

June 5, 2017

The Honorable Don Shooter, Chairman
Joint Legislative Budget Committee
1700 West Washington Street
Phoenix, Arizona 85007

Dear Representative Shooter:

On January 18, 2017, the Centers for Medicare and Medicaid Services (CMS) approved Arizona's request to implement the Targeted Investments (TI) Program, formerly known as the Delivery System Reform Incentive Payments (DSRIP) program, to support the state's ongoing efforts to integrate the health care delivery system for AHCCCS members.

A.R.S. 36-2930.04(F) requires AHCCCS to submit an expenditure plan for review by the Joint Legislative Budget Committee before initial deposits of any monies in to the fund pursuant to the Section 1115 Waiver authority associated with delivery system reform incentive payments and designated State health programs. Please see the expenditure plan attached.

Targeted Investments Program Financing

The TI Program allows Arizona to spend \$300 million over the term of the current waiver on investments in facilitating integrated care, discussed in more detail below. Table 1 below displays the TI funding by federal fiscal year.

Table 1: Estimated Annual Funding Distribution for the TI Program

	FFY 2017	FFY 2018	FFY 2019	FFY 2020	FFY 2021	Totals
IGT Funds	\$2 m	\$7 m	\$9 m.	\$7 m	\$ 5 m.	\$30 m
Federal DSHP Funds	\$4.3 m.	\$14.8 m	\$19 m.	\$14.8 m.	\$10.6 m.	\$63.5 m.
Federal Match	\$13.7 m	\$48.2 m	\$62 m	\$48.2 m	\$34.4 m	\$206.5 m
Total	\$20 m	\$70 m	\$90 m	\$70 m	\$50 m	\$300 m

The TI program does not require any additional state General Fund resources. Rather, it will utilize approximately \$207 million in Federal matching funds, \$63 million in Federal Designated State Health Program funding, and \$30 million in intergovernmental transfers.

DSHPs are health programs funded entirely by the State, many of which provide safety-net health care services for low-income or uninsured individuals. AHCCCS was granted expenditure authority through its Section 1115 Demonstration Waiver to receive Federal Financial Participation for services provided by certain specified State programs, primarily the Services to Individuals with Serious Mental Illness program under Arizona Revised Statute § 11-297. Under very specific terms and conditions for DSHP payments, the State may claim federal matching funds for DSHP expenditures to support these State programs. Federal matching funds that flow to these State programs effectively will free up State funds, which will then be used to support the investment costs of the TI Program. There will be no changes in funding for the State programs designated as DSHPs. These programs will simply provide an opportunity for the State to generate federal matching dollars for the TI Program.

There are certain amounts of DSHP funds during years three through five of the TI Program that are designated “at risk,” as specified in Table 2 below. If the State does not meet certain performance requirements in a given demonstration year, the TI Program will lose the amount of DSHP funds specified as “at risk” for that year. This would lower total TI program spending unless IGTs are available to fill the gap.

Table 2: Total Computable DSHP at Risk for Each Demonstration Year

	Year 1	Year 2	Year 3	Year 4	Year 5
Total Computable DSHP	\$6,274,400	\$21,137,600	\$27,177,000	\$21,137,600	\$15,098,300
Percentage at Risk	0%	0%	10%	15%	20%
Total Amount at Risk	\$0	\$0	\$2,717,700	\$3,170,640	\$3,019,660

Targeted Investment Projects and Provider Payments:

The TI Program will fund time-limited, outcomes-based projects aimed at building the necessary infrastructure to create and sustain integrated, high-performing health care delivery systems that improve care coordination and drive better health and financial outcomes for some of the most complex and costly AHCCCS populations.

The Honorable Don Shooter

June 5, 2017

Page 3

The TI Program will provide funding for providers who serve the following populations:

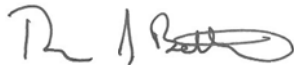
- Adults with behavioral health needs;
- Children with behavioral health needs, including children with or at risk for Autism Spectrum Disorder (ASD), and children engaged in the child welfare system; and
- Individuals transitioning from incarceration.

The TI Program will incentivize providers to collaborate on the development of shared clinical and administrative protocols to enable patient care management across provider systems and networks. Incentive payments will be distributed to participating providers through AHCCCS managed care organizations. Providers are expected to meet performance improvement targets in order to receive payments.

Additional information about the TI program can be found here:
<https://www.azahcccs.gov/PlansProviders/TargetedInvestments/>.

Should you have any questions, please do not hesitate to contact Elizabeth Lorenz, Assistant Director, at Elizabeth.Lorenz@azahcccs.gov or (602) 417-4019.

Sincerely,



Thomas J. Betlach
Director

cc: The Honorable Debbie Lesko, Arizona State Senate
Richard Stavneak, Director, JLBC
Christina Corieri, Senior Policy Advisor, Office of the Governor
Lorenzo Romero, Director, Office of Strategic Planning and Budgeting
Bret Cloninger, Assistant Director, Office of Strategic Planning and Budgeting

**ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM
TARGETED INVESTMENTS / DSHP FUNDING FLOW
SPENDING PLAN**

Program Category	FFY2017	FFY2018	FFY2019	FFY2020	FFY2021	Total
Justice	950,000	3,325,000	4,275,000	3,325,000	2,375,000	14,250,000
Hospital	570,000	1,995,000	2,565,000	1,995,000	1,425,000	8,550,000
Adult & Child Integration	17,480,000	61,180,000	78,660,000	61,180,000	43,700,000	262,200,000
Administration (5%)	1,000,000	3,500,000	4,500,000	3,500,000	2,500,000	15,000,000
	20,000,000	70,000,000	90,000,000	70,000,000	50,000,000	300,000,000

Fund Source:

	FFY2017	FFY2018	FFY2019	FFY2020	FFY2021	Total
TI Expenditure	20,000,000	70,000,000	90,000,000	70,000,000	50,000,000	300,000,000
Federal Share	13,655,600	48,226,900	62,006,000	48,226,900	34,447,800	206,563,200
State Share	6,344,400	21,773,100	27,994,000	21,773,100	15,552,200	93,436,800

FMAP	69.24%	69.89%	69.89%	69.89%	69.89%
FFP	50.00%	50.00%	50.00%	50.00%	50.00%

DSHP Total Computable	6,274,400	21,137,600	27,177,000	21,137,600	15,098,300	90,824,900
Federal Share	4,344,400	14,773,100	18,994,000	14,773,100	10,552,200	63,436,800

IGT Contribution	2,000,000	7,000,000	9,000,000	7,000,000	5,000,000	30,000,000
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Notes:

- 1) Approved STCs do not specify the program areas identified above.
- 2) Federal matching rates for future years are subject to change.
- 3) 5% for administration is maximum and surplus can be shifted to TI payments.
- 4) Payments are based on date of service, federal law provides a two-year claiming window.