Arizona Health Care Cost Containment System

Acute Care

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OSPB: David Reese

DESCRIPTION	FY 2004 ACTUAL	FY 2005 ESTIMATE	FY 2006 JLBC
SPECIAL LINE ITEMS			
Traditional Medicaid Population			
Capitation	1,441,184,300	1,540,768,200	1,838,529,100
Fee-For-Service	311,816,400	389,422,300	445,833,800
Medicare Premiums	45,396,300	53,267,200	56,769,400
Breast and Cervical Cancer	807,500	424,500	675,600
Ticket to Work	2,140,500	3,927,800	5,075,900
Proposition 204 Services			
Proposition 204 - Capitation	802,745,000	900,606,100	1,104,253,000
Proposition 204 - Fee-For-Service	96,895,200	148,924,300	168,121,600
Proposition 204 - Medicare Premiums	12,847,700	13,133,700	19,907,700
Proposition 204 - County Hold Harmless	4,825,600	4,825,600	4,825,600
KidsCare Services			
KidsCare - Children	70,288,300	69,291,700	82,448,600
KidsCare - Parents	29,972,500	30,026,700	0
Payments to Hospitals			
Disproportionate Share Payments	153,928,900	141,797,400	122,191,500
Graduate Medical Education	20,476,900	21,147,500	21,820,000
Critical Access Hospitals	1,700,000	1,700,000	1,700,000
Trauma Centers	5,000,000	0	0
PROGRAM TOTAL	**3,000,025,100**	**3,319,263,000**	**3,872,151,800**
FUND SOURCES			
General Fund	552,915,400	715,228,000	914,811,800
Other Appropriated Funds			
Children's Health Insurance Program Fund	77,582,500	76,545,600	64,690,000
TPTF Emergency Health Services Account	26,222,800	25,829,500	25,916,600
TTHCF Medically Needy Account	77,857,100	78,532,600	75,348,200
SUBTOTAL - Other Appropriated Funds	181,662,400	180,907,700	165,954,800
SUBTOTAL - Appropriated Funds	**734,577,800**	**896,135,700**	**1,080,766,600**
Expenditure Authority Funds			
County Funds	73,189,500	73,189,500	73,189,500
Federal Title XIX Funds	1,955,537,500	2,174,046,200	2,620,832,400
Federal Title XXI Funds	135,918,800	77,960,500	0
Third Party Collections	686,700	194,700	194,700
Tobacco Settlement Fund	45,047,100	43,494,600	42,743,700
TPTF Proposition 204 Protection Account	55,067,800	54,241,800	54,424,900
SUBTOTAL - Expenditure Authority Funds	2,265,447,300	2,423,127,300	2,791,385,200
SUBTOTAL - Appropriated/Expenditure Authority Funds	**3,000,025,100**	**3,319,263,000**	**3,872,151,800**
Other Non-Appropriated Funds	12,486,300	15,282,500	10,115,000
Federal Funds	56,784,100	58,589,400	63,367,200
TOTAL - ALL SOURCES	3,069,295,500	3,393,134,900	3,945,634,000

CHANGE IN FUNDING SUMMARY

	FY 2005 to FY 2006 JLBC	
	$ Change	% Change
General Fund	199,583,800	27.9%
Other Appropriated Funds	(14,952,900)	(8.3%)
Expenditure Authority Funds	368,257,900	15.2%
Total Appropriated/Expenditure Authority Funds	552,888,800	16.7%
Non Appropriated Funds	(389,700)	(0.5%)
Total - All Sources	552,499,100	16.3%

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. This program also includes funding for the Proposition 204 AHCCCS expansion, approved by voters in November 2000 and serving adults up to 100% of the Federal Poverty Level (FPL), as well as the KidsCare program, which serves children up to 200% of FPL.

PERFORMANCE MEASURES	FY 2003 Actual	FY 2004 Actual	FY 2005 Estimate	FY 2006 JLBC
• % of 2-year-old children enrolled in AHCCCS who have received age appropriate immunizations	NA	NA	83	--
• % of well child visits in the first 15 months of life (EPSDT)	61.2	68.1	70	72
• % of children's access to primary care provider	73.8	83	80	85
• % of women receiving annual cervical screening	51.2	53.2	53	55
• Member satisfaction as measured by percentage of enrollees that choose to change health plans	3.5	3.5	3.5	3.5

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

RECOMMENDED CHANGES FROM FY 2005

Overview

The Acute Care cost center contains funding for services provided to AHCCCS members eligible for either the Title XIX or Title XXI programs. The Title XIX program includes the Traditional Medicaid population and the Proposition 204 expansion population. The Title XXI program represents the KidsCare program. *Chart 1* shows the income levels defining eligibility in these 3 distinct populations and *Table 1* shows the forecasted populations for these groups.

