County Health Care Payments
Arizona Health Care Cost Containment System
Program Summary

Program Overview

County payments for AHCCCS-related items have been both revenues and expenses for the state. The vast majority of county payments have served as revenue and cost-offsets to the state. These revenues total $381.7 million in FY 2019 and consist of 4 categories: (1) $268.6 million for Long-Term Care, (2) $62.9 million for behavioral health services, (3) $46.5 million for acute care contributions, and (4) $3.8 million for the Budget Neutrality Compliance Fund. In prior years, counties also used to fund $2.6 million for the Disproportionate Uncompensated Care pool in the Acute Care program, but that payment was eliminated in the FY 2019 budget.

The expenses by the state in FY 2019 are $4.2 million in Disproportionate Share Hospital Payments. In prior years, it had also included $4.8 million in Proposition 204 - County Hold Harmless payments. *(Please see Tables 1 and 2 for more detail.)*

Program Trends

While the county governments have had a long history of contributing to costs associated with the AHCCCS programs, their share of the total state AHCCCS costs has declined. Total net county contributions as a share of state costs gradually fell from 31% in FY 2001 to 16% in FY 2010. This percentage has fluctuated since and is expected to equal 18% of costs in FY 2019. Both county and state costs increased from FY 2001 to FY 2019, but the state General Fund share grew by 251%, whereas the county portion increased by 70%. County total net payments have increased from $224.1 million in FY 2001 to $381.7 million in FY 2019.

Table 1

AHCCCS County Payments Overview
Funding History [1/][2/]

	FY 2001	FY 2007	FY 2018	FY 2019
Overall AHCCCS Program				
Total Expenditures	$2,329,510,200	$5,203,813,900	$12,439,782,100	$12,787,698,700
State General Fund (GF)/County Portion	730,147,500	1,405,780,700	2,161,751,200	2,158,806,200
State General Fund Portion	506,027,300	1,132,444,300	1,785,264,100	1,777,093,500
State Share of GF/County Portion	69%	81%	83%	82%
County Portion	224,120,200	273,336,400	376,487,100	381,712,700
County Share of GF/County Portion	31%	19%	17%	18%
County Portion Detail				
Long-Term Care	157,415,200	221,196,800	264,673,200	268,554,800
Behavioral Health Services [3/]	0	0	58,699,000	62,888,800
Acute Care Contribution	66,905,500	51,787,100	46,813,400	46,512,900
Uncompensated Care Contribution	0	2,646,200	2,646,200	0
Budget Neutrality Compliance Fund	0	2,531,900	3,655,300	3,756,200
Proposition 204 - County Hold Harmless	0	(4,825,600)	0	0
County Total Net Payments	**$ 224,120,200** [4/]	**$ 273,336,400**	**$ 376,487,100**	**$ 381,712,700**

1/ Includes appropriated and non-appropriated funding sources.
2/ Does not include the $4.2 million Disproportionate Share Hospital payment to Maricopa County in FY 2007 – FY 2019 or $13.1 million in FY 2001.
3/ Beginning in FY 2017, administration and funding of behavioral health services were shifted from the Department of Health Services to AHCCCS.
4/ Includes $(200,500) in payments to Navajo and Apache Counties.

There are 2 primary reasons for the decline in county share of AHCCCS costs since FY 2001: (1) statutory total funding formulas that remain largely unchanged from year to year and (2) funding formula increases that do not match program growth. The county Acute Care contribution has no programmed annual growth. Since FY 2006, the total revenue from this fund has been further reduced with a change in Maricopa County's contribution to these funds. The county funding requirements for Long-Term Care and administration costs have annual formula increases, but these increases fall short of the percentage increase of the overall costs. Additionally, in FY 2007 a new relief measure further reduced counties' Long-Term Care contributions.

