

Arizona Health Care Cost Containment System
Administration

A.R.S. § 36-2901

		FY 2000 Actual	FY 2001 Estimate	FY 2002 Approved	FY 2003 Approved
OPERATING BUDGET					
Full Time Equivalent Positions	(SM)	1,212.1	1,260.4 ^{1/}	1,285.4 ^{1/}	1,298.4 ^{1/}
	(TF)	2,408.0	2,424.5 ^{1/}	2,478.8 ^{1/}	2,491.8 ^{1/}
Personal Services	(SM)	13,771,300	15,086,200	16,178,600	17,042,600
	(TF)	30,990,200	33,004,100	35,450,200	37,166,800
Employee Related Expenditures	(SM)	3,145,000	3,551,100	4,229,600	4,082,100
	(TF)	6,977,100	7,541,100	9,050,600	8,678,500
Professional and Outside Services	(SM)	1,781,200	2,167,400	2,167,400	2,167,400
	(TF)	4,241,300	4,459,300	4,459,300	4,459,300
Travel - In State	(SM)	138,800	123,800	125,300	125,300
	(TF)	278,400	253,300	256,300	256,300
Travel - Out of State	(SM)	24,200	25,000	25,000	25,000
	(TF)	44,900	46,900	46,900	46,900
Other Operating Expenditures	(SM)	6,615,200	7,001,500	7,767,500	7,673,500
	(TF)	12,572,300	12,391,300	15,897,400	16,129,800
Equipment	(SM)	1,204,100	973,100	1,613,100	1,594,600
	(TF)	2,521,100	2,203,700	3,839,500	4,611,600
<i>Operating Subtotal</i>	(SM)	26,679,800	28,928,100	32,106,500	32,710,500
	(TF)	57,625,300	59,899,700	69,000,200	71,349,200
ADOA Data Center Charges	(SM)	1,936,900	1,742,500	1,760,000 ^{2/}	1,861,700 ^{2/}
	(TF)	5,772,800	4,978,600	5,534,100 ^{2/}	5,717,500 ^{2/}
Indian Advisory Council	(SM)	100,600	110,200	115,000	117,900
	(TF)	198,700	216,700	226,900	232,700
DES Eligibility	(SM)	20,030,200	21,982,400	22,819,200 ^{3/}	23,417,900 ^{3/}
	(TF)	41,346,700	43,862,600	45,576,100 ^{3/}	46,838,900 ^{3/}
DES Title XIX Pass-Through	(SM)	105,200	127,800	130,800 ^{3/}	133,300 ^{3/}
	(TF)	267,200	296,500	306,400 ^{3/}	310,200 ^{3/}
DHS Title XIX Pass-Through	(SM)	485,300	729,600	948,400 ^{4/}	957,700 ^{4/}
	(TF)	1,004,000	1,398,800	1,708,000 ^{4/}	1,731,600 ^{4/}
Health Care Group Administration	(SM)	5,519,200	9,297,000	1,336,700	1,364,800
	(TF)	5,519,200	9,297,000	1,336,700	1,364,800
Office of Administrative Hearings	(SM)	0	0	0	0
	(TF)	196,300	160,300	174,200	174,200
CHIP - Administration	(SM)	3,504,900	1,882,400	2,880,500	2,421,100
	(TF)	5,792,400	7,533,400	8,738,600	9,202,100
CHIP - Services	(SM)	7,180,800	15,550,100	15,532,800	19,573,100
	(TF)	29,804,000	72,163,000	62,131,200	78,292,200
Finger Imaging	(SM)	0	200,000	950,000 ^{5/6/}	950,000 ^{5/6/}
	(TF)	0	200,000	950,000 ^{5/6/}	950,000 ^{5/6/}
Navajo and Apache County Claims	(SM)	742,800 ^{7/}	0	0	0
	(TF)	742,800 ^{7/}	0	0	0
SUBTOTAL	(SM)	66,285,700	80,550,100	78,579,900	83,508,000
	(TF)	148,269,400	200,006,600	195,682,400	216,163,400

