

Arizona Health Care Cost Containment System
Acute Care

A.R.S. § 36-2901

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	FY 2006 Actual	FY 2007 Estimate	FY 2008 Approved
SPECIAL LINE ITEMS			
Traditional Medicaid Population			
Capitation	1,681,627,900	1,774,885,100	1,889,804,700 ^{1/2/}
Reinsurance	85,000,100	99,109,100	108,132,500
Fee-For-Service	403,425,300	447,375,500	497,366,500
Medicare Premiums	79,430,300	120,729,900	91,928,600
Breast and Cervical Cancer	553,900	1,251,800	2,131,400
Ticket to Work	5,141,400	4,765,900	8,043,600
SOBRA Coverage for Pregnant Women	0	0	5,336,500 ^{3/}
Dual Eligible Part D Copay Subsidy	0	1,029,700	1,029,700
Medicare Clawback Payments	7,569,800	27,082,200	27,022,000
Temporary Medical Coverage	0	7,651,800	10,326,400
Proposition 204 Services			
Proposition 204 - Capitation	932,837,000	998,767,600	1,007,858,800
Proposition 204 - Reinsurance	79,157,400	84,146,900	109,441,000
Proposition 204 - Fee-For-Service	130,816,400	148,204,600	175,536,600
Proposition 204 - Medicare Premiums	23,805,000	28,496,100	28,532,300
Proposition 204 - County Hold Harmless	4,825,600	4,825,600	4,825,600 ^{4/}
KidsCare Services			
KidsCare - Children	88,325,200	104,276,300	125,684,700
KidsCare - Parents	41,820,800	44,801,900	50,296,300
Payments to Hospitals			
Disproportionate Share Payments	112,206,700	143,477,300	30,350,000 ^{5/}
Graduate Medical Education	21,820,000	34,512,800	44,156,600
Hospital Loan Residency Program	0	1,000,000	1,000,000
Critical Access Hospitals	1,699,800	1,700,000	1,700,000
Rural Hospital Reimbursement	12,158,100	12,158,100	12,158,100
PROGRAM TOTAL	3,712,220,700	4,090,248,200	4,232,661,900^{6/7/8/}
FUND SOURCES			
General Fund	800,120,500	975,264,900	1,024,731,500
<u>Other Appropriated Funds</u>			
Children's Health Insurance Program Fund	102,434,500	116,017,600	139,391,900
Temporary Medical Coverage Fund	0	1,151,800	1,976,400
TPTF Emergency Health Services Account	35,143,500	29,371,200	29,264,100
TTHCF Medically Needy Account	79,128,800	83,162,500	78,306,100
SUBTOTAL - Other Appropriated Funds	216,706,800	229,703,100	248,938,500
SUBTOTAL - Appropriated Funds	1,016,827,300	1,204,968,000	1,273,670,000
<u>Expenditure Authority Funds</u>			
County Funds	62,635,700	54,433,300	52,852,000
Federal Title XIX Funds	2,455,618,000	2,682,671,000	2,752,486,000
Federal Title XXI Funds	24,627,200	0	0
Third Party Collections	0	194,700	194,700
Tobacco Settlement Fund	86,364,800	86,301,200	92,004,100
TPTF Proposition 204 Protection Account	66,147,700	61,680,000	61,455,100
SUBTOTAL - Expenditure Authority Funds	2,695,393,400	2,885,280,200	2,958,991,900
SUBTOTAL - Appropriated/Expenditure Authority Funds	3,712,220,700	4,090,248,200	4,232,661,900
Other Non-Appropriated Funds	18,930,800	25,300,000	25,300,000
Federal Funds	61,027,200	65,696,100	65,696,100
TOTAL - ALL SOURCES	3,792,178,700	4,181,244,300	4,323,658,000

^{1/} For the contract year beginning October 1, 2007, the administration may expend funds for federally-matched preventive adult dental services of up to \$1,000 per ALTCS member and federally-matched hospice services to non-ALTCS members. (General Appropriation Act footnote)

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 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2008 Approved
• % of well child visits in the first 15 months of life (EPSDT)	68.1	66.9	85	87
• % of children's access to primary care provider	83	85	78	85
• % of women receiving annual cervical screening	53.2	56.4	55	60
• Member satisfaction as measured by percentage of enrollees that choose to change health plans	3.5	3.5	2.0	2.0

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 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 2008) up to 200% FPL who are not covered by the regular Title XIX program.

- 2/ Laws 2007, Chapter 337 reduced the Acute Care county contribution from Maricopa County by \$(892,400) due to the county picking up 100% of the cost of Justice of the Peace salaries. To offset this decrease, \$892,400 GF was added to the AHCCCS budget. A corresponding General Fund decrease of \$(892,400) was taken in the State Treasurer's budget for no net General Fund increase to the state for the switch.
- 3/ Laws 2007, Chapter 263 appropriated \$1,800,000 from the General Fund and \$3,536,500 in Federal Expenditure Authority to increase the AHCCCS income eligibility limit from 133% FPL to 150% FPL for pregnant women.
- 4/ Of the \$4,825,600 appropriated for the Proposition 204 County Hold Harmless line, \$234,200 is allocated to Graham County, \$3,817,800 to Pima County, \$234,400 to Greenlee County, \$159,700 to La Paz 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. (General Appropriation Act footnote)
- 5/ The \$30,350,000 appropriation for Disproportionate Share Payments for FY 2008 made pursuant to A.R.S. § 36-2903.01P includes \$4,202,300 for the Maricopa County Healthcare District and \$26,147,700 for private qualifying disproportionate share hospitals. (General Appropriation Act footnote)
- 6/ 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 2008, the Arizona Health Care Cost Containment System Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 7/ The Arizona Health Care Cost Containment System Administration shall report to the Joint Legislative Budget Committee by March 1 of each year on preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum shall be no more than 2%. Before implementation of any changes in capitation rates, the Arizona Health Care Cost Containment System Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee. 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 for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 8/ General Appropriation Act funds are appropriated by Special Line Items by Program.

