-292, counties and the state jointly cover the state match of the ALTCS program based on a statutory formula. The county monies are deposited in the Long Term Care System Fund along with federal funds. A General Appropriations Act footnote would continue to specify the county share of cost for the program, which the Baseline assumes will reach \$450,136,800 in FY 2027.

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

The Baseline 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 Baseline 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.

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

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

The Baseline 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 Baseline includes no funding in FY 2027 for Case Management Provider Wage Increases. This amount is unchanged from FY 2026.

#### **Supported Housing**

The Baseline 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 Baseline includes \$16,391,300 in FY 2027 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 2026.

**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 Baseline includes no funding in FY 2027 for Secure Behavioral Health Residential Facilities. Adjustments are as follows:

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

The Baseline 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 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 Payments - Private Hospitals**

The Baseline 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 Baseline 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 2024, there were 19 private hospitals that received DSH payments. (For additional DSH program history, please refer to the FY 2026 Appropriations Report.)

#### **DSH Payments - Voluntary Match**

The Baseline 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 Baseline 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 Baseline continues a provision that gives priority to eligible rural hospitals when allocating voluntary match DSH payments.

## Graduate Medical Education

The Baseline 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 Baseline 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 Baseline 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)

*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 Baseline continues footnotes that instruct AHCCCS how to allocate monies for this program. The Baseline also continues a footnote making monies appropriated for the GME program non-lapsing through the end of the following fiscal year (FY 2028).

## Critical Access Hospitals

The Baseline includes \$16,454,300 in FY 2027 for Critical Access Hospitals (CAH). This amount consists of:

General Fund	5,954,800
AHCCCS Fund	10,499,500

Adjustments are as follows:

### Formula Adjustments

The Baseline 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.

### Remove One-Time Supplemental Pool Increase

The Baseline 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 2025, 12 hospitals qualified for funding from CAH.

## Targeted Investments Program

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

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

Adjustments are as follows:

### Funding Adjustment

The Baseline 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
- Statutory Changes
- Long-Term Budget Impacts
- County Contributions

#### ***FY 2026 Supplemental***

The Baseline includes an FY 2026 supplemental of \$64,528,400 from the General Fund and \$340,175,800 from expenditure authority to account for a projected formula funding shortfall. The shortfall is the net result of lower-than-budgeted caseloads and higher-than-budgeted capitation adjustments that occurred following the adoption of the enacted budget.

The enacted budget assumed that AHCCCS enrollment would increase by approximately 15,000 throughout FY 2026 and total 1.86 million by June 2026. However, in the first 6 months of FY 2026, enrollment has instead declined by (107,000). We project that the June 2026 caseload will ultimately be 1.68 million, or (164,000) lower than June 2025. These enrollment declines are expected to generate \$(104,672,500) in General Fund savings compared to the enacted budget.

However, on October 1, 2025, AHCCCS implemented an average capitation rate increase of 5.5%. Compared to the enacted budget's assumption of a 3.0% increase, this generated AHCCCS costs. The following month, AHCCCS announced that it intends to further increase the October 1, 2025 rates retroactively. While AHCCCS has not provided a final version of the revised rates at the time of this writing, based on the information the agency has provided in its FY 2027 budget submission, we estimate that the combined increase of both adjustments will be 14.4%. These increases are expected to generate \$157,908,300 in General Fund costs compared to the

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 Baseline projects that the net impact of these factors, as well as \$11,292,600 in above-budget costs from all other factors, results in a General Fund shortfall of \$(64,528,400) in FY 2026. In addition to including an FY 2026 supplemental to account for this, the Baseline also includes a base adjustment as part of its formula adjustments for FY 2027.

