

**BALLOT PROPOSITION #200**  
**Healthy Children Healthy Families**

*Publicity Pamphlet Fiscal Impact Summary*

Proposition 200 allocates revenues received by the state from the tax on tobacco products and the monies received from tobacco companies as part of a lawsuit settlement to various health care and family support programs. As part of the tobacco company settlement, the state is expected to receive between \$92 million and \$109 million annually through 2006. By 2025, the state is expected to have received \$3.2 billion in total tobacco settlement revenues. In addition, the Proposition reallocates \$108.1 million of existing revenues received from the state tobacco tax in the fiscal year ending June 30, 2002. When tobacco tax and tobacco settlement revenues are combined, it results in approximately \$200 million to \$216 million per year in funding for health care and family support programs starting in 2002.

In addition to allocating the tobacco tax and tobacco settlement revenues, Proposition 200 specifies that certain health care expenses currently funded by tobacco tax revenue are to be funded by the state's general revenue source. Therefore, Proposition 200 will result in an annual cost to the state of \$28.0 million from its general revenues starting in 2002. Proposition 200 also requires that another state funding source be identified for a previous appropriation of \$8 million made from tobacco settlement monies.

	<b>FISCAL YEAR</b>		
	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>STATE EXPENDITURES</b>			
General Fund <sup>1/</sup>	\$ -0-	\$ 28,024,900	\$ 28,024,900
General Fund/Other State Funds <sup>1/</sup>	-0-	8,000,000	8,000,000
Tobacco Settlement	92,136,500	108,498,200	109,789,900
Tobacco Tax <sup>2/</sup>	<u>105,672,900</u>	<u>108,080,900</u>	<u>106,459,700</u>
	\$197,809,400	\$252,604,000	\$252,274,500

<sup>1/</sup> Fund shift of existing costs.

<sup>2/</sup> These monies are already received by the state. Approximately 30% of these amounts will be allocated to existing programs.

**FISCAL ANALYSIS**

**Description**

Proposition 200 dedicates revenues from Arizona's settlement with tobacco product manufacturers to the Healthy Children Healthy Families (HCHF) Fund and modifies the distribution of tobacco tax revenues. The initiative allocates 70% of tobacco tax revenues to the HCHF Fund, instead of allocating these monies to the Medically Needy Account of the Tobacco Tax and Health Care Fund (*which is repealed by the initiative*). The remaining 30% of tobacco tax revenues will continue to fund the following existing programs: 1) the Department of Health Services (DHS) Health Education Account (23%); 2) the Department of Corrections Fund (2%); and, 3) the Disease Control Research Fund (5%). The Disease Control Research fund replaces the DHS Health Research Account; however, this allocation continues to fund research into the cure and prevention of a number of diseases.

The Proposition specifies that the HCHF Fund, which receives 70% of tobacco tax revenues and 100% of tobacco settlement revenues, shall be allocated to the following accounts: 1) the Invest in Prevention Account; 2) the Smart Beginnings Account; 3) the Attorney General Oversight and Enforcement Account; 4) the Auditor General Account; and, 5) the Health Care Coverage Account. The initiative further specifies the use of monies in the Health Care Coverage Account and establishes 8 subaccounts to address various health related issues. Finally, the initiative establishes the General Fund as the funding source for 4 issues currently funded by the Medically Needy Account.

**Estimated Impact**

The JLBC Staff estimates that the initiative will result in an on-going General Fund cost of approximately \$28,024,900 beginning in FY 2002. The specific issues the initiative identifies to be funded by the General Fund are displayed in the table below.

<b>Line Items Shifted from the Medically Needy Account to the General Fund</b>		<b><u>Estimated Impact</u></b>
Offset Loss in Federal Funding		\$ 4,542,200
Phase-Down of Quick Pay Discount		8,206,700
\$10 M Hospital Reimbursement		10,000,000
FY 2000 Medical Inflation		<u>5,276,000</u>
<b>TOTAL</b>		<b>\$28,024,900</b>

In addition to the issues listed in Table 1 above, an \$8,000,000 on-going appropriation of tobacco settlement monies provided to Healthcare Group pursuant to Laws 1999, Chapter 313 will require another state funding source. Healthcare Group is a program that allows small businesses to pool their resources to purchase health insurance for their employees at a lower price. If the General Fund were chosen as the funding source, the total on-going General Fund cost would increase to approximately \$36,024,900 beginning in FY 2002.

