Arizona Health Care Cost Containment System

A.R.S. § 36-2901

Acute Care

		FY 2000 Actual	FY 2001 Estimate	FY 2002 Approved	FY 2003 Approved
OPERATING BUDGET					
Full Time Equivalent Positions	(SM)				
	(TF)	0.0	0.0	0.0	0.0
Capitation	(SM)	297,777,300	299,359,500	383,664,700	415,180,700
	(TF)	867,565,100	902,181,000	1,077,731,100	1,175,442,800
Fee-For-Service	(SM)	46,011,700	59,257,000	30,283,700	38,049,400
	(TF)	199,190,900	225,133,800	311,501,600	342,685,100
Reinsurance	(SM)	14,694,200	19,051,300	33,750,600	35,280,400
	(TF)	27,886,500	41,949,800	68,420,800	72,584,100
Medicare Premiums	(SM)	9,013,500	9,907,800	9,315,500	10,309,400
	(TF)	26,963,800	48,724,100	33,454,100	37,294,000
Disproportionate Share Payments	(SM)	36,713,100	43,891,500	0 1/3/	0 1/3/
	(TF)	107,726,200	124,891,500	0 1/3/	0 1/3/
Graduate Medical Education	(SM)	9,247,300	9,189,600	6,508,500	6,821,600
	(TF)	18,289,800	18,289,900	21,683,200	22,528,100
Premium Sharing and Healthcare Group	(SM)	0	0	0 2/3/	0 2/3/
	(TF)	0	0	0 2/3/	0 2/3/
FY 2001 Tobacco Tax Supplemental	(SM)	0	49,527,000	0	0
	(TF)	0	168,962,600	0	0
FY 2001 Contingency	(SM)	0	2,617,000	0	0
	(TF)	0	2,617,000	0	0
SUBTOTAL	**(SM)**	**413,457,100**	**492,800,700**	**463,523,000**	**505,641,500**
	(TF)	**1,247,622,300**	**1,532,749,700**	**1,512,790,800**	**1,650,534,100**
Additional Appropriations -					
AHCCCS Coverage; Cancer; Women,	(SM)	0	0	1,300,000	1,400,000
Ch. 332	(TF)	0	0	1,300,000	1,400,000
AHCCCS; Proposition 204, Ch. 344	(SM)	0	(20,382,600)	(23,897,000)	(44,286,500)
	(TF)	0	(33,788,200)	10,827,800	(27,009,600)
Prescription Drug Coverage, Ch. 347	(SM)	0	0	4,300,000	4,500,000
	(TF)	0	0	4,300,000	4,500,000
AHCCCS; Eligibility; Programs,	(SM)	0	0	1,391,000	1,800,000
Ch. 385	(TF)	0	0	1,791,000	2,200,000
TOTAL APPROPRIATIONS	**(SM)**	**413,457,100**	**472,418,100**	**446,617,000**	**469,055,000**
	(TF)	**1,247,622,300**	**1,498,961,500**	**1,529,709,600** 4/5/6/7/	**1,630,224,500** 4/5/6/7/
FUND SOURCES					
General Fund		413,457,100	420,274,100	442,226,000	464,055,000
Other Appropriated Funds					
Tobacco Tax Funds		32,039,300	60,947,300	41,247,900	42,329,100
Medical Services Stabilization Fund		0	23,144,000	0	0
Third Party Collections		1,124,800	882,000	291,500	194,700
County Funds		66,905,500	66,689,500	66,689,500	66,689,500
Federal Title XIX Funds		734,095,600	927,024,600	979,254,700	1,056,956,200
Subtotal - Other Appropriated Funds		834,165,200	1,078,687,400	1,087,483,600	1,166,169,500
TOTAL APPROPRIATIONS		**1,247,622,300**	**1,498,961,500**	**1,529,709,600**	**1,630,224,500**

SM = State Match, and consists of the state General Fund, Tobacco Tax, Third Party Collections, and County Funds.
TF = Total Funds, and represents the sum of the State Match and Federal Funds.

COST CENTER DESCRIPTION — *The AHCCCS Acute Care program is the medical services component of Arizona's Medicaid Demonstration Project. The program is based on prepaid monthly capitation payments to contracted providers for the full range of authorized medical services including some behavioral health services available to enrolled members. The program follows a health maintenance organization (HMO) model in which capitated providers accept a predetermined rate and are responsible for managing patient utilization and cost through a system of prior authorization and utilization review, coordinated by a primary care physician or practitioner. As a federal demonstration project, the Acute Care program operates under a series of federal waivers that make the "managed care" concept possible. AHCCCS covers the mandatory federal eligibility groups, and due to the passage of Proposition 204, will now cover all Arizonans up to 100% of the Federal Poverty Level (FPL). The Proposition 204 expansion will also result in the elimination of the optional 100% state funded groups, such as the Medically Needy/Medically Indigent (MN/MI.) In cases involving catastrophic medical expenses, AHCCCS supplements Capitation through Reinsurance in order to preserve health plan financial viability.*

PERFORMANCE MEASURES	FY 1999 Est./Actual	FY 2000 Est./Actual	FY 2001 Estimate	FY 2002-03 Estimate
• % of 2-year-old children enrolled in AHCCCS who have received age appropriate immunizations	85/75	90/78	80	83
• % of well child visits in the first 15 months of life (EPSDT)	70/70	75/70	71	75
• % of children's access to primary care provider	75/74.9	78/78	80	83
• % of women receiving annual cervical screening	NA/24.9	35/33	40	46
• Member satisfaction as measured by percentage of enrollees that choose to change health plans	NA/3.5	4/3.5	4	4

Acute Care Summary

Proposition 204 was enacted by voters in the 2000 General Election. Proposition 204 expands eligibility for the AHCCCS program to individuals with incomes up to 100% of the Federal Poverty Level and specifies monies received from the state's settlement with tobacco companies as the funding source for the program. In addition, tobacco settlement monies are identified to fund 6 public health programs. Proposition 204 is discussed in detail at the end of this section.

The General Appropriation Act for FY 2002 and FY 2003 was enacted prior to any changes related to Proposition 204. Thus, the changes discussed below reflect the budget as it was originally enacted and prior to amendments for Proposition 204. The Proposition 204 section then discusses how the General Appropriation Act was modified by Laws 2001, Chapter 344 (the Proposition 204 implementation bill).

FY 2001 Supplemental — Due to enrollment and inflationary increases beyond budgeted amounts, the agency experienced a FY 2001 shortfall totaling $75,225,500 state match (SM) and $161,354,500 TF. However, the amount authorized for withdrawal from the Medical Services Stabilization Fund is less than the total

1/ ~~The FY 2002 and FY 2003 Disproportionate Share Payment of $125,171,800 is based on federal FY 2002 and FY 2003 authorized expenditure level of $81,000,000. If the final federal expenditure authorization is an amount different from the estimate, the Governor shall direct the Arizona Health Care Cost Containment System Administration, subject to the availability of monies and subject to the review of the Joint Legislative Budget Committee, to proportionately adjust authorization amounts among the identified recipients of disproportionate share hospital payment. Before the final payment, the Governor shall provide notification to the President of the Senate, the Speaker of the House of Representatives, the Chairmen of the House and Senate Appropriations Committees and the Staff Director of the Joint Legislative Budget Committee of the adjusted federal authorized expenditure level and the proposed distribution plan for these monies~~. (General Appropriation Act footnote) The stricken language reflects language vetoed by the Governor.

2/ ~~The $15,000,000 appropriated in FY 2002 and FY 2003 for Premium Sharing and Health Care Group is available for the following programs: Premium Sharing, Health Care Group, Ticket to Work, coverage of parents of Title XXI eligible children, critical access hospitals, and Medicaid breast and cervical cancer coverage for women who are screened under the DHS well women healthcheck program. Monies appropriated to the Premium Sharing and Health Care Group Special Line Item in FY 2002 are exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations until October 1, 2002~~. (General Appropriation Act footnote) The stricken language reflects language vetoed by the Governor.

3/ The General Appropriation Act, as originally passed, included $59,171,800 from the state General Fund and $140,171,800 in Total Funds in FY 2002 and FY 2003 for the Disproportionate Share Payments Special Line Item and the Premium Sharing and Health Care Group Special Line Item. These amounts were line item vetoed by the Governor, which reduced the total appropriation by a corresponding amount.