#### ***Statutory Changes***

The Baseline would:

##### *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.

##### *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 \$450,136,800.

##### *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

**Table 2****County Contributions**

<b>County</b>	<b>FY 2026</b>			<b>FY 2027</b>		
	<b>BNCF <sup>1/</sup></b>	<b>Acute <sup>2/</sup></b>	<b>ALTCS <sup>3/</sup></b>	<b>BNCF <sup>1/</sup></b>	<b>Acute <sup>2/</sup></b>	<b>ALTCS <sup>3/</sup></b>
Apache	\$168,500	\$268,800	\$707,000	\$174,800	\$268,800	\$1,060,900
Cochise	314,300	2,214,800	7,510,100	326,100	2,214,800	8,145,400
Coconino	310,100	742,900	2,122,700	321,700	742,900	3,184,400
Gila	127,300	1,413,200	3,173,800	132,100	1,413,200	3,429,900
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	300,164,300
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	4,390,200
Pima	2,155,700	14,951,800	63,729,700	2,237,100	14,951,800	69,012,200
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	3,212,300
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	13,843,800
<b>Subtotal</b>	<b>\$5,112,300</b>	<b>\$42,814,200</b>	<b>\$409,537,600</b>	<b>\$5,304,500</b>	<b>\$42,447,600</b>	<b>\$450,136,800</b>
<b>Total</b>			<b>\$457,464,100</b>			<b>\$497,888,900</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.

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.

**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 Baseline's 3-year spending plan, AHCCCS's General Fund costs are projected to increase by \$131,535,200 in FY 2028 above FY 2027 and by \$122,642,800 in FY 2029 above FY 2028.

The FY 2028 estimate is based on:

- \$146,535,200 for 1% caseload growth, 3.0% capitation growth, an estimated 63.81% FMAP, adjustments to non-General Fund state match

offsets, and the removal of funding for a one-time CHP reconciliation payment.

- \$(15,000,000) to annualize the impacts of H.R. 1.

The FY 2029 estimate is based on:

- \$144,742,800 for 1% caseload growth, 3.0% capitation growth, an estimated 63.81% FMAP, and adjustments to non-General Fund state match offsets.
- \$(22,100,000) to annualize the impacts of H.R. 1.

**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.

SUMMARY OF FUNDS	FY 2025 Actual	FY 2026 Estimate
<b>AHCCCS Fund (HCA2120/A.R.S. § 36-2913)</b>		<b>Expenditure Authority</b>
<b>Source of Revenue:</b> Federal matching funding through the U.S. Department of Health & Human Services, Centers for Medicare and Medicaid Services that is deposited in the AHCCCS Fund, along with county contributions serving as the state match for federal Medicaid dollars.		
<b>Purpose of Fund:</b> For AHCCCS's administrative costs and for the provision of services to eligible Medicaid populations.		
<b>Funds Expended</b>	12,242,658,700	14,556,355,700
<b>Year-End Fund Balance</b>	39,130,300	(3,866,100)
<b>Arizona Tobacco Litigation Settlement Fund (HCA2468/A.R.S. § 36-2901.02)</b>		<b>Expenditure Authority</b>
<b>Source of Revenue:</b> Monies received from tobacco companies as part of a lawsuit settlement.		
<b>Purpose of Fund:</b> Established by Proposition 204 (enacted in the 2000 General Election) to provide funding to expand the AHCCCS program to 100% of the Federal Poverty Level and for 6 public health programs.		
<b>Funds Expended</b>	83,737,000	102,000,000
<b>Year-End Fund Balance</b>	0	0
<b>Budget Neutrality Compliance Fund (HCA2478/A.R.S. § 36-2928)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> County contributions.		
<b>Purpose of Fund:</b> To provide administrative funding for costs associated with the implementation of the Proposition 204 expansion. Proposition 204 shifted some county administrative functions to the state, for which the counties now compensate the state.		
<b>Funds Expended</b>	4,914,300	5,112,300
<b>Year-End Fund Balance</b>	9,800	9,800
<b>Children's Behavioral Health Services Fund (HCA2735/A.R.S. § 36-3436)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Includes monies appropriated to the fund, gifts or donations to the fund, and any interest earned.		
<b>Purpose of Fund:</b> To provide behavioral health services for uninsured or underinsured non-Medicaid children. Expenditures are not displayed to avoid double counting the General Fund.		
<b>Funds Expended</b>	216,600	0
<b>Year-End Fund Balance</b>	0	0
<b>Children's Health Insurance Program Fund (HCA2410/A.R.S. § 36-2995)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Includes Medicaid matching monies for Arizona's State Children's Health Insurance Program (CHIP), called KidsCare. General Fund monies are used to leverage federal monies for KidsCare and are not included in the reported CHIP Fund expenditures.		
<b>Purpose of Fund:</b> To provide health insurance for low-income children 19 years of age and under. The eligibility limit for the KidsCare program has been set at 225% of the Federal Poverty Level (FPL), which is approximately \$67,500 for a family of 4.		
<b>Funds Expended</b>	154,309,300	194,444,800
<b>Year-End Fund Balance</b>	7,718,700	7,718,700
<b>Coronavirus State and Local Fiscal Recovery Fund (HCA2985/U.S. P.L. 117-2)</b>		<b>Federal Funds</b>
<b>Source of Revenue:</b> Federal monies appropriated in the American Rescue Plan Act (P.L. 117-2).		
<b>Purpose of Fund:</b> To provide emergency support to households, small businesses, nonprofits, workers performing essential work, and certain industries negatively impacted by the COVID-19 pandemic. To extend government services that received a reduction in revenue as a result of the COVID-19 pandemic. To make investments in water, sewer, and broadband infrastructure.		
<b>Funds Expended</b>	28,973,900	27,981,300
<b>Year-End Fund Balance</b>	3,027,300	0