		FY 2000 Actual	FY 2001 Estimate	FY 2002 Approved	FY 2003 Approved
Additional Appropriations -					
Tobacco Tax Allocation;	(SM)	0	0	7,000,000	0
Detoxification Services, Ch. 374	(TF)	0	0	7,000,000	0
TOTAL APPROPRIATIONS	(SM)	66,285,700	80,550,100	85,579,900	83,508,000
	(TF)	148,269,400	200,006,600	202,682,400 ^{8/9/}	216,163,400 ^{8/9/}
FUND SOURCES					
General Fund		50,094,600	53,834,400	58,829,900 ^{10/}	60,149,000 ^{10/}
Other Appropriated Funds					
Donations Fund		867,500	1,283,200	1,336,700 ^{10/}	1,364,800 ^{10/}
Tobacco Tax Funds		0	0	7,000,000 ^{10/}	0
Medical Services Stabilization Fund		4,637,900	0	0	0
Tobacco Settlement Fund		0	8,000,000	0	0
Children's Health Insurance Program Fund		35,596,400	79,696,400	70,869,800 ^{10/}	87,494,300 ^{10/}
Federal Title XIX Funds		57,073,000	57,192,600	64,646,000	67,155,300
<i>Subtotal - Other Appropriated Funds</i>		98,174,800	146,172,200	143,852,500	156,014,400
TOTAL APPROPRIATIONS		148,269,400	200,006,600	202,682,400 ^{11/12/13/}	216,163,400 ^{11/12/13/}

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

- 1/ Includes 724.6 SM and 1,294.2 TF FTE Positions in FY 2002 and 737.6 SM and 1,307.2 TF FTE Positions in FY 2003 funded from Special Line Items.
- 2/ It is the intent of the Legislature that the appropriation for the Department of Administration Data Center charges be used only for the payment of charges incurred by the department for the use of computing services provided by the Department of Administration Data Center. (General Appropriation Act footnote)
- 3/ The amounts appropriated for the Department of Economic Security Eligibility Special Line Item shall be used for intergovernmental agreements with the Department of Economic Security for the purpose of eligibility determination and other functions. The General Fund share may be used for eligibility determination for other programs administered by the Division of Benefits and Medical Eligibility based on the results of the Arizona Random Moment Sampling Survey. (General Appropriation Act footnote)
- 4/ The amounts appropriated for the Department of Health Services Title XIX Pass-Through Special Line Item shall be used for intergovernmental agreements with the Department of Health Services for the purpose of Medicaid-related licensure, certification and registration, and other functions. (General Appropriation Act footnote)
- 5/ If federal matching monies are received for the Finger Imaging Enrollment Program, the Arizona Health Care Cost Containment System shall revert the portion of the state General Fund appropriation received equal to the federal dollars received for this program in the year that the federal monies are received. (General Appropriation Act footnote)
- 6/ The Arizona Health Care Cost Containment System Administration is exempt from the rule making requirements of Title 41, Chapter 6, Arizona Revised Statutes, for the purposes of implementing the Finger Imaging Enrollment Program established pursuant to Laws 2000, Chapter 378. It is the intent of the Legislature that the Administration shall hold hearings to give a public an opportunity to comment on the proposed rules. The Administration shall hold at least 1 of these hearings in a county with a population of less than 500,000 persons according to the most recent United States decennial census. (General Appropriation Act footnote, as added by Laws 2001, Chapter 385)
- 7/ Represents FY 2000 expenditures from the non-lapsing General Fund appropriation provided by Laws 1997, Chapter 7, 1st Special Session.
- 8/ General Appropriation Act funds appropriated as an Operating Lump Sum with Special Line Items for the Program.
- 9/ Of the \$202,682,400 expenditure authority for Administration in FY 2002, \$58,829,900 is appropriated from the state General Fund, \$1,336,700 is appropriated from the Donations Fund and \$70,869,800 is appropriated from the Children's Health Insurance Program Fund. Of the \$216,163,400 expenditure authority for Administration in FY 2003, \$60,149,000 is appropriated from the state General Fund, \$1,364,800 is appropriated from the Donations Fund and \$87,494,300 is appropriated from the Children's Health Insurance Program Fund. (General Appropriation Act footnote, as adjusted for statewide salary and other allocations.)
- 10/ These amounts represent direct appropriations. All other expenditures are part of total expenditure authority.
- 11/ The Arizona Health Care Cost Containment System Administration shall report by January 1 of each year on the agency's use of the cost savings that results from entering into an agreement with another state as outlined in Laws 1999, Chapter 313, Section 27. The report shall also include detail on the source of all revenues and expenditure of monies from the Intergovernmental Service Fund. (General Appropriation Act footnote)
- 12/ Before the expenditure of any monies for the Arizona Health Care Cost Containment System Administration Customer Eligibility System, the Arizona Health Care Cost Containment System Administration shall submit a report to the Joint Legislative Budget Committee for its review. The report shall discuss how the automation improvements are compatible with the No Wrong Door initiative. (General Appropriation Act footnote)
- 13/ The Arizona Health Care Cost Containment System shall report by September 30 of each year to the Joint Legislative Budget Committee on the services that receive reimbursement from the federal government under the Medicaid in Public School initiative. The report shall include information on the type of services, how those services meet the definition of medical necessity, and the total amount of federal dollars that the schools have received under the Medicaid in Public School initiative. (General Appropriation Act footnote)

