

**Arizona Health Care Cost Containment System**  
**Acute Care**

A.R.S. § 36-2901

		<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>
		<b>Actual</b>	<b>Estimate</b>	<b>Approved</b>
<b>OPERATING BUDGET</b>				
Capitation	(SM)	353,263,700	396,663,100	439,707,800
	(TF)	1,015,221,100	1,192,628,300	1,343,760,300
Fee-For-Service	(SM)	57,304,600	64,842,600	71,875,400
	(TF)	269,598,100	324,831,300	358,836,300
Reinsurance	(SM)	16,471,200	21,867,000	25,873,300
	(TF)	49,689,600	65,632,100	79,002,300
Medicare Premiums	(SM)	9,487,500	9,712,100	12,734,300
	(TF)	29,093,900	36,696,700	38,883,400
Disproportionate Share Payments	(SM)	30,685,900	59,757,200	44,810,200 <sup>1/2/</sup>
	(TF)	87,623,900	179,651,100	136,866,800 <sup>1/2/</sup>
Graduate Medical Education	(SM)	6,508,500	6,490,400	6,706,200
	(TF)	18,585,000	22,528,100	20,476,900
Critical Access Hospitals	(SM)	65,100	591,900	591,900
	(TF)	186,000	1,700,000	1,700,000
Breast and Cervical Cancer	(SM)	3,700	1,300,000	1,292,400
	(TF)	14,300	2,275,000	2,646,900
Ticket to Work	(SM)	0	1,000,000	974,600
	(TF)	0	1,346,400	2,903,200
<b>PROGRAM TOTAL</b>	<b>(SM)</b>	<b>473,790,200</b>	<b>562,224,300</b>	<b>604,566,100</b>
	<b>(TF)</b>	<b>1,470,011,900</b>	<b>1,827,289,000</b>	<b>1,985,076,100<sup>3/4/5/6/</sup></b>
<b>FUND SOURCES</b>				
General Fund		313,589,000	428,894,200	471,736,000
<u>Other Appropriated Funds</u>				
Medically Needy Account		45,457,000 <sup>7/</sup>	59,945,900 <sup>8/</sup>	59,445,900
SUBTOTAL - Other Appropriated Funds		45,457,000	59,945,900	59,445,900
<u>Other Expenditure Authority Funds</u>				
Federal Title XIX Funds		996,221,700	1,265,064,700	1,380,510,000 <sup>2/</sup>
Medical Services Stabilization Fund		43,984,000	0	0
County Funds		70,191,500	73,189,500	73,189,500 <sup>2/</sup>
Third Party Collections		568,700	194,700	194,700 <sup>2/</sup>
SUBTOTAL - Other Expenditure Authority Funds		1,110,965,900	1,338,448,900	1,453,894,200
<b>PROGRAM TOTAL</b>		<b>1,470,011,900</b>	<b>1,827,289,000</b>	<b>1,985,076,100</b>

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

<sup>1/</sup> The FY 2004 Disproportionate Share Payment of \$136,866,800 is based on the federal FY 2004 authorized expenditure level of \$92,056,600. 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 the 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)

<sup>2/</sup> The appropriation for Disproportionate Share Payments for FY 2004 made pursuant to A.R.S. § 36-2903.01P includes \$82,244,200 for qualifying county operated hospitals, \$26,147,700 for private qualifying disproportionate share hospitals and \$28,474,900 for deposit in the Arizona State Hospital Fund. (General Appropriation Act footnote)

<sup>3/</sup> Of the \$1,985,076,100 expenditure authority for Acute Care in FY 2004, \$471,736,000 is appropriated from the state General Fund and \$59,445,900 is appropriated from the Tobacco Tax and Health Care Fund Medically Needy Account. (General Appropriation Act footnote)

<sup>4/</sup> 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 2004, the Arizona Health Care Cost Containment System Administration shall report its expenditure plan to the Joint Legislative Budget Committee for review. (General Appropriation Act footnote)

<sup>5/</sup> Before implementation of any changes in capitation rates, the Arizona Health Care Cost Containment System Administration shall report its expenditure plan to the Joint Legislative Budget Committee for review. (General Appropriation Act footnote)

<sup>6/</sup> General Appropriation Act funds are appropriated by Special Line Items by Program.

<sup>7/</sup> These amounts are included in total expenditure authority.