The largest of the 3 populations is the Traditional Medicaid population. This population represents the AHCCCS Title XIX population prior to the passage of Proposition 204, which expanded Title XIX eligibility up to 100% of the Federal Poverty Level (FPL). The Proposition 204 program also includes the "spend-down" population, which was previously included in the state-only Medically Needy/Medically Indigent (MN/MI) program. Finally, the KidsCare program, which receives Federal Title XXI funding, provides coverage for children (and parents through FY 2005) up to 200% FPL who are not covered by the regular Title XIX program.

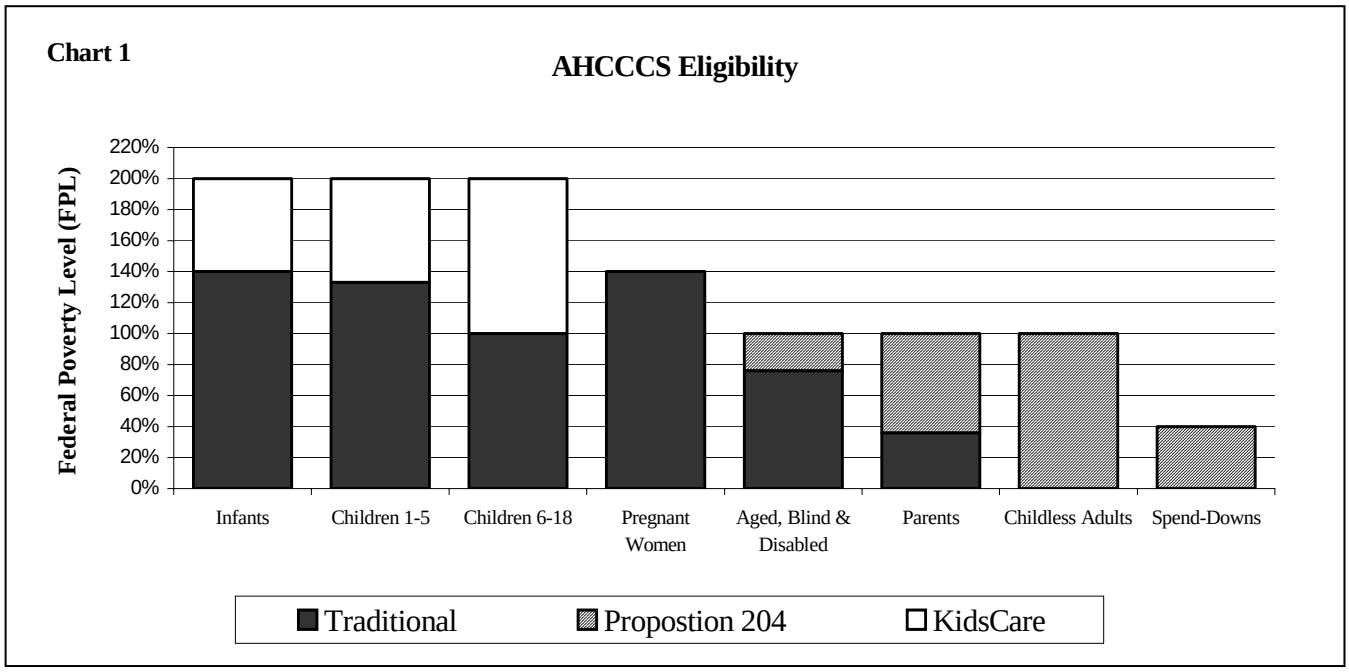

Table 1

JLBC Forecasted Member Months

Population	June 2005	June 2006	% Change
Title XIX:			
Traditional Medicaid	638,863	655,122	2.5%
Proposition 204	199,493	204,419	2.5%
Fee-For-Service / Other	180,898	198,988	10%
Long-Term Care	25,349	26,752	5.5%
Subtotal – Title XIX	1,044,603	1,085,281	3.9%
Title XXI:			
KidsCare (excl. parents)	46,700	48,453	3.8%
Total Acute Care	1,091,303	1,133,734	3.9%

The above figures represent point-in-time estimates, while figures in Tables 2 and 3 display estimated averages for FY 2006. The Fee-For-Service / Other population includes the Dual Eligible (Medicare Premiums), Ticket to Work, and Breast and Cervical Cancer populations. Further discussion of the Long-Term Care population can be found in the ALTCS section.

The following issues are reflected in several different line items:

Title XIX Caseload and Capitation Rate Growth

The JLBC recommends caseload and capitation rate growth for the Traditional Medicaid and Proposition 204 populations in the Acute Care cost center. Estimated caseload growth rates vary by program, and are based on giving a 50% weight to both the JLBC Staff forecast and an econometric model developed by the Economic and Business Research Program at the University of Arizona. This latter model uses economic variables such as population growth and various employment measures in estimating AHCCCS caseload growth.

In comparison to caseload growth rates which vary by population, capitation rate inflation is assumed to be 6.0% across all capitated programs. Yearly capitation rate increases have averaged 7.6% over the last 5 years, with the lowest increase of 4.2% coming in FY 2002 and the high of 11.8% coming in FY 2003.

