

**Arizona Health Care Cost Containment System
Administration**

A.R.S. § 36-2901

JLBC Analyst: Russell Frandsen

	FY 2006 Actual	FY 2007 Estimate	FY 2008 Approved
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3,096.8	3,159.4	3,179.0 ^{1/}
Personal Services	34,993,700	38,971,400	40,198,900
Employee Related Expenditures	12,279,900	14,455,100	15,510,100
Professional and Outside Services	4,016,000	4,302,600	1,268,500
Travel - In State	175,300	138,000	138,000
Travel - Out of State	47,300	46,400	46,400
Other Operating Expenditures	11,088,000	12,635,000	12,653,000
Equipment	1,084,100	303,200	292,700
OPERATING SUBTOTAL	63,684,300	70,851,700	70,107,600
SPECIAL LINE ITEMS			
ADOA Data Center Charges	7,004,500	5,717,500	5,717,500 ^{2/}
Indian Advisory Council	150,900	227,100	232,900
DES Eligibility	49,206,200	57,946,000	55,687,400 ^{3/}
DES Title XIX Pass-Through	270,800	345,400	357,800
Healthcare Group Administration and Reinsurance	3,465,800	3,811,800	16,468,700 ^{4/}
Office of Administrative Hearings	220,900	269,700	271,300
KidsCare - Administration	8,629,800	9,338,500	9,445,300
Proposition 204 - AHCCCS Administration	10,096,800	11,425,100	11,401,700
Proposition 204 - DES Eligibility	26,846,200	41,842,800	40,229,100
Computer System Planning	0	2,000,000	0
Claims Computer System Replacement	0	0	2,090,900
DES Eligibility System Upgrade	0	0	2,600,000
2-1-1 System	0	1,900,000	3,422,400
PROGRAM TOTAL	169,576,200	205,675,600	218,032,600^{3/6/7/}
FUND SOURCES			
General Fund	77,082,800	88,922,400	98,728,700
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	0	2,531,900	2,683,100
Children's Health Insurance Program Fund	6,656,400	7,168,300	7,219,100
Healthcare Group Fund	3,465,800	3,811,800	8,468,700
SUBTOTAL - Other Appropriated Funds	10,122,200	13,512,000	18,370,900
SUBTOTAL - Appropriated Funds	87,205,000	102,434,400	117,099,600
<u>Expenditure Authority Funds</u>			
Federal Title XIX Funds	82,371,200	103,241,200	100,933,000
SUBTOTAL - Expenditure Authority Funds	82,371,200	103,241,200	100,933,000
SUBTOTAL - Appropriated/Expenditure Authority Funds	169,576,200	205,675,600	218,032,600
<u>Other Non-Appropriated Funds</u>			
Other Non-Appropriated Funds	50,384,500	95,449,300	95,449,300
Federal Funds	2,326,300	1,453,500	1,453,500
TOTAL - ALL SOURCES	222,287,000	302,578,400	314,935,400

1/ Includes 995.5 GF, 172 OF, and 952.6 EA FTE Positions funded from Special Line Items in FY 2008.

2/ It is the intent of the Legislature that the appropriation for the Department of Administration Data Center Charges be used only for the payment of charges incurred by the department for the use of computing services provided by the Department of Administration Data Center. (General Appropriation Act footnote)

3/ The amounts appropriated for the Department of Economic Security Eligibility line item shall be used for intergovernmental agreements with the Department of Economic Security for the purpose of eligibility determination and other functions. The General Fund share may be used for eligibility determination for other programs administered by the Division of Benefits and Medical Eligibility based on the results of the Arizona Random Moment Sampling Survey. (General Appropriation Act footnote)

4/ Notwithstanding A.R.S. § 35-190 and 35-191, the \$8,000,000 General Fund appropriation included in the Healthcare Group Administration and Reinsurance line item may be used to pay claims with dates of service before July 1, 2007.

5/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Program.

COST CENTER DESCRIPTION — Administration responsibilities related to health plan contracting include rate negotiations, health plan auditing and financial oversight, and assisting with the formulation of new health plans. Other major Administration responsibilities include the development and maintenance of the management information system, policy development and research, and agency finance and accounting. Additionally, the program provides funding for eligibility determinations.