<sup>8/</sup> In FY 2003 \$500,000 from the Medically Needy Account was directly appropriated for the Ticket to Work Program, the remaining monies in FY 2003 are non-appropriated and are included in total expenditure authority.

**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. 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 2002	FY 2002	FY 2003	FY 2004
	Appropriation	Actual	Appropriation	Appropriation
• % of 2-year-old children enrolled in AHCCCS who have received age appropriate immunizations	83	79	83	83
• % of well child visits in the first 15 months of life (EPSDT)	75	58	75	75
• % of children's access to primary care provider	83	75	83	83
• % of women receiving annual cervical screening	46	NA	46	46
• Member satisfaction as measured by percentage of enrollees that choose to change health plans	4	4	4	4

**Comment:** The agency did not submit information for any measure labeled as "NA."

**Federal Match Rate Change** — The Federal Jobs and Growth Tax Relief Reconciliation Act of 2003 included a temporary increase of 2.95% to federal matching assistance percentage (FMAP). Savings as a result of this increase are reflected in the AHCCCS Summary section, and are not included above. This FMAP change will produce savings in the Capitation and Reinsurance Special Line Items. *(See the AHCCCS Summary for a more detailed discussion.)*

**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, by each of the AHCCCS rate codes, of the medical services utilization and costs incurred.

The approved amount includes an increase of \$43,044,700 SM and \$151,132,000 TF above FY 2003. This includes the following adjustments from the FY 2003 appropriation:

- \$42,970,800 SM and \$150,911,400 TF for annual enrollment growth of approximately 5.8% (from June 2003 to June 2004) and for inflationary growth of 5.0% above FY 2003. Estimated FY 2004 member years are shown in *Table 1*. The capitation rates shown in *Table 1* are estimated averages of regular capitation rates.
- \$(5,600,000) SM and \$(17,103,100) TF due to shortening the redetermination period from 1 year to 6 months. The Health Omnibus Reconciliation Bill

(ORB) (Laws 2003, Chapter 265) directs that continued AHCCCS eligibility be determined every 6 months, rather than 12 months. *(See the Additional Legislation section in the AHCCCS Summary for more information.)*

- \$(499,000) SM and \$(1,524,000) TF for increasing the co-payment amounts charged to members. The Health ORB contains provisions allowing AHCCCS increase the current co-payment amounts charged to AHCCCS members. *(See the Additional Legislation section in the AHCCCS Summary for more information.)*
- \$(1,200,000) SM and \$(3,665,000) TF for the elimination of funding for emergency dental care for adult AHCCCS members. The Health ORB provision that eliminated the statutory authority for this coverage was line-item vetoed by the Governor; however, additional funding was not added. This Appropriations Report has incorporated a reference to the veto without making an assessment of its legality. As of this writing, there is pending litigation concerning the legality of this particular veto. *(See the Vetoes section in the AHCCCS Summary for more information.)*
- \$7,372,900 SM and \$22,512,700 TF for expected capitation rate increases as a result of the elimination of the Medicaid Special Exemption to the 2.0% insurance premium tax. Laws 2003, Chapter 136 eliminated the exemption to the statewide insurance provider tax that applied to AHCCCS contractors. *(See the Additional Legislation section in the AHCCCS Summary for more information.)*

**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: 1) temporary Fee-for-Service coverage for those who later enroll in a capitated plan; 2) services provided to Native Americans living on-reservation; and, 3) emergency

services provided for those who are undocumented immigrants. 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, and no state funding has been provided in FY 2004. Hospital care for this population is not directly reimbursed.

The approved amount includes an increase of \$11,832,800 SM and \$34,005,000 TF above FY 2003 for enrollment growth and inflationary growth. Expected enrollment growth varies by population within the Fee-for-Service program, with the most significant growth rates being approximately 7.7% for the Native American population and 9.7% for the Emergency Services Program. Inflationary growth rates range from 3%-4%, depending on whether services are provided on an in-patient or out-patient basis. The approved amount also includes a General Fund reduction of \$(4,800,000) for the elimination of reimbursement funding for doctors and clinics serving undocumented immigrants who are ineligible for the federally matched portion of the Fee-for-Service program.

