

# Arizona Health Care Cost Containment System

## Acute Care

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DESCRIPTION	FY 2005 ACTUAL	FY 2006 ESTIMATE	FY 2007 JLBC
<b>SPECIAL LINE ITEMS</b>			
<b>Traditional Medicaid Population</b>			
Capitation	1,653,724,600	1,695,611,500	1,844,383,600
Reinsurance	83,840,500	93,259,400	101,755,600
Fee-For-Service	379,808,800	436,340,400	477,548,600
Medicare Premiums	58,101,200	70,549,900	87,840,200
Breast and Cervical Cancer	645,700	732,300	1,288,400
Ticket to Work	3,801,700	5,075,900	5,886,400
<b>Proposition 204 Services</b>			
Proposition 204 - Capitation	987,705,500	1,005,835,600	1,034,489,600
Proposition 204 - Reinsurance	49,481,400	80,354,300	76,214,000
Proposition 204 - Fee-For-Service	131,426,300	139,160,100	148,752,500
Proposition 204 - Medicare Premiums	18,441,300	23,680,000	28,193,300
Proposition 204 - County Hold Harmless	4,825,600	4,825,600	4,825,600
<b>KidsCare Services</b>			
KidsCare - Children	75,340,600	84,746,600	97,811,900
KidsCare - Parents	33,098,100	37,781,000	0
<b>Payments to Hospitals</b>			
Disproportionate Share Payments	116,207,300	122,191,500	143,477,300
Graduate Medical Education	21,147,500	21,820,000	22,512,800
Critical Access Hospitals	1,700,000	1,700,000	1,700,000
Rural Hospital Reimbursement	0	12,158,100	12,158,100
<b>PROGRAM TOTAL</b>	<b>3,619,296,100</b>	<b>3,835,822,200</b>	<b>4,088,837,900</b>
<b>FUND SOURCES</b>			
General Fund	739,514,800	853,210,800	966,527,300
<u>Other Appropriated Funds</u>			
Children's Health Insurance Program Fund	85,170,200	96,245,000	76,140,700
TPTF Emergency Health Services Account	28,885,600	27,922,900	28,680,000
TTHCF Medically Needy Account	80,610,900	79,128,800	82,605,700
SUBTOTAL - Other Appropriated Funds	194,666,700	203,296,700	187,426,400
<b>SUBTOTAL - Appropriated Funds</b>	<b>934,181,500</b>	<b>1,056,507,500</b>	<b>1,153,953,700</b>
<u>Expenditure Authority Funds</u>			
County Funds	73,189,500	62,635,700	61,868,700
Federal Title XIX Funds	2,429,819,000	2,486,119,000	2,740,039,600
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	72,553,200
TPTF Proposition 204 Protection Account	60,650,900	58,638,000	60,228,000
SUBTOTAL - Expenditure Authority Funds	2,685,114,600	2,779,314,700	2,934,884,200
<b>SUBTOTAL - Appropriated/Expenditure Authority Funds</b>	<b>3,619,296,100</b>	<b>3,835,822,200</b>	<b>4,088,837,900</b>
Other Non-Appropriated Funds	15,933,500	16,500,000	16,500,000
Federal Funds	72,346,800	80,823,600	81,839,300
<b>TOTAL - ALL SOURCES</b>	<b>3,707,576,400</b>	<b>3,933,145,800</b>	<b>4,187,177,200</b>

### CHANGE IN FUNDING SUMMARY

	<u>FY 2006 to FY 2007 JLBC</u>	
	\$ Change	% Change
General Fund	113,316,500	13.3%
Other Appropriated Funds	(15,870,300)	(7.8%)
Expenditure Authority Funds	155,569,500	5.6%
Total Appropriated/Expenditure Authority Funds	253,015,700	6.6%
Non Appropriated Funds	1,015,700	1.0%
Total - All Sources	254,031,400	6.5%