COST CENTER DESCRIPTION — Administration responsibilities related to health plan contracting include rate negotiations, health plan auditing and financial oversight, and assisting with the formulation of new health plans. Other major Administration responsibilities include the development and maintenance of the management information system, policy development and research, and agency finance and accounting. Additionally, the Administration performs eligibility determinations for the Arizona Long-Term Care System and for SSI Medical Assistance only (MAO) Eligibility. Eligibility for the Acute Care program is conducted by the Department of Economic Security (DES), counties, and the federal Social Security Administration. The appropriation for DHS – AHCCCS represents an allocation of costs incurred by the Department of Health Services (DHS) in its role of performing licensing and inspections of Title XIX-certified nursing care facilities. This function is a federal Medicaid requirement and is conducted in accordance with an intergovernmental agreement between AHCCCS and DHS.

PERFORMANCE MEASURES	FY 1999	FY 2000	FY 2001	FY 2002-03
	Est./Actual	Est./Actual	Estimate	Estimate
• Cost avoidance from Fraud and Abuse Prevention Program (\$ in millions)	2/4.2	6/7.4	7	7
• % of enrollees filing a grievance	NA/0.67	0.7/0.5	0.5	0.4
• % of eligibility accuracy as measured by quality control sample	95/97	95/97	97	97
• % of AHCCCS employee turnover	NA/11.4	11/11.9	11.7	11.5
• Administration as a % of total cost	NA	4.6/NA	4.5	4.4
• Customer satisfaction rating for eligibility determination clients (Scale 1-8)	NA	NA	NA	6.0

Member Services Growth — The approved amount includes a FY 2002 increase of \$1,320,100 GF and \$2,638,300 TF and 32 FTE Positions above FY 2001 and a FY 2003 increase of \$1,312,400 GF and \$2,622,800 TF and 32 FTE Positions above FY 2001. The FY 2003 amount is lower due to the elimination of one-time equipment. This funding provides for additional staff and the development of the AHCCCS Customer Eligibility (ACE) system to address enrollment growth in the Arizona Long-Term Care System (ALTCS) program, which is expected to increase 12% over the FY 2002 and FY 2003 biennium. Enrollment growth translates into additional applications and redeterminations to be processed by eligibility staff.

In addition to the staffing increase, the approved amount funds the development of the ACE computer application system. The implementation of the ACE system will streamline and automate the application and redetermination processes. In addition to the funding discussed above, the Children’s Health Insurance Program (CHIP) Fund will contribute \$276,200 in FY 2003 to the project, which is included in the appropriation for CHIP Administration. *(Please see CHIP Administration for further information.)*

The Information Technology Authorization Committee (ITAC) originally approved the ACE system provided that the project was compatible with No Wrong Door. In addition, the General Appropriation Act contains a footnote requiring the agency to submit a report to the JLBC addressing the compatibility of the ACE system with No Wrong Door. While ITAC removed their

approval condition requiring compatibility between the ACE system and No Wrong Door, AHCCCS expressed commitment to ensuring the compatibility of the ACE system with No Wrong Door at the May 2001 JLBC Committee meeting.

