

December 15, 2016

Lorenzo Romero, Director
Governor's Office of Strategic Planning and Budgeting
State of Arizona
Capitol Tower
1700 West Washington
Phoenix, Arizona 85007

SUBJECT: Fiscal Year 2018 Budget Request Update

Dear Director Romero:

I am submitting an update to the Fiscal Year (FY) 2018 Budget Revision for the Arizona Health Care Cost Containment System (AHCCCS). AHCCCS submitted an original budget request on September 1, 2016 and a budget revision on November 15, 2016. Since the submission of the budget revision, several issues with budget implications have been identified. AHCCCS is providing budget impact estimates to reflect more current information.

The net impact of these issues is a decrease to the FY 2018 AHCCCS Budget Request of \$37.5 million Total Fund, including a decrease of \$12.8 million General Fund, a decrease of \$2.5 million Hospital Assessment, and an increase of \$5.5 million County Funds.

The fiscal impact of each issue is shown on the following table and summarized below:

| Budget Items | General Fund | County Funds | Hospital Assessment | Federal Title XIX | Other Funds | Total Funds |
|-------------------------|----------------|---------------|---------------------|-------------------|---------------|-----------------|
| Original Request | \$71,812,600 | \$17,346,200 | \$59,661,200 | \$492,455,400 | \$940,889,000 | \$1,582,164,400 |
| Budget Revision | (\$33,848,400) | (\$5,404,100) | (\$2,348,000) | (\$48,126,100) | (\$970,400) | (\$90,697,000) |
| Medicare Premiums | (\$8,501,500) | (\$1,101,400) | (\$2,480,500) | (\$32,991,500) | - | (\$45,074,900) |
| CMDP Enrollment | (\$11,345,800) | - | - | (\$26,162,900) | - | (\$37,508,700) |
| Proposition 206 | \$7,028,700 | \$6,622,300 | - | \$31,442,900 | - | \$45,093,900 |
| Budget Update | (\$12,818,600) | \$5,520,900 | (\$2,480,500) | (\$27,711,500) | - | (\$37,489,700) |
| Adjusted Request | \$25,145,600 | \$17,463,000 | \$54,832,700 | \$416,617,800 | \$939,918,600 | \$1,453,977,700 |

- Medicare Part B premiums for dual eligible members were originally assumed to increase by 22.3% effective January 1, 2017 based on the 2016 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds. The Centers for Medicare and Medicaid Services (CMS) has since announced an increase of 10.0% effective January 1, 2017 due to a higher than anticipated Cost of Living Adjustment (COLA) and statutory authority exercised by the Department of Health and Human Services (HHS) to mitigate the increase. The lower

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premium increase results in FY 2018 savings of \$45.1 million Total Fund, including \$8.5 million General Fund, \$2.5 million Hospital Assessment, and \$1.1 million County Funds.

- Enrollment in the Comprehensive Medical and Dental Program (CMDP), which provides services to children in foster care, was originally assumed to increase by 9.0% based on historical growth trends. In recent months, enrollment has decreased from 17,937 in July 2016 to 17,004 in November 2016, a decrease of 5.2%. AHCCCS has rebased its forecast to include actual months to date and revised the growth trend downward to reflect an increase of 4.5%. The decreases in enrollment are attributable to declines in the number of children served in out-of-home placements by the Department of Child Safety (DCS). Given the uncertainty of future trends and the high cost of providing medical and behavioral health services to the CMDP population, AHCCCS is not projecting further population decreases at this time. The lower enrollment forecast results in FY 2018 savings of \$37.5 million Total Fund (\$11.3 million General Fund).
- In November 2016, Proposition 206 was passed by Arizona voters to increase the state's minimum wage from \$8.05 to \$10.00, effective January 1, 2017. Providers of Home and Community Based Services (HCBS) and Nursing Facility (NF) services employ a high proportion of labor that is at or near this wage range. In order to maintain a provider network that ensures access to care for members, AHCCCS is increasing HCBS and NF rates by 7.0% and 3.5%, respectively, effective January 1, 2017. The higher rates result in an additional FY 2018 cost to the Arizona Long Term Care System (ALTCS) Elderly and Physically Disabled (EPD) program of \$45.1 million Total Fund, including \$7.0 million General Fund and \$6.6 million County Funds. This amount does not include the cost of similar provider rate increases for the ALTCS Developmental Disabilities (DD) program operated by the Department of Economic Security (DES).

AHCCCS will continue to monitor enrollment and expenditure trends and will provide additional updates to the budget offices as necessary.

Sincerely,



Thomas J. Betlach
Director

cc: Richard Stavneak, Director, Joint Legislative Budget Committee
Jon Stall, Joint Legislative Budget Committee
Patrick Moran, Joint Legislative Budget Committee
Bret Cloninger, Governor's Office of Strategic Planning and Budgeting