

**Arizona Health Care Cost Containment System**  
**Summary**

A.R.S. § 36-2901

Director: Anthony D. Rodgers

JLBC Analyst: Stefan Shepherd

	<b>FY 2004 Actual</b>	<b>FY 2005 Estimate</b>	<b>FY 2006 Approved</b>
<b>PROGRAM BUDGET</b>			
Administration	156,501,300	172,744,800	173,654,100
Acute Care	3,000,025,100	3,530,020,000 <sup>1/</sup>	3,835,822,200
Long-Term Care	793,693,600	893,316,200	999,657,100
<b>AGENCY TOTAL</b>	<b>3,950,220,000</b>	<b>4,596,081,000</b>	<b>5,009,133,400</b>
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	3,112.8	3,087.8	3,096.8 <sup>2/</sup>
Personal Services	30,993,300	34,545,900	35,330,200
Employee Related Expenditures	9,681,000	11,027,300	12,943,300
Professional and Outside Services	3,210,200	3,077,100	3,077,100
Travel - In State	83,900	232,100	232,100
Travel - Out of State	13,600	29,600	29,600
Other Operating Expenditures	8,883,200	11,099,900	10,523,600
Equipment	3,030,400	2,409,900	964,900
<b>OPERATING SUBTOTAL</b>	<b>55,895,600</b>	<b>62,421,800</b>	<b>63,100,800</b>
Special Line Items (SLI)	3,894,324,400	4,533,659,200	4,946,032,600
<b>AGENCY TOTAL</b>	<b>3,950,220,000</b>	<b>4,596,081,000</b>	<b>5,009,133,400<sup>3/</sup></b>
<b>FUND SOURCES</b>			
General Fund	674,230,000	914,131,300	1,035,090,900
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	5,324,600	5,566,700	2,395,400
Children's Health Insurance Program Fund	83,448,000	92,282,500	102,779,200
County Contribution Fund	7,451,700	7,446,500	0
Donations Fund	1,745,500	0	0
Healthcare Group Fund	0	3,207,400	3,602,000
Risk Management Fund	268,900	0	0
TPTF Emergency Health Services Account	26,222,800	27,199,900	27,922,900
TTHCF Medically Needy Account	77,857,100	80,610,900	79,128,800
SUBTOTAL - Other Appropriated Funds	202,318,600	216,313,900	215,828,300
<b>SUBTOTAL - Appropriated Funds</b>	<b>876,548,600</b>	<b>1,130,445,200</b>	<b>5,009,133,400</b>
<u>Expenditure Authority Funds</u>			
County Funds	246,748,700	279,570,000	281,373,800
Federal Title XIX Funds	2,589,655,500	3,005,712,900	3,246,280,400
Federal Title XXI Funds	135,918,800	77,960,500	82,174,100
Third Party Collections	1,233,600	194,700	194,700
Tobacco Settlement Fund	45,047,000	43,494,600	89,553,200
TPTF Proposition 204 Protection Account	55,067,800	58,703,100	58,638,000
SUBTOTAL - Expenditure Authority Funds	3,073,671,400	3,465,635,800	3,758,214,200
<b>SUBTOTAL - Appropriated/Expenditure Authority Funds</b>	<b>3,950,220,000</b>	<b>4,596,081,000</b>	<b>5,009,133,400</b>
Other Non-Appropriated Funds	55,181,000	68,173,300	84,608,200
Federal Funds	57,071,800	59,421,500	63,367,200
<b>TOTAL - ALL SOURCES</b>	<b>4,062,472,800</b>	<b>4,512,918,800</b>	<b>5,157,108,800</b>

<sup>1/</sup> Laws 2005, Chapter 3 appropriated \$53,210,000 GF, \$12,801,000 OF, and \$144,746,000 EA for revised caseload estimates in the Traditional Medicaid, Proposition 204, and KidsCare populations. See narrative for more details.

<sup>2/</sup> Includes 913 GF, 172 OF, and 916.5 EA FTE Positions funded from Special Line Items in FY 2006.

<sup>3/</sup> General Appropriation Act appropriation format varies by program.