Program Funding

Long-Term Care

Prior to 1988, counties paid 100% of long-term care costs. In 1988, the state began to pay 50% of the annual growth of long-term care costs. Prior year utilization rates are used to divide the total county costs amongst all counties. The current funding structure is set up to have the state and counties share the long-term care caseload growth in a 50/50 split.

There are several "circuit breakers" that place a limit on the amounts that counties pay, which results in some counties not paying all 50% of their county's growth, and not paying their utilization share of ALTCS services. In the FY 2019 budget, 4 counties pay the 50% share of growth and 11 counties pay less due to relief from circuit breakers. Circuit breakers are described in more detail in the *FY 2019 Appropriations Report*.

County funds made up $157 million, or 82%, of the total state long-term care costs in FY 2001, and are projected to cover $269 million, or 57%, of the state long-term care costs in FY 2019.

Behavioral Health Services

Counties have historically made payments to the state to share in costs of behavioral health services (BHS) provided to individuals that are not eligible for Medicaid. County payments in recent years have generally funded services delivered to individuals with a serious mental illness (SMI) as part of the *Arnold v. Sarn* settlement agreement, pre-petition screening and evaluation of individuals undergoing civil commitment, some general mental health services, and administration of Local Alcohol Reception Centers to treat substance abuse.

County payments to the state are a non-appropriated funding source that make up $62.9 million, or 9%, of the state's total appropriated and non-appropriated BHS funding in FY 2019. Administration and funding of BHS was transferred from the Department of Health Services to AHCCCS in FY 2017.

Acute Care

Monies have been collected from the counties for acute care costs since FY 1982 when the state took over the counties' responsibility of providing acute medical services to the indigent. Acute Care county contributions are withheld by the State Treasurer from other monies paid to the counties. The statutory total for acute care has not been changed since FY 2006, except for Maricopa County.

Prior to FY 2019, there was a second acute care payment for counties with disproportionate uncompensated care (DUC). DUC began in FY 2002 as set forth in Laws 2001, Chapter 344, Section 100. Except for eliminating the Maricopa County contribution in FY 2006, total DUC payments had remained unchanged at $2.6 million through FY 2018. The FY 2019 budget permanently eliminated the county DUC payment.

Acute care costs have been the fastest growing component of AHCCCS' total fund costs, growing by 383% since FY 2001. In FY 2001, counties paid for approximately 14% of the state's acute care costs but are projected to cover only 3% of the state's acute care costs in FY 2019. Total county dollar contributions have also declined and for FY 2019 it is estimated that the county contributions will be $(20.4) million less than FY 2001.

Budget Neutrality Compliance Fund

In FY 2002, the state mandated county contributions to help cover the cost of Proposition 204. These contributions went into a new fund called the Budget Neutrality Compliance Fund (BNCF) and are based on a percentage formula where each county pays a percentage of the total statutory figure. The total county contribution is increased annually based on the Gross Domestic Product (GDP) price deflator. According to A.R.S. §

41-563, the GDP price deflator refers to "the average of the 4 implicit price deflators for the gross domestic product reported by the United States Department of Commerce for the 4 quarters of the calendar year."

Since FY 2003, the county contributions into the BNCF have been included as a fund source for the Administration cost center of AHCCCS. Prior to FY 2006, these contributions represented about 7% of total state administrative costs. With the reduction in Maricopa County contributions starting in FY 2006 (Maricopa County agreed to retain responsibility for adult probation costs in exchange for a reduction in other county contributions), the county contributions represent about 4% of total state administrative costs in FY 2019.