4/ Of the $1,529,709,600 expenditure authority for Acute Care in FY 2002, $442,225,900 is appropriated from the state General Fund. Of the $1,630,224,500 expenditure authority for Acute Care in FY 2003, $464,054,900 is appropriated from the state General Fund. (General Appropriation Act footnote)

5/ Before making fee-for-service program or rate changes that pertain to hospital, nursing facility, or home and community based services rates or for any of the other fee-for-service rate categories that have increases that, in the aggregate, are 2% above and $1,500,000 from the state General Fund greater than budgeted medical inflation in FY 2002 and FY 2003, the Arizona Health Care Cost Containment System Administration shall report its plan to the Joint Legislative Budget Committee for review. (General Appropriation Act footnote)

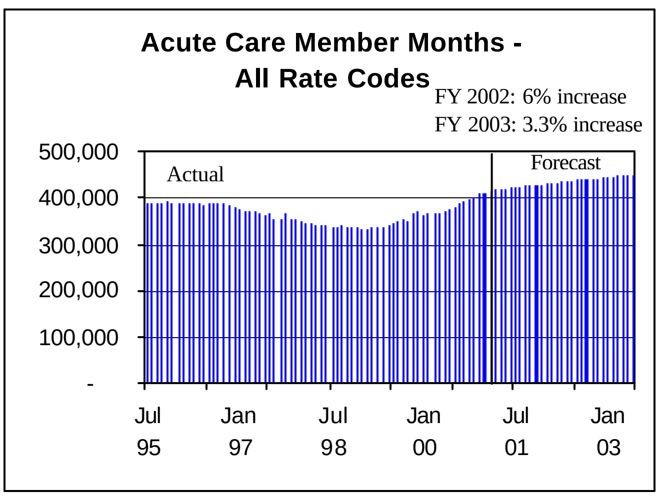
6/ Before implementation of capitation rate changes that have a budgetary impact, the Arizona Health Care Cost Containment System Administration shall report its plan to the Joint legislative Budget Committee for review. (General Appropriation Act footnote)

7/ General Appropriation Act funds are appropriated by Special Line Items for the Program.

shortfall due to a number of transfers and offsets within the agency budget. *(See the FY 2001 Tobacco Tax Supplemental Special Line Item for detailed information on the state match offsets)*. The Federal Fund portion of the FY 2001 supplemental includes the federal expenditure authority associated with the $75,225,500 SM supplemental. In addition, $33,306,600 in federal expenditure authority is included in the line item to provide the federal matching monies associated with converting existing 100% state funded populations to coverage under Proposition 204.

Medical Inflation and Caseload Growth — The FY 2002 approved amount includes an increase of $48,777,200 GF and $91,293,800 TF for Capitation, Fee-for-Service, and Reinsurance for caseload growth and medical inflation in FY 2002 after the FY 2001 base revisions described above. The FY 2003 approved amount includes an increase of $127,548,800 GF and $248,835,900 TF above the FY 2001 level. These changes reflect demographic and inflationary increases for those AHCCCS members enrolled in capitated health plans, and other populations whose services are paid on a fee-for-service basis.

The graph below shows the total Acute Care member months from FY 1995 through FY 2003. As shown in the graph, Acute Care enrollment began to increase in FY 1999.



The approved amounts assume that overall AHCCCS enrollment will grow by 6% in FY 2002 and 3.3% in FY 2003 as shown in *Table 1* prior to the implementation of Proposition 204.

Because capitation rates are set on a contract year (CY) basis, inflationary increases are applied to rates at the beginning of the contract year, or October 1, which is the beginning of the 2nd quarter of the fiscal year. The approved amounts include inflationary growth of 5.4% in CY 2002 and 5.2% in CY 2003 for Capitation. For Fee-for-Service and Reinsurance, the approved amounts include inflationary growth of 3.4% in CY 2002 and 3% in CY 2003.

Table 1

Federally-Eligible Rate Codes	FY 2002 Member Years[1/]	FY 2003 Member Years[1/]
TANF < 1	40,392	41,668
TANF 1-13	213,963	221,741
TANF 14-44 Female	89,714	93,997
TANF 14-44 Male	27,511	28,714
TANF 45+	4,944	5,242
SSI w/ Medicare	20,659	20,733
SSI w/o Medicare	47,261	48,243
Family Planning	21,246	21,246
Deliveries	2,090 [2/]	2,150 [2/]
Proposition 204 – Conversions and New Enrollees		
MNMI[3/]	16,550	16,556
EAC/ELIC < 1[3/]	31	31
EAC/ELIC 1-13[3/]	541	541
Subtotal	484,902	500,862
Prop 204 – New Enrollees	96,983	140,076
Total	**581,885**	**640,938**

1/ Member years are calculated as projected member months divided by 12 and do not necessarily indicate actual number of clients enrolled.
2/ This is the projection of actual birth deliveries to be made by enrollees in AHCCCS health plans.
3/ Prior to the enactment of Proposition 204, these rate codes were

Fraud Detection Savings — The approved amount includes a General Fund decrease of $(1,500,000) in both FY 2002 and FY 2003 due to cost avoidance from increased fraud detection expected from the program's expansion to Pima County. The Administration program includes an increase of $182,100 and 4 FTE Positions in FY 2002 and $129,600 and 4 FTE Positions in FY 2003 to fund this expansion of the Early Fraud Detection Unit.

Hospital Reimbursement Pilot Program — The approved amount includes a reduction of $(6,727,000) GF and $(13,342,200) TF in FY 2002 and $(7,130,300) GF and $(14,142,700) TF in FY 2003 in the Capitation Special Line Item, resulting from the reinstatement of the Hospital Pilot Reimbursement Program for the 2002 – 2003 biennium. This program requires contracts to be negotiated between health plans and hospitals in Maricopa and Pima County to establish reimbursement levels based on market forces. Based on the past experience of the program, the average negotiated contract rate is 5% below the standard reimbursement rate, which results in the cost avoidance cited above.

Acute Care Overview

The remaining sections provide explanations of the various line items in the Acute Care budget, as well as descriptions of AHCCCS eligibility categories.

Capitation — Represents payments made to health plans under contract with AHCCCS for the cost of care provided to enrolled members. These payments are made on a monthly basis and cover the full range of services required in statute. Contracts are awarded for a multi-year period upon the completion of a competitive bidding process in which health plans respond to a Request for Proposals from AHCCCS. Health plans bid by AHCCCS rate code, meaning that different rates are paid for different groups.
In general, capitation rates are based on an actuarial assessment of the medical services utilization and costs incurred by each of the AHCCCS rate codes. Rates vary by health plan and geographical area, but remain within the parameters set by actuarial study and contract negotiation. Additionally, capitation rates may reflect program changes, such as a required expansion of available services, or changes in eligibility requirements. The capitation rates for FY 2002 and FY 2003 are shown in *Table 2*.

The approved Capitation amounts continue funding for 2 federal mandates that began in FY 1998. In accordance with federal law, health plans may not restrict hospital stays to less than 48 hours following a normal delivery or 96 hours following a cesarean section. Funding for the cost of the State Match for the Maternity Length of Stay mandate is allocated from the Medically Needy Account of the Tobacco Tax and Health Care Fund pursuant to Laws 2001, Chapter 234. The approved amounts include an increase of $1,929,200 in FY 2002 and $1,979,600 in FY 2003. (*See the table of Tobacco Tax expenditures in the Summary for further information.)*

The approved amounts also continue funding for federally mandated coverage of Title XIX HIV/AIDS patients' protease inhibitors as a successful means of delaying the progression of AIDS and prolonging life. Funding for the cost of the State Match for the HIV/AIDS mandate is allocated from the Medically Needy Account of the Tobacco Tax and Health Care Fund pursuant to Laws 2001, Chapter 234. The approved amounts continue funding for HIV/AIDS protease inhibitors at the FY 2001 level. (*See the table of Tobacco Tax expenditures in the Summary for further information.)*

Since the starting point for new or renewed health plan contracts coincides with the new federal fiscal year, the state fiscal year appropriation reflects 3 months of capitation rates paid at a level negotiated for the period of October 2000 through September 2001, and 9 months at new rates negotiated for the contract year beginning October 2001. As mentioned above, the FY 2002 appropriation provides for an overall contract year (CY) increase in capitation rates of 5.4% for medical inflation. The FY 2003 appropriation includes funding for further inflationary growth of 5.2%. The capitation rates shown in *Table 2* are estimated averages of regular capitation rates.

Estimated FY 2002 and FY 2003 member years paid are shown in *Table 1*. As mentioned above, the approved amounts include annual enrollment growth of 6% in FY 2002 and 3.3% in FY 2003.

For federally qualified members also eligible for Medicare, AHCCCS pays the member's Medicare Part B premiums,

Table 2

	FY 2002			FY 2003		
Federally-Eligible *Rate Codes*	**Monthly Cap. Rate**	**Federal Share 1/**	**State Share**	**Monthly Cap. Rate**	**Federal Share 2/**	**State Share**
TANF < 1	344.33	224.43	119.91	362.40	237.23	125.17
TANF 1-13	77.26	50.35	26.90	81.31	53.23	28.09
TANF 14-44 Female	122.59	79.90	42.69	129.03	84.46	44.57
TANF 14-44 Male	99.87	65.09	34.78	105.11	68.80	36.30
TANF 45+	247.04	161.01	86.02	260.00	170.20	89.80
SSI w/ Medicare	178.49	116.33	62.15	187.85	122.97	64.88
SSI w/o Medicare	355.06	231.42	123.64	373.69	244.62	129.07
Family Planning	22.62	14.74	7.88	23.81	15.58	8.22
Deliveries	5,439.44	3,545.29	1,894.15	5,724.91	3,747.52	1,977.38
State-Only Rate Codes						
MNMI 3/	599.88	-	599.88	631.36	-	631.36
EAC/ELIC < 1	344.33	-	344.33	362.40	-	362.40
EAC/ELIC 1-13	77.26	-	77.26	81.31	-	81.31

1/ Federal share reflects a blended FMAP of 3 months at 65.77% and 9 months at 64.98%.
2/ Federal share reflects a blended FMAP of 3 months at 64.98% and 9 months at 65.62%.
3/ With the conversion to Proposition 204, there will be a separate rate codes for the MN (or spend downs) and the MI (or medically indigent). The agency is considering various methods to address the high costs associated with the MI's that enter the system through the hospital.

thereby allowing AHCCCS to bill the federal Medicare program for a portion of the member's medical expenses. This Medicare "buy-in" substantially reduces total capitation costs and state share costs for Medicare-eligible members.