**AGENCY DESCRIPTION** — The Arizona Health Care Cost Containment System (AHCCCS) is Arizona’s alternative to a traditional fee-for-service Medicaid system. Started in 1982, AHCCCS operates on a health maintenance organization model in which contracted providers receive a predetermined monthly capitation payment for the medical services cost of enrolled members. AHCCCS members gain eligibility through a variety of federal and state programs. In some cases, eligibility based on federal programs is tied to the applicant also being eligible for a cash assistance program, such as Supplemental Security Income (SSI). Although another cash assistance program, Aid to Families with Dependent Children (AFDC), was replaced and its automatic link to eligibility severed, citizens who meet AFDC eligibility criteria as of July 16, 1996 remain eligible for AHCCCS. Low-income pregnant women and children can qualify under a federal “medical assistance only” category. Individuals not qualifying under one of these programs, but with incomes below 100% of the Federal Poverty Level (FPL), can qualify for health coverage under Proposition 204. In addition to an acute medical services program, AHCCCS also operates the Arizona Long-Term Care System (ALTCS), a Medicaid program that provides long-term nursing care in nursing facilities or home and community based settings.

**PERFORMANCE MEASURES**

- % of people under age 65 that are uninsured

	FY 2003 Actual	FY 2004 Actual	FY 2006 Approved
	NA	NA	24

**Comments:** The agency did not submit information for any measure labeled as “NA.”

**Additional Legislation**

***FY 2005 Supplemental***

The FY 2005 supplemental bill (Laws 2005, Chapter 3) appropriates \$210,757,000 for revised caseload estimates in the Traditional Medicaid, Proposition 204, and KidsCare populations. This amount consists of the following adjustments:

General Fund	53,210,000
CHIP Fund	9,352,300
Proposition 204 Protection Acct.	4,461,300
Medically Needy Account	2,078,300
Emergency Health Services Account	1,370,400
Federal Expenditure Authority	140,284,700

These supplementals are discussed further in the Acute Care narrative. The number table at the beginning of this section has been updated to reflect the supplemental appropriations.

***Medicare Modernization Act***

The Medicare Prescription Drug Improvement and Modernization Act of 2003 (MMA) includes several provisions that will affect state Medicaid programs, including, but not limited to, the following:

- Beginning January 1, 2006, the MMA shifts responsibility for prescription drug costs for those who are eligible for both Medicare and Medicaid (“dual-eligibles”) from state Medicaid programs to Medicare. This provision will result in capitation rate savings in the Acute Care and ALTCS sections, as AHCCCS will no longer be responsible for prescription costs for these members.
- States will be required to make “clawback” payments to Medicare. In order to offset the increased cost to Medicare, states will be required to make payments to

Medicare based on a percent of what they would have otherwise spent on prescriptions for dual-eligibles; in FY 2006, this “clawback” percent will be 90%. This provision will result in additional costs to AHCCCS, in both the Acute Care and ALTCS sections, that should be comparable (though not necessarily equal) to the savings associated with transferring prescription coverage for this population to Medicare. Preliminary estimates indicate that these “clawback” payments could total approximately \$34 million in FY 2006 between the Acute Care and ALTCS programs.

- State Medicaid programs will be responsible for administering the low-income subsidy included in the MMA. State Medicaid agencies and the Social Security Administration will be responsible for determining eligibility for the low-income subsidy that will be provided through Medicare. This requirement may result in additional administrative costs for AHCCCS, and the agency requested \$683,300 from the General Fund in FY 2006 for this purpose. This funding, however, has not been added as it is difficult to estimate participation in advance.
- States will be required to screen Medicare beneficiaries seeking the low-income subsidy to determine if they are eligible for Medicaid, and to offer enrollment if they are eligible. This requirement may produce “woodwork” effects increasing AHCCCS enrollment in the Acute Care and ALTCS programs.
- States will have options to fill-in gaps in the Medicare coverage. Dual-eligibles receiving prescriptions through Medicare will be required to make \$1-\$3 co-payments for prescriptions drugs (no co-payments are required under Medicaid). States may choose to subsidize these co-payments using 100% state funds. AHCCCS requested \$2,585,500 from the General Fund in FY 2006 for this purpose but did not receive an appropriation for it. States may also fund

prescriptions that are not covered through the new Medicare benefit by using 100% state funds.