Expansion of Early Fraud Detection Unit — The approved amount includes a FY 2002 increase of \$182,100 GF and 4 FTE Positions above FY 2001 and a FY 2003 increase of \$129,600 GF and 4 FTE Positions above FY 2001. The FY 2003 amount is lower due to the elimination of one-time equipment. This funding expands the program into Pima County hospitals. The Early Fraud Detection Program involves reviewing the applications of those AHCCCS recipients that enter the AHCCCS program through the hospital. The unit is then responsible for conducting home visits to verify inconsistent information prior to approval for enrollment.

Medicaid in Public Schools — The approved amount includes a FY 2002 increase of \$53,100 GF and \$105,800 TF and 2 FTE Positions above FY 2001 and a FY 2003 increase of \$50,600 GF and \$100,800 TF and 2 FTE Positions above FY 2001. The FY 2003 amount is lower due to the elimination of one-time equipment. The Medicaid in Public Schools (MIPS) program will allow schools to begin receiving federal matching monies for services provided to Title XIX eligible children who fall under the federal Individuals with Disability Education Act (IDEA). The approved amount funds staff to provide oversight of the claims submitted for reimbursement to ensure that services provided meet the definition of medical necessity. In addition, pursuant to a footnote in

the General Appropriation Act, the agency is required to report to the JLBC by September 30 of each year on the services provided under the MIPS program.

Health Insurance Portability and Accountability Act — The approved amount includes a FY 2002 increase of \$472,900 GF and \$3,753,500 TF and 12 FTE Positions above FY 2001 and a FY 2003 increase of \$467,200 GF and \$3,351,300 TF and 12 FTE Positions above FY 2001. The FY 2003 amount is lower due to the elimination of one-time equipment. Of the 12 FTE Positions recommended, 6 are temporary and are only for the FY 2002 - 2003 biennium. The approved amount provides funding to address the requirements of the federal Health Insurance Portability and Accountability Act (HIPAA) that relate to administrative simplification. HIPAA requires the standardization of healthcare claims by October 2002. This project has been approved by ITAC.

In addition to the funding discussed above, the CHIP Fund will contribute \$282,700 in FY 2002 and \$251,800 in FY 2003 to this project, which is included in the appropriation for CHIP Administration. *(Please see CHIP Administration for further information.)*

Equipment — The approved amount includes total funding of \$973,100 GF and \$2,203,000 TF in both FY 2002 and FY 2003 for replacement equipment. The approved amount provides funding to replace approximately 290 of the agency's computers and other hardware, replacement of 20 vehicles over the biennium, and replacement of 5 copiers over the biennium.

Decision Support System — The approved amount includes a FY 2003 increase of \$1,451,600 in federal expenditure authority above FY 2001 for the implementation of a Decision Support System/Executive Information System (DDS/EIS). Implementation of the DDS/EIS will allow AHCCCS to obtain more timely information on service utilization, which is used in operational and financial decision making. The state match of \$225,700 in FY 2003 will be funded through the agency's base budget. This project has been approved by ITAC.

Special Line Items

ADOA Data Center Charges — This Special Line Item reflects costs associated with the agency's usage of mainframe computing services provided by the Arizona Department of Administration (ADOA). This Special Line Item is funded by the General Fund and Federal Funds.

The approved amount includes a FY 2002 increase of \$17,500 GF and \$555,500 TF and a FY 2003 increase of \$119,200 GF and \$738,900 TF above FY 2001. In addition, monies are received from the CHIP Fund. *(Please see CHIP Administration for information on the CHIP Fund contribution to the ADOA Data Center.)*

The approved amount accommodates the agency's increased usage of the ADOA Data Center and incorporates savings associated with the consolidation of the Data Center. Therefore, without the consolidation of the Data Center, AHCCCS' cost would have increased more than the approved amount. The consolidation of the Data Center involves expanding the ADOA Data Center to include the Department of Revenue and the Department of Transportation's data centers. *(Please see the Arizona Department of Administration for further information).*

Indian Advisory Council — The Advisory Council on Indian Healthcare was established in Laws 1989, Chapter 293 to assist in developing a comprehensive healthcare delivery system for Arizona's Native American population. This Special Line Item is funded by the General Fund and Federal Funds.