The federal share of capitation and other costs incurred by federally-eligible members is based on a predetermined federal matching rate known as the Federal Matching Assistance Percentage, or FMAP. This federal matching rate varies from state to state and is based on an inverse mathematical relationship between state per capita income and the national average. The lower a state's personal income, as compared to the U.S., the higher the percentage the state receives, and vice-versa. Arizona's FMAP for the federal fiscal year ending September 30, 2001 is 65.77%. For the federal fiscal year beginning October 1, 2001, Arizona's FMAP will decrease to 64.98%. The budget incorporates the FMAP estimate of 65.62% for the federal fiscal year beginning October 1, 2002.

Fee-for-Service — This expenditure line item is for payments made by AHCCCS directly to health care providers on behalf of members not covered under Capitation.

One area of Fee-for-Service coverage is for AHCCCS members who are not yet covered by a health plan under Capitation. AHCCCS contract changes beginning October 1, 1997 expanded the period during which a member is covered by capitation, which shortens the fee-for-service "window." Since October 1997, federally-eligible members have been covered through capitation payments from the first day of the month of application. However, if these persons have unpaid bills for services received before then in the 90-day period prior to their application for eligibility and would have been eligible for some period of time in that 90-day period, AHCCCS pays these bills on a fee-for-service basis. This retroactive coverage is referred to as "prior quarter coverage." State-only MN/MI members, who previously received fee-for-service coverage for emergency services 48 hours prior to the notification of eligibility by a county office, are covered through prior period capitation for the 48 hours.

However, the Proposition 204 implementation bill (Laws 2001, Chapter 344) changed the retroactive period for all populations to the first day of the month of application beginning October 1, 2001. The one exception is the Medically Needy (MN) population, or the "spend downs". The retroactive period for this population will be the date that the spend down requirements are met.

The approved amounts for FY 2002 and FY 2003 reflect a continuation of the phase-out of "quick pay" discounts for both state-only and categorical payments to hospitals. Reinsurance has a 9-month time lag and does not qualify for the discount.

The State Match required for this phase-down is paid for from the Medically Needy Account of the Tobacco Tax and Health Care Fund pursuant to Laws 2001, Chapter 234. The approved amounts include an increase of \$2,170,800 in FY 2002 and \$3,420,400 in FY 2003. Under current law, the state-only discount will continue to decline by 1% per year until it reaches 1% in FY 2005. The discount for the categorical populations is already fully phased down to 1%. (See *the table of Tobacco Tax expenditures in the Summary for further information.)*

The Fee-for-Service approved FY 2002 and FY 2003 amounts also reflects continued funding for the discontinuation of a \$10,000,000 reduction of payments to hospitals for fee-for-service claims related to state-only eligibility groups. The discount was discontinued in FY 1997, and the \$10,000,000 increase is funded by the Medically Needy Account of the Tobacco Tax and Health Care Fund pursuant to Laws 2001, Chapter 234. *(See the table of Tobacco Tax expenditures in the Summary for further information.)*

In addition to temporary Fee-for-Service coverage prior to capitation, AHCCCS also covers certain groups not eligible for health plan enrollment or those that choose Indian Health Services (IHS) as their health plan. These groups include Native Americans living on reservations and those eligible for only emergency services coverage, due to a lack of U.S. citizenship or lawful alienage status but otherwise AHCCCS-eligible.

Pursuant to an agreement between the State of Arizona and the federal government, Medicaid-eligible Native Americans living on reservations may be referred off-reservation by the IHS for services if the IHS is unable to provide the necessary services. The state's cost for these referrals has previously corresponded to the established state matching rate for other federally-eligible members. However, AHCCCS has appealed to the Federal government to receive 100% reimbursement for this population. The approved amount includes a decrease of \$(13,000,000) GF in FY 2002 and \$(13,000,000) GF in FY 2003 to reflect the anticipated approval of this reimbursement change.

For Native Americans treated on reservations in an IHS facility, the federal government pays all costs, with AHCCCS passing through these Federal Funds to the IHS facility. The approved amount for FY 2002 includes an increase of \$4,751,600 TF for IHS facility costs due to a contract change. Since this item is 100% federally-funded, this change does not impact the General Fund. The FY 2003 approved amount includes a further increase of \$6,478,400 TF.

The approved amount includes a decrease of \$(34,891,800) GF in FY 2002 and \$(36,255,000) GF in FY 2003 for fee-for-service savings that will result from the implementation of Proposition 204. While the majority of the budgetary savings associated with implementing Proposition 204 were incorporated into Laws 2001, Chapter 344, these non-MN/MI fee-for-service savings were incorporated into the General Appropriation Act.

Reinsurance — Payments from this line item are intended to supplement capitation in catastrophic cases. Such payments are made to AHCCCS health plans and have the effect of reimbursing health plans for extraordinary costs not reflected in the capitation rate. Effective October 1, 1997, which is contract year (CY) 1998, health plans may select a lower reinsurance deductible. Health plans that choose a lower deductible will have their capitation rates reduced proportionately. The following table displays the Reinsurance deductibles offered. Three-fourths of the cost incurred by a health plan in excess of the appropriate deductible is borne by AHCCCS when costs have been incurred for the provision of payment for covered inpatient hospitalization.

Members Enrolled	Reinsurance Deductible	State Co-insurance %
1-19,999	$20,000	75%
20,000-49,999	$35,000	75%
50,000+	$50,000	75%
MN/MI	$15,000	75%

This contract change resulted in health plans moving to lower deductible levels. For example, in CY 1998, 61.3% of AHCCCS recipients were reinsured at the $50,000 deductible level and 18.06% were reinsured at the $20,000 deductible level. In CY 2000, however, no health plans opted for the $50,000 deductible level and 82% of AHCCCS recipients were reinsured at the $20,000 level.

Medicare Premiums – This line item provides funding for the purchase of Medicare Part B (supplemental medical insurance) on behalf of those eligible for Medicaid and Part A (hospital insurance) coverage. This "buy-in" reduces state costs since the federal government, through Medicare, absorbs some costs that otherwise would have been paid by AHCCCS. In addition the line also includes the costs of payment of Part A premium costs for certain disabled workers.

The line item also includes funding for Qualified Medicare Beneficiaries. Federal law requires the state to pay Medicare Part A and Part B premiums, deductibles and co-payments on behalf of certain low-income Medicare beneficiaries. An individual is eligible for this coverage if:

- They are entitled to Part A Medicare benefits;
- Their resources do not exceed twice the SSI resource limit, or $4,000; and
- Their income does not exceed 100% of the FPL ($8,350 for 1 person, $11,250 for a couple).

The line item also includes funding for qualified individuals. The 1997 Federal Balanced Budget Act requires that states expand the Medicare Part B buy-in program for certain qualified individuals with incomes between 120% and 175% of the FPL. Although the program is mandatory, it is 100% federally-funded up to the amount of the federal allotment provided. States are responsible for 100% of the costs of the program above the federal allotment, but they may cap enrollment. AHCCCS plans to cap enrollment so as to use only Federal Funds for this program.

The FY 2002 approved amount includes an increase of $1,279,400 GF and a decrease of $(14,812,800) TF for demographic and inflationary adjustments in the cost of covering Medicare premiums. The FY 2003 amount includes an increase $2,398,100 GF and a decrease of $(11,255,000) TF. The Total Funds amount decreases, while the General Fund appropriation increases, because FY 2001 Federal Fund expenditures were less then the federal expenditure authority provided.

Disproportionate Share Payments — This line item represents supplementary payments to hospitals that serve a large, or disproportionate, number of low income patients. The federal basis for payments is either a reflection of a hospital's number of Title XIX inpatient days, or a "low income" utilization rate. States may also establish optional payment categories. Arizona has established optional groups that include county, state and private hospitals. Payments to county hospitals have been based on a "pool" of expenses consisting of charity care, uncollectible or bad debt, county General Fund subsidies, and state payments to county hospitals for AHCCCS recipients. Additionally, this line item provides for in-lieu payments to counties that do not have county-operated hospitals.

This line item was vetoed by the Governor. However, if it had not been vetoed, it would have been eliminated in the Proposition 204 implementation bill (Laws 2001, Chapter 344). Chapter 344 does, however, contain provisions eliminating the state/county portions of this program.

See the Proposition 204 section for further discussion of changes to the Disproportionate Share Hospitals program.

Graduate Medical Education — Pursuant to Laws 1997, Chapter 256, beginning in FY 1998 AHCCCS established a separate Graduate Medical Education program to reimburse hospitals that have graduate medical education programs. The Graduate Medical Education allocation is to be adjusted annually by the increase or decrease in the Data Resources Incorporated hospital market index for prospective hospital reimbursement. The approved amounts includes a General Fund decrease of $(3,056,000) in FY 2002 and $(3,049,000) in FY 2003 to account for General Fund savings that will result from the implementation of Proposition 204. While the majority of the budgetary savings associated with implementing Proposition 204 were incorporated into Laws 2001, Chapter 344, these non-MN/MI Graduate Medical Education program savings were incorporated into the General Appropriation Act.