When tobacco tax and tobacco settlement revenues are combined, the annual revenue stream totals approximately \$200 million to \$216 million for FY 2002 through FY 2006. Tobacco tax and tobacco settlement revenues each account for approximately 50% of the total revenue stream. Revenues for FY 2001, however, are estimated to be approximately \$197 million. The JLBC Staff estimate of FY 2001 revenues incorporates one-time monies from unexpended balances in the tobacco tax and tobacco settlement accounts; however, it is important to note that the initiative language is not entirely clear in this regard. Table 2 below displays the allocation of the tobacco tax and tobacco settlement revenues for FY 2001 through FY 2006.

<b><u>Allocation of Tobacco Tax and Tobacco Settlement Funding</u></b>						
	<b><u>FY 2001</u></b>	<b><u>FY 2002</u></b>	<b><u>FY 2003</u></b>	<b><u>FY 2004</u></b>	<b><u>FY 2005</u></b>	<b><u>FY 2006</u></b>
<b><u>Funds Available</u></b>						
Tobacco Settlement	\$ 92,136,500	\$108,498,200	\$109,789,900	\$ 96,175,200	\$ 97,307,100	\$ 98,470,200
Tobacco Tax Collections	<u>105,672,900</u>	<u>108,080,900</u>	<u>106,459,700</u>	<u>104,862,800</u>	<u>103,289,900</u>	<u>101,740,600</u>
<b>Total Funds Available</b>	<b>\$197,809,400</b>	<b>\$216,579,100</b>	<b>\$216,249,600</b>	<b>\$201,038,000</b>	<b>\$200,597,000</b>	<b>\$200,210,800</b>
<b><u>Allocation</u></b>						
DHS Health Education Account <sup>1/</sup>	\$ 12,152,400	\$ 24,858,600	\$ 24,485,700	\$ 24,118,400	\$ 23,756,700	\$ 23,400,300
Disease Control Research Fund <sup>1/</sup>	2,641,800	5,404,100	5,323,000	5,243,100	5,164,500	5,087,000
DOC Corrections Fund <sup>1/</sup>	1,056,800	2,161,600	2,129,200	2,097,300	2,065,800	2,034,800
Healthy Children, Healthy Families (HCHF) Fund	<u>181,958,400</u>	<u>184,154,800</u>	<u>184,311,700</u>	<u>169,579,200</u>	<u>169,610,000</u>	<u>169,688,700</u>
<b>Total Allocation</b>	<b>\$197,809,400</b>	<b>\$216,579,100</b>	<b>\$216,249,600</b>	<b>\$201,038,000</b>	<b>\$200,597,000</b>	<b>\$200,210,800</b>
<sup>1/</sup> FY 2001 amounts represent ½ year funding under the initiative. These line items would also receive ½ year funding under current law prior to the enactment of the initiative.						

As the Table 2 shows, the majority of the revenue is deposited into the HCHF Fund, which is then used to fund a combination of new programs included in the initiative and existing programs currently funded with tobacco tax revenues. Monies in the HCHF fund are then further allocated into 5 accounts, which is displayed in Table 3 below. The table demonstrates that the Health Care Coverage Account receives a majority of the revenue deposited into the HCHF Fund.

**Estimated Impact (Continued)**

<b><u>Allocation of Healthy Children Healthy Families Fund</u></b>						
	<b><u>FY 2001</u></b>	<b><u>FY 2002</u></b>	<b><u>FY 2003</u></b>	<b><u>FY 2004</u></b>	<b><u>FY 2005</u></b>	<b><u>FY 2006</u></b>
<b><u>Funds Available</u></b>						
Healthy Children, Healthy Families (HCHF) Fund	<b>\$181,958,400</b>	<b>\$184,154,800</b>	<b>\$184,311,700</b>	<b>\$169,579,200</b>	<b>\$169,610,000</b>	<b>\$169,688,700</b>
<b><u>Allocation of HCHF Fund</u></b>						
Invest in Prevention Account	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000
Smart Beginnings Account	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000	35,000,000
Attorney General Account	350,000	350,000	350,000	350,000	350,000	350,000
Auditor General Account	350,000	350,000	350,000	350,000	350,000	350,000
Health Care Coverage Account	<u>\$141,258,400</u>	<u>\$143,454,800</u>	<u>\$143,611,700</u>	<u>\$128,879,200</u>	<u>\$128,910,000</u>	<u>\$128,988,700</u>
<b>Total Allocation</b>	<b>\$181,958,400</b>	<b>\$184,154,800</b>	<b>\$184,311,700</b>	<b>\$169,579,200</b>	<b>\$169,610,000</b>	<b>\$169,688,700</b>