Chart 1

AHCCCS Eligibility

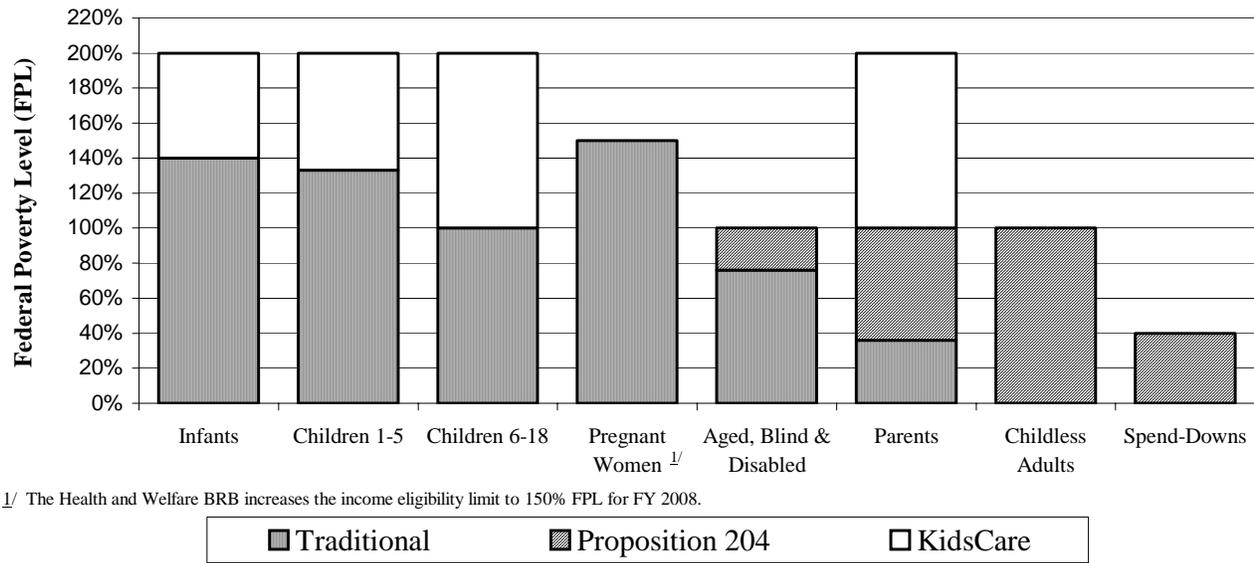


Table 1

JLBC Forecasted Member Months

<u>Population</u>	<u>June 2007</u>	<u>June 2008</u>	<u>% Change</u>
<u>Title XIX:</u>			
Traditional Medicaid	606,422	614,912	1.4%
Proposition 204	182,579	188,227	3.1%
Fee-For-Service/Other	<u>163,618</u>	<u>181,535</u>	<u>11.0%</u>
Subtotal – Title XIX	952,619	984,674	3.4%
<u>Title XXI:</u>			
KidsCare - Children	58,873	65,339	11.0%
KidsCare – Parents	<u>13,924</u>	<u>15,382</u>	<u>10.5%</u>
Total Acute Care	1,025,416	1,065,395	3.9%
Long-Term Care	<u>24,833</u>	<u>25,509</u>	<u>2.7%</u>
Total AHCCCS	1,050,249	1,090,904	3.9%

The above figures represent point-in-time estimates, while figures in Tables 2 and 3 display estimated averages for FY 2008. 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.

As of June 2007, AHCCCS programs serve 1,050,017 clients.

The following issues are reflected in several different line items:

Title XIX Caseload and Capitation Rate Growth

The budget provides caseload and capitation rate growth for the Traditional Medicaid and Proposition 204 populations in the Acute Care cost center. AHCCCS Title XIX enrollment growth for these 2 populations is projected to grow by 1.9% from June 2007 to June 2008.

In comparison to caseload growth rates which vary by population, capitation rate inflation is assumed to be 6%

above FY 2007 across all capitated programs. Yearly capitation rate increases have averaged 7.2% over the last 5 years, with the lowest increase of 4.2% coming in FY 2003 and the high of 13.9% coming in FY 2004.

In total, the amount includes \$230,540,600 in new Title XIX and Title XXI funding for caseload and capitation rate growth. Of this amount, \$88,736,600 is from the General Fund and \$141,804,000 is in Federal and County Expenditure Authority.

This funding includes \$84,817,000 from the General Fund for standard caseload growth as well as funding for the following issues:

- Annualization of the Temporary Medical Coverage program at a cost of \$1,850,000
- Additional funding for Graduate Medical Education at a cost of \$3,000,000
- Funding to provide the Human Papillomavirus vaccine to female AHCCCS members ages 21-26 at a cost of \$2,869,100
- Increasing the income limit from 133% FPL to 150% FPL for pregnant women at a cost of \$1,800,000

(Please see the policy issue paragraphs below for additional information on these issues.) In addition to the funding increases discussed above, the budget also includes \$(5,599,500) million in General Fund savings due to a revision to the outlier payment methodology, which is discussed further in the narrative below.