DES Eligibility — The Department of Economic Security (DES), through an intergovernmental agreement with AHCCCS, performs eligibility determinations for the AHCCCS Acute Care program. DES staff, in addition to conducting eligibility determinations for the TANF Cash Assistance program, also evaluates applications for AHCCCS eligibility. DES eligibility staff also takes applications for "Medical Assistance Only" (MAO) in the federal SOBRA program for pregnant women and children. In addition, beginning October 2001, DES eligibility staff will begin taking applications for enrollment under Proposition 204, which provides health insurance coverage for adults up to 100% of the Federal Poverty Level. *(Please see the Acute Care section for additional information on Proposition 204).* This Special Line Item is funded by the General Fund and Federal Funds. In addition, with the implementation of Proposition 204, the cost of determining Proposition 204 eligibility will be covered by Tobacco Settlement and Federal Funds.

DES Title XIX Pass-Through — This Special Line Item contains funding for both the DES Disability Determination Services Administration (DDSA) and the DES Preadmission Screening and Annual Resident Review (PASARR) programs, which are administered by DES through an intergovernmental agreement. DES - DDSA determines disability entitlement for the Arizona Long-Term Care System and the Federal Emergency Services program. DES - PASARR screens all individuals with developmental disabilities before they enter the Long-Term Care program to determine the appropriate level and types of specialized services needed. This Special Line Item is funded by the General Fund and Federal Funds.

DHS Title XIX Pass-Through — This Special Line Item contains funding for 3 programs administered by DHS through an intergovernmental service agreement: 1) DHS Licensure; 2) DHS PASARR; and, 3) DHS Indirect Cost Licensure. DHS Licensure is responsible for federally required inspection and licensure of Title XIX-certified

nursing care facilities. DHS PASARR conducts Level II psychiatric evaluations of Title XIX-certified nursing facility patients who have been identified through a Level I screening as potentially having a mental illness. Finally, DHS Indirect Costs Licensure represents the cost of administrative functions performed by non-Licensure Division staff in support of the Licensure Division. This Special Line Item is funded by the General Fund and Federal Funds.

The approved amount includes a FY 2002 increase of \$94,300 GF and \$188,600 TF and 2.8 FTE Positions and a FY 2003 increase of \$84,800 GF and \$169,600 TF and 2.8 FTE Positions above FY 2001. The FY 2003 amount is lower due to the elimination of one-time equipment. Growth in ALTCs enrollment has created an increased demand for Title XIX certified nursing facilities and assisted living homes, which must be inspected and licensed by DHS Licensure staff. The approved amount also provides additional staff for inspection of behavioral health facilities and juvenile homes. *(Please see DHS Administration for further information.)*

In addition, the approved amount includes a FY 2002 and FY 2003 increase of \$84,800 GF and \$22,700 TF and a 0.5 FTE Position above the original FY 2001 appropriation for 2 technical adjustments, which were included in the FY 2001 AHCCCS supplemental *(Please see Acute Care for additional information)*. The first technical adjustment involves shifting the fund source from Federal Funds to the General Fund for \$62,100 and a 0.8 FTE Position appropriated in FY 2001 in order to allow the agency to draw down federal matching monies. The second technical correction involves an increase of \$22,700 GF and a 0.5 FTE Position to provide the correct state match for federal Title XIX monies that pass through AHCCCS to the DHS Assurance and Licensure Division. An equivalent decrease is made in the Assurance and Licensure Special Line Item in the DHS budget.

Healthcare Group Administration — This Special Line Item contains funding for Healthcare Group's administration costs. This program administers a health insurance program for small businesses and political subdivisions of the state. Its administration funding comes from premiums paid by program participants, which is deposited in the AHCCCS Donations Fund.

Beginning in FY 1998, Healthcare Group health plans' costs exceeded the amount they received in premiums. This situation appeared to be the result of several factors, including changes in federal law and actions by private insurance companies. These changes resulted in the pool of Healthcare Group participants containing fewer healthy members and more members with pre-existing conditions and high healthcare costs.