In total, the recommended amount includes $589,709,800 in new Title XIX funding for caseload and capitation rate growth. Of this amount, $197,193,500 is from the General Fund and $392,516,300 is in Federal Expenditure Authority.

Revised Tobacco Tax Revenue

The JLBC recommends $155,689,700 from various accounts of the Tobacco Products Tax Fund and the Tobacco Tax and Health Care Fund for AHCCCS program costs in FY 2006. This amount represents a decrease of $(2,914,200) below FY 2005 due to an expected decline in the overall Tobacco Tax revenue, and includes funding from the following accounts:

- Medically Needy Account - This account receives statutorily defined percentages of the revenue from the Tobacco Tax and Health Care Fund and the Tobacco Products Tax Fund (established by Proposition 303).
- Proposition 204 Protection Account - This account receives a statutorily defined percentage of the revenue from the Tobacco Products Tax Fund. Proposition 303 requires that monies from this account be used for state match funding in the Proposition 204 program.
- Emergency Health Services Account - This account receives a statutorily defined percentage of the revenue from the Tobacco Products Tax Fund. This account is subject to legislative appropriation for, among other purposes, the costs of primary care.

Historically, Arizona Tobacco Tax collections decline by approximately 1-2% each year, absent any tax law changes. In aggregate, the recommended Tobacco Tax amounts assume a (1.4)% decline from FY 2005 to FY 2006, though each account will not necessarily experience the same decline. As a result, the JLBC recommends additional funding from the General Fund to offset the expected reduction in Medically Needy Account monies available.

Additional funding is expected to be available from the Proposition 204 Protection Account and the Emergency Health Services Account in FY 2006, however, due to revised FY 2005 revenue projections. *(See FY 2005 Supplemental in Other Issues for Legislative Consideration for more information.)*

Decreased Tobacco Settlement Revenue

The JLBC recommends $42,743,700 from the Tobacco Settlement Fund for state match expenditures in the Proposition 204 program in FY 2006. This represents a decrease of $(750,900) below the FY 2005 appropriation due to less expected revenue from the Master Settlement Agreement. This is the settlement agreement entered into in 1998 by the several cigarette manufacturers and the states, territories, and the District of Columbia that brought suit. In exchange for settlement payments, the suing parties agreed to drop other state lawsuits against the tobacco companies for health care costs. The forecast for Tobacco Settlement monies received in FY 2006 is based on the national estimate made by the Council of State Governments. Arizona's total share is expected to be $89,553,200 in FY 2006. As required by the ballot initiative, these funds are then directed to Proposition 204 expenditures, including $46,809,500 in Behavioral Health expenditures in the Department of Health Services.

Regular Federal Match Rate Change

The Federal Medical Assistance Percentage (FMAP) is the rate at which the federal government matches state contributions to the Title XIX Medicaid program. This rate is set on a state by state basis, and is revised each year. In FY 2006 the FMAP for Arizona is decreasing by (0.47)%, effective October 1, 2005. Based on the JLBC caseload forecasts, this decrease would result in cost increases in federally matched programs (including KidsCare) of approximately $12,709,000, which are included in the growth numbers presented below.

Special Line Items

Traditional Medicaid Population

The following line items fund these populations (see *Chart 1*):

- Pregnant women and children less than 1, up to 140% FPL
- Children aged 1-5, up to 133% FPL
- Children aged 6-18, up to 100% FPL
- Aged, blind, and disabled adults, up to 75% FPL
- Parents, up to 38% FPL

These line items exclude the Proposition 204 and KidsCare populations.

Capitation

The JLBC recommends $1,838,529,100 for Capitation expenditures in FY 2006 for the Traditional population. This amount consists of:

	FY 2006
General Fund	$476,736,900
County Funds	73,189,500
Medically Necdy Account	54,807,100
Third Party Collections	194,700
Federal Expenditure Authority	1,233,600,900

These amounts would fund the following adjustments:

Caseload and Capitation Rate Growth	**GF**	**102,980,900**
	EA	**195,539,800**

The JLBC recommends an increase of $298,520,700 in FY 2006 for caseload and capitation rate growth in the Traditional Title XIX population. This amount consists of $102,980,900 from the General Fund and $195,539,800 in Federal Expenditure Authority.

Table 2

Traditional Medicaid

Federally-Eligible Rate Codes	FY 2006 Member Years 1/	FY 2006 Capitation Rates 2/
TANF < 1	53,225	396.34
TANF 1-13	317,954	101.40
TANF 14-44 Female	121,009	179.43
TANF 14-44 Male	50,561	124.52
TANF 45+	10,079	359.43
SSI w/ Medicare	31,768	276.98
SSI w/o Medicare	56,302	553.20
Family Planning	6,736	16.05
	647,634	
Deliveries 3/	28,561	6,107.23

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 2006, the rates reflect 1 quarter at the CY 2005 level and 3 quarters at the CY 2006 level.
3/ This is the projection of actual birth deliveries to be made by enrollees in AHCCCS health plans.