Premium Sharing and Healthcare Group — This line item was allocated $15,000,000 GF in both FY 2002 and FY 2003 to provide funding for the following programs: Premium Sharing, Health Care Group, Ticket to Work, coverage of parents of Title XXI eligible children, critical access hospitals, and Medicaid breast and cervical cancer coverage for women who are screened under the DHS well women Healthcheck Program. However, the Governor vetoed the line item and the annual appropriation of $15,000,000.

FY 2001 Tobacco Tax Supplemental — This line item provides funding for the agency's FY 2001 supplemental, which was required due to enrollment and medical inflation being greater then the budgeted amounts. The FY 2001 revised enrollment estimates are 13.5% above the budgeted estimates. Medical inflation was budgeted at 3.5% in FY 2001; however, inflation has actually been approximately 7.3%

The total state match requirement of $75,225,500 is offset by 1) a transfer of $29,000,000 from the Medically Needy Account authorized by the Executive in November 2000 (*which is included in the special line item state-match number*); 2) approximately $12,900,000 in miscellaneous offsets within the agency; and, 3) $25,500,000 in savings associated with implementing Proposition 204. After these offsets, the total Medical Services Stabilization Fund withdrawal for the shortfall is $7,121,400. However, the actual withdrawal from the Medical Services Stabilization Fund (MSSF) authorized at the May 2001 JLBC meeting for the AHCCCS FY 2001 supplemental need totaled $20,527,000 (*which is included in the special line item state-match number*). The additional $13,405,600 was required to make-up for an ex-appropriation of General Fund monies pursuant to Chapter 344. The amount will be repaid to the fund in FY 2002. (*See the Disproportionate Share Hospital section of the Proposition 204 for further information.)* As noted above, the state-match portion of the special line item is comprised of the $29,000,000 Medically Needy Account transfer and the $20,527,000 MSSF transfer.

The Total Fund portion of the FY 2001 supplemental requirement consists of the state match Tobacco Tax transfers and the associated federal expenditure authority of $86,129,000. In addition, the total fund appropriation includes $33,306,600 in Federal Funds associated with populations being eligible for federal reimbursement under Proposition 204, who were not prior to the AHCCCS expansion.

FY 2001 Contingency — This line item provides FY 2001 contingency funding for the AHCCCS, DHS and DES shortfalls in case the $52,339,900 MSSF transfer is insufficient. This 5% contingency was approved at the May 2000 JLBC meeting and totals $2,617,000. This line item is funded solely from the Medical Services Stabilization Fund.

AHCCCS Eligibility Categories — The following is a description of federal and state eligibility groups as defined in state law:

Federal Eligibility Groups

TANF — Under the 1996 federal welfare reform law, the Temporary Assistance for Needy Families (TANF) program replaced Aid to Families with Dependent Children (AFDC). Individuals receiving cash assistance from the TANF program in the Department of Economic Security (DES) are no longer automatically, or categorically, eligible for AHCCCS benefits. They are, however, eligible for federal AHCCCS benefits provided they would have qualified for AFDC under the eligibility guidelines that were in place before August 22, 1996. Federal law also allows for some individuals not eligible for cash assistance but still meeting certain TANF standards (e.g., Ribicoff Children), or those no longer eligible for cash payments (transitional medical assistance), to still be eligible for Medicaid. These are known as Medical Assistance Only (MAO) cases. Also, individuals in the TANF Unemployed Parent program are eligible for AHCCCS benefits.

While not a separate federal eligibility group, the Comprehensive Medical and Dental Program (CMDP) in DES has AHCCCS-eligible children among its total population. AHCCCS passes through funds to CMDP on behalf of these eligible children.

SSI — Individuals receiving Supplemental Security Income (SSI) monthly cash payments are automatically eligible for AHCCCS benefits. These individuals are eligible in one of the following 3 SSI categories: those age 65 or older (aged), the blind, and the disabled. Eligibility for the SSI program is based on uniform nationwide requirements. Like TANF, SSI also has related MAO groups. Additionally, AHCCCS passes through funds to CMDP, as a health plan, on behalf of SSI-eligible children enrolled in that program.

SOBRA Women and Infants — States are required to provide care to pregnant women and infants (under 1 year old) whose family incomes do not exceed 133% of the Federal Poverty Level (FPL) ($18,820 for a family of 3). A resource standard may be established, but AHCCCS has chosen to waive this requirement. SOBRA refers to the federal Sixth Omnibus Budget Reconciliation Act. The federal government allows states the option of increasing the income limit to 185% of the FPL. Arizona acted upon this option and moved the state's income standard to 140% of the FPL ($19,810 for a family of 3) in 1990. Full coverage for women is limited to the term of pregnancy and 60 days of postpartum care. After the 60-day period, women are eligible for family planning services only.

SOBRA Children — The federal government requires states to provide medical assistance to children under age 6 whose family incomes do not exceed 133% of the FPL. Additionally, states are required to cover children born on or after October 1, 1983, with family incomes up to 100% of the FPL.

1902 (r)(2) Children — This eligibility group name refers to the relevant section of the federal Social Security Act that allows states discretion in establishing higher income eligibility standards than exist in other federal categories, such as SOBRA. Eligibility for this group requires an income below 100% of the FPL for children under the age of 14. Like SOBRA, this category has no resource limit. Most children in the 100% state-funded Eligible Assistance Children (EAC) category were transferred to this federally-funded group.

State Children's Health Insurance Program — The Children's Health Insurance Program (CHIP) provides health insurance for children with family incomes up to 200% FPL who are not Title XIX eligible. *(See Administration for further information.)*

Federal Emergency Services — All federal eligibility categories (TANF, SSI, SOBRA, and any federal MAO group) have an emergency service component. Applicants for these federal programs who would be eligible except for a lack of U.S. citizenship or lawful alienage status are eligible for coverage of emergency medical services, but not full Medicaid benefits.

<u>*State-Only Groups*</u>

Medically Needy/Medically Indigent (MN/MI) — Previously, state law provided for eligibility for individuals meeting specified resource limits and the following income criteria:

Family Size	Maximum Net Income
1	$3,200
4	$5,354
8	$7,530

This program was previously 100% state funded. Individuals with the above incomes are now covered by Proposition 204 eligibility and have been converted as of April 1, 2001 to Title XIX. Pursuant to Chapter 344 (the Proposition 204 implementation bill), the eligibility category has now been eliminated in statute. *(See the Proposition 204 section for further information.)*

MN/MI statutes allow medical expenses to be used to reduce the applicant's total annual income, thus allowing an applicant to "spend-down" into eligibility. Spend-down provisions do not apply to the calculation of the applicant's liquid and non-liquid resources. The "spend down" population has now been converted to Title XIX pursuant to a waiver approved by the Federal government. *(See the Proposition 204 section for further information.)*

Unlike most federal Medicaid categories, MN/MI eligibility standards contained no restrictions relating to age, gender, or the presence of dependent children in the household. Beginning in July 1993, MN/MI applicants had to be U.S. citizens or lawfully admitted aliens to be eligible for full AHCCCS services. Non-residents only qualify for emergency services coverage. Because the Proposition 204 eligibility requirements are similar, but with the income limit expanded to 100% FPL, the MN/MI population will be converted to Proposition 204.

Eligible Assistance Children (EAC) — Children, ages 0-13 years, in families certified by DES to be eligible for the federal Food Stamp Program qualify automatically for AHCCCS benefits. Because of the expansion of the federal SOBRA program and the creation of the 1902(r)(2) group, the state has been able to transfer a large number of these children into federally matched categories. Most of the children in this category are eligible for the new CHIP program. The FY 2000 budget assumes that 90% will convert to CHIP. It is assumed that the remaining children in this category will convert to coverage under Proposition 204.

Eligible Low-Income Children (ELIC) — These are children, ages 0-13 years, in families whose annual income falls between the following guidelines, which represent the gap between the upper limit of the MN/MI income standard and 100% FPL:

Family Size	Minimum Income	Maximum Income
8	$7,530	$27,650

Except for the age restriction and the difference in income limits, applicants for ELIC must meet the same requirements as applicants for the state-only MN/MI program. Because most of the children in this category are eligible for the new CHIP program, the FY 2000 budget assumed that 90% will convert to CHIP. It is assumed that the remaining children in this category will convert to coverage under Proposition 204.

State Emergency Services — This eligibility category provides coverage of emergency medical services to those otherwise eligible for a state group, such as MN/MI, except for the lack of U.S. citizenship or lawful alienage status. Services covered are the same as those in the Federal Emergency Services program, except the cost has historically been 100% state-funded. Pursuant to a waiver approved by the Federal government, the state emergency services population is now eligible to receive federal matching dollars. (*See the Proposition 204 section for further information.)*

Additional Appropriations: AHCCCS Coverage; Cancer; Women (Chapter 332) — Appropriates $1,300,000 GF in FY 2002 and $1,400,000 in FY 2003 to provide breast and cervical cancer treatment to women who have been diagnosed with breast and cervical cancer through the well women Healthcheck Program administered by DHS. This program will require Federal Funds; however, the legislation did not provide federal expenditure authority.

