

Arizona Health Care Cost Containment System
Summary

A.R.S. § 36-2901

Director: Anthony D. Rodgers

JLBC Analyst: John Malloy/Carson Howell/Russell Frandsen

	FY 2005 Actual	FY 2006 Estimate	FY 2007 Approved
PROGRAM BUDGET			
Administration	160,823,700	176,510,800	205,675,600
Acute Care	3,619,296,100	3,835,822,200	4,089,096,400
Long-Term Care	852,177,500	999,657,100	1,080,691,200
AGENCY TOTAL	4,632,297,300	5,011,990,100	5,375,463,200
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3,087.8	3,096.8	3,159.4 ^{1/}
Personal Services	32,467,400	35,730,300	38,181,200
Employee Related Expenditures	10,661,700	12,481,300	13,664,700
Professional and Outside Services	3,871,600	4,156,100	7,036,200
Travel - In State	104,500	88,700	88,700
Travel - Out of State	40,700	28,600	28,600
Other Operating Expenditures	12,295,800	10,536,000	10,626,300
Equipment	3,175,600	1,036,300	1,171,600
OPERATING SUBTOTAL	62,617,300	64,057,300	70,797,300
Special Line Items (SLI)	4,569,680,000	4,947,932,800	5,304,665,900
AGENCY TOTAL	4,632,297,300	5,011,990,100	5,375,463,200^{2/}
FUND SOURCES			
General Fund	876,790,700	1,036,404,500	1,199,768,000
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	5,566,700	2,395,400	2,531,900
Children's Health Insurance Program Fund	91,622,200	102,874,300	123,185,900
County Contribution Fund	7,446,500	0	0
Healthcare Group Fund	3,062,300	3,638,600	3,811,800
TPTF Emergency Health Services Account	28,885,600	27,922,900	29,371,200
TTHCF Medically Needy Account	80,610,900	79,128,800	83,162,500
SUBTOTAL - Other Appropriated Funds	217,194,200	215,960,000	242,063,300
SUBTOTAL - Appropriated Funds	1,093,984,900	1,252,364,500	1,441,831,300
<u>Expenditure Authority Funds</u>			
County Funds	279,570,000	281,373,800	290,060,000
Federal Title XIX Funds	3,076,636,300	3,247,691,800	3,495,396,000
Federal Title XXI Funds	77,960,500	82,174,100	0
Third Party Collections	0	194,700	194,700
Tobacco Settlement Fund	43,494,700	89,553,200	86,301,200
TPTF Proposition 204 Protection Account	60,650,900	58,638,000	61,680,000
SUBTOTAL - Expenditure Authority Funds	3,538,312,400	3,759,625,600	3,933,631,900
SUBTOTAL - Appropriated/Expenditure Authority Funds	4,632,297,300	5,011,990,100	5,375,463,200
Other Non-Appropriated Funds			
Other Non-Appropriated Funds	55,252,300	88,089,900	88,089,900
Federal Funds	72,719,200	80,823,600	81,839,300
TOTAL - ALL SOURCES	4,760,268,800	5,180,903,600	5,545,392,400

^{1/} Includes 983.2 GF, 136.5 OF, and 945.3 EA FTE Positions funded from Special Line Items in FY 2007.

^{2/} 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	FY 2003	FY 2004	FY 2005	FY 2007
	Actual	Actual	Actual	Approved
• % of people under age 65 that are uninsured	NA	NA	24	24
Comments: The agency did not submit information for any measure labeled as “NA.”				

Medicare Modernization Act (MMA)

Beginning January 1, 2006, the MMA shifted 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 resulted in capitation rate savings in the Acute Care and ALTCS sections, as AHCCCS will no longer be responsible for prescription costs for these members.

In order to offset the increased cost to Medicare, states are required to make payments to Medicare based on a percent of what they would have otherwise spent on prescriptions for dual-eligibles. State Medicaid programs are also responsible for administering the low-income subsidy included in the MMA.

To assist the federal government in paying for this program, the states are required to pay a “Clawback” of the savings that they will realize through this new drug benefit. State usage data was collected from 2003 and was trended forward using national trends for prescription drug use to 2006.