The FY 2008 forecast is grown off a FY 2007 base that overall is lower than the FY 2007 General Fund appropriation. In the narrative descriptions below, FY 2008 funding increases are compared to that program's

FY 2007 appropriated level, as well as its revised expenditure level in FY 2007.

Fee-For-Service and Reinsurance

All 4 categories of Fee-For-Service and Reinsurance in the Traditional and Proposition 204 Special Line Items are grown at 11% from current FY 2007 levels for FY 2008. The 11% assumes an increase of 3% for caseloads and 8% in utilization and medical inflation.

Tobacco Settlement Revenue

The budget provides \$92,004,100 from the Tobacco Settlement Fund for state match expenditures in the Proposition 204 program in FY 2008. This amount represents an increase of \$5,702,900 above the FY 2007 appropriation. The Master Settlement Agreement (MSA) is the settlement agreement entered into in 1998 by several cigarette manufacturers and the states, territories, and the District of Columbia that brought suit. The forecast for Tobacco Settlement monies received in FY 2008 is based on the actual amount received in FY 2007, which was higher than the amount appropriated in the FY 2007 budget. As required by the ballot initiative, these funds are then directed to Proposition 204 expenditures.

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 (approximately a 2:1 match) and Title XXI (approximately a 3:1 match) KidsCare Programs. These rates are set on a state-by-state basis and are revised each year. In FY 2008, both the Title XIX FMAP (0.27% decline) and the Title XXI FMAP (0.19% decline) are decreasing, effective October 1, 2007. The FY 2008 FMAPs are 66.27% for Title XIX and 76.39% for Title XXI. These decreases will result in General Fund cost increases in federally matched programs of \$7,622,300 which are included in the growth numbers presented below.

Special Line Items

Traditional Medicaid Population

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

- Children less than 1, up to 140% of the Federal Poverty Level (FPL)
- Pregnant women up to 150% FPL and children aged 1-5 up to 133% FPL (Laws 2007, Chapter 263 raised the income limit for pregnant women from 133% FPL to 150% 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 budget provides \$1,889,804,700 for Capitation expenditures in FY 2008 for the Traditional population. This amount consists of:

	<u>FY 2008</u>
General Fund	\$525,175,600
County Funds	52,852,000
TTHCF Medically Needy Account	58,840,800
Third Party Collections	194,700
Federal Title XIX Expenditure Authority	1,252,741,600

These amounts fund the following adjustments:

Caseload and Capitation Rate Growth

The budget provides an increase of \$106,413,500 in FY 2008 for caseload and capitation rate growth in the Traditional Title XIX population. This amount consists of:

General Fund	41,623,000
Federal Title XIX Expenditure Authority	64,790,500

The budget provides capitation enrollment growth of 1.9% from June 2007 to June 2008. This will result in approximately 611,008 member years being served in FY 2008. Additionally, the amount assumes capitation rate increases of 6% above FY 2007.

Hospice Services Coverage

Although the budget does not specifically designate funding for hospice services, a footnote in the General Appropriation Act stipulates that AHCCCS may expend funds on federally-matched hospice services for non-ALTCS members.

Human Papillomavirus Vaccine

The budget provides an increase of \$8,506,100 in FY 2008 for the Human Papillomavirus (HPV) vaccine. This amount consists of:

General Fund	2,869,100
Federal Title XIX Expenditure Authority	5,637,000

This appropriation provides funding for the HPV vaccine for female AHCCCS members ages 21-26. This vaccine protects against 4 strains of HPV, 2 of which have been linked to cervical cancer. Receiving the vaccine is voluntary and AHCCCS estimates that 30% of those eligible will participate. Funding to provide the vaccine to females 18 and under (both Medicaid recipients and the underinsured) is included in the Department of Health Services budget. AHCCCS members aged 19 - 21 will receive the HPV vaccine through AHCCCS' base budget.

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 5-year period upon the completion of a competitive bidding process in which the health plans respond to a

Request for Proposal from AHCCCS. Health plans bid by AHCCCS rate code, meaning that different rates are paid for different groups. *Table 2* details the capitation rates and enrollment by AHCCCS rate code for FY 2008. The next 5-year contracts will be awarded October 2008.

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.

Table 2

Traditional Medicaid		
Federally-Eligible Rate Codes	FY 2008 Member Years ^{1/}	FY 2008 Capitation Rates ^{2/}
TANF < 1	52,483	503.47
TANF 1-13	294,873	113.36
TANF 14-44 Female	108,123	200.57
TANF 14-44 Male	44,491	140.76
TANF 45+	9,534	384.49
SSI w/ Medicare	40,419	192.91
SSI w/o Medicare	51,963	665.52
Family Planning	<u>9,122</u>	18.15
Total	611,008	
Deliveries ^{3/}	31,038	6,588.76

^{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 2008, the rates reflect 1 quarter at the CY 2007 level and 3 quarters at the CY 2008 level.
^{3/} This is the projection of actual birth deliveries to be made by enrollees in AHCCCS health plans.

Maricopa County Acute Care Deflator

The budget provides an increase of \$688,900 from the General Fund in FY 2008 and a corresponding decrease of \$(688,900) in County Funds for a decrease in County Acute Care contributions from Maricopa County. (*See Table 3.*)

A.R.S. § 11-292 includes a Gross Domestic Product (GDP) price deflator adjustment for Maricopa County’s contribution to Acute Care costs. In accordance with this requirement, JLBC Staff used inflationary growth of 2.9%, as measured by the October 2006 estimate of the calendar year 2006 GDP price deflator. This decreases the county contribution for Maricopa County by \$(688,900). This adjustment was part of the state’s contribution to Maricopa County costs in exchange for the county taking responsibility for the adult probation program. The reduction in county contribution is offset by an increase in the General Fund equal to the amount of the contribution reduction.