AHCCCS; Proposition 204 (Chapter 344) — Ex-appropriates $(20,382,600) GF in FY 2001, $(23,897,000) GF in FY 2002, and $(44,286,500) in FY 2003. These reductions are associated with federalizing populations that are currently 100% state funded due to the implementation of Proposition 204. (*See the Proposition 204 section for further information.*)

Prescription Drug Coverage (Chapter 347) — Appropriates $4,300,000 in FY 2002 and $4,500,000 in FY 2003 from the Medically Needy Account to provide a prescription drug coverage program. This program will assist enrollees with 50% of their prescription costs once a specified deductible is reached. For individuals with incomes between 100% and 150% FPL the deductible is set at $500. For individuals with incomes between 150% and 200% FPL, the deductible is set at $1,000. Individuals with incomes above 200% FPL are not eligible for participation in the program. The program is repealed after the FY 2002-2003 biennium.

AHCCCS; Eligibility; Programs (Chapter 385) — Appropriates $800,000 GF and $1,700,000 TF in both FY 2002 and FY 2003 to provide increased reimbursement to small rural hospitals that are designated as critical access hospitals. In addition, this legislation appropriates $500,000 in both FY 2002 and FY 2003 from the General Fund and $91,000 in FY 2002 and $500,000 in FY 2003 from the Medically Needy Account. This will fund the Ticket to Work program and improve access to employment training and placement for people with disabilities who want to work. *(See Additional Legislation below for information on the allocation to the Premium Sharing Program).*

Additional Legislation: Expenditure Limitations; Disproportionate Share Funding (Chapter 362) — Amends the FY 2001 Health Omnibus Reconciliation Bill and modifies the county expenditure limit calculation for FY 2001. This affects Maricopa and Pima Counties only. The bill increases expenditure authority for both counties.

AHCCCS; eligibility; programs (Chapter 385) — In addition to the appropriations described above, this legislation provides an allocation of $5,000,000 in FY 2002 and $20,000,000 in FY 2003 and each year thereafter to the Premium Sharing Program from the Medically Needy Account. In addition, AHCCCS is authorized to withdraw additional dollars in FY 2002 for administrative costs from the Medically Needy Account in an amount not to exceed 5% of program costs. The JLBC Staff estimates that the FY 2002 administrative withdrawal will be approximately $1,000,000.

PROPOSITION 204

On November 7, 2000, voters approved Proposition 204, which expands eligibility for the AHCCCS program for individuals who have annual incomes of less than 100% of the Federal Poverty Level (FPL) and provides funding for 6 public health programs. The Proposition dedicates monies received by the state from the tobacco litigation settlement to fund these programs.

The Proposition further specifies that the AHCCCS expansion receives tobacco settlement funding first, the 6 public health programs second, and any remaining monies may be used for programs that further expand health coverage, including the Premium Sharing program. After the above purposes are fully funded, the Legislature may appropriate monies for programs that benefit the health of Arizona residents. Of the above purposes, only the AHCCCS expansion is required to be supplemented from other funding sources if the tobacco settlement monies are insufficient to cover the full cost of the program.

On January 18, 2001, AHCCCS received approval from the Federal Health Care Financing Administration (HCFA) to include the 100% FPL population under Arizona's Medicaid waiver, allowing the state to receive 2/3rds Federal matching monies for the cost of the population. As a condition of the waiver, Arizona was subject to "Federal Budget Neutrality", which essentially limits the amount of federal Medicaid funding the state can receive over the 5½ year waiver. AHCCCS will be carefully monitoring program expenditures to track our compliance with budget neutrality.

Proposition 204 Implementation

Laws 2001, Chapter 344 enacts conforming and other changes to implement Proposition 204, including numerous technical changes, as well as more substantive changes. The substantive changes primarily relate to counties' responsibilities for indigent health care and financing mechanisms for the AHCCCS expansion. Pursuant to Chapter 344, most of the counties' financial obligations for indigent health care have been removed. An overview of the county provisions is shown below.

- Eliminates counties' residual liability for providing indigent health care.
- Repeals counties' maintenance of effort requirements for indigent care services that were in effect on January 1, 1981.

- Transfers county eligibility determination previously for MNMIs to the state. This consolidates all eligibility determination with the state.
- Requires the State Treasurer to withhold $3,750,000 in FY 2002 and $5,000,000 in FY 2003 and thereafter from counties' transaction privilege tax revenues for the county contribution for administrative costs. Specifies the percentage for each county and requires the JLBC Staff to annually adjust the amount for inflation.
- Appropriates $5,532,500 in FY 2002 and $4,825,600 in FY 2003 from the General Fund to specified counties to offset loss in revenue due to the implementation of Proposition 204.
- Requires the State Treasurer to withhold $3,502,000 in FY 2002 from counties' transaction privilege tax revenues for hospital uncompensated care. The appropriation includes federal matching funds through the Disproportionate Share Hospitals program, for a total amount of $10,000,000. In FY 2003, counties are required to contribute $6,500,000 for hospital uncompensated care and $3,500,000 is appropriated from the General Fund, for a total of $10,000,000. The amounts are distributed to private hospitals based on each hospital's non-obstetric adult hospital emergency care covered by AHCCCS.
- Requires counties to contribute a specified amount if the state's tobacco settlement payment is less than 66% of the original amount.

Proposition 204 Financing

As mentioned above, Chapter 344 also contains provisions related to financing the 100% FPL AHCCCS expansion. *Table 1*, on the following page, contains a flow chart showing the funding mechanisms established by Chapter 344. It includes county contributions for administration costs and the private hospitals uncompensated care pool; General Fund appropriations and tobacco settlement monies for the state match costs of the AHCCCS expansion; and Federal matching funds for the AHCCCS expansion. The General Fund appropriations are entirely funded by savings in the AHCCCS budget.

One of the key provisions regarding Proposition 204 financing is the disposition of MNMI savings. HCFA's approval of the waiver allows the state to receive Federal matching funds for the MNMI program, which was previously 100% state funded, resulting in a General Fund savings in the AHCCCS budget. MNMIs were converted to the Proposition 204 program on April 1, 2001 so the savings begin in FY 2001. The FY 2001 savings have been retained in the AHCCCS budget to help offset a shortfall in AHCCCS's base budget. In FY 2002 and FY 2003, the MNMI savings are appropriated to the Budget Neutrality Compliance Fund (*see below*) and are used to offset other costs resulting from the Proposition 204 implementation, such as the General Fund appropriations and revenue impacts related to DSH. MNMI savings are projected to total $169,283,700 in FY 2002 and $178,085,600 in FY 2003.

Table 8 summarizes the amendments to the General Appropriation Act by Chapter 344. This primarily includes incorporating the MNMI savings in the Capitation and Reinsurance Special Line Items. Increases were also included for a "woodwork effect" in the AHCCCS budget. This refers to a projected increase in AHCCCS's base enrollment as some of those applying for Proposition 204 will likely be eligible for the base AHCCCS program. AHCCCS also experienced savings in the Fee-for-Service program due to Proposition 204 changes in other populations. The Fee-for-Service savings were incorporated into the General Appropriation Act and were not part of Chapter 344 *(See the Fee-for-Service section for more information).*

The Budget Neutrality Compliance Fund is established by Chapter 344 and consists of appropriations (primarily MNMI savings), third party liability recoveries, and county contributions. The Fund is to be used to pay the costs of the AHCCCS expansion if the tobacco settlement is insufficient. Of the total MNMI savings above, $112,019,900 is appropriated to the Budget Neutrality Compliance Fund in FY 2002 and $116,847,800 is appropriated to the Fund in FY 2003. AHCCCS is required to use $53,700,000 in FY 2002 from the Fund as a maintenance of effort for the state match for the MNMI populations. This amount is adjusted annually for inflation.

Table 2 shows a range of estimates for Proposition 204, including the amount expended by fund source. The spending priority specified by Chapter 344 is the following: the MNMI state match maintenance of effort from the Budget Neutrality Fund, the Tobacco Settlement monies, the rest of the Budget Neutrality Fund, and, if all of those fund sources are exhausted, new General Fund appropriations. Under the low end scenario, new General Fund monies are not required through at least FY 2006; under the high end scenario, new General Fund appropriations would be required in FY 2005. *Table 3* shows the detail for both the Tobacco Settlement and Budget Neutrality Funds under both scenarios. *Table 4* shows the Executive's estimates, in which new General Fund dollars would be required by FY 2005.

Disproportionate Share Hospitals

As mentioned above, Arizona is subject to Federal budget neutrality as a condition of the waiver. In order to maximize the amount of Federal Funds available for Proposition 204, Chapter 344 eliminates all Disproportionate Share Hospital (DSH) revenues, except the amount for private hospitals. Thus, the state and the counties will no longer receive DSH revenue. This does not result in a loss to either the state or the counties for the following reasons:

- Most of counties responsibilities for indigent health care have been removed, including eligibility determination;
- Counties that would have experienced a loss will receive a portion of a General Fund appropriation designed to address their loss (*see description in county overview bullets*); and
- Any General Fund costs have been covered by MNMI savings (*see Table 6*).

The General Appropriation Act included the historical appropriations for the DSH program. The intent was to amend the amounts in Chapter 344. The Governor vetoed the DSH Special Line Item, so as a result, the DSH modifications did not occur as amendments to the General Appropriation Act, but were instead included as separate FY 2002 and FY 2003 appropriations at the end of Chapter 344. The FY 2002 appropriation of $12,162,800 General Fund and $35,532,600 Total Funds included $5,185,800 General Fund and $15,150,000 Total Funds for the private hospitals DSH program and $6,977,000 General Fund and $20,382,600 Total Funds related to a FY 2001 DSH issue discussed below. The FY 2003 amount included $5,185,800 General Fund and $15,150,000 Total Funds for the private hospitals DSH program.