In response to this situation, Laws 1998, Chapter 214 transferred \$8,000,000 from the Tobacco Tax Medical

Services Stabilization Fund in FY 1999 to Healthcare Group to provide reinsurance to health plans. Laws 1999, Chapter 313 appropriated \$8,000,000 from Tobacco Settlement monies in FY 2001, and each year thereafter, to provide funding for Healthcare Group Reinsurance. However, in a ruling on the priority of uses of Tobacco Settlement monies following the passage of Proposition 204, the Attorney General determined that the Healthcare Group allocation is the lowest in priority. In addition, the Tobacco Settlement allocation was repealed beginning in FY 2002 by Laws 2001, Chapter 385. However, Laws 2001, Chapter 374 appropriates \$7,000,000 in FY 2002 from the Medically Needy Account of the Tobacco Tax and Healthcare Fund for Healthcare Group reinsurance. *(Please see Additional Appropriations for further information.)*

Office of Administrative Hearings — This Special Line Item contains the federal expenditure authority associated with hearing and grievance activities. Laws 1998, Chapter 57 transferred the hearing and grievance function to the Office of Administrative Hearings (OAH). However, AHCCCS retains the associated federal funding, which is transferred to OAH based on the cases reviewed. In addition, monies are received from the CHIP Fund. *(Please see CHIP Administration for information on the CHIP Fund contribution to OAH.)*

Children's Health Insurance Program

Laws 1998, Chapter 4, 4th Special Session established the Children's Health Insurance Program (CHIP). CHIP provides health insurance coverage to uninsured children whose families meet certain income requirements and is funded from the Children's Health Insurance Fund, which consists of 25% state funds and 75% federal matching funds. The Medically Needy Account of the Tobacco Tax and Healthcare Fund provides the monies for the state share of the program.

As established, the CHIP benefit package was equivalent to the state employee benefit package; however, pursuant to Laws 2001, Chapter 360 the benefits provided to CHIP enrollees have been expanded to include non-emergency transportation services. In addition, Chapter 360 specifies that the behavioral health services provided to CHIP enrollees are to be the same as the least restrictive behavioral health service option offered to state employees. Chapter 360 also changes the period of time that an enrollee must be without health coverage in order to be eligible for CHIP (often referred to as the "bare provision"). Previously, this period had been 6 months; however, Chapter 360, changes the "bare" period to 3 months and further stipulates that the "bare" period is waived for children who are chronically ill. Finally, Chapter 360 directs AHCCCS to develop criteria for granting a hardship exemption for CHIP enrollees who are unable to afford the monthly premium. *(Please see Additional Legislation for further information)*.

Table 1**Children's Health Insurance Program Funding Summary**

		<u>FY 2002</u>	<u>FY 2003</u>
CHIP Member Years		42,732	50,948
<u>CHIP Services:</u>			
Capitation	TT	12,269,600	15,454,100
	FF	38,939,100	49,045,400
Fee-for-Service	TT	448,500	570,500
	FF	1,423,300	1,810,300
Reinsurance	TT	141,300	173,300
	FF	<u>448,600</u>	<u>550,000</u>
Behavioral Health	TT	2,027,200	2,561,000
	FF	6,433,600	8,127,700
Total CHIP Services	TT	14,886,600	18,758,900
	FF	<u>47,244,600</u>	<u>59,533,400</u>
	OF	62,131,200	78,292,300
<u>CHIP Administration:</u>			
Administration ^{1/2/}	TT	2,880,500	2,300,600
	FF	5,858,100	6,901,600
	OF	8,738,600	9,202,200
Total CHIP Program	TT	17,767,100	21,059,500
	FF	<u>53,102,700</u>	<u>66,435,000</u>
	OF	<u>70,869,800</u>	<u>87,494,500</u>

1/ See Table 2 below for additional detail.

2/ The approved amount includes \$927,800 in Tobacco Tax monies in addition to the 10% administrative allocation.

TT = Tobacco Tax - Medically Needy Account

FF = Federal Funds

OF = CHIP Fund

The federal guidelines (Title XXI) that govern all states' CHIP programs require all children to be screened for Title XIX eligibility prior to enrollment in CHIP. Approximately one-half of the children who apply for the CHIP program are found to be eligible for Title XIX AHCCCS coverage. Eligibility for Arizona's CHIP program is set at 200% of the Federal Poverty Level (FPL).