**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.

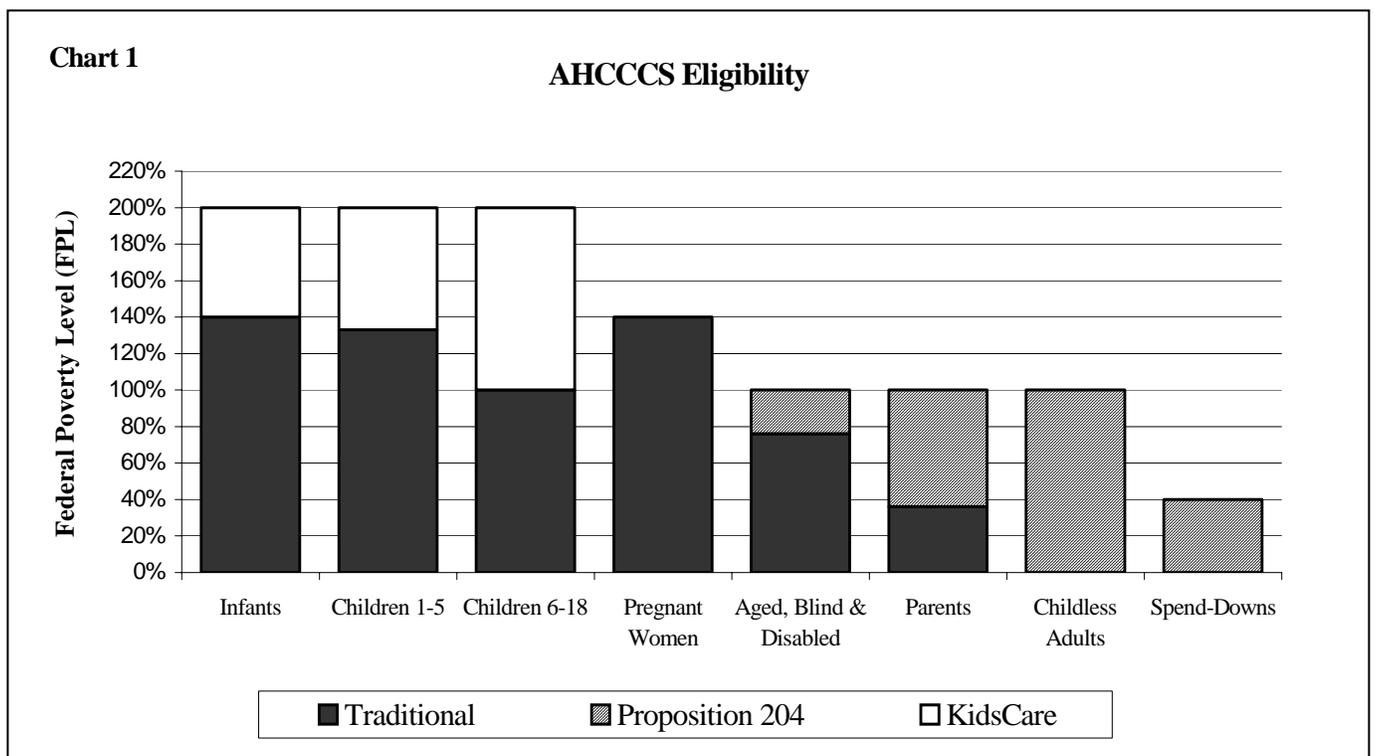
PERFORMANCE MEASURES	FY 2003	FY 2004	FY 2005	FY 2007
	Actual	Actual	Actual	JLBC
• % of well child visits in the first 15 months of life (EPSDT)	61.2	68.1	62	72
• % of children's access to primary care provider	73.8	83	85	85
• % of women receiving annual cervical screening	51.2	53.2	53	55
• Member satisfaction as measured by percentage of enrollees that choose to change health plans	3.5	3.5	3.5	3.5

**RECOMMENDED CHANGES FROM FY 2006**

**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 2006) up to 200% FPL who are not covered by the regular Title XIX program.



