

Arizona Health Care Cost Containment System
Acute Care

A.R.S. § 36-2901

		FY 2001	FY 2002	FY 2003
		Actual	Estimate	Approved
OPERATING BUDGET				
Capitation	(SM)	424,892,200	363,572,500	420,189,900
	(TF)	1,098,257,200	1,018,890,700	1,227,413,500
Fee-For-Service	(SM)	64,721,100	66,750,400	57,205,400
	(TF)	280,616,400	316,959,400	298,037,700
Reinsurance	(SM)	25,233,200	20,169,900	21,714,900
	(TF)	58,477,900	57,909,500	68,795,900
Medicare Premiums	(SM)	9,996,200	9,315,500	9,712,100
	(TF)	30,151,000	33,454,100	36,696,700
Disproportionate Share Payments	(SM)	36,914,500	33,157,500	59,757,200 ^{1/2/}
	(TF)	104,508,900	94,681,600	179,651,100 ^{1/2/}
Graduate Medical Education	(SM)	7,766,700	6,508,500	6,490,400
	(TF)	18,289,800	21,683,200	22,528,100
Critical Access Hospitals	(SM)	0	91,900	591,900
	(TF)	0	1,700,000	1,700,000
Breast and Cervical Cancer	(SM)	0	1,300,000	1,300,000
	(TF)	0	2,109,200	2,275,000
Ticket to Work	(SM)	0	91,000	1,000,000
	(TF)	0	560,800	1,346,400
SUBTOTAL	(SM)	569,523,900	500,957,200	577,961,800
	(TF)	1,590,301,200	1,547,948,500	1,838,444,400
Additional Appropriations -				
Health; Budget Reconciliation;	(SM)	0	0	233,300
2002-2003 (Ch. 329)	(TF)	0	0	466,700
TOTAL APPROPRIATIONS	(SM)	569,523,900	500,957,200	578,195,100
	(TF)	1,590,301,200	1,547,948,500	1,838,911,100 ^{3/4/5/6/}
FUND SOURCES				
General Fund		420,479,200	339,622,600	463,463,600
<u>Other Appropriated Funds</u>				
Tobacco Tax Funds		62,558,100	46,038,400	47,847,300
Medical Services Stabilization Fund		18,700,100	44,813,200	0
Third Party Collections		882,000	291,500	194,700
County Funds		66,905,500	70,191,500	73,189,500
Federal Title XIX Funds		1,020,776,300	1,046,991,300	1,254,216,000
<i>Subtotal - Other Appropriated Funds</i>		<u>1,169,822,000</u>	<u>1,208,325,900</u>	<u>1,375,447,500</u>
TOTAL APPROPRIATIONS		1,590,301,200	1,547,948,500	1,838,911,100

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.*

PERFORMANCE MEASURES	FY 1999	FY 2000	FY 2001	FY 2002-03
	Est./Actual	Est./Actual	Est./Actual	Estimate
• % of 2-year-old children enrolled in AHCCCS who have received age appropriate immunizations	85/75	90/78	80/79.1	83
• % of well child visits in the first 15 months of life (EPSDT)	70/70	75/70	71/70.3	75
• % of children's access to primary care provider	75/74.9	78/78	80/72.9	83
• % of women receiving annual cervical screening	NA/24.9	35/33	40/33	46
• Member satisfaction as measured by percentage of enrollees that choose to change health plans	NA/3.5	4/3.5	4/2.9	4

Special Line Items

Capitation — Represents monthly payments made to health plans under contract with AHCCCS for the cost of care provided to enrolled members. 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.

The FY 2003 approved amount includes an increase of \$56,517,400 SM and \$208,522,800 TF above FY 2002. This approved amount incorporates the savings associated with eliminating coverage of circumcision for newborn males and reducing AHCCCS coverage for Transitional Medical Assistance (TMA) from 24 to 12 months.

Elimination of these programs results in FY 2003 savings of \$(300,000) GF and \$(600,000) GF respectively.

Estimated FY 2003 member years are shown in *Table 1*. The approved amounts include annual enrollment growth of 16% in FY 2003. The FY 2003 appropriation includes funding for inflationary growth of 5.2%. The capitation rates shown in *Table 1* are estimated averages of regular capitation rates.