Funding for the CHIP program is divided into 2 Special Line Items: CHIP Administration and CHIP Services. The following sections provide a description of these 2 components of CHIP. Program funding is shown in more detail in *Table 1*.

CHIP - Administration — The approved amount includes a FY 2002 increase of \$1,205,200 above FY 2001 and a FY 2003 increase of \$1,668,700 and 13 FTE Positions above FY 2001. The approved amount is funded from the CHIP Fund.

The administrative component of CHIP is capped by federal law at 10% of program costs. With enrollment lower than originally projected, the administrative component of the program requires additional Tobacco Tax dollars in FY 2002 to pay for administrative costs above the 10% cap. Therefore, the program will receive a 100% Tobacco Tax allocation of \$927,800 in FY 2002. Current enrollment projections for FY 2003 will allow for all administrative expenditures to be paid under the 10% cap; therefore, additional Tobacco Tax dollars will not be required in FY 2003.

The approved amount for CHIP Administration provides for all standard operating expenses, including funding for the CHIP portion of the HIPAA and ACE projects, funding for CHIP's use of the ADOA Data Center, and the OAH charges, and other indirect costs.

The administrative component of the CHIP program includes both direct and indirect costs. Direct costs are

those that are incurred specifically and exclusively in the operation of CHIP. In contrast, indirect costs are those that are incurred by the agency as a whole that also benefit the operation of CHIP, such as consulting and auditing services, technology upgrades, risk management charges, upper level management, and payroll functions. Indirect costs are allocated to the different programs within AHCCCS based upon enrollment, with CHIP currently being responsible for 8% of these agencywide indirect costs. This cost allocation methodology is required in order to be in compliance with Healthcare Financing Administration (HCFA) regulations.

Detail on allocation of the CHIP Administration appropriation is included in the following table:

	<u>FY 2002</u>	<u>FY 2003</u>
Personal Services & ERE	\$3,182,600	\$3,268,200
Direct Operating Expenditures	3,225,700	3,355,400
Indirect Operating Expenditures	1,976,000	1,976,000
Office of Administrative Hearings	33,000	33,000
ADOA Data Center	8,600	8,600
Risk Management	30,000	32,900
HIPAA	282,700	251,800
New Eligibility System (ACE)	0	276,200
Total	\$8,738,600	\$9,202,100
<u>Fund Source:</u>		
Tobacco Tax	\$2,880,500	\$2,300,600
Federal Funds	\$5,858,100	\$6,901,600

CHIP – Services — The approved amount includes a FY 2002 decrease of \$(10,031,800) below FY 2001 and a FY 2003 increase of \$6,129,200 above FY 2001. The approved amount is funded from the CHIP Fund. The approved amount is based on caseload growth of 19% in FY 2002 and an additional 19% in FY 2003, for a total of 42,732 member years in FY 2002 and 50,948 member years in FY 2003. The approved amount also assumes growth of 3.5% in both years for medical inflation

The approved amount reflects an increase of \$16,161,000 from FY 2002 to FY 2003 due to anticipated enrollment growth in that year. Because enrollment has been lower than originally projected for the FY 2000 – FY 2001 biennium, there are currently Tobacco Tax monies remaining in the CHIP Fund. The approved CHIP budget assumes that these remaining Tobacco Tax monies be used, in addition to the FY 2002 Tobacco Tax allocation, for the required CHIP state matching monies for FY 2002. Approximately \$9,100,000 in Tobacco Tax dollars is estimated to be remaining in the CHIP Fund at the end of FY 2001.

Enrollment in the CHIP program has been lower than anticipated over the FY 2000 and FY 2001 biennium.

Enrollment was originally estimated to be 45,635 member years in FY 2000; however actual enrollment was 23,839 members in FY 2000. In FY 2001, the original enrollment projection was 61,392 members; however, enrollment is currently being projected at 35,826 members. As noted above, the projections for FY 2002 and FY 2003 are 42,723 and 50,948 members respectively.

One factor contributing to the lagging CHIP enrollment is the large percentage of CHIP applicants that meet the income requirements of Title XIX AHCCCS coverage. The Title XIX AHCCCS program covers children under 1 year of age up to 140% FPL, children 1-6 up to 133% FPL, and children through age 17 at 100% FPL. Approximately one-half of the children who apply for the CHIP program are found to be eligible for Title XIX AHCCCS coverage.