**Table 1**

<b>JLBC Forecasted Member Months</b>			
<b>Population</b>	<b>June 2006</b>	<b>June 2007</b>	<b>% Change</b>
<i>Title XIX:</i>			
Traditional Medicaid	628,672	651,315	3.6%
Proposition 204	200,945	208,350	3.7%
Fee-For-Service/Other	<u>198,083</u>	<u>217,891</u>	<u>10.0%</u>
Subtotal – Title XIX	1,027,700	1,077,556	4.9%
<i>Title XXI:</i>			
KidsCare (excl. parents)	<u>52,135</u>	<u>54,043</u>	<u>2.0%</u>
<b>Total Acute Care</b>	1,079,835	1,131,599	4.8%
Long-Term Care	<u>26,463</u>	<u>27,708</u>	<u>4.7%</u>
<b>Total AHCCCS</b>	1,106,298	1,159,307	4.8%

The above figures represent point-in-time estimates, while figures in Tables 2 and 3 display estimated averages for FY 2007. 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. AHCCCS Title XIX enrollment growth is projected to grow by 3.6% from June 2006 to June 2007. This consensus estimate represents the average of 3 different enrollment forecasts from the JLBC Staff, AHCCCS 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 7.0% over the last 5 years, with the lowest increase of 4.2% coming in FY 2003 and the high of 11.8% coming in FY 2004.

In total, the recommended amount includes \$367,423,200 in new Title XIX funding for caseload and capitation rate growth. Of this amount, \$126,607,300 is from the General Fund and \$240,815,900 is in Federal Expenditure Authority.

#### **Revised Tobacco Tax Revenue**

The JLBC recommends \$171,513,700 from various accounts of the Tobacco Products Tax Fund and the Tobacco Tax and Health Care Fund for AHCCCS program costs in FY 2007. This amount represents an increase of \$5,824,000, or 3.5%, from FY 2006, and includes funding from the following accounts:

- Medically Needy Account - This appropriated 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).
- 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.
- Proposition 204 Protection Account - This non-appropriated 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.

#### **Decreased Tobacco Settlement Revenue**

The JLBC recommends \$72,553,200 from the Tobacco Settlement Fund for state match expenditures in the Proposition 204 program in FY 2007. This represents a decrease of \$(17,000,000) from the FY 2006 appropriation. The Master Settlement Agreement 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 2007 is based on the national estimate made by the Council of State Governments. As required by the ballot initiative, these funds are then directed to Proposition 204 expenditures.

The Participating Manufacturers are attempting to withhold a portion of their payment, claiming that the MSA has resulted in a loss of market share. Under the guidelines of the MSA, the Participating Manufacturers can attempt to withhold an amount equal to 3 times the cost of the loss of market share. For FY 2007, this amount is estimated to be approximately \$17,000,000. The first hearing is scheduled to be late March/early April. If the Participating Manufacturers are successful, the state would need to sue the Participating Manufacturers to reclaim the money. Reclaiming the lost revenue could take up to 2 years. The claims by the Participating Manufacturers are expected to continue for the duration of the MSA payments, scheduled to sunset in 2025. If the claim by the Participating Manufacturers is successful, the state would offset the \$17,000,000 in lost revenue with an increase in General Fund spending.

This \$17,000,000 loss also affects the FY 2006 budget and is part of the calculation of the FY 2006 AHCCCS shortfall. (*See Other Issues for Legislative Consideration for more information.*)

### 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 2007, the FMAP for Arizona is decreasing by (0.51)%, effective October 1, 2006. Based on the JLBC caseload forecasts, this decrease will result in General Fund cost increases in federally matched programs (including KidsCare) of approximately \$14 million which are included in the growth numbers presented below.

### Medicare Clawback

The Medicare Modernization Act will be implemented on January 1, 2006. This bill adds prescription drug benefits to the Medicare program. Previously, citizens who qualified for both Medicare and Medicaid had their prescription drugs paid through the state Medicaid program. This bill will alleviate the cost of prescription drugs to this "dual-eligible" population.

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 Centers for Medicare and Medicaid Services (CMS) will provide the states with a formula to calculate what the Clawback payment will be.