SUMMARY OF FUNDS	FY 2025 Actual	FY 2026 Estimate
<b>Delivery System Reform Incentive Payment Fund (HCA2130/A.R.S. § 36-2930.04)</b>		<b>Expenditure Authority</b>
<b>Source of Revenue:</b> Monies voluntarily given to AHCCCS from local governments or Arizona public universities in order to obtain a federal match. Federal revenues and expenditures associated with DSRIP are accounted for in Federal Medicaid Authority.		
<b>Purpose of Fund:</b> To fund incentive payments to Medicaid providers that adopt processes to integrate physical care and behavioral health services through the Targeted Investment Program (TI Program). The projects are funded with existing state matching monies and intergovernmental transfers (IGTs) from counties and universities.		
<b>Funds Expended</b>	18,817,700	24,321,800
<b>Year-End Fund Balance</b>	67,475,600	67,475,600
<b>Employee Recognition Fund (HCA2449/A.R.S. § 36-2903)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Private donations.		
<b>Purpose of Fund:</b> To be used for the agency's employee recognition program.		
<b>Funds Expended</b>	500	500
<b>Year-End Fund Balance</b>	2,700	2,700
<b>Federal Funds (HCA2000/A.R.S. § 36-2913)</b>		<b>Federal Funds</b>
<b>Source of Revenue:</b> Non-Medicaid federal grant monies.		
<b>Purpose of Fund:</b> To support specific federally funded behavioral health programs, including the Mental Health Block Grant and the Substance Abuse Prevention and Treatment Block Grant.		
<b>Funds Expended</b>	146,223,700	165,322,400
<b>Year-End Fund Balance</b>	1,229,800	1,229,800
<b>Health Care Investment Fund (HCA2588/A.R.S. § 36-2999.73)</b>		<b>Expenditure Authority</b>
<b>Source of Revenue:</b> An assessment on hospital revenues, discharges, or beds days in addition to the Hospital Assessment established by A.R.S. § 36-2901.09, interest earnings, and legislative appropriations.		
<b>Purpose of Fund:</b> To increase the base reimbursement level for hospital services, to increase dental and physician fee schedules, and to cover related administrative expenses incurred by AHCCCS.		
<b>Funds Expended</b>	695,072,800	1,073,199,200
<b>Year-End Fund Balance</b>	122,943,300	122,943,300
<b>Hospital Assessment Fund (HCA2576/A.R.S. § 36-2901.09)</b>		<b>Expenditure Authority</b>
<b>Source of Revenue:</b> An assessment on hospital revenues, discharges, or beds days.		
<b>Purpose of Fund:</b> For funding the non-federal share of Proposition 204 services and the adult population who became eligible for AHCCCS services on January 1, 2014.		
<b>Funds Expended</b>	564,108,200	622,867,900
<b>Year-End Fund Balance</b>	249,327,400	58,561,300
<b>IGA and ISA Fund (HCA2500/A.R.S. § 36-2925)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Operating transfers to provide the state matches for the Department of Economic Security Long-Term Care Program, Department of Corrections claims processing for inmates, and county claims for processing inmates. Excludes amounts received from political subdivisions for GME, DSH, APSI and PSI programs.		
<b>Purpose of Fund:</b> To receive and spend monies associated with intergovernmental agreements and interagency service agreements.		
<b>Funds Expended</b>	0	3,200,000
<b>Year-End Fund Balance</b>	0	0