Finger Imaging — This Special Line Item contains funding for the Finger Imaging program. The approved amount includes an increase of \$750,000 GF in both FY 2002 and FY 2003 above FY 2001 for costs associated with implementing a program that captures selected AHCCCS recipients' finger images at the point of enrollment. The approved amount is funded by the General Fund. However, if federal matching monies are received for the program, an amount equal to the federal dollars received for this program will revert to the General Fund.

Laws 2000, Chapter 378 appropriated \$200,000 GF in FY 2001 to provide funding for the design of a Finger Imaging Program as an eligibility requirement for AHCCCS participants (excluding children, the elderly, and pregnant women). While collecting selected AHCCCS recipients' finger images at the point of service (e.g., at pharmacies) was widely discussed, the final program design calls for capture of finger images at the time of enrollment only.

Navajo and Apache County Claims — This Special Line Item includes funding originally appropriated pursuant to Laws 1997, Chapter 7, 1st Special Session for outstanding medical claims for Apache and Navajo counties related to on-reservation Native Americans for FY 1996. Subsequent legislation has allowed for the appropriation to cover claims for additional fiscal years. The claims charged against this funding source for FY 2000 was \$742,800, of this amount \$202,800 was for Apache County claims and \$540,000 was for Navajo County claims.

Additional Appropriations: Tobacco Tax Allocation: Detoxification Services (Chapter 374) — This legislation appropriates \$7,000,000 from the Medically Needy Account of the Tobacco Tax and Healthcare Fund in FY 2002 for Healthcare Group reinsurance. (Please see *Healthcare Group Special Line Item* for background information on this issue).

Additional Legislation: Children's Insurance; Outreach; Hardship Exemption (Chapter 360) — This legislation expands the CHIP benefit package to include non-emergency transportation services. In addition, the legislation specifies that the behavioral health services provided to CHIP enrollees is to be the same as the least restrictive behavioral health service option offered to state employees. The legislation also changes the period of time that an enrollee must be without health coverage in order to be eligible for CHIP (often referred to as the “bare provision”). Previously, this period had been 6 months; however, Chapter 360, changes the “bare” period to 3 months and further stipulates that the “bare” period is waived for children who are chronically ill. Finally, the legislation directs AHCCCS to develop criteria for granting a hardship exemption for CHIP enrollees who are unable to afford the monthly premium. The JLBC Staff estimates that these provisions will result in an impact to the CHIP Fund of approximately \$1,225,100 in FY 2002 and \$1,439,400 in FY 2003.

AHCCCS; Eligibility; Programs (Chapter 385) — This legislation amended the footnotes in the General Appropriation Act by adding a footnote specifying that AHCCCS is exempt from rule making requirements for the purposes of implementing the Finger Imaging Program. In addition, AHCCCS is directed to hold public hearings to receive comments on the proposed rules.

Other Issues: State of Hawaii Agreement — Laws 1999, Chapter 313 established a mechanism for AHCCCS to enter into agreements with other states to design, develop, install, and operate information systems on other states behalf. In September 1998, AHCCCS entered into an agreement with the State of Hawaii to develop and manage their Medicaid information system. In return, AHCCCS is compensated for all associated direct and indirect costs, and in addition, they may realize cost savings as a result of the agreement. The enabling legislation specifies that cost savings generated from the agreement are to be used to supplement existing funding for: 1) employee recruitment and retention efforts; and, 2) technology upgrades used in the operation of the system. Chapter 313 further specifies that the JLBC or the Office of Strategic Planning and Budgeting cannot recommend using the cost savings realized from this agreement to supplant existing monies appropriated to the agency.

Chapter 313 included a requirement to report by January 1 of each year on the status of specific projects, the financial status of the project(s), and a description of any personnel initiatives that are initiated with monies received as a result of an agreement. The General Appropriation Act contains a footnote requiring the inclusion of information on the agency’s use of the cost savings that result from entering into an agreement with another state in the annual report on this issue. In addition, AHCCCS is to include detail on the source of all revenues and the expenditure of monies from the Intergovernmental Service Fund.

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