The Clawback payment share to the federal government will decrease over time until 2015. At the same time, the payment will increase by the rate of national prescription drug inflation.

In FY 2006, savings are estimated over 6 months, while the state only makes Clawback payments based on 4 months of data.

Table 1 delineates the net impact of drug savings and Clawback payments across various cost centers and state agencies. Any costs or savings in the ALTCS Program will be split 50/50 between the state and the county.

	<u>FY 2006</u>	<u>FY 2007</u>
Acute Care		
Savings	(17,145,400)	(37,305,100)
Clawback	<u>7,999,200</u>	<u>27,082,200</u>
Cost/(Savings)	(9,146,200)	(10,222,900)
Long Term Care		
Savings	(8,860,500)	(17,859,400)
Clawback	<u>5,752,300</u>	<u>19,475,200</u>
Cost/(Savings)	(3,108,200)	1,615,800
Behavioral Health		
Savings	(6,244,500)	(13,039,500)
Clawback	<u>2,972,200</u>	<u>10,062,700</u>
Cost/(Savings)	(3,272,300)	(2,976,800)
DES LTC		
Savings	(1,059,400)	(2,295,500)
Clawback	<u>611,200</u>	<u>2,069,000</u>
Cost/(Savings)	(448,200)	(226,500)
Statewide		
Savings	(33,309,800)	(70,499,500)
Clawback	<u>17,334,900</u>	<u>58,689,100</u>
Cost/(Savings)	(15,974,900)	(11,810,400)
State Share	(15,139,900)	(12,503,000)
County Share	(835,000)	692,600

State Medicaid agencies and the Social Security Administration are responsible for determining eligibility for the low-income subsidy that will be provided through Medicare. States are also 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.

Additional Legislation

Ch. 331 Health and Welfare Budget Reconciliation Bill
Laws 2006, Chapter 331 adds statutory language that limits capitation rate adjustments to utilization of existing services and inflation unless those changes are approved by the Legislature or specifically required by federal law or court mandate.

Other Issues

Tobacco Tax Revenues

The table on the following pages details the distribution of the Tobacco Tax Health Care Fund and Tobacco Products Tax Fund.

Tobacco Tax and Health Care Fund and Tobacco Products Tax Fund	FY 2005 Actual	FY 2006 Estimate	FY 2007 Approved
Medically Needy Account			
<u>Funds Available</u>			
Balance Forward	\$ 4,061,800	\$ 2,439,300	\$ 4,633,600
Transfer In - Tobacco Tax and Health Care Fund	73,106,700	72,699,500	74,208,900
Transfer In - Tobacco Products Tax Fund	38,959,200	42,957,900	43,845,800
Interest and Revertments	52,800	590,500	613,400
Total Funds Available	\$116,180,500	\$118,687,200	\$123,301,700
<u>AHCCCS Allocations</u>			
<u>GF Offsets</u>			
Traditional Medicaid State Match Appropriation	60,069,800	54,807,100	58,840,800
Proposition 204 State Match	20,541,100	24,321,700	24,321,700
Subtotal – Appropriated Funding	80,610,900	79,128,800	83,162,500
<u>Other AHCCCS Funding</u>			
Transplants	140,200	100,000	100,000
Total AHCCCS Allocations	80,751,100	79,228,800	83,262,500
<u>DHS Allocations</u>			
Behavioral Health GF Offset	29,424,800	30,424,800	30,424,800
DHS Health Crisis Fund	308,600	1,000,000	1,000,000
Alzheimer’s Research	0	3,000,000	0
Folic Acid	0	200,000	200,000
Licensure	0	200,000	0
Autism Pilot (Laws 2006, Ch. 331)	0	0	2,300,000
Community Health Centers (Laws 2006, Ch. 331)	0	0	3,000,000
Trauma Services (Laws 2006, Ch. 360)	0	0	2,000,000
Total DHS Allocations	29,733,400	34,824,800	38,924,800
<u>DES Allocations</u>			
Autism Pilot- DES (Laws 2006, Ch. 331)	0	0	200,000
Total AHCCCS/DHS/DES Allocations	\$110,484,500	\$114,053,600	\$122,387,300
Administrative Adjustments	3,256,700	0	0
Balance Forward	\$ 2,439,300	\$ 4,633,600	\$ 914,400
AHCCCS Premium Sharing Fund			
<u>Funds Available</u>			
Balance Forward	\$ 3,800	\$ 0	\$ 0
Interest Revenue	8,000	0	0
Total Funds Available	\$ 11,800	\$ 0	\$ 0
<u>Allocations:</u>			
Administrative Expenses	\$ 11,800	\$ 0	\$ 0
Balance Forward	\$ 0	\$ 0	\$ 0
AHCCCS Proposition 204 Protection Account			
<u>Funds Available</u>			
Balance Forward	\$ 0	\$ 0	\$ 1,793,200
Transfer In - Tobacco Products Tax Fund	60,603,200	60,431,200	61,680,000
Interest Revenue	51,500	0	0
Total Funds Available	\$60,657,700	\$60,431,200	\$ 63,473,200
<u>Allocations:</u>			
AHCCCS State Match	\$60,650,900	\$58,638,000	\$61,680,000
Administrative Adjustments	3,800	0	0
Balance Forward	\$ 0	\$ 1,793,200	\$ 1,793,200