SUMMARY OF FUNDS	FY 2025 Actual	FY 2026 Estimate
<b>IGA and ISA Fund (HCA2500/A.R.S. § 36-2925)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Operating transfers to provide the state matches for the Department of Economic Security Long-Term Care Program, Department of Corrections claims processing for inmates, and county claims for processing inmates. Excludes amounts received from political subdivisions for GME, DSH, APSI and PSI programs.		
<b>Purpose of Fund:</b> To receive and spend monies associated with intergovernmental agreements and interagency service agreements. Expenditures are not displayed to avoid double counting of the General Fund.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	294,958,200	183,980,700
<b>IGA for County Behavioral Health Services Fund (HCA4503/A.R.S. § 36-108.01)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies from local governments and state liquor service fees.		
<b>Purpose of Fund:</b> To fund the delivery of behavioral health services to seriously mentally ill (SMI) individuals, some mental health services for non-SMI individuals, and the administration of Local Alcohol Reception Centers (LARC) to treat substance abuse.		
<b>Funds Expended</b>	85,831,400	90,004,900
<b>Year-End Fund Balance</b>	3,804,800	3,804,800
<b>Intergovernmental Service Fund (HCA2442/A.R.S. § 36-2927)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies collected from the State of Hawaii.		
<b>Purpose of Fund:</b> To be used for costs associated with information technology services provided by AHCCCS to the State of Hawaii for the design, development, implementation, operation, and maintenance of a Medicaid Management Information System.		
<b>Funds Expended</b>	34,312,100	47,229,600
<b>Year-End Fund Balance</b>	13,342,500	13,342,500
<b>Long Term Care System Fund (HCA2223/A.R.S. § 36-2913)</b>		<b>Expenditure Authority</b>
<b>Source of Revenue:</b> Federal matching funding through the U.S. Department of Health & Human Services, Centers for Medicare and Medicaid Services that is deposited in the Long Term Care System Fund, along with county contributions serving as the state match for federal Medicaid dollars.		
<b>Purpose of Fund:</b> For AHCCCS's administrative costs and for the provision of services to the long-term care population.		
<b>Funds Expended</b>	1,685,755,000	1,869,102,100
<b>Year-End Fund Balance</b>	160,640,000	(42,506,300)
<b>Nursing Facility Provider Assessment Fund (HCA2567/A.R.S. § 36-2999.53)</b>		<b>Expenditure Authority</b>
<b>Source of Revenue:</b> Assessment on health care items and services provided by some nursing facilities, nursing facility penalties, grants, gifts, and contributions from public or private sources.		
<b>Purpose of Fund:</b> To qualify for federal matching funds for supplemental payments for nursing facility services, to reimburse the Medicaid sharer of the assessment, to provide Medicaid supplemental payments to fund covered nursing facility services for Medicaid beneficiaries, and to pay up to 1% in administrative expenses incurred by AHCCCS for administering this fund.		
<b>Funds Expended</b>	92,151,000	93,066,100
<b>Year-End Fund Balance</b>	3,082,100	3,082,100
<b>Political Subdivision Funds (HCA1111/A.R.S. § 36-2927)</b>		<b>Expenditure Authority</b>
<b>Source of Revenue:</b> Portion of IGA and ISA Fund monies voluntarily given to AHCCCS from local governments, tribal communities, or Arizona public universities in order to obtain a federal match.		
<b>Purpose of Fund:</b> To expand funding for hospitals through supplemental payments and the Access to Professional Services Initiative. Includes agreements for the Disproportionate Share Hospital (DSH) Voluntary Match Payments, Graduate Medical Education (GME), and Pediatric Services Initiative (PSI) programs.		
<b>Funds Expended</b>	257,621,500	441,383,700
<b>Year-End Fund Balance</b>	0	0