Maricopa County Acute Care Shift

Laws 2007, Chapter 237 appropriates \$892,400 in FY 2008 from the General Fund and a corresponding decrease of \$(892,400) in County Funds for a decrease in the County Acute Care contributions from Maricopa County. (*Please see County Contribution discussion in Additional Legislation section for additional information.*)

To offset this cost, Laws 2007, Chapter 237 provides a decrease of \$(892,400) from the General Fund for Justice of the Peace salaries in Maricopa County. As part of the FY 2008 budget, Maricopa County agreed to assume

Table 3

County	FY 2007			FY 2008		
	Acute	DUC	BNCF	Acute	DUC	BNCF
Apache	\$ 268,800	\$ 87,300	\$ 83,400	\$ 268,800	\$ 87,300	\$ 88,400
Cochise	2,214,800	162,700	155,700	2,214,800	162,700	165,000
Coconino	742,900	160,500	153,600	742,900	160,500	162,700
Gila	1,413,200	65,900	63,100	1,413,200	65,900	66,800
Graham	536,200	46,800	44,800	536,200	46,800	47,500
Greenlee	190,700	12,000	11,500	190,700	12,000	12,200
La Paz	212,100	24,900	23,900	212,100	24,900	25,300
Maricopa	23,756,800	0	0	22,175,500 ^{1/}	0	0
Mohave	1,237,700	187,400	179,200	1,237,700	187,400	190,000
Navajo	310,800	122,800	117,500	310,800	122,800	124,500
Pima	14,951,800	1,115,900	1,067,700	14,951,800	1,115,900	1,131,400
Pinal	2,715,600	218,300	208,900	2,715,600	218,300	221,400
Santa Cruz	482,800	51,600	49,400	482,800	51,600	52,300
Yavapai	1,427,800	206,200	197,300	1,427,800	206,200	209,100
Yuma	<u>1,325,100</u>	<u>183,900</u>	<u>175,900</u>	<u>1,325,100</u>	<u>183,900</u>	<u>186,500</u>
Subtotal	\$51,787,100	\$2,646,200	\$2,531,900	\$50,205,800	\$2,646,200	\$2,683,100
Acute Care Total	\$54,433,300			\$52,852,000		
Administration Total			\$2,531,900			\$2,683,100
Total	\$56,965,200			\$55,535,100		

^{1/} Includes a reduction from FY 2007 of \$(688,900) for adult probation shift and \$(892,400) for the county taking on 100% of Justice of the Peace salaries.

responsibility for 100% of its Justice of the Peace salaries in exchange for a dollar-for-dollar reduction of its contributions to AHCCCS. The state has reduced Maricopa County contributions by \$(892,400), shifting costs of this reduction onto the General Fund. *(Please see the State Treasurer budget for additional information.)*

Reinsurance

The budget provides \$108,132,500 for Reinsurance expenditures in FY 2008 for the Traditional population. This amount consists of:

General Fund	36,475,800
Federal Title XIX Expenditure Authority	71,656,700

These amounts fund the following adjustments:

Caseload and Capitation Rate Growth

The budget provides an increase of \$9,023,400 in FY 2008 for caseload and inflation increases. This amount consists of:

General Fund	3,370,900
Federal Title XIX Expenditure Authority	5,652,500

The approved amount assumes an increase of 9.1% above the FY 2007 appropriation and an increase of 11% above revised caseload levels for FY 2007. The Reinsurance line item is for payments made to health plans for catastrophic cases in the Traditional Medicaid population.

Fee-For-Service

The budget provides \$497,366,500 for Fee-For-Service expenditures in FY 2008 for the Traditional population. This amount consists of:

General Fund	104,085,800
Federal Title XIX Expenditure Authority	393,280,700

These amounts fund the following adjustments:

Caseload and Capitation Rate Growth

The budget provides an increase of \$62,441,700 in FY 2008 for caseload and inflation increases. This amount consists of:

General Fund	18,497,100
Federal Title XIX Expenditure Authority	43,944,600

This additional funding would provide for an 11.7% increase in the Fee-For-Service program above the FY 2007 appropriation and an increase of 11% above revised caseload levels for FY 2007. These increases include monies for enrollment growth and medical inflation.

Inpatient Outlier Payment Methodology Revision

The budget provides a decrease of \$(12,450,700) in FY 2008 due to a revision to the outlier payment methodology. This amount consists of:

General Fund	(4,199,600)
Federal Title XIX Expenditure Authority	(8,251,100)

Laws 2007, Chapter 263 revises the inpatient outlier payment methodology. Normal hospital charges are paid through a tiered, flat rate system. Hospitals stays with significantly high operating costs qualify as outliers and are paid under a different system where hospitals are reimbursed a certain percentage of the amount charged. This percentage is known as the cost-to-charge ratio (CCR) and is calculated to determine the hospital’s actual cost of providing care to the patient. Prior to this year, these CCRs had not been updated since 1998, which has resulted in AHCCCS reimbursing hospitals at higher rates. Laws 2007, Chapter 263 revised the outlier methodology by utilizing the most recent statewide urban and statewide rural average CCRs published by the federal Centers for Medicare and Medicaid Services (CMS). These CCRs are to be updated annually to reflect any changes in the figures published by CMS. Laws 2007, Chapter 263 also requires that AHCCCS phase-in the new CCRs over a 3-year time period and that the phase-in be completed by October 1, 2009. The law also stipulates that routine maternity stays should not qualify for outlier reimbursement. This revision will not result in a decrease between FY 2007 and FY 2008 in the total amount of payments made to hospitals, but will reduce the future growth of these payments. In total, the revised methodology will result in General Fund savings of \$(5,599,500) below the estimated FY 2008 payment under the previous methodology. *(Please see the Proposition 204 Fee-For-Service Special Line Item for the rest of the outlier methodology revision savings.)*