The JLBC recommendation assumes that capitation enrollment will increase by approximately 16,300 member years, or 2.5%, from June 2005 to June 2006. This will result in approximately 647,634 member years being served in FY 2005. Additionally, the recommendation assumes capitation rate increases of 6% above FY 2005.

The Capitation line includes monthly payments made to AHCCCS health plans for the cost of care provided to enrolled members and supplemental "reinsurance" payments made to health plans in catastrophic cases. Contracts are awarded to health plans for a multi-year period upon the completion of a competitive bidding process in which the 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. *Table 2* details the assumed capitation rates and projected enrollment, by AHCCCS rate code, for FY 2006. 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 per AHCCCS member per month.

Eliminate One-Time Surveys	**GF**	**(250,000)**
	EA	**(509,800)**

The JLBC recommends a decrease of $(759,800) in FY 2006 for the elimination of one-time provider and member surveys that were included in the FY 2005 capitation rate increase. This amount includes $(250,000) from the General Fund and $(509,800) in Federal Expenditure Authority.

Decreased Tobacco Tax Revenue	**GF**	**3,184,400**
	OF	**(3,184,400)**

The JLBC recommends an increase of $3,184,400 from the General Fund in FY 2006 to offset decreased funding available from the Medically Needy Account. *(See Decreased Tobacco Tax Revenue policy issue for more information.)*

Fee-for-Service

The JLBC recommends $445,833,800 for Fee-For-Service expenditures in FY 2006 for the Traditional population. This amount consists of $93,099,000 from the General Fund and $352,734,800 in Federal Expenditure Authority. These amounts would fund the following adjustments:

Caseload and Inflation	**GF**	**15,318,800**
	EA	**41,092,700**

The JLBC recommends an increase of $56,411,500 in FY 2006 for caseload and inflation increases. This amount consists of $15,318,800 from the General Fund and $41,092,700 in Federal Expenditure Authority. This additional funding would provide for a 14.5% increase in the Fee-For-Service program above the FY 2005 appropriation, which includes enrollment growth and medical inflation.

The Fee-For-Service line item is for payments made by AHCCCS directly to health care providers on behalf of members not covered under the Capitated portion of the AHCCCS program. There are 3 primary components of the Fee-for-Service program: 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 unauthorized immigrants. The federal government shares in the cost of care for categorically linked unauthorized immigrants. "Categorically Linked" individuals are those who would be eligible for the Traditional Medicaid program (as opposed to Proposition 204 or KidsCare) if not for their citizenship status.

Medicare Premiums

The JLBC recommends $56,769,400 in FY 2006 for Medicare Premiums expenditures for the Traditional Medicaid population. This amount consists of $16,004,600 from the General Fund and $40,764,800 in Federal Expenditure Authority. These amounts would fund the following adjustments:

Caseload and Inflation	**GF**	**1,483,900**
	EA	**2,018,300**

The JLBC recommends an increase of $3,502,200 for caseload growth and inflation. This amount consists of $1,483,900 from the General Fund and $2,018,300 in Federal Expenditure Authority. This additional funding would provide for a 6.6% increase in the Medicare Premiums program above the FY 2005 appropriation.

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.

Breast and Cervical Cancer

The JLBC recommends $675,600 for Breast and Cervical Cancer in FY 2006. This amount consists of $154,200 from the General Fund and $521,400 in Federal Expenditure Authority. These amounts would fund the following adjustments:

Caseload and Inflation	**GF**	**109,600**
	EA	**246,100**

The JLBC recommends an increase of $355,700 in FY 2006 for caseload and inflation increases. This amount consists of $109,600 from the General Fund and $246,100 in Federal Expenditure Authority.

Move Administration Funding	**GF**	**(52,300)**
to Administration Section	**EA**	**(52,300)**

The JLBC recommends a decrease of $(104,600) in FY 2006 to move the administration funding for the Breast and Cervical Cancer SLI to the Operating Lump Sum Appropriation in the Administration Cost Center. This amount consists of $(52,300) from the General Fund and $(52,300) in Federal Expenditure Authority. *(See the corresponding policy issue in the Administration section for more information.)*

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). This program serves women with incomes between 100-250% FPL, and as of December 1, 2004 approximately 90 people are enrolled in the program.

Ticket to Work

The JLBC recommends $5,075,900 for Ticket to Work in FY 2006. This amount consists of $1,670,700 from the General Fund and $3,405,200 in Federal Expenditure Authority. These amounts would fund the following adjustments:

Caseload and Inflation	**GF**	**467,300**
	EA	**834,200**

The JLBC recommends an increase of $1,301,500 in FY 2006 for caseload and inflation increases. This amount consists of $467,300 from the General Fund and $834,200 in Federal Expenditure Authority.