The initiative further allocates monies in the Health Coverage Account into 8 subaccounts. Revenues above the amounts specified for deposit into each subaccount, are deposited into the Children’s Health Insurance and Working Uninsured (CHIWIU) Subaccount. Therefore, when there is additional tobacco tax and tobacco settlement revenue above the percentage or dollar amounts specified in the initiative, that additional revenue ultimately ends up in the CHIWIU Subaccount. For example, of the \$141,258,400 available for expenditure from the Health Care Coverage Account in FY 2001, \$95,258,400 is allocated to the CHIWIU Subaccount. Table 4 below displays the allocation of the Health Care Coverage Account monies for FY 2001 through FY 2006.

<b><u>Allocation of Health Care Coverage Account</u></b>						
	<b><u>FY 2001</u></b>	<b><u>FY 2002</u></b>	<b><u>FY 2003</u></b>	<b><u>FY 2004</u></b>	<b><u>FY 2005</u></b>	<b><u>FY 2006</u></b>
<b><u>Funds Available</u></b>						
Health Care Coverage Account	<b>\$141,258,400</b>	<b>\$143,454,800</b>	<b>\$143,611,700</b>	<b>\$128,879,200</b>	<b>\$128,910,000</b>	<b>\$128,988,700</b>
<b><u>Allocation</u></b>						
State Medical Laboratory Subaccount	\$ -0-	\$ 15,000,000	\$ 15,000,000	\$ -0-	\$ -0-	\$ -0-
Mental Health Facilities Subaccount	-0-	15,000,000	20,000,000	-0-	-0-	-0-
Behavioral Health Subaccount	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000
Older Arizonans Subaccount	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000
Health Crisis Fund		1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Primary Care and Community Health Centers Subaccount	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000
Annual Health Subaccount	20,500,000	20,500,000	20,500,000	19,331,900	19,336,500	19,348,300
Children’s Health Insurance and Working Uninsured Subaccount	<u>95,258,400</u>	<u>66,454,800</u>	<u>61,611,700</u>	<u>83,047,300</u>	<u>83,073,500</u>	<u>83,140,400</u>
<b>Total Allocation</b>	<b>\$141,258,400</b>	<b>\$143,454,800</b>	<b>\$143,611,700</b>	<b>\$128,879,200</b>	<b>\$128,910,000</b>	<b>\$128,988,700</b>

**Analysis**

The JLBC Staff estimate assumes that the entire allocation to the HCHF Fund is expended each year (i.e., there is not a balance carried forward from one year to the next in the HCHF Fund). As stated above, any additional revenues above the amounts specified for deposit into the various accounts and subaccounts, will ultimately end up in the CHIWIU account. The

**Analysis (Continued)**

bullets below provide information on the assumptions used to develop the JLBC Staff cost estimate and provide detail on the various accounts and subaccounts established by the initiative.

- 1) The **Invest in Prevention Account** receives 3.5% of the HCHF Fund; however, the annual allocation to the account is capped at \$5,000,000. Based on the JLBC Staff estimate of the HCHF Fund balance for FY 2001 through 2006, 3.5% of the HCHF Fund would equate to \$6,368,500 in FY 2001 and \$5,939,100 in FY 2006. Therefore, the JLBC Staff estimate assumes that \$5,000,000 will be deposited into the Invest in Prevention Account for FY 2001 through FY 2006. The Invest in Prevention Account provides funding for prevention and early detection programs for cancer, cardiovascular and pulmonary disease, and strokes.
- 2) The **Smart Beginnings Account** receives 21% of the HCHF Fund; however, the annual allocation to the account is capped at \$35,000,000. Based on the JLBC Staff estimate of the HCHF Fund balance for FY 2001 through 2006, 21% of the HCHF Fund would equate to \$38,211,300 in FY 2001 and \$35,634,600 in FY 2006. Therefore, the JLBC Staff estimate assumes that \$35,000,000 will be deposited into the Smart Beginnings Account for FY 2001 through FY 2006. The Smart Beginnings Account provides funding for programs, such as parenting education, prenatal outreach, family mentoring, and preschool.