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 4 primary components of the Fee-For-Service program: 1) federally-mandated services for Native Americans living on-reservations; 2) reimbursements to Federally Qualified Health Centers (FQHC) in rural areas for payments above negotiated rates as required by the Medicaid Benefits Improvements and Protection Act of 2000; 3) temporary Fee-For-Service coverage for those who leave AHCCCS before enrolling in a capitated plan; and, 4) federally-mandated emergency services for unauthorized and qualified 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 budget provides \$91,928,600 in FY 2008 for Medicare Premiums expenditures for the Traditional Medicaid population. This amount consists of:

General Fund	26,897,500
Federal Title XIX Expenditure Authority	65,031,100

These amounts fund the following adjustments:

Caseload and Capitation Rate Growth

The budget provides a decrease of \$(28,801,300) in FY 2008 for caseload growth and inflation. This amount consists of:

General Fund	(7,897,300)
Federal Title XIX Expenditure Authority	(20,904,000)

This amount provides a (23.9)% decrease in the Medicare Premiums program below the FY 2007 appropriation and 8% above revised caseload levels for FY 2007. Medicare premiums were lower than budgeted in FY 2007, resulting in lower caseloads for FY 2008.

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 budget provides \$2,131,400 for Breast and Cervical Cancer in FY 2008 for caseload and inflation increases. This amount consists of:

General Fund	503,300
Federal Title XIX Expenditure Authority	1,628,100

These amounts fund the following adjustments:

Caseload and Capitation Rate Growth

The budget provides an increase of \$879,600 in FY 2008 for caseload and inflation increases. This amount consists of:

General Fund	210,600
Federal Title XIX Expenditure Authority	669,000

The included amount provides a 70.3% increase in the Breast and Cervical Cancer program above the FY 2007 appropriation. Fast growth during the first half of FY 2007 has resulted in a large increase for FY 2008. FY 2007 costs through May 2007 have been above forecast. The FY 2008 estimates are grown off the higher FY 2007 base.

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. Enrollment as of June 1, 2007 was 124 individuals.

Ticket to Work

The budget provides \$8,043,600 for Ticket to Work in FY 2008. This amount consists of:

General Fund	2,713,300
Federal Title XIX Expenditure Authority	5,330,300

These amounts fund the following adjustments:

Caseload and Capitation Rate Growth

The budget provides an increase of \$3,277,700 in FY 2008 for caseload and inflation increases. This amount consists of:

General Fund	1,121,500
Federal Title XIX Expenditure Authority	2,156,200

The included amount provides an increase of 68.8% in the Ticket to Work program over the FY 2007 appropriation.

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 Supplemental 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 June 1, 2007 approximately 1,055 members were enrolled in this program.

The above amounts include an estimate of \$22,100 in premiums, which are used to offset the costs of services. Clients may be assessed premiums of \$0 to \$35 monthly, based on income.

SOBRA Coverage for Pregnant Women

The Health and Welfare Budget Reconciliation Bill (BRB) (Laws 2007, Chapter 263) appropriates \$5,336,500 for expanded Sixth Omnibus Budget Reconciliation Act (SOBRA) Coverage for Pregnant Women. This amount consists of:

General Fund	1,800,000
Federal Title XIX Expenditure Authority	3,536,500

Laws 2007, Chapter 263 increases the SOBRA eligibility limits for pregnant women from 133% FPL to 150% FPL. While approximately 1,128 additional women will be eligible for the program it is estimated that 60% of those eligible will participate.

Dual Eligible Part D Copay Subsidy

The budget provides \$1,029,700 from the General Fund for Dual Eligible Part D Copay Subsidy in FY 2008. This amount is unchanged from FY 2007.

The line item is used to pay the prescription drug copayments of low income individuals qualifying for both Medicare and Medicaid, known as “dual eligibles.” Prior to the federal government taking over prescription drug costs from the state for dual eligibles on January 1, 2006, these individuals did not pay for their prescriptions. As part of the benefit, however, recipients make copayments for prescription drugs ranging from \$1.00 to \$5.35, depending on the class of the drug as well as the recipient’s income.

Medicare Clawback Payments

The budget provides \$27,022,000 from the General Fund for Medicare Clawback Payments in FY 2008. This amount funds the following adjustments:

Revised Estimate

The budget provides a decrease of \$(60,200) from the General Fund in FY 2008 to more accurately reflect Clawback payments to the federal government

As part of the Medicare Modernization Act (MMA) effective January 1, 2006, AHCCCS is not required to pay for prescription drug costs for members that are also eligible for Medicare. Instead, AHCCCS is required to make “Clawback” payments to Medicare based on 88% of the estimated prescription drug cost of this population in FY 2008. The state’s share of 88% declines annually by 1.7% and the Clawback cost per member is annually increased based on national health trend information.

Temporary Medical Coverage

The budget provides \$10,326,400 for Temporary Medical Coverage in FY 2008. This amount consists of:

General Fund	8,350,000
Temporary Medical Coverage Fund	1,976,400

These amounts fund the following adjustments:

Annualization

The budget provides an increase of \$1,850,000 from the General Fund for annualization of this program and estimated inflation increases. The Legislature provided funding for this program for 9 months in FY 2007. The annualized amount fully funds the program in FY 2008.