In addition to amending the FY 2002 and FY 2003 amounts, technical changes to FY 2001 were also included in Chapter 344. These technical changes are included in *Table 5*. In FY 2001, the state was not able to pass the full allocations to Maricopa and Pima Counties due to those counties' hospitals providing less indigent health care than in past years. A portion of these county revenues is passed through to the General Fund, resulting in decreased General Fund revenues of $24,745,300 (with Maricopa and Pima Counties held harmless). The state was able to recoup $4,362,700 by passing additional monies through the Arizona State Hospital Fund and $6,977,000 through reducing the DSH state match amount. To address the remaining revenue loss, $13,405,600 was ex-appropriated from AHCCCS's FY 2001 appropriation. This amount was then to be paid from the Medical Services Stabilization Fund, along with an additional, already planned FY 2001 AHCCCS supplemental from the fund.

In FY 2002, the state is able to draw down the remainder of the FY 2001 DSH payment of $20,382,600, which will be counted as General Fund revenue. From this amount, state match of $6,977,000 is appropriated in FY 2002 in Chapter 344. Chapter 344 also appropriates the remaining amount of $13,405,600 in FY 2002 to the Medical Services Stabilization Fund to repay it for the FY 2001 supplemental (*see Table 5*).

As mentioned previously, MNMI savings cover all of the costs of Chapter 344. *Table 6* shows the net impact of the bill. The bill as enacted by the Legislature had a General Fund impact of approximately $0. However, the Governor vetoed the appropriation to the Arizona State Hospital, which was intended to address ASH's loss of DSH revenue. The Governor's intent was for that amount to be transferred from elsewhere in the Department of Health Services budget. As a result, Chapter 344 now results in a net General Fund savings of $11,993,900 in both FY 2002 and FY 2003, for a total of $23,987,800 over the biennium. *Table 7* shows the impact of Chapter 344 as well, but separates the impacts by revenue and expenditures. The expenditure impacts are the only ones that appear in the AHCCCS budget.

Public Health Programs

Proposition 204 also specifies that the tobacco settlement is the funding source for 6 public health programs originally enacted in 1996, but never funded. As mentioned above, the public health programs are funded only if monies are still available after funding the AHCCCS expansion. *Table 3* shows that in both the JLBC high and low estimates for Proposition 204 expenditures, the programs would receive funding in FY 2001 and FY 2002. The programs would receive funding in FY 2003 under the low end estimate, but would not receive funding if FY 2003 under the high end estimate. If only partial funding were available, the amount would be prorated among the programs.

The Proposition requires the programs to be adjusted annually for inflation using the Gross Domestic Product deflator index. An Attorney General opinion further specifies that the inflation calculation shall include inflation since 1996 and that the amounts shall not be prorated for partial year funding. At the May 2001 meeting, the Joint Legislative Budget Committee approved the following inflation adjustments for the public health allocations for FY 2001:

Program	**FY 2001 Funding**
Healthy Families (DES)	$5,427,260
Arizona Health Education System (ABOR)	4,341,808
Teenage Pregnancy Prevention (DHS)	3,256,356
Disease Control Research (DCRC – see DHS)	2,170,904
Health Start (DHS)	2,170,904
WIC Food Program (DHS	1,085,452
Total	**$18,454,684**

Prior to the enactment of Proposition 204, several other appropriations from the Tobacco Settlement had been enacted. The Attorney General opined that these appropriations shall follow the AHCCCS expansion and the public health programs in the order of funding. These appropriations had already taken effect in FY 2001. For FY 2002, the only remaining of these appropriations is $20,000,000 to repay the Budget Stabilization Fund for the construction of a new Arizona State Hospital. This appropriation was also made for FY 2003. *Table 3* shows that under both the low and high end estimates, this appropriation would occur for FY 2002, but not for FY 2003.

Table 1

Chapter 344 - Proposition 204 Funding Flow Chart

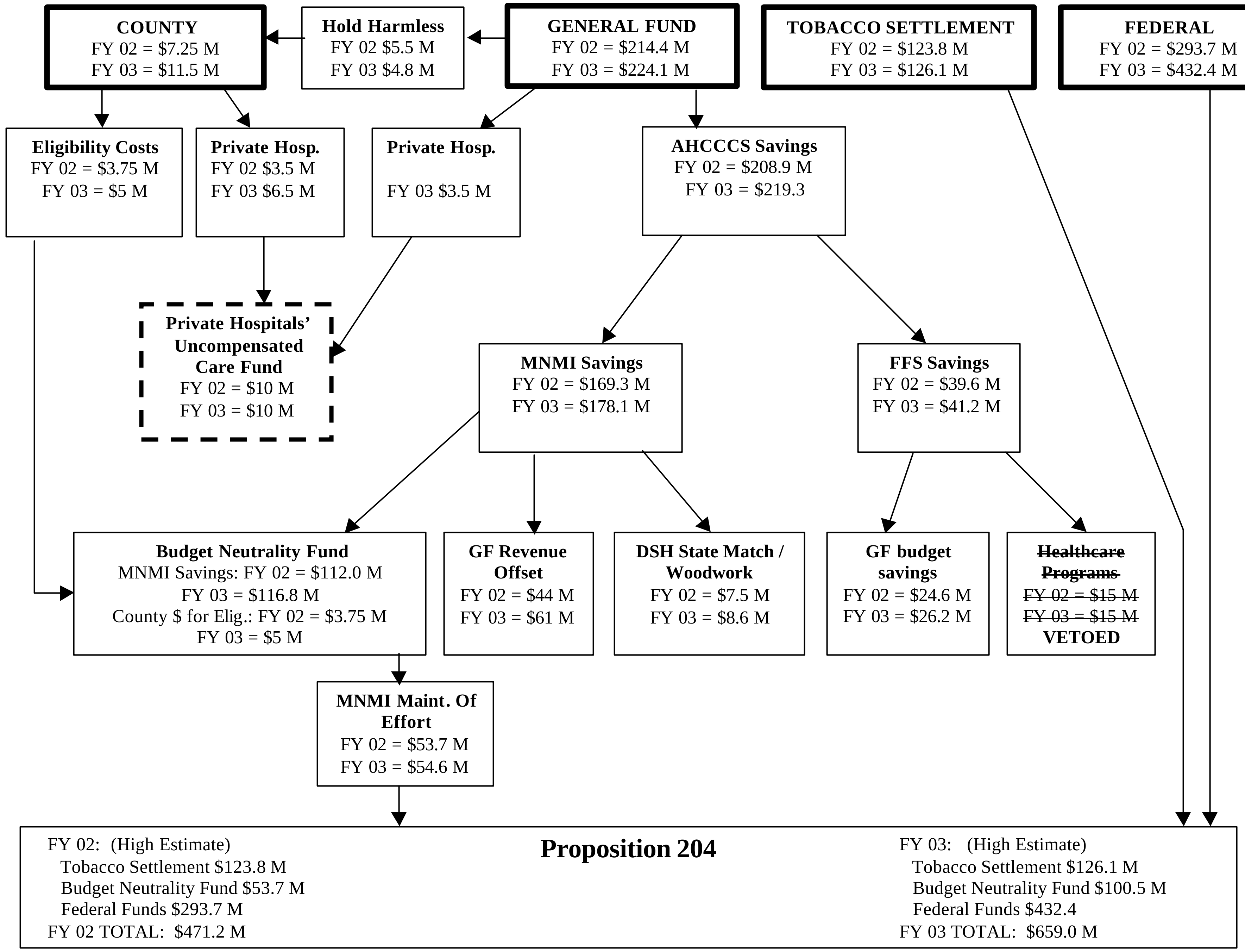
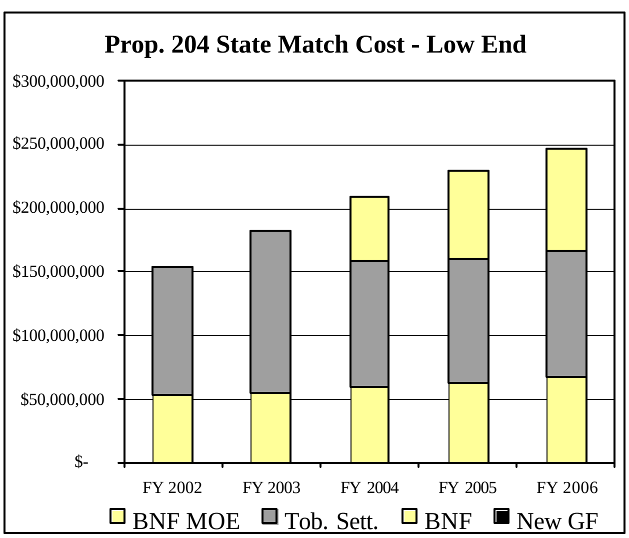
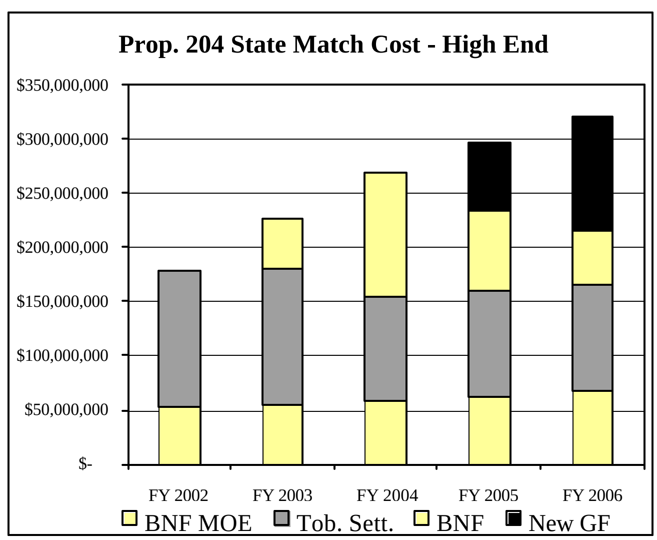