Tobacco Tax and Health Care Fund and Tobacco Products Tax Fund (Continued)	FY 2005 Actual	FY 2006 Estimate	FY 2007 Approved
AHCCCS Emergency Health Services Account			
<u>Funds Available</u>			
Balance Forward	\$ 66,400	\$ 57,600	\$ 911,400
Transfer In – Tobacco Products Tax Fund	28,847,700	28,776,700	29,371,400
Interest Revenue	29,100	0	0
Total Funds Available	\$28,943,200	\$28,834,300	\$30,282,800
<u>Allocations:</u>			
AHCCCS State Match	\$28,885,600	\$27,922,900	\$29,371,200
Balance Forward	\$ 57,600	\$ 911,400	\$ 911,600
DHS Health Crisis Fund			
<u>Funds Available</u>			
Balance Forward	\$ 490,000	\$ 420,700	\$ 0
Transfer In - AHCCCS Medically Needy Account	510,000	579,300	1,000,000
Total Funds Available	\$1,000,000	\$1,000,000	\$1,000,000
<u>Allocations:</u>			
Allocation	\$ 579,300	\$1,000,000	\$1,000,000
Balance Forward	\$ 420,700	\$ 0	\$ 0
DHS Health Education Account			
<u>Funds Available</u>			
Balance Forward	\$ 5,777,300	\$11,186,900	\$ 0
Transfer In - Tobacco Tax and Health Care Fund	23,988,600	23,887,000	24,382,900
Transfer In - Tobacco Products Tax Fund	2,885,900	4,230,200	4,317,600
Interest Revenue	132,600	196,500	143,500
Total Funds Available	\$32,784,400	\$39,500,600	\$28,844,000
<u>Allocations</u>			
DHS Operating	\$20,221,900	\$36,622,900	\$25,906,900
Leading Causes of Death - Prevention and Detection	1,375,600	2,877,700	2,937,100
Balance Forward	\$11,186,900	\$ 0	\$ 0
DHS Health Research Account			
<u>Funds Available</u>			
Balance Forward	\$ 3,864,000	\$ 2,843,700	\$ 5,662,800
Transfer In - Tobacco Tax and Health Care Fund	5,214,800	5,192,800	5,300,600
Transfer In - Tobacco Products Tax Fund	7,214,700	7,487,700	7,642,500
Interest Revenue	81,000	77,600	93,000
Total Funds Available	\$16,374,500	\$15,601,800	\$18,698,900
<u>Allocations:</u>			
Disease Control Research Commission	\$ 4,832,600	\$5,648,100	\$ 6,810,600
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	2,198,100	0	0
Balance Forward	\$ 2,843,700	\$3,453,700	\$ 5,388,300