The initiative phases in program expenditures from the Smart Beginnings Account, with the fund balance being deposited into the Smart Beginnings Trust Fund. Table 5 below shows the available revenue and the allocation of monies in the Smart Beginnings Account for FY 2001 through FY 2006. In FY 2001, the estimated expenditures are limited to administrative costs of \$1,750,000, which the initiative specifies are not to exceed 5% of the total annual deposit of \$35,000,000. Beginning in FY 2006, the fund is fully phased in and the total deposit (less administrative expenses) is available for program expenditures.

	<u>Allocation of Smart Beginning Account</u>					
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
<b>Funds Available</b>						
Annual Smart Beginning's Deposit	\$35,000,000	\$35,000,000	\$ 35,000,000	\$ 35,000,000	\$ 35,000,000	\$ 35,000,000
<b>Allocations</b>						
Amount that can be spent on programs	\$ -0-	\$ 1,000,000	\$ 7,000,000	\$ 14,000,000	\$ 28,000,000	\$ 34,125,000
Administrative Expenses	1,750,000	1,750,000	1,750,000	1,750,000	1,750,000	1,750,000
Amount Deposited into Trust Fund	<u>33,250,000</u>	<u>32,250,000</u>	<u>26,250,000</u>	<u>19,250,000</u>	<u>5,250,000</u>	<u>-0-</u>
<b>Total Allocation</b>	<b>\$35,000,000</b>	<b>\$35,000,000</b>	<b>\$ 35,000,000</b>	<b>\$ 35,000,000</b>	<b>\$ 35,000,000</b>	<b>\$ 35,000,000</b>
Interest Available for Program Expenditures	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 6,043,000
Cumulative Trust Fund Balance	\$33,250,000	\$67,162,500	\$96,770,625	\$120,859,156	\$126,109,156	\$126,109,156

\* Cumulative Trust Fund Balance includes interest.

The initiative also stipulates the following scenarios that would permit the use of monies from the trust fund: 1) if the total amount deposited from the HCHF Fund into the Smart Beginnings Account is less than \$35,000,000 in a given year, the interest earned on the trust fund may be used; 2) if the total amount deposited from the HCHF Fund is less than \$20,000,000, the trust fund interest and principal may be used; and, 3) if the interest on the trust fund exceeds \$6,000,000 in any given year, that interest may be used. Based on the JLBC Staff model, it does not appear that the annual deposit will fall below \$35,000,000 from FY 2001 to FY 2006. However, beginning in FY 2005 interest revenue from the trust fund will exceed \$6,000,000 and, therefore, will be available for program expenditures beginning in FY 2006.

- 3) The **Attorney General Oversight and Enforcement Account** receives an annual deposit of \$350,000 from the HCHF Fund. The Attorney General Oversight and Enforcement Account provides funding for activities related to the enforcement of the provisions of the initiative and the 1998 Master Settlement Agreement between the state and tobacco product manufacturers.

**Analysis (Continued)**

- 4) The **Auditor General Account** receives an annual deposit of \$350,000 from the HCHF Fund. The Auditor General Account provides funding for annual financial audits of the HCHF Fund and performance audits of programs funded from the HCHF Fund every 5 years.
- 5) The **Health Care Coverage Account** receives the remaining HCHF Fund balance after the above allocations have been made. The JLBC Staff estimates that the Health Care Coverage Account will receive the following deposits.