<u>Federally-Eligible Rate Codes</u>	<u>FY 2004 Member Years</u> <sup>1/</sup>	<u>FY 2004 Capitation Rates</u> <sup>2/</sup>
TANF < 1	48,047	\$364.88
TANF 1-13	266,920	84.43
TANF 14-44 Female	104,775	152.49
TANF 14-44 Male	41,917	108.86
TANF 45+	7,777	298.34
SSI w/ Medicare	25,306	204.64
SSI w/o Medicare	47,543	425.15
Family Planning	<u>8,638</u>	21.25
<b>Total</b>	<b>550,923</b>	
Deliveries	25,912 <sup>3/</sup>	\$5,230.54

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 2004, the rates reflect 1 quarter at the CY 2003 level and 3 quarters at the CY 2004 level.

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

There was also a Health ORB provision eliminating the statutory authority for this program. The Governor line item vetoed this provision. The Governor later communicated that this veto was in error.

**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 approved amount includes General Fund and Total Funds

increases of \$4,006,300 and \$13,370,200 above FY 2003, respectively, for caseload and inflationary growth consistent with rates for the Capitation line item (5.8% and 5.0%, respectively). The approved amount also includes General Fund and Total Funds increases of \$406,800 and \$1,242,100, respectively, for expected capitation rate increases as a result of the elimination of the Medicaid Special Exemption of the Insurance Premium Tax. (See the *Additional Legislation* section in the *AHCCCS Summary for more information.*)

**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 item 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 approved amount includes General Fund and Total Funds increases of \$3,022,200 and \$2,186,700 above FY 2003, respectively, for expected enrollment growth of approximately 7.3% and medical inflation of 3% (Part A) and 8.95% (Part B).

**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 Disproportionate Share funding.

	<u>FY 2003</u>	<u>FY 2004</u>
County-Operated Hospitals	\$125,179,900	\$82,244,200
Arizona State Hospital	28,474,900	28,474,900
Private Hospital	<u>25,996,300</u>	<u>26,147,700</u>
<b>Total</b>	<b>\$179,651,100</b>	<b>\$136,866,800</b>

Of the total County Operated Hospital allocation, \$4,202,300 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 \$10,997,700 among private hospitals as compensation for uncompensated care.

The FY 2004 approved amount includes General Fund and Total Funds decreases of \$(14,947,000) and \$(42,784,300) below FY 2003, respectively. This reduction is due to a reduction in the amount of federal matching money available, from \$119,893,900 in FY 2003 to \$92,056,600 in FY 2004.

**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 approved amount includes a General Fund increase of \$215,800 above FY 2003 and Total Funds decrease of \$(2,051,200) below FY 2003. These changes are to reconcile the split between state and federal funds to the expected federal match rate for FY 2004.

**Critical Access Hospitals** — The Critical Access Hospital program provides increased reimbursement to small rural hospitals that are federally designated as critical access hospitals. The approved amount continues funding at the FY 2003 level.

**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 includes a General Fund decrease of \$(7,600) below and Total Funds increase of \$371,900 above FY 2003, respectively, for expected enrollment growth and more federal matching monies.

**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. In FY 2003, a portion of the State Match amount was paid for with Medically Needy Account monies; however, in FY 2004 the entire State Match is paid for using General Fund monies. The approved amount includes a State Match decrease of \$(25,400) below and Total Funds increase of \$1,556,800 above FY 2003, respectively, for expected enrollment growth and more federal matching monies.

**Additional Legislation** — Please see the AHCCCS Summary section for information on additional legislation.

**Veto**es — Please see the AHCCCS Summary section for information on vetoes.

**Other Issues:** Tobacco Tax Allocations in the AHCCCS Program — In previous years, the Health Omnibus Reconciliation Bill (ORB) would contain allocations of tobacco tax monies from the Medically Needy Account. In FY 2004, \$59,445,900 is, instead, appropriated from the

Medically Needy Account in the General Appropriation Act for state match in the Acute Care program. The FY 2004 Health ORB repealed statutes governing the distribution of Medically Needy Account monies, however, the Governor vetoed the provision that would have converted the Medically Needy Account to appropriated status. The veto does not affect the FY 2004 appropriation. (*See the Vetoes section in the AHCCCS Summary for more information.*)

The Medically Needy Account allocation has historically contained the following allocations for specific purposes in the Acute Care program: \$10,000,000 for state matching monies for hospital reimbursement, \$4,552,400 to fund the 48-hour maternity length of stay mandate, and \$1,349,600 to fund HIV/AIDS medications. These allocations are not specifically delineated in FY 2004, however, funding for these purposes is assumed to be included in the \$59,445,900 Medically Needy Account appropriation.

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