Premium Increase

The budget provides an increase of \$824,600 from the Temporary Medical Coverage Fund due to a projected increase in premium revenues. Clients may be assessed premiums of \$60 to \$300 monthly, based on income.

The purpose of the program is to provide temporary medical coverage for persons who have previously been enrolled in AHCCCS who are now receiving federal disability insurance (SSDI) benefits and are not yet eligible for Medicare benefits. SSDI benefits would normally raise an individual’s income above eligibility limits for AHCCCS. This program allows a person to continue to receive health benefits until those benefits are provided through Medicare. Persons receiving SSDI benefits are eligible for Medicare benefits after a period of 24 months.

This program went into effect October 1, 2006. As of May 2007, approximately 386 people were enrolled in the program. This is below AHCCCS’ estimate of 1,390 participants for May 2007.

Although not statutorily required, AHCCCS has begun providing behavioral health services to this population. The cost of these services is not specifically funded in the FY 2008 budget. If caseloads remain lower than projected, the cost of these services may be funded within the appropriation.

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 budget provides \$1,007,858,800 for Capitation expenditures in FY 2008 for the Proposition 204 population. This amount consists of:

General Fund	137,785,500
Tobacco Settlement Fund	92,004,100
TPTF Proposition 204 Protection Account	61,455,100
TTHCF Medically Needy Account	19,465,300
Emergency Health Services Account	29,264,100
Federal Title XIX Expenditure Authority	667,884,700

These amounts fund the following adjustments:

Caseload and Capitation Rate Growth

The budget provides an increase of \$9,091,200 in FY 2008 for caseload and capitation rate growth in the Proposition 204 population. This amount consists of:

General Fund	6,359,400
Federal Title XIX Expenditure Authority	2,731,800

The appropriated amount includes Proposition 204 capitation enrollment growth of 1.9%, from June 2007 to June 2008. This will result in approximately 185,622 member years being served in FY 2008. Additionally, the

amount assumes capitation rate increases of 6% above FY 2007.

Tobacco Tax Backfill

The budget provides an increase of \$5,702,900 from the Tobacco Settlement Fund and corresponding decreases of \$(514,500) from the General Fund, \$(224,900) from the Tobacco Products Tax Fund Proposition 204 Protection Account, \$(4,856,400) from the Tax and Health Care Fund Medically Needy Account, and \$(107,100) from the Emergency Health Services Account in FY 2008.

The increase from the Tobacco Settlement Account in FY 2008 reflects an increase in the anticipated payment from the Master Settlement Agreement. *(Please see the Tobacco Settlement Revenue discussion in the Overview section for additional information.)*

Table 4 details the capitation rates and enrollment, by AHCCCS rate code, for the Proposition 204 program in FY 2008.

Table 4		
Proposition 204		
Federally-Eligible Rate Codes	FY 2008 Member Years ^{1/}	FY 2008 Capitation Rates ^{2/}
TANF	62,827	213.03
SSI	22,498	233.72
Prop 204 Conversions ^{3/}	32,165	458.17
Prop 204 Medically Eligible ^{4/}	4,568	1,018.11
Prop 204 Newly Eligible ^{5/}	<u>63,564</u>	458.17
Total	185,622	
Hospital "Kick" ^{6/}	6,096	10,963.40
Deliveries ^{7/}	1,558	6,588.76

^{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 2008, the rates reflect 1 quarter at the CY 2007 level and 3 quarters at the CY 2008 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.

Proposition 204 - Reinsurance

The budget provides \$109,441,000 for the Proposition 204 - Reinsurance line item in FY 2008. This amount consists of:

General Fund	36,917,200
Federal Title XIX Expenditure Authority	72,523,800

These amounts fund the following adjustments:

Caseload and Capitation Rate Growth

The budget provides an increase of \$25,294,100 in FY 2008 for caseload and inflation growth. This amount consists of:

General Fund	8,810,000
Federal Title XIX Expenditure Authority	16,484,100

The approved amount provides for an increase of 30% in the Proposition 204 Reinsurance program over the FY 2007 appropriation and an increase of 11% above revised caseload levels for FY 2007. Monies for these reinsurance payments are made to health plans for catastrophic cases in the Proposition 204 population.

Proposition 204 - Fee-For-Service

The budget provides \$175,536,600 for Fee-For-Service expenditures in FY 2008 for the Proposition 204 population. This amount consists of:

General Fund	35,529,200
Federal Title XIX Expenditure Authority	140,007,400

These amounts fund the following adjustments:

Caseload and Capitation Rate Growth

The budget provides an increase of \$31,482,200 in FY 2008 for caseload and inflation increases. This amount consists of:

General Fund	7,694,700
Federal Title XIX Expenditure Authority	23,787,500

The approved amount provides an 18.4% increase in Fee-For-Service expenditures for the Proposition 204 program above the FY 2007 appropriation and an increase of 11% above revised caseload levels for FY 2007. These increases include monies for enrollment growth and medical inflation. The groups covered are the same as the groups covered in the Traditional Fee-For-Service special line item. *(Please see the Fee-For-Service narrative above for more information.)*

Inpatient Outlier Payment Methodology Revision

The budget provides a decrease of \$(4,150,200) in FY 2008 due to a revision to the outlier payment methodology. This amount consists of:

General Fund	(1,399,900)
Federal Title XIX Expenditure Authority	(2,750,300)

(Please see the Traditional Fee-For-Service line item for additional information on the outlier payment revision.)