	(in millions)					
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
Annual Deposit into the Health Care Coverage Account	\$141.3	\$143.5	\$143.6	\$128.9	\$128.9	\$129.0

The monies in the Health Care Coverage Account are further allocated into the following 8 subaccounts. Each of the subaccounts, except the Children’s Health Insurance and Working Uninsured (CHIWU) Subaccount, have a specified deposit amount or a cap on the amount received if a percentage allocation is specified. This results in the CHIWU Subaccount receiving the excess revenues in the Health Care Coverage Account. Refer to Table 4 in the “Estimated Impact” section for detail on the amount deposited into each subaccount for FY 2001 through FY 2006.

- a) The **State Medical Laboratory Subaccount** will receive a deposit of \$15,000,000 in both FY 2002 and FY 2003 for a total of \$30,000,000, to be used for the construction of a State Medical Laboratory. Any monies remaining in this subaccount at the close of FY 2004 will revert into the HCHF Fund.
- b) The initiative specifies that the **Mental Health Facilities and Services Subaccount** is to receive three annual deposits, which total \$75,000,000. These monies are to be used for the construction or renovation of a mental health facility and the provision of mental health services. Any monies remaining in this subaccount at the close of FY 2005 will revert into the HCHF Fund.

However, Laws 2000, Chapter 1 appropriated tobacco settlement monies to fund the construction or renovation of the state’s mental health facilities. This legislation appropriated \$20,000,000 in FY 2000, \$20,000,000 in FY 2001, \$20,000,000 in FY 2002, and \$20,000,000 in FY 2004, for a total of \$80,000,000. The initiative stipulates that if a tobacco settlement appropriation for mental health facilities is authorized between November 15, 1999 and the date of enactment of the initiative, that appropriation is not inconsistent with the initiative.

The initiative limits the total amount to be spent on the construction or renovation of the state’s mental health facilities to \$75,000,000. Therefore, the JLBC Staff model estimates \$15,000,000 in FY 2002 and \$20,000,000 in FY 2003 would be allocated to the Mental Health Facilities and Services Subaccount under the initiative. When these amounts are combined with the FY 2000 and FY 2001 tobacco settlement appropriations of \$20,000,000 each year made pursuant to Laws 2000, Chapter 1 (which will have already gone into effect prior to the passage of the initiative) the total appropriation for the state’s mental health facilities is \$75,000,000.

- c) The **Behavioral Health Subaccount** receives 9% of the Health Care Coverage Account; however, the annual allocation to the account is capped at \$11,000,000. Based on the JLBC Staff estimate of the Health Care Coverage Account balance for FY 2001 through 2006, 9% of the account would equate to \$12,713,300 in FY 2001 and \$11,609,000 in FY 2006. Therefore, the JLBC Staff estimate assumes that \$11,000,000 will be deposited into the Behavioral Health Subaccount for FY 2001 through FY 2006. Seventy-five percent (75%), or \$8,250,000, of the Behavioral Health Subaccount is allocated for psychotropic medications for persons with serious mental illnesses. The remaining 25% of this subaccount, or \$2,750,000, is allocated to crisis stabilization and residential treatment services for children with psychiatric impairments.
- d) The **Older Arizonans Subaccount** receives 3% of the Health Care Coverage Account; however, the annual allocation to the account is capped at \$3,500,000. Based on the JLBC Staff estimate of the Health Care Coverage Account balance for FY 2001 through 2006, 3% of the account would equate to \$4,237,800 in FY 2001 and \$3,869,700 in FY 2006. Therefore, the JLBC Staff estimate assumes that \$3,500,000 will be deposited into the Older Arizonans Subaccount for FY 2001 through FY 2006. Eighty-five percent (85%), or \$2,975,000, of the Older Arizonans Subaccount provides funding for custodial and support services to older Arizonans suffering from

**Analysis (Continued)**

chronic diseases. The remaining 15%, or \$525,000, of this subaccount provides funding for non-medical home and community based care programs.