Table 2

Chapter 344 - AHCCCS Expansion Total Cost by Fund Source
JLBC Staff Low and High End Estimates

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
LOW END ESTIMATE					
Projected Enrollment	77,015	98,350	114,530	124,751	127,191
Total Cost (includes Administration)	399,182,200	522,336,600	602,506,100	663,505,000	714,214,900
Federal Match	245,130,700	340,896,200	394,328,700	434,757,200	468,330,600
State Match	**$ 154,051,500**	**$ 181,440,400**	**$ 208,177,400**	**$ 228,747,800**	**$ 245,884,300**
Fund Sources for State Match:					
Budget Neutrality Fund - MNMI Maintenance of Effort	$ 53,700,000	$ 54,559,200	$ 58,378,300	$ 62,464,800	$ 66,837,300
Tobacco Settlement	100,351,500	126,881,200	99,648,700	97,307,100	98,470,200
Budget Neutrality Fund	-	-	50,150,400	68,975,900	80,576,800
New General Fund	-	-	-	-	-
TOTAL ALL STATE FUNDS	**$ 154,051,500**	**$ 181,440,400**	**$ 208,177,400**	**$ 228,747,800**	**$ 245,884,300**
HIGH END ESTIMATE					
Projected Enrollment	113,533	156,632	189,904	204,518	208,191
Total Cost (includes Administration)	471,209,000	658,994,200	784,674,600	867,461,400	934,060,200
Federal Match	293,723,700	432,397,600	515,891,100	570,513,800	614,638,700
State Match	**$ 177,485,300**	**$ 226,596,600**	**$ 268,783,500**	**$ 296,947,600**	**$ 319,421,500**
Fund Sources for State Match:					
Budget Neutrality Fund - MNMI Maintenance of Effort	$ 53,700,000	$ 54,559,200	$ 58,378,300	$ 62,464,800	$ 66,837,300
Tobacco Settlement	123,785,300	126,104,300	96,175,200	97,307,100	98,470,200
Budget Neutrality Fund	-	45,933,100	114,230,000	73,297,900	50,010,500
New General Fund	-	-	-	63,877,800	104,103,500
TOTAL ALL STATE FUNDS	**$ 177,485,300**	**$ 226,596,600**	**$ 268,783,500**	**$ 296,947,600**	**$ 319,421,500**





BNF MOE = Budget Neutrality Fund Maintenance of Effort
BNF = Budget Neutrality Fund
Tob. Sett. = Tobacco Litigation Settlement Fund
New GF = New General Fund Appropriations

Table 3

Chapter 344 - Proposition 204 Fund Detail
JLBC Staff Low and High End Estimates

Tobacco Litigation Settlement Fund

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
LOW END ESTIMATE						
Balance Forward	$ 2,314,100	$ 70,416,100	$ 39,748,200	$ 3,473,500	$ -	$ -
Payments	86,556,700	108,498,200	109,789,900	96,175,200	97,307,100	98,470,200
Total Available	$ 88,870,800	$ 178,914,300	$ 149,538,100	$ 99,648,700	$ 97,307,100	$ 98,470,200
Proposition 204 - AHCCCS	$ -	$ 100,351,500	$ 126,881,200	$ 99,648,700	$ 97,307,100	$ 98,470,200
Proposition 204 - Public Health	18,454,700	18,814,600	19,183,400	-	-	-
Prior Appropriations - ASH	-	20,000,000	-	-	-	-
Total Expenditures	$ 18,454,700	$ 139,166,100	$ 146,064,600	$ 99,648,700	$ 97,307,100	$ 98,470,200
Balance Forward	$ 70,416,100	$ 39,748,200	$ 3,473,500	$ -	$ -	$ -
HIGH END ESTIMATE						
Balance Forward	$ 2,314,100	$ 70,416,100	$ 16,314,400	$ -	$ -	$ -
Payments	86,556,700	108,498,200	109,789,900	96,175,200	97,307,100	98,470,200
Total Available	$ 88,870,800	$ 178,914,300	$ 126,104,300	$ 96,175,200	$ 97,307,100	$ 98,470,200
Proposition 204 - AHCCCS	$ -	$ 123,785,300	$ 126,104,300	$ 96,175,200	$ 97,307,100	$ 98,470,200
Proposition 204 - Public Health	18,454,700	18,814,600	-	-	-	-
Prior Appropriations - ASH	-	20,000,000	-	-	-	-
Total Expenditures	$ 18,454,700	$ 162,599,900	$ 126,104,300	$ 96,175,200	$ 97,307,100	$ 98,470,200
Balance Forward	$ 70,416,100	$ 16,314,400	$ -	$ -	$ -	$ -

Budget Neutrality Fund

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
LOW END ESTIMATE					
Balance Forward	$ -	$ 58,319,900	$ 120,608,500	$ 128,927,600	$ 114,334,700
Transfer - In MNMI savings	112,019,900	116,847,800	116,847,800	116,847,800	116,847,800
Total Available	112,019,900	$ 175,167,700	$ 237,456,300	$ 245,775,400	$ 231,182,500
MNMI Maintenance of Effort	53,700,000	54,559,200	58,378,300	62,464,800	66,837,300
Proposition 204 Expenditures	-	-	50,150,400	68,975,900	80,576,800
Total Expenditures	$ 53,700,000	$ 54,559,200	$ 108,528,700	$ 131,440,700	$ 147,414,100
Balance Forward	$ 58,319,900	$ 120,608,500	$ 128,927,600	$ 114,334,700	$ 83,768,400
HIGH END ESTIMATE					
Balance Forward	$ -	$ 58,319,900	$ 74,675,400	$ 18,914,900	$ -
Transfer - In MNMI savings	112,019,900	116,847,800	116,847,800	116,847,800	116,847,800
Total Available	$ 112,019,900	$ 175,167,700	$ 191,523,200	$ 135,762,700	$ 116,847,800
MNMI Maintenance of Effort	53,700,000	54,559,200	58,378,300	62,464,800	66,837,300
Proposition 204 Expenditures	-	45,933,100	114,230,000	73,297,900	50,010,500
Total Expenditures	$ 53,700,000	$ 100,492,300	$ 172,608,300	$ 135,762,700	$ 116,847,800
Balance Forward	$ 58,319,900	$ 74,675,400	$ 18,914,900	$ -	$ -

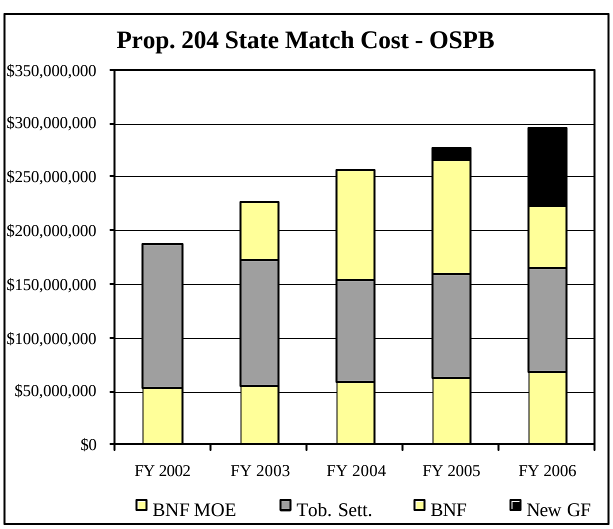
Table 4

Chapter 344 - Proposition 204 Executive Estimates

TOTAL COST	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**
Projected Enrollment	104,362	135,098	153,824	157,112	159,532
Total Cost (includes Administration)	$525,471,900	$631,151,500	$721,531,400	$774,811,500	$830,405,200
Federal Match	338,586,800	405,558,400	464,287,300	498,908,700	535,033,500
State Match	$186,885,100	$225,593,100	$257,244,100	$275,902,800	$295,371,700
Fund Sources for State Match:					
Budget Neutrality Fund - MNMI					
Maintenance of Effort	$53,700,000	$54,559,200	$58,378,300	$62,464,800	$66,837,300
Tobacco Settlement	133,185,100	117,029,200	96,175,200	97,307,100	98,470,200
Budget Neutrality Fund	-	54,004,700	102,690,600	105,962,900	57,559,700
New General Fund	-	-	-	10,168,000	72,504,500
TOTAL ALL STATE FUNDS	$186,885,100	$225,593,100	$257,244,100	$275,902,800	$295,371,700