SUMMARY OF FUNDS	FY 2025 Actual	FY 2026 Estimate
<b>Prescription Drug Rebate Fund - Federal (HCA2546/A.R.S. § 36-2930)</b>		<b>Expenditure Authority</b>
<b>Source of Revenue:</b> Prescription drug rebate collections, interest from prescription drug rebate late payments, and federal monies made available to this state for the operation of the AHCCCS Prescription Drug Rebate Program.		
<b>Purpose of Fund:</b> To pay for the administrative costs of the Prescription Drug Rebate Program, for payments to contractors or providers in the administration's medical services programs, and to offset General Fund costs for Medicaid programs. Also used to return the federal share of Prescription Drug Rebate collections and interest from late payments to the federal Centers for Medicare and Medicaid Services by offsetting future federal draws. Federal monies are listed as Expenditure Authority. All other monies are appropriated. Expenditures displayed only include the federal share of disbursements and exclude "contra expenses" recorded in AFIS associated with the federal share of rebate collections.		
<b>Funds Expended</b>	609,060,300	609,060,300
<b>Year-End Fund Balance</b>	180,556,100	90,278,000
<b>Prescription Drug Rebate Fund - State (HCA2546/A.R.S. § 36-2930)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Prescription drug rebate collections and interest from prescription drug rebate late payments.		
<b>Purpose of Fund:</b> To pay for the administrative costs of the Prescription Drug Rebate Program, for payments to contractors or providers in the administration's medical services programs, and to offset General Fund costs for Medicaid programs. The federal share of rebates is retained by the state and is used in lieu of federal match funds. Monies in the fund used in lieu of federal match funds are subject to expenditure authority; all other monies are appropriated. Expenditures displayed only include the state share of disbursements from the fund and exclude "contra expenses" recorded in AFIS associated with the state share of rebate collections.		
<b>Funds Expended</b>	189,679,500	341,207,900
<b>Year-End Fund Balance</b>	99,231,200	20,786,100
<b>Proposition 202 - Trauma and Emergency Services Fund (HCA2494/A.R.S. § 36-2903.07)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Gaming monies received from the Arizona Benefits Fund.		
<b>Purpose of Fund:</b> For unrecovered trauma center readiness and emergency services costs.		
<b>Funds Expended</b>	40,321,600	40,321,600
<b>Year-End Fund Balance</b>	11,362,100	11,362,100
<b>Seriously Mentally Ill Housing Trust Fund (HCA2555/A.R.S. § 41-3955.01)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Receives \$2,000,000 from the proceeds of the sales of unclaimed property and interest income. A.R.S. § 44-313 states that the first \$2,000,000 in unclaimed property revenues are distributed to the Seriously Mentally Ill Housing Trust Fund. The second \$2,500,000 in unclaimed property revenues are distributed to the Housing Trust Fund, which is administered by the Department of Housing.		
<b>Purpose of Fund:</b> To cover related administrative expenses. Please see the Non-Appropriated portion of the fund for additional information.		
<b>Funds Expended</b>	6,819,000	2,017,700
<b>Year-End Fund Balance</b>	0	0
<b>Seriously Mentally Ill Housing Trust Fund (HCA2555/A.R.S. § 41-3955.01)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Receives \$2,000,000 from the proceeds of the sales of unclaimed property and interest income. A.R.S. § 44-313 states that the first \$2,000,000 in unclaimed property revenues are distributed to the Seriously Mentally Ill Housing Trust Fund. The second \$2,500,000 in unclaimed property revenues are distributed to the Housing Trust Fund, which is administered by the Department of Housing.		
<b>Purpose of Fund:</b> To fund housing projects and rental assistance for seriously mentally ill persons. The Legislature may appropriate up to 10% of the monies from the fund for administrative costs of services. Appropriated monies are displayed in the Appropriated portion of the fund. Please see the Appropriated portion of the fund for additional information.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	9,134,900	9,134,900