Details surrounding these and other provisions of the MMA are still being finalized. Therefore, the specific effect the MMA will have on Arizona and AHCCCS is unknown at this point.

**Maricopa County Budget Shift**

As part of the overall FY 2006 budget, Maricopa County agreed to retain responsibility for adult probation costs in FY 2006. Maricopa County had originally assumed these responsibilities from the state in FY 2004 and FY 2005. As part of the FY 2006 budget, the state has reduced other Maricopa County costs by approximately \$22 million, shifting the costs of those reductions onto the General Fund.

The costs are detailed below in *Table 1*. Please see the AHCCCS cost centers narratives.

<b><u>Provision</u></b>	<b><u>GF Cost</u></b>
Restore FY 2003 ALTCS Shift	\$ 6,500,000
Eliminate "DUC Pool" Contribution (AHCCCS Acute Care)	3,853,800
Eliminate Prop 204 Administrative Contribution	3,488,600
Reduce AHCCCS Acute Care Contribution (with inflator)	<u>6,700,000</u>
<b>Total</b>	<b>\$20,542,400<sup>1/</sup></b>

<sup>1/</sup> In addition, Maricopa County's share of probation surcharge funding will increase by \$1.7 million, thereby resulting in a total gain to the county of \$22.2 million.

<b>Tobacco Tax and Health Care Fund and Tobacco Products Tax Fund</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Estimate</b>	<b>FY 2006 Approved</b>
<b>Medically Needy Account</b>			
<u>Funds Available</u>			
Balance Forward	\$ 3,591,900	\$ 0	\$ 0
Transfer In - Tobacco Tax and Health Care Fund	70,167,800	69,749,900	71,703,900
Transfer In - Tobacco Products Tax Fund	37,564,700	40,604,000	41,783,300
Interest and Revertments	(130,100)	781,800	566,400
<b>Total Funds Available</b>	<b>\$111,194,300</b>	<b>\$111,135,700</b>	<b>\$114,053,600</b>
<u>AHCCCS Allocations</u>			
<u>GF Offsets</u>			
Traditional Medicaid State Match Appropriation	59,445,900	60,069,800	54,807,100
Proposition 204 State Match	17,318,800	20,541,100	24,321,700
<u>Other AHCCCS Funding</u>			
Transplants	11,600	100,000	100,000
Adult Emergency Dental Care State Match	1,092,400	0	0
<b>Total AHCCCS Allocations</b>	<b>77,868,700</b>	<b>80,710,900</b>	<b>79,228,800</b>
<u>DHS Allocations</u>			
Behavioral Health GF Offset	28,297,600	29,424,800	30,424,800
DHS Health Crisis Fund	969,800	1,000,000	1,000,000
Alzheimer's Biotechnology	0	0	3,000,000
Licensure	0	0	200,000
Folid Acid	0	0	200,000
<b>Total DHS Allocations</b>	<b>29,267,400</b>	<b>30,424,800</b>	<b>34,824,800</b>
<b>Total AHCCCS/DHS Allocations</b>	<b>\$107,136,100</b>	<b>\$111,035,700</b>	<b>\$114,053,600</b>
<b>Administrative Adjustments</b>	<b>4,058,200</b>	<b>0</b>	<b>0</b>
<b>Balance Forward <sup>1/</sup></b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>AHCCCS Premium Sharing Fund</b>			
<u>Funds Available</u>			
Balance Forward	\$6,299,700	\$ 75,600	\$ 0
Interest Revenue	78,100	0	
Premiums Collected	74,100	0	
<b>Total Funds Available</b>	<b>\$6,451,900</b>	<b>\$ 75,600</b>	<b>\$ 0</b>
<u>Allocations:</u>			
Administrative Expenses	\$ 84,500	\$ 0	\$ 0
Services	6,291,800	75,600	0
<b>Balance Forward</b>	<b>\$ 75,600</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>AHCCCS Proposition 204 Protection Account</b>			
<u>Funds Available</u>			
Balance Forward	\$ 0	\$ 0	\$ 0
Transfer In - Tobacco Products Tax Fund	58,433,900	57,119,700	58,638,000
Transfer In - Emergency Health Services Account	0	1,583,400	0
Interest Revenue	21,900	0	0
<b>Total Funds Available</b>	<b>\$58,455,800</b>	<b>\$58,703,100</b>	<b>\$58,638,000</b>
<u>Allocations:</u>			
AHCCCS State Match	\$55,067,800	\$58,703,100	\$58,638,000
Administrative Adjustments	3,388,000	0	0
<b>Balance Forward</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