Proposition 204 - Medicare Premiums

The budget provides \$28,532,300 for Medicare Premiums expenditures in FY 2008 for the Proposition 204 population. This amount consists of:

General Fund	9,625,700
Federal Title XIX Expenditure Authority	18,906,600

These amounts fund the following adjustments:

Caseload and Capitation Rate Growth

The budget provides an increase of \$36,200 in FY 2008 for caseload growth and inflation. This amount consists of:

General Fund	103,700
Federal Title XIX Expenditure Authority	(67,500)

The approved amount essentially keeps funding flat from FY 2007 appropriated levels, but provides an increase of 8% above revised caseload levels for FY 2007.

Proposition 204 - County Hold Harmless

The budget provides \$4,825,600 from the General Fund for Proposition 204 County Hold Harmless payments in FY 2008. This amount is unchanged from FY 2007.

As a result of the implementation of Proposition 204, some counties experienced revenue losses. The approved amount 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 2 to 1 match in the 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 cost center.)*

KidsCare - Children

The budget provides \$125,684,700 for KidsCare children’s services in FY 2008. This amount consists of:

General Fund	27,416,400
CHIP Fund	98,268,300

These amounts fund the following adjustments:

Caseload and Capitation Rate Growth

The budget provides an increase of \$21,408,400 in FY 2008 for caseload and inflation growth in the KidsCare - Children population. This amount consists of:

General Fund	4,233,600
CHIP Fund	17,174,800

The approved amount provides enrollment growth of approximately 6,466 members, or 11%, from June 2007 to June 2008. The growth rate is based upon a weighted growth rate of actual data from prior periods. The growth rate is based on 10% from FY 2005, 40% from FY 2006 and 50% on year-to-date FY 2007 through February 2007. Total enrollment in June 2008 is expected to reach approximately 65,339. Additionally, the amount provides capitation rate increases of 6%.

The above amounts include an estimate of \$6.7 million in premiums, which are used to offset the costs of services. Monthly premiums range from \$10 to \$35 depending on household income and the number of children enrolled. The maximum premium is \$35 per month to cover all children in the household.

KidsCare - Parents

The budget provides \$50,296,300 for KidsCare Parents in FY 2008. This amount consists of:

General Fund	9,172,700
CHIP Fund	41,123,600

These amounts fund the following adjustments:

KidsCare Parents Continuation

The budget provides an increase of \$5,494,400 in FY 2008. This amount consists of:

General Fund	(705,100)
CHIP Fund	6,199,500

Although originally set to expire on July 1, 2007, Laws 2007, Chapter 263 continues statutory authority for this program until June 30, 2008 contingent on the state continuing to receive the enhanced federal match rate for this population. As of June 1, 2007, approximately 14,094 parents were receiving services in the program. 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.

The above amounts include an estimate of \$7.5 million in premiums, which are used to offset the costs of services. The FY 2007 budget increased premiums paid by KidsCare parents. Premiums for this population now total 3%-5% of the family’s monthly income depending on income level for coverage of all parents and children. In

addition, parents pay an enrollment fee of \$15-\$25 per person depending on income to enroll in the KidsCare Parents program. There is no enrollment fee if only children are being enrolled in the program. The \$7.5 million in premiums are appropriated from the CHIP Fund. These premium payments offset the cost of the program for FY 2008.

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 budget provides \$30,350,000 for Disproportionate Share Hospital (DSH) Payments in FY 2008. This amount consists of:

General Fund	8,837,900
Federal Title XIX Expenditure Authority	21,512,100

These amounts fund the following adjustments:

Decreased FMAP

The budget provides an increase of \$287,000 from the General Fund and a corresponding decrease of \$(287,000) in Federal Expenditure Authority to reflect a technical adjustment in the FMAP. (See Regular Federal Match Rate Change policy issue for more information.)

DSH Funding Methodology Revision

The budget provides a decrease of \$(113,127,300) in FY 2008 to reflect a change in the DSH funding methodology. This amount consists of:

General Fund	(39,557,000)
Federal Title XIX Expenditure Authority	(73,570,300)

This change has been made to align with a revised agreement between AHCCCS and the federal Centers for Medicare and Medicaid Services (CMS) pertaining to DSH funding methodology. The revision does not impact the amount of DSH funding provided to the participating hospitals or the net General Fund impact.

In prior years, private hospitals retained their DSH allocation while publicly operated local hospitals had most of their payments recouped by the state by withholding a portion of the relevant county's Transaction Privilege Tax (TPT) payments. Maricopa Integrated Health Services (MIHS) is the only current local level publicly operated hospital to qualify for DSH. MIHS is allowed to retain \$4,202,300 of its DSH allocation.

In the case of the Arizona State Hospital (ASH), it returned its DSH allocation in the form of a transfer to General Fund revenue.

Through a new agreement with CMS, the state will now only appropriate General Fund dollars for DSH payments to private hospitals (\$26,147,700) and monies retained by MIHS (\$4,202,300). Publicly operated hospitals will now be required to document uncompensated care costs to the federal government through a certified public expenditure (CPE) process.

ASH and MIHS' CPE will now serve as the state match for the federal DSH payment. This new process results in a decrease in the level of DSH funding appropriated as well as a corresponding decrease in revenue to the General Fund. TPT payments will no longer be withheld on behalf of MIHS. (Please see Table 5 below for an illustration of how DSH payments will be addressed in FY 2008.)

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.