Relocate Administration Funding	**GF**	**(76,700)**
to Administration Section	**EA**	**(76,700)**

The JLBC recommends a decrease of $(153,400) in FY 2006 to move the administration funding for the Ticket to Work program to the Operating Lump Sum Appropriation in the Administration Cost Center. This amount consists of $(76,700) from the General Fund and $(76,700) in Federal Expenditure Authority. *(See the corresponding policy issue in the Administration section for more information.)*

The Ticket to Work program is designed to improve access to employment training and placement for individuals with disabilities who want to work. This program allows individuals receiving Social Security Income (SSI) to work without losing their AHCCCS health coverage. This program serves individuals who meet SSI eligibility criteria, who are aged 16-64, and who have earned income below 250% FPL. As of December 1, 2004, approximately 600 people are enrolled in the program.

Proposition 204 Services

Proposition 204 expanded the regular AHCCCS program to 100% FPL. The Proposition 204 program serves individuals with incomes that exceed the income limits for the Traditional population, but are below 100% FPL.

Services provided to this population mirror the services provided in the regular AHCCCS program.

Proposition 204 - Capitation
The JLBC recommends $1,104,253,000 for Capitation expenditures in FY 2006 for the Proposition 204 population. This amount consists of:

General Fund	219,519,200
Tobacco Settlement	42,743,700
Proposition 204 Protection Acct.	54,424,900
Medically Needy Account	20,541,100
Emergency Health Services Account	25,916,600
Federal Expenditure Authority	741,107,500

These amounts would fund the following adjustments:

Caseload and Capitation Rate Growth	**GF**	**69,594,800**
	EA	**134,052,100**

The JLBC recommends an increase of $203,646,900 in FY 2006 for caseload and capitation rate growth in the Proposition 204 population. This amount includes $69,594,800 from the General Fund and $134,052,100 in Federal Expenditure Authority.

The JLBC recommendation assumes that Proposition 204 capitation enrollment will increase by approximately 4,900 member years, or 2.5%, from June 2005 to June 2006. This will result in approximately 195,428 member years being served in FY 2006. Additionally, the recommendation assumes capitation rate increases of 6% above FY 2005. *Table 3* details the assumed capitation rates and projected enrollment, by AHCCCS rate code, for the Proposition 204 program in FY 2006.

Elimination of Enhanced Title XXI Match Rate	**GF**	**9,897,900**
	EA	**(9,897,900)**

The JLBC recommends an increase of $9,897,900 in FY 2006 from the General Fund and a corresponding reduction in Federal Expenditure Authority for the loss of temporary Title XXI matching monies for a portion of the Proposition 204 population. The Expenditure Authority amount includes a decrease of $(77,960,500) in Title XXI Federal Expenditure Authority and an increase of $68,062,600 in Title XIX Federal Expenditure Authority.

In FY 2005, AHCCCS was able to use Title XXI monies to cover a portion of the Proposition 204 Expansion population. Title XXI typically covers the KidsCare population (see description in next section), but AHCCCS received a federal waiver to use these monies on a portion of the Proposition 204 population. Title XXI monies are received at a matching rate of approximately 3-1, compared to the approximate 2-1 matching rate for Title XIX monies. The higher Title XXI matching rate generated General Fund savings in FY 2005. The future availability of these Title XXI monies is uncertain; therefore these savings are not continued in FY 2006. *(See KidsCare Parents for more information on this issue.)*

Table 3

Proposition 204

Federally-Eligible Rate Codes	FY 2006 Member Years [1/]	FY 2006 Capitation Rates [2/]
TANF	65,300	186.34
SSI	18,699	287.36
Prop 204 Conversions [3/]	75,048	435.64
Prop 204 Medically Eligible [4/]	4,604	840.64
Prop 204 Newly Eligible [5/]	38,500	435.64
TOTAL	**202,151**	
Hospital "Kick"[6/]	5,231	10,243.02
Deliveries [7/]	859	6,107.23

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 2006, the rates reflect 1 quarter at the CY 2005 level and 3 quarters at the CY 2006 level. These rates represent the average rates for the population listed.
3/ Represents the population formerly known as the Medically Indigent who received services under the former 100% state funded MN/MI program. These enrollees are from 0 – 40% FPL.
4/ Represents the population formerly known as the Medically Needy portion of the old MN/MI program, also referred to as the "spend-down" population. These enrollees are from 0 – 40% FPL.
5/ Represents enrollees that mirror the former Medically Indigent population, except their income ranges from 40 - 100% FPL.
6/ This is the projection of actual hospital "kick" payments on behalf of Proposition 204 enrollees in AHCCCS health plans. These "kick" payments are made to hospitals for each Medically Eligible new member enrolled at a hospital.
7/ This is the projection of actual birth deliveries to be made by Proposition 204 enrollees in AHCCCS health plans.

Decreased Tobacco Settlement Fund Revenue	**GF**	**750,900**
	EA	**(750,900)**

The JLBC recommends an increase of $750,900 from the General Fund in FY 2006 to offset decreased funding available from the Tobacco Settlement Fund for the Proposition 204 population.