PERFORMANCE MEASURES	FY 2004	FY 2005	FY 2006	FY 2008
	Actual	Actual	Actual	Approved
<ul style="list-style-type: none"> % of applications processed on time Comments: Most of the reason for applications not being processed on time is due to client errors in submitting needed information. AHCCCS is required by federal law to maintain a 95% on time rate for error-free applications. 	79	68	84	95
<ul style="list-style-type: none"> Customer satisfaction rating for eligibility determination clients (Scale 1-8) Comments: AHCCCS indicates that the equipment for the data survey is no longer operational, but AHCCCS hopes to capture the information in the future. 	6.0	NA	NA	6.0

Operating Budget

The budget provides \$70,107,600 and 1,058.9 FTE Positions for the operating budget in FY 2008. This amount consists of:

	FY 2008
General Fund	\$28,585,800
Federal Expenditure Authority	41,521,800

These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$2,314,900 in FY 2008 for statewide adjustments. This amount consists of:

General Fund	989,900
Federal Expenditure Authority	1,325,000

(Please see the Statewide Adjustments section at the end of this Appropriations Report for details.)

One-Time Funding for HIPAA Compliance

The budget provides a decrease of \$(2,659,000) in FY 2008 to reflect one-time FY 2007 Health Insurance Portability and Accountability Act (HIPAA) compliance monies. This amount consists of:

General Fund	(265,900)
Federal Expenditure Authority	(2,393,100)

These monies were to help AHCCCS meet 4 new electronic transaction standardization requirements added

under the federal Health Insurance Portability and Accountability Act of 1996.

One-Time Funding for Imaging Equipment

The budget provides a decrease of \$(400,000) in FY 2008 to reflect one-time funding of FY 2007 imaging equipment monies. This amount consists of:

General Fund	(200,000)
Federal Expenditure Authority	(200,000)

Special Line Items

ADOA Data Center Charges

The budget provides \$5,717,500 for the Arizona Department of Administration (ADOA) Data Center Charges in FY 2008. This amount consists of:

General Fund	1,724,700
Federal Expenditure Authority	3,992,800

These amounts are unchanged from FY 2007.

This Special Line Item reflects costs associated with the agency's usage of mainframe computing services provided by ADOA.

Indian Advisory Council

The budget provides \$232,900 and 3.6 FTE Positions for the Indian Advisory Council in FY 2008. This amount consists of:

6/ The Arizona Health Care Cost Containment System Administration shall report to the Joint Legislative Budget Committee by January 1 of each year on the agency's use of the cost savings that result from entering into an agreement with another state as outlined in Laws 1999, Chapter 313, Section 27. The report shall also include detail on the source of all revenues and expenditure of monies from the Intergovernmental Service Fund. (General Appropriation Act footnote)

7/ The Arizona Health Care Cost Containment System Administration shall report by September 30 of each year to the Joint Legislative Budget Committee on the services that receive reimbursement from the federal government under the Medicaid Direct Service Claiming program. The report shall include information on the type of services, how those services meet the definition of medical necessity, and the total amount of federal dollars that the schools have received under the Medicaid Direct Service Claiming program. (General Appropriation Act footnote)

General Fund	116,600
Federal Expenditure Authority	116,300

These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$5,800 in FY 2008 for statewide adjustments. This amount consists of:

General Fund	2,900
Federal Expenditure Authority	2,900

The Advisory Council on Indian Healthcare assists in developing a comprehensive healthcare delivery system for Arizona's Native American population.

DES Eligibility

The budget provides \$55,687,400 and 991.6 FTE Positions for the Department of Economic Security (DES) Eligibility services in FY 2008. These amounts consist of:

General Fund	26,466,700
Federal Expenditure Authority	29,220,700

These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$1,963,200 in FY 2008 for statewide adjustments. This amount consists of:

General Fund	946,000
Federal Expenditure Authority	1,017,200

One-Time Funding for Citizenship Verification

The budget provides a decrease of \$(3,950,800) in FY 2008 to reflect one-time funding for FY 2007 Citizenship Verification monies. This amount consists of:

General Fund	(1,975,400)
Federal Expenditure Authority	(1,975,400)

The federal Deficit Reduction Act, effective July 1, 2006, requires that every applicant to Medicaid provide identity and citizenship documentation. Prior to this act, the state had a policy of allowing self-declarations of citizenships and would require documentation on an as-needed basis. The new documentation requirements are intended to prevent ineligible applicants from receiving services. The one-time monies were for temporary staff to determine the eligibility of enrolled members. Once members verify their citizenship, they do not need to prove it again in subsequent eligibility determinations.