The Clawback is calculated to be 90% of the total savings estimated by implementation of the MMA; the states will keep 10%. This Clawback percentage to the federal government will decrease over time until 2015, when the states will keep 25% of the savings. The overall Clawback payment will increase over time. AHCCCS estimates that in FY 2007, the Clawback will be \$37,305,100 for the Acute Care program. (See AHCCCS Summary for more information.)

### Special Line Items

#### Traditional Medicaid Population

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

- Pregnant women and children less than 1, up to 140% of the Federal Poverty Level (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 \$1,844,383,600 for Capitation expenditures in FY 2007 for the Traditional population.

This amount consists of:

	<b>FY 2007</b>
General Fund	\$495,457,800
County Funds	61,868,700
TTHCF Medically Needy Account	58,284,000
Third Party Collections	194,700
Federal Title XIX Expenditure Authority	1,228,578,400

These amounts include the following adjustments:

<b>Caseload and Capitation</b>	<b>GF 78,022,300</b>
<b>Rate Growth</b>	<b>EA 130,932,600</b>

The JLBC recommends an increase of \$208,954,900 in FY 2007 for caseload and capitation rate growth in the Traditional Title XIX population. This amount consists of:

General Fund	78,022,300
Federal Title XIX Expenditure Authority	130,932,600

The JLBC recommendation assumes that capitation enrollment will increase by approximately 18,000 member years in FY 2007, or 3.6%, from June 2006 to June 2007. This will result in approximately 641,144 member years being served in FY 2007. Additionally, the approved amount assumes capitation rate increases of 6.0% above FY 2006.

The Capitation line includes monthly payments made to AHCCCS health plans for the cost of care provided to enrolled members. 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 2007.

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.

<b>Prescription Drug Savings</b>	<b>GF (20,104,400)</b>
	<b>EA (40,078,400)</b>

The JLBC recommends a decrease of \$(60,182,800) in FY 2007 for savings from the federal prescription drug program. This amount consists of:

General Fund	(20,104,400)
Federal Title XIX Expenditure Authority	(40,078,400)

Effective January 1, 2006, the federal government is paying prescription drug costs for Medicare clients. The state previously had to pay the prescription drug costs for these clients with a state/federal match. (Please see the Medicare Clawback Payments section for more information.)





General Fund (552,400)  
 Federal Title XIX Expenditure Authority (1,100,900)

Effective January 1, 2006, the federal government is paying prescription drug costs for Medicare clients. The state previously had to pay the prescription drug costs for these clients with a state/federal match. (Please see the Medicare Clawback Payments section for more information.)

**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 \$1,034,489,600 for Capitation expenditures in FY 2007 for the Proposition 204 population. This amount consists of:

General Fund 159,761,500  
 Tobacco Settlement Fund 72,553,200  
 TPTF Proposition 204 Protection Acct. 60,228,000  
 TTHCF Medically Needy Account 24,321,700  
 Emergency Health Services Account 28,680,000  
 Federal Title XIX Expenditure Authority 688,945,200

These amounts include the following adjustments:

**Caseload and Capitation** GF 28,292,800  
**Rate Growth** EA 41,515,000

The JLBC recommends an increase of \$69,807,800 in FY 2007 for caseload and capitation rate growth in the Proposition 204 population. This amount consists of:

General Fund 28,292,800  
 Federal Title XIX Expenditure Authority 41,515,000

The budget assumes that Proposition 204 capitation enrollment will increase by approximately 5,950 member years in FY 2007, or 3.7%, from June 2006 to June 2007. This will result in approximately 204,928 member years being served in FY 2007. Additionally, the approved amount assumes capitation rate increases of 6.0% above FY 2006.

Table 3 details the assumed capitation rates and projected enrollment, by AHCCCS rate code, for the Proposition 204 program in FY 2007.