<sup>1/</sup> Actual balance will not be negative.

<b>Tobacco Tax and Health Care Fund and Tobacco Products Tax Fund (Continued)</b>	<b>FY 2004 Actual</b>	<b>FY 2005 Estimate</b>	<b>FY 2006 Approved</b>
<b><u>AHCCCS Emergency Health Services Account</u></b>			
<u>Funds Available</u>			
Balance Forward	\$ 0	\$ 0	\$ 0
Transfer In – Tobacco Products Tax Fund	27,825,700	27,199,900	27,922,900
Interest Revenue	46,900	0	0
<b>Total Funds Available</b>	<b>\$27,872,600</b>	<b>\$27,199,900</b>	<b>\$27,922,900</b>
<u>Allocations:</u>			
AHCCCS State Match	\$21,222,800	\$27,199,900	\$27,922,900
Trauma Center Appropriation	5,000,000	0	0
Administrative Adjustments	66,400	0	0
Transfer to Proposition 204 Protection Account	1,583,400	0	0
<b>Balance Forward</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>DHS Health Crisis Fund</b>			
<u>Funds Available</u>			
Balance Forward	\$ 30,200	\$ 204,600	\$ 0
Transfer In - AHCCCS Medically Needy Account	969,800	795,400	1,000,000
<b>Total Funds Available</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>
<u>Allocations:</u>			
Allocation	\$ 795,400	\$1,000,000	\$1,000,000
<b>Balance Forward</b>	<b>\$ 204,600</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>DHS Health Education Account</b>			
<u>Funds Available</u>			
Balance Forward	\$ 1,611,000	\$ 5,777,300	\$ 0
Transfer In - Tobacco Tax and Health Care Fund	22,996,400	22,917,800	23,431,700
Transfer In - Tobacco Products Tax Fund	2,782,600	3,998,400	4,104,700
Interest Revenue	51,500	163,500	137,700
<b>Total Funds Available</b>	<b>\$27,441,500</b>	<b>\$32,857,000</b>	<b>\$27,674,100</b>
<u>Allocations</u>			
DHS Operating	\$22,593,600	\$30,137,000	\$24,881,800
Leading Causes of Death - Prevention and Detection	370,300	2,720,000	2,792,300
Administrative Adjustments / Encumbrances	(1,299,700)	0	0
<b>Balance Forward</b>	<b>\$ 5,777,300</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>DHS Health Research Account</b>			
<u>Funds Available</u>			
Balance Forward	\$ 3,826,400	\$ 3,864,000	\$ 1,334,700
Transfer In - Tobacco Tax and Health Care Fund	4,999,100	4,982,100	5,093,800
Transfer In - Tobacco Products Tax Fund	6,956,400	7,077,400	7,265,500
Interest Revenue	58,500	79,600	68,500
<b>Total Funds Available</b>	<b>\$15,840,400</b>	<b>\$16,003,100</b>	<b>\$13,762,500</b>
<u>Allocations:</u>			
Disease Control Research Commission	\$ 5,476,400	\$ 5,970,300	\$ 5,970,300
Alzheimers	1,000,000	1,000,000	1,000,000
Biotechnology (Laws 2002, Ch. 186)	500,000	500,000	500,000
Biotechnology (Laws 2002, Ch. 320)	5,000,000	5,000,000	5,000,000
Administrative Adjustments	0	2,198,100	0
<b>Balance Forward</b>	<b>\$ 3,864,000</b>	<b>\$ 1,334,700</b>	<b>\$ 1,292,200</b>