The FY 2007 (Laws 2006, Chapter 350) appropriation of \$10,400,000 included \$3,133,400 and 57.6 FTE Positions in ongoing funding in this line item and in the Proposition 204 – DES Eligibility Special Line Item.

Chapter 350 and the Executive designated \$7,266,600 of the \$10,400,000 as one-time funding in the FY 2007 budget process. *(Please see the Proposition 204 - DES Eligibility Special Line Item for more information.)*

One-Time Funding for Equipment

The budget provides a decrease of \$(271,000) in FY 2008 for elimination of one-time funding for FY 2007 equipment monies for citizenship verification. This amount consists of:

General Fund	(135,500)
Federal Expenditure Authority	(135,500)

DES, through an intergovernmental agreement, performs eligibility determinations for the Acute Care program.

DES Title XIX Pass-Through

The budget provides \$357,800 and 4.3 FTE Positions for DES Title XIX Pass-Through funding in FY 2008. This amount consists of:

General Fund	154,000
Federal Expenditure Authority	203,800

These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$12,400 in FY 2008 for statewide adjustments. This amount consists of:

General Fund	5,200
Federal Expenditure Authority	7,200

This Special Line Item contains funding for both the DES Disability Determination Services Administration (DDSA) and the DES Preadmission Screening and Annual Resident Review (PASARR) programs, which are administered by DES through an intergovernmental agreement. DES - DDSA determines disability entitlement for the Arizona Long-Term Care System and the Federal Emergency Services program. DES - PASARR screens all individuals with developmental disabilities before they enter the Long Term Care program to determine the appropriate level and types of specialized services needed.

Healthcare Group Administration and Reinsurance

The budget provides \$16,468,700 and 30 FTE Positions for Healthcare Group Administration and Reinsurance in FY 2008. This amount consists of:

General Fund	8,000,000
Healthcare Group Fund	8,468,700

These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$99,700 from the Healthcare Group Fund in FY 2008 for statewide adjustments.

Healthcare Group Subsidy

The budget provides an increase of \$8,000,000 from the General Fund in FY 2008 to subsidize Healthcare Group. Although provided in the FY 2008 budget, the \$8,000,000 General Fund subsidy may be used to pay claims with dates of service prior to July 1, 2007. Additionally, the Legislature has passed a number of reforms to the Healthcare Group program. *(Please see the Additional Legislation section below for additional information on Healthcare Group reforms.)*

Administrative Expenses

The budget provides an increase of \$4,557,200 from the Healthcare Group Fund in FY 2008 to reflect the administrative expenses already being spent for the administration of the Preferred Provider Organization (PPO) program. Previously, AHCCCS had treated these administrative expenses as non-appropriated. Statute dictates that all administrative expenses must be appropriated.

The Health and Welfare BRB (Laws 207, Chapter 263) clarifies that the definition of administrative expenses includes all costs to supervise the work done by private health plans and fee-for-service network providers.

Administrative costs of the Healthcare Group program are paid for from the Healthcare Group Fund, which receives revenue from monthly premiums paid by Healthcare Group members.

Healthcare Group (HCG) offers health insurance to small businesses with less than 50 employees and to sole practitioners. Coverage is offered through community rated plans and an applicant cannot be denied coverage due to a medical condition. Employers may pay part of the premium or offer the program directly to their employees with no additional cost to the business. Dental and vision coverage is available in addition to medical coverage. As of May 2007, there were 26,914 individuals enrolled in HCG medical plans.

Office of Administrative Hearings

The budget provides \$271,300 and 3 FTE Positions in Federal Expenditure Authority for Office of Administrative Hearings (OAH) costs in FY 2008. This amount funds the following adjustments:

Statewide Adjustments

The budget provides an increase of \$1,600 in Federal Expenditure Authority in FY 2008 for statewide adjustments.

This Special Line Item contains the Federal Expenditure Authority associated with hearing and grievance activities performed by OAH. AHCCCS transfers the federal funding to OAH, in addition to monies received from the Children's Health Insurance Program Fund, based on the cases reviewed.