**Decreased Tobacco Settlement** GF 17,000,000  
**Revenue** EA (17,000,000)

The JLBC recommends an increase of \$17,000,000 in FY 2007 from the General Fund and a corresponding reduction in Tobacco Settlement monies for decreased Tobacco Settlement revenue. (See Decreased Tobacco

Settlement Revenue policy issue for more information.) This amount consists of:

General Fund 17,000,000  
 Tobacco Settlement Fund (17,000,000)

<b>Table 3</b>		
<b>Proposition 204</b>		
<b>Federally-Eligible Rate Codes</b>	<b>FY 2007 Member Years <sup>1/</sup></b>	<b>FY 2007 Capitation Rates <sup>2/</sup></b>
TANF	66,588	204.14
SSI	24,564	318.30
Prop 204 Conversions <sup>3/</sup>	73,071	447.54
Prop 204 Medically Eligible <sup>4/</sup>	5,543	864.38
Prop 204 Newly Eligible <sup>5/</sup>	35,162	444.83
<b>TOTAL</b>	<b>204,928</b>	
Hospital "Kick" <sup>6/</sup>	6,509	10,637.30
Deliveries <sup>7/</sup>	1,265	6,331.01

<sup>1/</sup> Member years are calculated as projected regular member months divided by 12 and do not necessarily indicate actual number of clients enrolled.  
<sup>2/</sup> Capitation rates are set on a Contract Year (CY) basis, which is from October 1 through September 30. For FY 2007, the rates reflect 1 quarter at the CY 2006 level and 3 quarters at the CY 2007 level. These rates represent the average rates for the population listed.  
<sup>3/</sup> 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.  
<sup>4/</sup> 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.  
<sup>5/</sup> Represents enrollees that mirror the former Medically Indigent population, except their income ranges from 40 - 100% FPL.  
<sup>6/</sup> 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.  
<sup>7/</sup> This is the projection of actual birth deliveries to be made by Proposition 204 enrollees in AHCCCS health plans.

**Loss of Enhanced Federal Match** GF 8,481,000  
 EA (8,481,000)

The JLBC recommends an increase of \$8,481,000 in FY 2007 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 \$(82,174,100) in Title XXI Federal Expenditure Authority and an increase of \$73,693,100 in Title XIX Federal Expenditure Authority. This amount consists of:

General Fund 8,481,000  
 Federal Title XXI Expenditure Authority (82,174,100)  
 Federal Title XIX Expenditure Authority 73,693,100

The enhanced federal match was made available through the combination of 2 programs: KidsCare Parents and the HIFA waiver. If either program is removed, the state will lose the enhanced federal match. The JLBC recommends not funding the KidsCare Parents program. This would



Medicare Clawback Payments section for more information.)

**Proposition 204 - Medicare Premiums**

The JLBC recommends \$28,193,300 for Medicare Premiums expenditures in FY 2007 for the Proposition 204 population. This amount consists of:

General Fund	9,417,300
Federal Title XIX Expenditure Authority	18,776,000

These amounts include the following adjustments:

<b>Caseload and Capitation</b>	<b>GF</b>	<b>1,709,500</b>
<b>Rate Growth</b>	<b>EA</b>	<b>2,803,800</b>

The JLBC recommends an increase of \$4,513,300 in FY 2007 for caseload growth and inflation. This amount consists of:

General Fund	1,709,500
Federal Title XIX Expenditure Authority	2,803,800

These amounts would provide for a 19.1% increase above the FY 2006 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 2007. This amount is unchanged from FY 2006.

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 \$97,811,900 for KidsCare children’s services in FY 2007. This amount consists of:

General Fund	21,671,200
CHIP Fund	76,140,700

These amounts include the following adjustments:

<b>Caseload and Capitation</b>	<b>GF</b>	<b>3,424,300</b>
<b>Rate Growth</b>	<b>OF</b>	<b>9,641,000</b>

The JLBC recommends an increase of \$13,065,300 in FY 2007 for caseload and inflation growth in the KidsCare – Children population. This amount consists of:

General Fund	3,424,300
CHIP Fund	9,641,000

The JLBC recommendation assumes enrollment growth of approximately 1,908 members, or 3.7%, from June 2006 to June 2007. Total enrollment in June 2007 is expected to reach approximately 54,043. Additionally, the approved amount assumes capitation rate increases of 6.0% above the FY 2006.