	FY 2007	FY 2008
<u>Allocations:</u>		
County-Operated Hospitals (COH)	\$ 84,652,400	\$ 85,237,600 ^{1/}
Supplemental COH payment	4,202,300	4,202,300
Arizona State Hospital (ASH)	28,474,900	28,474,900 ^{2/}
Private Hospitals	<u>26,147,700</u>	<u>26,147,700</u>
Total Allocations	\$143,477,300	\$144,062,500
<u>Revenue:</u>		
County Withholding	\$ 84,652,400	\$ -
ASH reversion	28,474,900	-
Federal DSH to GF (Maricopa)	-	55,006,900
Federal DSH to GF (ASH)	<u>-</u>	<u>18,850,400</u>
Total Revenue	\$113,127,300	\$ 73,857,300
Less GF Appropriation	(48,107,900)	(8,837,900)
Net GF Impact	65,019,400	65,019,400
<small>1/ Includes \$30,230,700 in CPE which draw down federal DSH payments.</small>		
<small>2/ Includes \$9,624,500 in CPE which draw down federal DSH payments.</small>		

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.

Graduate Medical Education

The budget provides \$44,156,600 for Graduate Medical Education (GME) expenditures in FY 2008. This amount consists of:

General Fund	14,894,000
Federal Title XIX Expenditure Authority	29,262,600

These amounts fund the following adjustments:

Statutory Inflation Adjustment

The budget provides an increase of \$749,600 in FY 2008 for a statutory inflation adjustment. This amount consists of:

General Fund	252,800
Federal Title XIX Expenditure Authority	496,800

The adjustment reflects a 3.3% increase above the FY 2006 appropriation of \$21,820,000, based on the CMS Hospital Prospective Reimbursement Market Basket, as reported by AHCCCS. This inflation adjustment is required by statute. The additional \$12,000,000 appropriated in FY 2007 for recruiting Arizona physicians is not adjusted for inflation as it is not included in the statutory inflation adjustment.

Decreased FMAP

The budget provides an increase of \$121,400 from the General Fund in FY 2008 and a corresponding decrease of \$(121,400) in Federal Expenditure Authority Funds to reflect a technical adjustment in the FMAP. *(See Regular Federal Match Rate Change policy issue for more information.)*

GME Funding Increase

The budget provides an increase of \$8,894,200 in FY 2008 for additional GME funding. This amount consists of:

General Fund	3,000,000
Federal Title XIX Expenditure Authority	5,894,200

The GME program reimburses hospitals with graduate medical education programs for the additional costs of treating AHCCCS members with graduate medical students. The Health and Welfare BRB establishes priorities for the \$8,894,200 in additional funding. First priority for the FY 2008 increase in GME funding provided is given to GME programs established or expanded on or after July 1, 2006. Second priority for this increased funding is given to programs located in a county with a population of less than 500,000 when the position was established or for residencies that include a rotation in a county with a population of less than 500,000 at the time the position was established. The BRB also allowed local governments to contribute to the state's GME program. It is estimated that this appropriation will provide funding for 95 (438 total) residency positions in FY 2008.

Hospital Loan Residency Program

The budget provides \$1,000,000 from the General Fund for the Hospital Loan Residency Program in FY 2008. This amount is unchanged from FY 2007.

This program is designed to fund start-up and ongoing costs for residency programs in accredited hospitals. Interest-free loans may be issued up to \$500,000 per year

for one hospital per county if the hospital establishes a new residency program of at least 6 residents or adds a new specialty area to an existing residency program with at least 4 new residents. Priority for loans will be for hospitals located in rural counties.

Medicare funded residency programs are capped. Without an exception issued by CMS, hospitals are not able to increase the number of medical residents and have those residencies funded through Medicare. Therefore, funding to increase residencies must come from sources other than Medicare.

Critical Access Hospitals

The budget provides \$1,700,000 for Critical Access Hospitals in FY 2008. This amount consists of:

General Fund	573,400
Federal Title XIX Expenditure Authority	1,126,600

These amounts fund the following adjustments:

Decreased FMAP

The budget provides an increase of \$5,600 from the General Fund in FY 2008 and a corresponding decrease of \$(5,600) 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. In FY 2007, 9 hospitals qualified for funding under this program.

Rural Hospital Reimbursement

The budget provides \$12,158,100 for Rural Hospital Reimbursement payments in FY 2008. This amount consists of:

General Fund	4,100,900
Federal Title XIX Expenditure Authority	8,057,200

These amounts fund the following adjustments:

Decreased FMAP

The budget provides an increase of \$8,500 from the General Fund in FY 2008 and a corresponding decrease of \$(8,500) 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 Rural Hospital Reimbursement program, established in FY 2006, increases inpatient reimbursement rates for qualifying rural hospitals.

Additional Legislation

Redetermination

The Health and Welfare BRB (Laws 2007, Chapter 263), directs AHCCCS to determine continued eligibility for Acute Care services every 6 months for any adult who is at least 21 years old and who is being redetermined for Temporary Assistance for Needy Families (TANF) cash benefits in the Department of Economic Security. This provision was previously included in session law. AHCCCS shall report to the President of the Senate, the Speaker of the House of Representatives, and the Joint Legislative Budget Committee by February 10, 2008 on the effects through January 2008 of changing the redetermination period.

AHCCCS Outreach in Schools

The Health and Welfare BRB amends statute to allow AHCCCS and its contractors to collaborate with organizations, including schools, school districts, and community and faith based organizations, for outreach and information activities related to AHCCCS programs. Permissible activities include promotion of health care coverage, participation in school events, and distribution of applications and materials but shall not include delivery of services, screening activities, eligibility determination, or enrollment. Outreach and information activities may not reduce or interfere with classroom instruction time.

Non-Emergency Transportation Report

The Health and Welfare BRB requires AHCCCS to report to the Joint Legislative Budget Committee by December 15, 2007 on the use of non-emergency transportation. This report shall include the estimated costs of emergency and non-emergency transportation and potential cost-saving modifications to non-emergency transportation utilization.