Revised Tobacco Tax Revenue Estimate	**GF**	**(270,200)**
	OF	**87,100**
	EA	**183,100**

The JLBC recommends a decrease of $(270,200) from the General Fund and increases of $87,100 from the appropriated Emergency Health Services Account and $183,100 in Proposition 204 Protection Account Expenditure Authority due to revised Tobacco Tax revenue estimates. *(See Revised Tobacco Tax Revenue policy issue for more information.)*

Proposition 204 – Fee-For-Service
The JLBC recommends $168,121,600 for Fee-For-Service expenditures in FY 2006 for the Proposition 204 population. This amount consists of $30,476,900 from the General Fund and $137,644,700 in Federal Expenditure Authority. These amounts would fund the following adjustments:

Caseload and Inflation **GF 5,029,700**
EA 14,167,600

The JLBC recommends an increase of $19,197,300 in FY 2006 for caseload and inflation increases. This amount consists of $5,029,700 from the General Fund and $14,167,600 in Federal Expenditure Authority. This additional funding would provide for a 12.9% increase in Fee-For-Service expenditures for the Proposition 204 program, above the FY 2005 appropriation, which includes enrollment growth and medical inflation.

Proposition 204 – Medicare Premiums

The JLBC recommends $19,907,700 for Medicare Premiums expenditures in FY 2006 for the Proposition 204 population. This amount consists of $6,479,900 from the General Fund and $13,427,800 in Federal Expenditure Authority. These amounts would fund the following adjustments:

Caseload and Inflation **GF 2,208,500**
EA 4,565,500

The JLBC recommends an increase of $6,774,000 in FY 2006 for caseload growth and inflation. This amount consists of $2,208,500 from the General Fund and $4,565,500 in Federal Expenditure Authority. These amounts would provide for a 51.6% increase above the FY 2005 appropriation.

Proposition 204 – County Hold Harmless

The JLBC recommends $4,825,600 from the General Fund for Proposition 204 County Hold Harmless payments in FY 2006. This amount is unchanged from FY 2005.

As a result of the implementation of Proposition 204, some counties experienced revenue losses. This appropriation continues prior year appropriations to hold these counties harmless. The primary recipient of the appropriation is Pima County, who receives $3,817,800. The remaining $1,007,800 is allocated among Graham, Greenlee, La Paz, Santa Cruz, and Yavapai Counties.

KidsCare Services

The KidsCare Program, also referred to as the Children's Health Insurance Program (CHIP), provides health coverage to children in families with incomes below 200% FPL, but above the levels required for the regular AHCCCS program. The KidsCare Program receives federal Title XXI monies at approximately a 3 to 1 match rate, which is higher than the regular Title XIX portion of AHCCCS. Beginning in October 2002, this program was also expanded to cover parents of children enrolled in KidsCare. The Federal Title XXI monies are deposited into the CHIP Fund, and the CHIP Fund is then appropriated, along with the General Fund match, to fund the KidsCare program. *(Additional funding is also provided for the administration of the KidsCare program in the AHCCCS Administration section.)*

KidsCare – Children

The JLBC recommends $82,448,600 for KidsCare Services in FY 2006. This amount consists of $17,758,600 from the General Fund and $64,690,000 from the CHIP Fund. These amounts would fund the following adjustments:

Caseload and Capitation Rate Growth **GF 1,867,900**
OF 11,289,000

The JLBC recommends an increase of $13,156,900 in FY 2006 for caseload and capitation rate growth in the KidsCare - Children population. This amount includes $1,867,900 from the General Fund and $11,289,000 from the CHIP Fund. The JLBC recommendation assumes KidsCare enrollment growth of approximately 1,800 members, or 3.8%, from June 2005 to June 2006. Additionally, the recommendation assumes capitation rate increases of 6% above the FY 2005. The CHIP Fund increase also includes increases in the premiums collected from KidsCare members as a result of new premiums implemented in July 2004.

KidsCare – Parents

The JLBC recommends no funding for KidsCare Parents in FY 2006. This amount would fund the following adjustments:

Eliminate KidsCare Parents **GF (6,882,100)**
OF (23,144,600)

The JLBC recommends a decrease of $(30,026,700) in FY 2006 for the elimination of the KidsCare Parents program. This amount consists of $(6,882,100) from the General Fund and $(23,144,600) from the CHIP Fund. Laws 2004, Chapter 279 eliminates the statutory authority for the coverage of this population effective July 1, 2005, therefore no funding is recommended for this population.

Since FY 2003, the KidsCare Parents program has provided AHCCCS coverage to parents of children in the KidsCare program, whose incomes are between 100%-200% FPL. Under the provisions of a federal waiver, the existence of this program allows AHCCCS to use Title XXI (KidsCare) matching monies on a portion of the Proposition 204 population, at a higher matching percentage than the Title XIX monies that would otherwise be used.

The higher matching rate allowed the state to generate General Fund savings of $(9,897,900) in the Proposition 204 program, which offset the $7,327,400 appropriation to fund the KidsCare Parents population (including administration). Therefore, the net effect of having the KidsCare Parents program in FY 2005 was to generate General Fund savings of $(2,570,500), as shown below in *Table 4*.