Table 2

AHCCCS FY 2019 Revenues (Payments) by County

County	Long Term Care	Acute	BHS 1/	BNCF	County Totals	% of Total	% of State Population 3/
Apache	$ 644,500	$268,800	$ -	$123,800	$1,037,100	0.3%	1.0%
Cochise	5,288,900	2,214,800	-	230,900	7,734,600	2.0%	1.8%
Coconino	1,935,200	742,900	1,000,000	227,800	3,905,900	1.0%	2.1%
Gila	2,239,000	1,413,200	-	93,600	3,745,800	1.0%	0.8%
Graham	1,578,400	536,200	-	66,500	2,181,100	0.6%	0.5%
Greenlee	49,000	190,700	-	17,100	256,800	0.1%	0.2%
La Paz	599,500	212,100	-	35,400	847,000	0.2%	0.3%
Maricopa	170,486,100	18,482,600	58,913,800	-	247,882,500	64.9%	60.6%
Mohave	8,479,400	1,237,700	-	266,000	9,983,100	2.6%	3.0%
Navajo	2,668,000	310,800	-	174,300	3,153,100	0.8%	1.6%
Pima	41,749,300	14,951,800	2,975,000	1,583,900	61,260,000	16.1%	14.7%
Pinal	13,853,200	2,715,600	-	309,900	16,878,700	4.4%	6.1%
Santa Cruz	2,084,400	482,800	-	73,200	2,640,400	0.7%	0.7%
Yavapai	8,334,500	1,427,800	-	292,800	10,055,100	2.6%	3.2%
Yuma	8,565,400	1,325,100	-	261,000	10,151,500	2.7%	3.2%
Totals	**$268,554,800**	**$46,512,900**	**$62,888,800**	**$3,756,200**	**$381,712,700**	**100.0%**	**100.0%**

1/ County amounts reflect JLBC Staff estimates of non-appropriated county payments for behavioral health services.
2/ Does not include the $4.2 million Disproportionate Share Hospital payment to Maricopa County.
3/ Population percentages based on the July 1, 2017 Arizona Department of Administration population estimate of 6,965,897.

Payments to Counties

Proposition 204 - County Hold Harmless Payments

From FY 2003 through FY 2010, 6 counties received an additional payment totaling $4.8 million yearly. This payment was made so that counties were "held harmless" for formula changes that were made due to the implementation of Proposition 204. This payment was eliminated in the FY 2011 budget.

Disproportionate Share Hospital Payments

Arizona's Disproportionate Share Hospital (DSH) Payments program has been in operation since 1992. Section 1923 of the Federal Social Security Act established DSH programs to compensate hospitals that serve a disproportionate share of low-income patients. Through intergovernmental transfers and the use of Federal Funds, this program results in a net gain to all parties involved.

Maricopa County netted $13.1 million in FY 2001. In FY 2002, the voters passed Proposition 204, which expanded the population eligible for AHCCCS. Subsequently, the involved parties developed a new financial sharing agreement to hold all parties harmless with the implementation of Proposition 204. With the passage of Proposition 414 in November 2003 by voters in Maricopa County, the Maricopa County Integrated Health System (MIHS) was formed; MIHS took over the health care system from Maricopa County in January 2005. This has added an additional entity in the transfer of DSH payments in Maricopa County.

In prior years, the state made an $88.9 million DSH payment to Maricopa County and then withheld $84.7 million of the County's transaction privilege taxes, for a net gain to Maricopa County of $4.2 million. As part of the 2006

waiver renewal process, the federal government began to require AHCCCS to utilize a different DSH mechanism for Maricopa County beginning in FY 2008. Under this mechanism, Maricopa County must certify that they have expended monies that would qualify as DSH expenditures in an amount at least equal to the amount budgeted for DSH expenditures. The state then appropriates $4.2 million to Maricopa County and deposits the remaining amount into the state General Fund (an estimated $75.3 million in FY 2019).

DSH payments to private hospitals decreased in FY 2010 and again in FY 2016. MIHS has continued to receive the $4.2 million appropriation. DSH payments are not included in the total county contributions shown in *Table 1*.

Other Voluntary Hospital Payments

Beginning in FY 2008, the state has allowed political subdivisions to make voluntary hospital contributions in order to receive a federal match. For more information on these payments, please see the *AHCCCS – Payments to Hospitals* program summary.