***KidsCare – Parents***

The JLBC recommends no funding for KidsCare Parents in FY 2007. This amount would fund the following adjustments:

<b>KidsCare Parents Expiration</b>	<b>GF</b>	<b>(8,035,700)</b>
	<b>OF</b>	<b>(29,745,300)</b>

The JLBC recommends a decrease of \$(37,781,000) in FY 2007 for the expiration of the KidsCare Parents program. This amount consists of:

General Fund	(8,035,700)
CHIP Fund	(29,745,300)

Laws 2005, Chapter 328 eliminates the statutory authority for the coverage of this population effective July 1, 2006, therefore no funding is recommended for this population. Because it is more costly to continue the KidsCare Parents program in FY 2007, the JLBC recommendation allows the KidsCare Parents program to expire.

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 \$(8,481,000) in the Proposition 204 program, which offset the \$8,491,700 appropriation to fund the KidsCare Parents population (including administration), as shown below in Table 4. Therefore, the net effect of retaining the KidsCare Parents program in FY 2006 was essentially budget neutral.

In FY 2007, fewer Title XXI monies are available to generate savings in the Proposition 204 program, reducing the estimated savings level to \$(5,056,700) in FY 2007. In addition to the fewer savings available in the Proposition 204 program, growth in the KidsCare Parents population increases the General Fund programmatic cost estimate (including administration) to \$9,955,700 in FY 2007. The net fiscal impact of retaining the program in FY 2007 would be \$4,899,000. These changes are shown below in the "Retain KidsCare Parents" columns.

	<u>Retain KC Parents</u>		<u>Elim. KC Parents</u>		
	FY 2006		FY 2007		
	<u>Approp.</u>	<u>FY 07</u>	<u>Above 06</u>	<u>FY 07</u>	
Prop. 204 Savings	(8.5)	(5.1)	3.4	0.0	8.5
KC Parents Prog. Costs	8.5	10.0	1.5	0.0	(8.5)
<b>Net GF Impact</b>	<b>0.0</b>	<b>4.9</b>	<b>4.9</b>	<b>0.0</b>	<b>0.0</b>

The final columns of *Table 4* show the budgetary effect of eliminating the KidsCare Parents program. If this program is eliminated, we would replace the savings previously witnessed by enhanced federal match monies with the savings of not administering the program. Eliminating the KidsCare Parents program would therefore be budget neutral.

### Payments to Hospitals

These line items represent payments made directly to hospitals separate from the traditional capitated or fee-for-service system.

#### *Disproportionate Share Payments*

The JLBC recommends \$143,477,300 for Disproportionate Share Hospital (DSH) Payments in FY 2007. This amount consists of:

General Fund	48,107,900
Federal Title XIX Expenditure Authority	95,369,400

These amounts include the following adjustments:

<b>Revised Expenditure Limit</b>	<b>GF</b>	<b>7,760,300</b>
	<b>EA</b>	<b>13,525,500</b>

The JLBC recommends an increase of \$21,285,800 in FY 2007 for a revised expenditure limit. This amount consists of:

General Fund	7,760,300
Federal Title XIX Expenditure Authority	13,525,500

These changes reflect higher Federal DSH dollars available in FY 2007. This additional General Fund appropriation will increase General Fund revenue by

\$21,285,800 above FY 2006, for a net gain of \$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.

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.

	<u>FY 2006</u>	<u>FY 2007</u>
<b><u>Allocations:</u></b>		
County-Operated Hospitals	\$67,568,900	\$88,854,700
Arizona State Hospital (ASH)	28,474,900	28,474,900
Private Hospitals	<u>26,147,700</u>	<u>26,147,700</u>
<b>Total - Allocations</b>	<b>\$122,191,500</b>	<b>\$143,477,300</b>
<b><u>Revenue:</u></b>		
County Withholding	\$63,366,600	\$84,652,400
ASH reversion	<u>28,474,900</u>	<u>28,474,900</u>
<b>Total - GF Revenue</b>	<b>\$91,841,500</b>	<b>\$113,127,300</b>

The allocation to the Arizona State Hospital (ASH) will also generate General Fund revenue in FY 2007. An amount corresponding to the DSH allocation will be deposited into the General Fund.