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. There are 3 primary Fee-for-Service programs. Temporary Fee-for-Service coverage is provided for those who later are enrolled in a capitated plan. Services provided to Native Americans living on reservation are also reimbursed on a Fee-for-Service basis.

- 1/ The FY 2003 Disproportionate Share Payment of \$179,651,100 is based on federal FY 2003 authorized expenditure level of \$119,893,900. 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 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)
- 2/ The appropriation for Disproportionate Share Payments for FY 2003 made pursuant to A.R.S. § 36-2903.01P, includes \$125,179,900 for qualifying county operated hospitals, \$25,996,300 for private qualifying disproportionate share hospitals and \$28,474,900 for deposit in the Arizona State Hospital Fund. (General Appropriation Act footnote)
- 3/ Of the \$1,838,911,100 expenditure authority for Acute Care in FY 2003, \$463,463,600 is appropriated from the state General Fund and \$500,000 is appropriated from the Medically Needy Account of the Tobacco Tax and Healthcare Fund. (General Appropriation Act footnote, as adjusted for additional appropriations)
- 4/ 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 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)
- 5/ Before implementation of any changes in capitation rates, 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/ General Appropriation Act (Laws 2002, Chapter 327) funds are appropriated by Special Line Items for the Program.

Finally, emergency services are provided for those who are undocumented immigrants on a Fee-for-Service basis. The federal government shares in the cost of care for categorically linked undocumented immigrants at the federal matching percentage rate (FMAP). However, non-categorically linked undocumented immigrants are ineligible for federal funding. Therefore, direct reimbursement for this population is only provided for care received by a doctor or at a clinic with 100% state funds. Hospital care for this population is not directly reimbursed.

The FY 2003 approved amount includes a decrease of \$(9,545,000) SM and \$(18,921,700) TF below FY 2002. This provides for medical inflation of 3%.

<u>Federally-Eligible Rate Codes</u>	FY 2003 Member Years^{1/}	FY 2003 Capitation Rates^{2/}
TANF < 1	45,216	\$356.01
TANF 1-13	258,141	82.53
TANF 14-44 Female	100,755	141.51
TANF 14-44 Male	41,548	107.54
TANF 45+	7,611	298.49
SSI w/ Medicare	25,897	202.80
SSI w/o Medicare	49,615	398.32
Family Planning	<u>17,399</u>	21.30
Total	546,182	
Deliveries	25,320 ^{3/}	\$5,044.24

^{1/} Member years are calculated as projected regular member months divided by 12 and do not necessarily indicate actual number of clients enrolled.

^{2/} Capitation rates are set on a Contract Year (CY) basis, which is from October 1 through September 30. For FY 2003, the rates reflect 1 quarter at the CY 2002 level and 3 quarters at the CY 2003 level.

^{3/} This is the projection of actual birth deliveries to be made by enrollees in AHCCCS health plans.

Reinsurance — These payments supplement capitation in catastrophic cases. Such payments are made to AHCCCS health plans after the negotiated deductible level is reached and have the effect of reimbursing health plans for extraordinary costs not reflected in the capitation rate. The FY 2003 approved amount includes an increase of \$1,545,000 SM and \$10,886,400 TF above FY 2002. This provides for medical inflation of 3%.

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. Purchasing supplemental coverage reduces state expenditures since the federal Medicare program absorbs a portion of the costs. In addition, the line includes the costs of payment of Part A premium costs for certain disabled workers. The line item also includes funding for low-income Qualified Medicare Beneficiaries. Finally, the line item includes funding for the 100% federally funded Medicare Part B buy-in program. The FY 2003 approved amount includes

an increase of \$396,600 GF and \$3,242,600 TF above FY 2002. This provides for medical inflation of 3%.

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, or "pools", that include county, state, and private hospitals. *Table 2* presents the allocation of FY 2003 Disproportionate Share funding.

	<u>FY 2003</u>
County-Operated Hospitals	\$125,179,900
Arizona State Hospital	28,474,900
Private Hospital	<u>25,996,300</u>
Total	\$179,651,100

Of the total County allocation, \$4,353,700 is provided directly to the counties for uncompensated care. The remainder of the allocation is recouped by the state through county Transaction Privilege Tax revenue to reimburse the state for indigent health care costs. The total private hospital allocation consists of 2 pools. The first allocates \$15,150,000 based on private hospitals' level of care provided to Medicaid clients and/or the level of low-income clients served. The second pool allocates \$10,846,300 among private hospitals as compensation for uncompensated care.