In FY 2006, fewer Title XIX monies are available to generate savings in the Proposition 204 program, reducing the estimated savings level to $(6,893,800) in FY 2006. In addition to the fewer savings available in the Proposition 204 program, growth in the Kidscare Parents population increases the programmatic cost estimate (including

administration) to $8,481,000 in FY 2006. The net fiscal impact of the program in FY 2006 would be $1,587,200. Since the program had a net savings of $(2,570,500) in FY 2005, however, a total of $4,157,700 would have to be added to the FY 2006 budget to retain the program. These changes are shown below in the "Retain KidsCare Parents" columns.

Table 4
KidsCare Parents Costs ($ in millions)

	FY 2005	Retain KC Parents		Elim. KC Parents	
	Approp.	FY 06	Above 05	FY 06	Above 05
Prop. 204 Savings	$(9.9)	(6.9)	3.0	0	9.9
KC Parents Prog. Costs	7.3	8.5	1.2	0	(7.3)
Net GF Impact	$(2.6)	1.6	4.2	0	2.6

The final column of *Table 4* shows the budgetary effect of eliminating the KidsCare Parents program. If this program is eliminated, no savings would be available in the Proposition 204 program, however, no costs would be incurred for the KidsCare Parents program. As shown above, eliminating the KidsCare Parents program results in FY 2006 General Fund costs of $2,570,500, in order to add back the FY 2005 savings that are no longer available.

As shown in *Table 4*, it is more costly to continue the KidsCare Parents program in FY 2006. Therefore the JLBC recommendation allows the KidsCare Parents program to expire.

Payments to Hospitals

These line items represent payments made directly to hospitals, though not for specific services provided to enrolled AHCCCS members.

Disproportionate Share Payments
The JLBC recommends $122,191,500 for Disproportionate Share Hospital (DSH) Payments in FY 2006. This amount consists of $40,347,600 from the General Fund and $81,843,900 in Federal Expenditure Authority. These amounts would fund the following adjustments:

Revised Payment Limit for	**GF**	**(6,080,400)**
Maricopa Medical Center	**EA**	**(13,525,500)**

The JLBC recommends a decrease of $(19,605,900) in FY 2006 to reflect a lower limit on the amount of DSH dollars Maricopa Medical Center is allowed to receive. This amount consists of $(6,080,400) from the General Fund and $(13,525,500) in Federal Expenditure Authority. This adjustment will decrease General Fund revenue by $(13,525,500).

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 5* presents the allocation of Disproportionate Share funding.

Table 5
Disproportionate Share Hospitals

	FY 2005	FY 2006
Allocations:		
County-Operated Hospital	$87,174,800	$67,568,900
Arizona State Hospital (ASH)	28,474,900	28,474,900
Private Hospitals	26,147,700	26,147,700
Total - Allocations	**$141,797,400**	**$122,191,500**
Revenue:		
County Withholding	$82,972,500	$63,366,600
ASH reversion	28,474,900	28,474,900
Total - GF Revenue	**$111,447,400**	**$91,841,500**

Of the total County-Operated Hospital allocation, $4,202,300 is provided directly to Maricopa County 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 allocation to the Arizona State Hospital (ASH) will also generate General Fund revenue in FY 2006. An amount corresponding to the DSH allocation will be deposited into the General Fund.

Graduate Medical Education
The JLBC recommends $21,820,000 for Graduate Medical Education (GME) expenditures in FY 2006. This amount consists of $7,179,300 from the General Fund and $14,640,700 in Federal Expenditure Authority. These amounts would fund the following adjustments:

Statutory Inflation Adjustment	**GF**	**295,800**
	EA	**376,700**

The JLBC recommends an increase of $672,500 in FY 2006 for a statutory inflation adjustment in FY 2006. This amount consists of $295,800 from the General Fund and $376,700 in Federal Expenditure Authority. The recommended adjustment represents a 3.18% increase above the FY 2005 appropriation, based on the Centers for Medicare and Medicaid Services (CMS) Hospital Prospective Reimbursement Market Basket, as reported by AHCCCS. The GME program reimburses hospitals that have graduate medical education programs.

Critical Access Hospitals
The JLBC recommends $1,700,000 for Critical Access Hospitals in FY 2006. This amount consists of $559,300 from the General Fund and $1,140,700 in Federal Expenditure Authority. These amounts would fund the following adjustments:

Revised Federal Matching Percentage	**GF**	**5,100**
	EA	**(5,100)**

The JLBC recommends an increase of $5,100 from the General Fund in FY 2006 and a corresponding decrease in Federal Expenditure Authority Funds to reflect a technical adjustment in the FMAP. *(See Regular Federal Match Rate Change policy issue for more information.)*

The Critical Access Hospitals program provides increased reimbursement to small rural hospitals that are federally designated as critical access hospitals.

Trauma Centers
The JLBC recommends no funding for Trauma Centers in FY 2006. The FY 2004 budget contained a one-time appropriation of $5,000,000 from the Emergency Health Services Account for Trauma Centers. In FY 2005 all available monies from this account were used for state match costs in the Proposition 204 - Capitation Line Item. The JLBC recommends using these monies in this fashion in FY 2006.