#### *Graduate Medical Education*

The JLBC recommends \$22,512,800 for Graduate Medical Education (GME) expenditures in FY 2007. This amount consists of:

General Fund	7,519,800
Federal Title XIX Expenditure Authority	14,993,000

These amounts include the following adjustments:



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 1 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. IF STATUTORY LANGUAGE IS ENACTED TO PROHIBIT THESE POLICY CHANGES, THE PORTION OF THE FOOTNOTE REGARDING JLBC REVIEW OF POLICY CHANGES SHALL NOT APPLY.

**JLBC RECOMMENDED STATUTORY CHANGES**

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 2007, this withholding amount would be set at \$84,652,400.

The JLBC recommends as session law setting the County Acute Care contribution at \$59,222,500. This amount includes adjusting the contribution for Maricopa County in FY 2007 downward by \$(767,000) for inflation by an amount equal to the GDP price deflator. JLBC recommends adjusting Maricopa County's contribution downward for inflation in FY 2008. (Please see Maricopa County Acute Care Contribution policy issue under the Traditional Capitation line item.)

The JLBC recommends as session law continuing the use of \$2,646,200 in DUC pool contributions in AHCCCS for all counties other than Maricopa County.

The JLBC recommends as session law continuing redetermination periods of 6 months for Temporary Assistance for Needy Families Cash Benefit clients age 21 or older and requiring AHCCCS to report to the President of the Senate, Speaker of the House, and the Joint Legislative Budget Committee by February 10, 2007 on the results of the redetermination change.

The JLBC recommends amending statute to limit annual capitation rate adjustments made by the department to include only utilization and inflation, unless previously approved by the Legislature. Any programmatic changes or other policy decisions that might otherwise affect capitation payments would be approved by the full Legislature.

**OTHER ISSUES FOR LEGISLATIVE CONSIDERATION**

**FY 2006 Shortfall**

JLBC estimates a FY 2006 shortfall in the AHCCCS Acute Care cost center. This shortfall is estimated to total \$5,452,100 General Fund. This amount is distributed through the Traditional Acute, Proposition 204, and KidsCare populations. The shortfall consists of changes in the capitation rates, growth rates, and various policy issues, as follows:

Caseload and Capitation	(489,500)
Tobacco Backfill	17,000,000
Medicare Modernization Act	(5,768,800)
Tobacco Tax Revenue	<u>(5,289,600)</u>
Net Acute Care Shortfall	5,452,100

The capitation rates were estimated to increase by 6.0% in FY 2006. The actual adjustment is 6.1%. The 0.1% capitation rate increment resulted in a shortfall of about \$8 million.

The increase in capitation rates is offset by lower than expected growth rates. Caseloads have been under projections for FY 2006. The budget estimated caseloads for the Traditional and Proposition 204 populations to be 2.5%. Caseloads have been growing at an annualized rate of approximately 1.3%. This has resulted in a forecasted savings of approximately \$(8,500,000). After accounting for the higher than budgeted capitation rates, the net caseload and capitation savings is \$(489,500).

The litigation involving the Master Settlement Agreement from the Participating Manufacturers was filed during FY 2006. It is anticipated that this lawsuit will proceed which will require the state to backfill \$17,000,000 during FY 2006.

The prescription drug savings from the Medicare Modernization Act (MMA) will result in a net savings in the AHCCCS Acute Care cost center of approximately \$(5,768,800).

Additional savings is forecasted as tobacco tax revenue collections have been greater than what was originally anticipated in the FY 2006 budget. An additional \$5,289,600 in tobacco tax revenue is expected in FY 2006. The allocation is as follows:

Medically Needy Account	4,198,700
Proposition 204 Protection Account	700,000
Emergency Health Services Account	390,900

Given the small size of the FY 2006 shortfall estimate compared to the overall size of the AHCCCS budget, the current JLBC recommendation does not include a General

Fund supplemental. JLBC Staff continues to monitor caseload trends, and further changes may eliminate the need for a supplemental in FY 2006.

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**SUMMARY OF FUNDS - SEE AGENCY SUMMARY**

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