SUMMARY OF FUNDS	FY 2025 Actual	FY 2026 Estimate
<b>Substance Abuse Services Fund (HCA2227/A.R.S. § 36-2005)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> The fund receives 23.6% of monies collected from the Medical Services Enhancement Fund, which is a 13% penalty levied on criminal offenses, motor vehicle civil violations, and game and fish violations. Monies are deposited into 2 subaccounts.		
<b>Purpose of Fund:</b> To provide alcohol and other drug screening, education or treatment for persons court-ordered to attend and who do not have the financial ability to pay for the services; to contract for preventive or rehabilitative and substance abuse services; and to provide priority for treatment services to pregnant substance abusers.		
<b>Funds Expended</b>	1,765,200	2,250,200
<b>Year-End Fund Balance</b>	63,400	63,400
<b>Substance Use Disorder Services Fund (HCA2325/A.R.S. § 36-2930.06)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies appropriated to the fund, any gifts or donations to the fund, and interest earned on those monies.		
<b>Purpose of Fund:</b> To enter into agreements with one or more contractors for substance use disorder services. Monies in the fund shall not be used for persons eligible for Medicaid or Children's Health Insurance Program services. Preferences shall be given to persons with lower household incomes. Contractor administrative costs shall not exceed 8% of the expenditures for services. Monies in the fund are non-lapsing. Expenditures are not displayed to avoid double counting of General Fund monies.		
<b>Funds Expended</b>	41,300	0
<b>Year-End Fund Balance</b>	1,000	1,000
<b>Third Party Liability and Recovery Fund (HCA3791 Acute Care/A.R.S. § 36-2913)</b>		<b>Expenditure Authority</b>
<b>Source of Revenue:</b> Collections from third-party payers and revenues from lien and estate recoveries.		
<b>Purpose of Fund:</b> To provide acute medical services to AHCCCS members. Please see the Non-Appropriated portion of the fund for additional information.		
<b>Funds Expended</b>	194,700	194,700
<b>Year-End Fund Balance</b>	0	0
<b>Third Party Liability and Recovery Fund (HCA3791 Acute Care//A.R.S. § 36-2913)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Collections from third-party payers and revenues from lien and estate recoveries.		
<b>Purpose of Fund:</b> To provide acute medical services to AHCCCS members. This account displays payment of the Third Party Liability contractor fee and return of the federal share of recoveries to CMS. Please see the Expenditure Authority portion of the fund for additional information.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	18,192,300	18,192,300
<b>Tobacco Products Tax Fund - Emergency Health Services Account (HCA1304/A.R.S. § 36-776)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> This account receives 20¢ of each dollar deposited into the Tobacco Products Tax Fund, administered by the Department of Revenue.		
<b>Purpose of Fund:</b> For primary care services, reimbursement of uncompensated care costs, and trauma center readiness costs.		
<b>Funds Expended</b>	13,414,200	15,400,000
<b>Year-End Fund Balance</b>	79,500	79,500
<b>Tobacco Products Tax Fund - Proposition 204 Protection Account (HCA1303/A.R.S. § 36-778)</b>		<b>Expenditure Authority</b>
<b>Source of Revenue:</b> This account receives 42¢ of each dollar deposited into the Tobacco Products Tax Fund, administered by the Department of Revenue.		
<b>Purpose of Fund:</b> To fund state match costs in AHCCCS for the Proposition 204 program. These monies are non-appropriated and must be spent before any other state monies on the Proposition 204 program.		
<b>Funds Expended</b>	28,169,800	32,340,000
<b>Year-End Fund Balance</b>	166,900	166,900

SUMMARY OF FUNDS	FY 2025 Actual	FY 2026 Estimate
<b>Tobacco Tax and Health Care Fund - Medically Needy Account (HCA1306/A.R.S. § 36-774)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> The account receives 70¢ of each dollar deposited in the Tobacco Tax and Health Care Fund, administered by the Department of Revenue, and 27¢ of each dollar deposited into the Tobacco Products Tax Fund, also administered by the Department of Revenue. The fund also receives a portion of the monies reverting from the Corrections Fund Adjustment Account and an allocation from the Healthcare Adjustment Account.		
<b>Purpose of Fund:</b> For health care services including, but not limited to, preventive care, transplants and the treatment of catastrophic illness or injury. Eligible recipients include persons statutorily determined to be medically indigent, medically needy, or low-income children. A portion of the monies is transferred to the DHS for statutorily established services, grants and pilot programs. These taxes were enacted in Proposition 200 and approved by voters in the 1994 General Election.		
<b>Funds Expended</b>	50,577,400	57,545,600
<b>Year-End Fund Balance</b>	292,800	292,800