- e) The **Health Crisis Fund** receives deposits from the Health Care Coverage Account as necessary to maintain a balance of \$1,000,000. The JLBC Staff estimate assumes that the subaccount receives a deposit of \$1,000,000 each year from FY 2002 through FY 2006. The Governor may expend these funds to address a health crisis in the state by issuing an Executive Order.
- f) The **Primary Care and Community Health Centers Subaccount** receives 9% of the Health Care Coverage Account; however, the annual allocation to the account is capped at \$11,000,000. Based on the JLBC Staff estimate of the Health Care Coverage Account balance for FY 2001 through 2006, 9% of the Health Care Coverage Account would equate to \$12,713,300 in FY 2001 and \$11,609,000 in FY 2006. Therefore, the JLBC Staff estimate assumes that \$11,000,000 will be deposited into the Primary Care and Community Health Centers Subaccount for FY 2001 through FY 2006. The monies in this fund are subject to legislative appropriation and are to be used to either: 1) fund the Primary Care Programs line item and the Qualifying Community Health Centers line item, which are currently funded by the Medically Needy Account; or 2) fund similar programs designed to serve the same populations.
- g) The **Annual Health Subaccount** receives 15% of the Health Care Coverage Account; however, the annual allocation to the account is capped at \$20,500,000. Based on the JLBC Staff estimate of the Health Care Coverage Account balance for FY 2001 through 2006, 15% of the Health Care Coverage Account is above the cap for FY 2001 and FY 2003 and would equate to \$21,188,800 in FY 2001 and \$21,541,800 in FY 2003. Thereafter, the subaccount would receive 15% of the Health Care Coverage Account. The table below shows the estimated annual deposits to the Annual Health Subaccount.

	(in millions)					
	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
Annual Deposit into the Annual Health Subaccount	\$20.5	\$20.5	\$20.5	\$19.3	\$19.3	\$19.3

The monies in this fund are subject to legislative appropriation and are available to fund health care for the uninsured or to provide funding for innovative health care programs. The JLBC Staff estimate assumes that this subaccount will be used to fund all programs currently funded by the Medically Needy Account except: 1) programs that the initiative specifically shifts to the General Fund; and, 2) programs that the initiative specifies are to be funded by other subaccounts. Monies in the subaccount are sufficient to cover all of the permanent programs currently funded by the Medically Needy Account.

- h) The **Children’s Health Insurance and Working Uninsured (CHIWA) Subaccount** receives at least 34% of the Health Care Coverage Account in the first 2 fiscal years after the initiative goes into effect. The JLBC Staff estimate assumes that the initiative will become effective in the middle of FY 2001. Therefore, the first 2 fiscal years after the initiative goes into effect would be FY 2002 and FY 2003. Thus, the JLBC Staff model allocates 34% of the Health Care Coverage Account in FY 2001 (mid-year enactment), FY 2002, and FY 2003. For FY 2004 and beyond, the CHIWA Subaccount receives at least 50% of the Health Care Coverage Account. In addition, the initiative stipulates that the CHIWA Subaccount receives the balance remaining in the Health Care Coverage Account after all specified allocations. Table 8 below shows the CHIWA Subaccount’s estimated revenues and expenditures for FY 2001 through FY 2006. Please note that while Table 8 indicates that there is an anticipated remaining balance in the CHIWA Subaccount, the JLBC Staff model of the HCHF Initiative assumes that all monies allocated to each of the accounts and subaccounts are fully expended each fiscal year.

Analysis (Continued)

<b>Table 8</b>						
<b><u>Children's Health Insurance and Working Uninsured Subaccount</u></b>						
	<b><u>FY 2001</u></b>	<b><u>FY 2002</u></b>	<b><u>FY 2003</u></b>	<b><u>FY 2004</u></b>	<b><u>FY 2005</u></b>	<b><u>FY 2006</u></b>
<b><u>Total Funds Available</u></b>	<b>\$95,258,400</b>	<b>\$66,454,800</b>	<b>\$61,611,700</b>	<b>\$83,047,300</b>	<b>\$83,073,500</b>	<b>\$83,140,400</b>
<b><u>Allocations</u></b>						
Children's Health Insurance						
Program	\$ 6,922,900	\$14,830,500	\$15,885,300	\$17,015,200	\$18,225,400	\$19,521,600
Organ Transplants	1,795,000	3,590,000	3,590,000	3,590,000	3,590,000	3,590,000
HIV/AIDS drug treatment	674,800	1,230,000	1,230,000	1,230,000	1,230,000	1,230,000
Newly Eligible AHCCCS						
Group	0	18,056,600	25,787,800	27,621,900	29,586,500	31,690,900
Administrative Costs						
Associated with Newly						
Eligible AHCCCS group	0	722,300	1,031,500	1,104,900	1,183,500	1,267,600
Outreach Programs	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
<b>Total Allocation</b>	<b>\$10,392,700</b>	<b>\$39,429,400</b>	<b>\$48,524,600</b>	<b>\$51,562,000</b>	<b>\$54,815,400</b>	<b>\$58,300,100</b>
Remaining Balance	\$84,865,700	\$27,025,400	\$13,087,100	\$31,485,300	\$28,258,100	\$24,840,300