The FY 2003 approved amount includes an increase of \$26,715,400 GF and \$84,969,500 TF above FY 2002. Of this amount, \$21,120,800 GF and \$61,677,200 TF is associated with the Executive's revision to the calculation methodology used to determine the total DSH allotment.

Graduate Medical Education — The Graduate Medical Education program reimburses 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 FY 2003 approved amount includes a decrease of \$(18,100) GF below FY 2002 and an increase of \$844,900 TF above FY 2002.

Critical Access Hospitals — The Critical Access Hospital program provides increased reimbursement to small rural hospitals that are federally designated as critical access hospitals. The FY 2003 approved amount includes an increase of \$500,000 GF above FY 2002.

Breast and Cervical Cancer — The Breast and Cervical Cancer program provides treatment to women who have been diagnosed with breast and/or cervical cancer through the Well-Woman Healthcheck Program administered by the Department of Health Services (DHS). The approved amount continues funding at the FY 2002 level.

Ticket to Work — The Ticket to Work program is designed to improve access to employment training and placement for individuals with disabilities who want to work. The approved amount includes an increase from the Medically Needy Account of the Tobacco Tax and Health Care Fund of \$409,000, an increase of \$500,000 GF, and an increase of \$785,600 TF above FY 2002.

Additional Appropriation: Health; Budget Reconciliation; 2002-2003 (Chapter 329) — Appropriates \$233,300 GF and \$700,000 TF for potential coverage of SOBRA women from 133% to 140% under Title XIX. As part of the HIFA II waiver implementation, the SOBRA women eligibility was reduced; however, if the HIFA II enrollment cap of 21,250 enrollees is reached, the SOBRA Title XIX eligibility level would be brought back up to the original level of 140% FPL.

Additional Legislation: Health; Budget Reconciliation; 2002-2003 (Chapter 329) — Repeals the FY 2003 Budget Neutrality Compliance Fund deposit of \$109,883,800 as these monies are now part of the General Appropriation Act. Repeals the FY 2003 \$5,467,000 repayment from the General Fund to the Medical Services Stabilization Fund. Repeals the FY 2003 \$3,500,000 General Fund appropriation to the Disproportionate Uncompensated Care (DUC) pool. Redirects the FY 2002 and FY 2003 county contributions to the DUC pool for use as AHCCCS state-match funding. Authorizes the withholding of \$125,179,900 in county Transaction Privilege Tax revenue to reimburse the state for indigent health care costs.

Other Issues: Tobacco Tax Allocations in the AHCCCS Program — The Health; Budget Reconciliation; 2002-2003 (Chapter 329) allocates \$47,847,300 from the Medically Needy Account of the Tobacco Tax and Healthcare Fund to Acute Care services. Of this allocation, \$500,000 is a direct appropriation for the Ticket to Work program, \$31,445,300 is allocated to Title XIX services as state match funding, \$10,000,000 provides state matching monies for hospital reimbursement, \$4,552,400 funds the 48-hour maternity length of stay mandate, and \$1,349,600 continues funding for HIV/AIDS medications.

Chapter 329 also provides \$10,500,000 in FY 2003 from the Medically Needy Account of the Tobacco Tax and Healthcare Fund for the Premium Sharing Program (PSP). Program enrollment in PSP is capped at the approved expenditure level. The approved program reduces eligibility from 250% to 200% FPL for new enrollees, though grandfathers in current enrollees at 250% FPL and retains the 400% FPL eligibility limit for chronically ill

enrollees. Those PSP enrollees with children from 100% to 200% FPL enrolled as of October 1, 2002, are transferred to the CHIP program under the Health Insurance Flexibility and Accountability Act (HIFA) expansion (*see CHIP Parents discussion in the Administration section for additional detail*). Finally, the approved PSP will sunset on September 30, 2004. For additional detail on expenditures, please see the Premium Sharing Fund table, which is included with the other Tobacco Tax charts in the Summary section.

Medical Services Stabilization Fund Shift — The FY 2003 approved amount for the Acute Care program reflects a decrease of \$(44,813,200) from the Medical Services Stabilization Fund from the FY 2002 level to reflect the elimination of a one-time appropriation from the fund for Title XIX services and state only-emergency services.

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