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**DATE:** January 15, 2010  
**TO:** Interested Stakeholders  
**FROM:** Thomas J. Betlach  
**SUBJECT:** Budget Neutrality Update

As part of the Provider Tax report published in November 2009, the AHCCCS Administration highlighted Budget Neutrality as a potential issue. In the report AHCCCS estimated that the program had a positive Budget Neutrality variance of \$130 million through the end of the waiver period (September 30, 2011).

Today the Executive Budget for FY 2011 was released. The Governor is recommending that for FY 2011 AHCCCS take appropriate action to maintain capitation rates at their current level or a 0% increase for Contract Year ending 2011. Given that there will be utilization increases that will need to be accounted for, this will in all likelihood lead to provider rate reductions.

Secondly, AHCCCS recently announced that \$42 million in Graduate Medical Education funding and \$25.6 million in Disproportionate Share Hospital Payments would be eliminated in FY 2010. These reductions are a result of the 5<sup>th</sup> Special Session lump sum reductions and administrative transfers to address the current year projected shortfall of \$76 million.

As a result of these two policy decisions, AHCCCS has updated the Budget Neutrality estimates (attached) which now reflect a positive balance of over \$670 million for the remainder of the waiver period.