The CHIWU Subaccount provides funding for the following issues (in order of priority): 1) the state share of the Children's Health Insurance Program (CHIP), or Kidsicare; 2) Organ transplants; 3) HIV/AIDS drug treatment; 4) the state share of costs associated with expanding eligibility for the Arizona Health Care Cost Containment System (AHCCCS) to parents and guardians or children who are already eligible for AHCCCS (often referred to as the "1931" or "categorical" population); 5) administrative costs related to expanded AHCCCS coverage to the 1931 population; and, 6) up to \$1,000,000 million for outreach programs.

- h1) The initiative changes the Children's Health Insurance Program (CHIP) benefit package to conform to the benefits offered other AHCCCS recipients. Under current law, the CHIP benefit package conforms to the benefit package offered to state employees. The JLBC Staff estimates that changing CHIP benefits to conform to the package offered to other AHCCCS recipients will result in approximately a 1% increase to the CHIP capitation rate. This results in a change to the weighted average FY 2001 CHIP capitation rate from \$123.02 to \$124.03. The CHIP allocations shown in the table above reflect the state cost of the program if the benefits are changed to the package offered to other AHCCCS recipients.

While this change does increase the CHIP capitation rate, it is unlikely to result in the total cost of the program being greater than available revenues. For example, in FY 2004 the state share of the CHIP program is projected to be approximately \$17 million; however, the revenue stream into the CHIWU Subaccount in FY 2004 and beyond is projected to be approximately \$83 million. Therefore, there is ample funding to cover the state share of CHIP. In addition, funding the state share of CHIP is the first priority of the CHIWU Subaccount. Thus, even if revenues were not available to fund all the identified issues, the state share of CHIP would be fully funded.

- h2) The initiative specifies that the income limit for the additional eligibility group (referred to as the 1931 or categorical population) shall be set at 100% of the Federal Poverty Level beginning in FY 2002. While the initiative is anticipated to go into effect in mid-FY 2001, the JLBC Staff estimate assumes that the expansion of the AHCCCS program to cover the 1931 population (i.e., parents and guardians of children already covered by AHCCCS) will not occur until quarter 2 of FY 2002. This assumption is based on language in the initiative, which specifies that expanding coverage to the 1931 population will begin on October 1, 2001. The JLBC Staff estimates that covering the 1931 population will cost approximately \$18 million in FY 2002 and will increase to approximately \$32 million in FY 2006. However, some of these costs may be offset by the conversion of a portion of AHCCCS enrollees that are currently in a 100% state funded program, to enrollment under the 1931 category, which receives federal matching dollars.

After FY 2002, AHCCCS has the authority to lower the income limit if enrollment projections indicate that the cost of the program will exceed available revenues. This mechanism allows for total expenditures from the CHIWU account to remain within the total revenues available. However, based upon the JLBC Staff estimate, which

**Analysis (Continued)**

assumes a 50% presentation rate (meaning 50% of those eligible for coverage will actually sign up), it does not appear that it will be necessary to lower the income limit during the period of FY 2003 through FY 2006.

The JLBC Staff estimate assumes that the appropriation provided pursuant to Laws 1999, Chapter 313 to Healthcare Group will be funded by tobacco settlement monies in FY 2001. The legislation also appropriated \$8,000,000 of tobacco settlement monies for FY 2002 and each year thereafter to Healthcare Group. However, the initiative would nullify this appropriation beginning in FY 2002; therefore, another state funding source will be required beginning in FY 2002.

**Local Government Impact**

There is no estimated impact on local governments.

7/14/00

A.R.S. § 19-123 requires the Joint Legislative Budget Committee Staff to prepare fiscal impact estimates for ballot initiative measures. This estimate was prepared by Gretchen Logan (602-542-5491).