* * *

JLBC RECOMMENDED FORMAT — Special Line Items by Program

JLBC RECOMMENDED FOOTNOTES

Standard Footnotes
Of the $4,825,600 appropriated for the Proposition 204 County Hold Harmless line, $234,200 is allocated to Graham County, $234,400 to Greenlee County, $159,700 to La Paz County, $3,817,800 to Pima County, $214,800 to Santa Cruz County and $164,700 to Yavapai County to offset a net loss in revenue due to the implementation of Proposition 204, and shall be used for indigent health care costs.

The FY 2006 Disproportionate Share Payment of $122,191,500 is based on the federal FY 2006 authorized expenditure level of $81,843,900. 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 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.

The appropriation for Disproportionate Share Payments for FY 2006 made pursuant to A.R.S. § 36-2903.01P includes $67,568,900 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.

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 2006, the Arizona Health Care Cost Containment System Administration shall report its expenditure plan to the Joint Legislative Budget Committee for review.

THE ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM SHALL REPORT TO THE JOINT LEGISLATIVE BUDGET COMMITTEE BY MARCH 31 OF EACH YEAR ON PRELIMINARY ACTUARIAL ESTIMATES OF THE CAPITATION RATE INCREASES FOR THE FOLLOWING FISCAL YEAR. 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. Unless required for compliance with federal law, before the administration implements any changes in policy affecting the amount, sufficiency, duration, and scope of health care services and who may provide services, the administration shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal analysis demonstrates that these changes will result in additional state costs of $500,000 or greater for a given fiscal year, the administration shall submit the policy changes to the Joint Legislative Budget Committee for review. The administration shall also report quarterly to the Joint Legislative Budget Committee itemizing all policy changes with fiscal impacts of less than $500,000 in state costs. *(The JLBC recommends adding this language to improve the accuracy of capitation rate forecasts.)*

New Footnotes
Any savings realized due to the implementation of a Federal program providing prescription drug benefits to persons otherwise eligible for AHCCCS benefits shall be transferred to the Medicare Clawback Payments line item in the Arizona Health Care Cost Containment System Administration Cost Center. *(The JLBC recommends adding this footnote to direct AHCCCS to deposit savings due to the implementation of the Federal Medicare Modernization Act, which shifts prescription responsibility from Medicaid programs to Medicare. These savings are*

then directed to be used to fund the "clawback" payments that will be directed to Medicare.)

JLBC RECOMMENDED STATUTORY CHANGES

The JLBC recommends setting the FY 2006 county Acute Care contribution at $73,189,500, the same level as FY 2005. This amount includes $6,500,000 from the Disproportionate Share Uncompensated Care (DUC) Pool.

The JLBC recommends the state continue to withhold state shared revenues based on the Disproportionate Share Hospitals Program appropriation to county-operated hospitals. For FY 2006 this withholding amount would be set at $63,366,600.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

FY 2005 Supplemental

The JLBC recommends FY 2005 supplemental adjustments totaling $202,439,500 for revised caseload estimates in the Traditional Medicaid, Proposition 204, and KidsCare populations. This amount consists of the following changes:

General Fund	56,679,700
CHIP Fund	9,352,300
Proposition 204 Protection Acct.	2,877,200
Medically Needy Account	(583,200)
Emergency Health Services Account	616,000
Federal Expenditure Authority	133,497,500

In the first 5 months of FY 2005, Traditional Medicaid and Proposition 204 caseloads are approximately 9.4% above budgeted amounts, and based on revised growth rates for FY 2005, JLBC estimates that June 2005 caseload will be approximately 12.4% above appropriated estimates. As a result, JLBC is currently estimating potential FY 2005 supplemental increases that are approximately 6.1% above the appropriated budget for the Acute Care program. The number table at the beginning of this section has not been updated to reflect the recommended supplemental.

This supplemental recommendation also includes revising the FY 2005 Tobacco Tax revenue estimates. The FY 2005 budget assumed Tobacco Tax revenue declines of approximately (2.2)% from FY 2004 to FY 2005. The JLBC recommends revising the FY 2005 estimate to reflect a (1%) revenue decline from FY 2004 to FY 2005. As a result of this revision, the JLBC recommends using additional Tobacco Tax revenue of $2,910,000 to offset the General Fund supplemental need in FY 2005. These additional Tobacco Funds are estimated to be used from the Medically Needy Account, the Proposition 204 Protection Account, and the Emergency Health Services Account. The revised FY 2005 revenue also affects the estimated revenue assumed in the JLBC recommendation for FY 2006. As a result of revising the FY 2005 revenue estimate upward, the JLBC revenue estimates for the Emergency Health Services Account and the Proposition 204 Protection Account are above the estimates assumed in the FY 2005 budget. *See Revised Tobacco Tax Revenue policy issues for more information.*

SUMMARY OF FUNDS - SEE AGENCY SUMMARY

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