TOBACCO SETTLEMENT	**FY 2001**	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**
Balance Forward	$2,314,100	$70,398,500	$7,239,300	$0	$0	$0
Payments	86,556,700	108,498,200	109,789,900	96,175,200	97,307,100	98,470,200
Total Available	$88,870,800	$178,896,700	$117,029,200	$96,175,200	$97,307,100	$98,470,200
Proposition 204 - AHCCCS	-	133,185,100	117,029,200	96,175,200	97,307,100	98,470,200
Proposition 204 - Public Health	18,472,300	18,472,300	-	-	-	-
Prior Approps - ASH	-	20,000,000	-	-	-	-
Total Expenditures	$18,472,300	$171,657,400	$117,029,200	$96,175,200	$97,307,100	$98,470,200
Balance Forward	$70,398,500	$7,239,300	-	-	-	-

BUDGET NEUTRALITY FUND	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**
Balance Forward	-	$64,869,500	$80,702,600	$44,030,700	-
Transfer - In MNMI savings	118,569,500	124,397,000	124,397,000	124,397,000	124,397,000
Total Available	$118,569,500	$189,266,500	$205,099,600	$168,427,700	$124,397,000
MNMI Maintenance of Effort	53,700,000	54,559,200	58,378,300	62,464,800	66,837,300
Proposition 204 Expenditures	-	54,004,700	102,690,600	105,962,900	57,559,700
Total Expenditures	$53,700,000	$108,563,900	$161,068,900	$168,427,700	$124,397,000
Balance Forward	$64,869,500	$80,702,600	$44,030,700	-	-



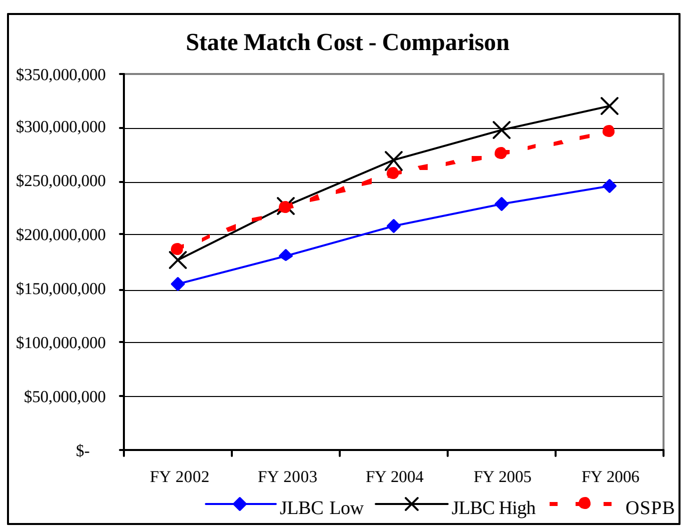


Table 5

Chapter 344 - AHCCCS; Proposition 204
Modifications to FY 2001 Disproportionate Share Hospitals (DSH) Program

FY 2001	GF Gains	GF Costs
County Withholding Revenue loss		$ 24,745,300
Additional DSH revenue through the ASH Fund	$ 4,362,700	
Reduction in DSH State Match	6,977,000	
Ex-appropriate portion of FY 2001 MNMI GF Savings [1/]	13,405,600	
Total Gain vs. Total Cost	$ 24,745,300	$ 24,745,300
Net Gain	$0	
FY 2002		
Remaining FY 2001 DSH Revenue	$ 20,382,600	
DSH State Match		6,977,000
General Fund Deposit to the Medical Stabilization Fund [2/]		13,405,600
Total Gain vs. Total Cost	$ 20,382,600	$ 20,382,600
Net Gain	$0	

1/ All of FY 2001 MNMI savings were originally assumed to be used to offset AHCCCS's FY 2001 supplemental cost. After the ex-appropriation, this amount is shifted to the Medical Services Stabilization Fund.
2/ Replaces the amount of the FY 2001 AHCCCS supplemental that was shifted to the Medical Services Stabilization Fund in FY 2001.

Table 6

General Fund Impact of Proposition 204 Implementation Relative to the General Appropriation Act

FY 2002	GF Gains	GF Costs
DSH General Fund Revenue Loss due to program elimination		$ 76,490,000
DSH State Match - No Longer Needed	$ 44,171,800	
Private Hospitals DSH State Match		5,185,800
MNMI Savings	169,283,700	
Counties Hold Harmless		5,532,500
AHCCCS Woodwork (GF)		2,265,900
Budget Neutrality Fund Transfer [1/]		112,019,900
Total Gain vs. Total Cost	$ 213,455,500	$ 201,494,100
Net Gain	$ 11,961,400 [2/]	
FY 2003		
DSH General Fund Revenue Loss		$ 76,490,000
DSH State Match No Longer Needed	$ 44,171,800	
Private Hospitals' DSH State Match		5,185,800
MNMI Savings	178,085,600	
Counties Hold Harmless and Uncompensated Care Pool Appropriations		8,325,600
AHCCCS Woodwork (GF)		3,439,900
Budget Neutrality Fund Transfer [1/]		116,847,800
Total Gain vs. Total Cost	$ 222,257,400	$ 210,289,100
Net Gain	$ 11,968,300 [2/]	

1/ Includes a decrease of $(4,497,900) to hold the General Fund harmless.
2/ Laws 2001, Chapter 344 included $11,993,900 in FY 2002 and FY 2003 from the GF to replace the Arizona State Hospital DSH payment. With this amount, Chapter 344 had a General Fund impact of $32,500 in FY 2002 and $25,600 in FY 2003. The Governor line item vetoed this appropriation. As a result, Chapter 344 now has a net General Fund savings of $11,961,400 in FY 2002 and $11,968,300 in FY 2003, for a total of $23,929,700 over the biennium.

Table 7

Chapter 344 - General Fund Revenue vs. Expenditure Impacts

	FY 2001	FY 2002	FY 2003	Biennial Total
Revenue Impact				
DSH Revenue	$ (24,745,300)	$ (76,490,000)	$ (76,490,000)	$ (177,725,300)
DSH Revenue through ASH Fund	4,362,700			4,362,700
DSH Revenue		20,382,600		20,382,600
Net Revenue Impact - Chapter 344	$ (20,382,600)	$ (56,107,400)	$ (76,490,000)	$ (152,980,000)
Appropriations				
DSH State Match (does not include line item veto) [1/]	$ (6,977,000)	$ 12,162,800	$ 5,185,800	$ 10,371,600
AHCCCS budget - Shift supplemental to MSF	(13,405,600)			(13,405,600)
Deposit to MSF		13,405,600		13,405,600
AHCCCS budget - MNMI Savings / Woodwork		(167,017,800)	(174,645,700)	(341,663,500)
Counties Hold Harmless		5,532,500	4,825,600	10,358,100
Uncompensated Care			3,500,000	3,500,000
Budget Neutrality Fund Transfer		112,019,900	116,847,800	228,867,700
Net Appropriations Impact - Chapter 344	**$ (20,382,600)**	**$ (23,897,000)**	**$ (44,286,500)**	**$ (88,566,100)**
General Appropriation Act DSH Line Item Veto	$ -	$ (44,171,800)	$ (44,171,800)	$ (88,343,600)
Net Expenditure Impact - Proposition 204 in Total	$ (20,382,600)	$ (68,068,800)	$ (88,458,300)	$ (176,909,700)
TOTAL GENERAL FUND IMPACT - Prop. 204 [2/]	$ -	$ (11,961,400)	$ (11,968,300)	$ (23,929,700)

1/ The General Appropriation Act (as enacted by the Legislature) included continuation funding for DSH with the assumption that the amount would be amended by Chapter 344. The Governor line item vetoed the DSH line item. As a result, Chapter 344 only added back the correct DSH amounts and does not include the DSH savings. The veto savings is shown under "General Appropriation Act DSH line item veto".

2/ Laws 2001, Chapter 344 included $11,993,900 in FY 2002 and FY 2003 from the General Fund to replace the Arizona State Hospital DSH payment. With this amount, Proposition 204 had a General Fund impact of $32,500 in FY 2002 and $25,600 in FY 2003. The Governor line item vetoed this appropriation. As a result, Chapter 344 now has a net General Fund savings of $11,961,400 in FY 2002 and $11,968,300 in FY 2003, for a total of $23,929,700 over the biennium.

Table 8

AHCCCS Budget - Revisions to the General Appropriation Act by Chapter 344

	FY 2002			FY 2003		
Acute Care	**General Fund**	**Federal Funds**	**Total Funds**	**General Fund**	**Federal Funds**	**Total Funds**
Capitation:						
MNMI Savings	($154,086,200)		($154,086,200)	($162,225,900)		($162,225,900)
Woodwork	2,265,900	4,857,000	7,122,900	3,439,900	7,312,700	10,752,600
Total Change	($151,820,300)	$4,857,000	($146,963,300)	($158,786,000)	$7,312,700	($151,473,300)
Fee-for-Service [1/]		No Change			No Change	
Reinsurance:						
MNMI Savings	($15,197,500)		($15,197,500)	($15,859,700)		($15,859,700)
Medicare Premiums		No Change			No Change	
DSH [2/]	-		-	-		-
Grad. Med. Education		No Change			No Change	

1/ Proposition 204 savings in the Fee-for-Service line item were incorporated in the General Appropriation Act.

2/ The Disproportionate Share Hospitals line item was included in the General Appropriation Act at the "pre-Proposition 204" levels and was vetoed by the Governor. As a result, the revised DSH amounts were not included as an amendment to the General Appropriation Act, but were appropriated in a different section of Chapter 344. Click here to return to the Table of Contents