KidsCare - Administration

The budget provides \$9,445,300 and 177.5 FTE Positions for KidsCare Administration costs in FY 2008. This amount consists of:

General Fund	2,226,200
Children's Health Insurance Program (CHIP) Fund	7,219,100

These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$304,200 in FY 2008 for statewide adjustments. This amount consists of:

General Fund	70,500
Children's Health Insurance Program (CHIP) Fund	233,700

One-Time Funding for HIPAA Compliance

The budget provides a decrease of \$(197,400) in FY 2008 to reflect one-time FY 2007 HIPAA compliance monies. This amount consists of:

General Fund	(45,000)
Children's Health Insurance Program (CHIP) Fund	(152,400)

FMAP Change

The budget provides an increase of \$30,500 from the General Fund and a corresponding CHIP Fund decrease in FY 2008 to reflect the lowering of the enhanced federal medical assistance percentage in October 1, 2007 from 76.53% to 76.34%.

KidsCare, also known as the Children's Health Insurance Program (CHIP), provides health insurance coverage to uninsured children and their parents whose families have an income less than 200% of the Federal Poverty Level (FPL). This Special Line Item includes funding for the administration component of this program, while funding for the services in the KidsCare program are included in the Acute Care Cost Center. Laws 2007, Chapter 263 continues the KidsCare Parents program until June 30, 2008 contingent on receiving an enhanced federal matching rate. *(Please see the KidsCare Parents Special Line Item in the Acute Care Cost Center for additional information).*

The administrative component of the CHIP program includes both direct and indirect costs and is capped by federal law at 10% of program costs. The recommended KidsCare Administration funding level from the CHIP Fund is approximately 5% of the recommended CHIP Fund program costs.

Proposition 204 - AHCCCS Administration

The budget provides \$11,401,700 and 202.3 FTE Positions for Proposition 204 AHCCCS Administration costs in FY 2008. This amount consists of:

General Fund	5,723,600
Federal Expenditure Authority	5,678,100

These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$366,500 in FY 2008 for statewide adjustments. This amount consists of:

General Fund	179,100
Federal Expenditure Authority	187,400

One-Time Funding for HIPAA Compliance

The budget provides a decrease of \$(389,900) in FY 2008 to reflect one-time FY 2007 HIPAA compliance monies. This amount consists of:

General Fund	(39,100)
Federal Expenditure Authority	(350,800)

Proposition 204 expanded AHCCCS coverage up to 100% FPL. This Special Line Item contains funding for AHCCCS administration costs of the Proposition 204 program, while funding for the services to this population are included in the Acute Care Cost Center.

Proposition 204 - DES Eligibility

The budget provides \$40,229,100 and 683.2 FTE Positions for Proposition 204 DES Eligibility costs in FY 2008. This amount consists of:

General Fund	20,508,700
Budget Neutrality Compliance Fund	2,683,100
Federal Expenditure Authority Funds	17,037,300

These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$1,431,100 in FY 2008 for statewide adjustments. This amount consists of:

General Fund	794,300
Federal Expenditure Authority	636,800

Statutory Adjustment

The budget provides an increase of \$151,200 from the Budget Neutrality Compliance Fund (BNCF) and a corresponding General Fund decrease in FY 2008 to reflect a statutorily required increase of county contributions. The BNCF is comprised of contributions from Arizona counties for administrative costs of the implementation of Proposition 204. Prior to the proposition, the counties funded and administered the

health care program for some of the Proposition 204 population.

Pursuant to A.R.S. § 11-292P, the JLBC Staff is required to adjust the prior year county contribution to the BNCF based on inflationary and population growth. 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 Gross Domestic Product (GDP) price deflator, and population growth of 3.22%, as estimated by the DES Population Statistics Unit. Using these rates, JLBC Staff calculated a FY 2008 increase of \$151,200 above the FY 2007 contribution amount of \$2,531,900. (Please see Table 3 in the Acute Care Cost Center for contributions by county.)

One-Time Funding for Citizenship Verification

The budget provides a decrease of \$(2,849,200) in FY 2008 to reflect one-time funding for FY 2007 Citizenship Verification monies. This amount consists of:

General Fund	(1,424,600)
Federal Expenditure Authority	(1,424,600)

(Please see the discussion in the DES Eligibility Special Line Item above.)

One-Time Funding For Equipment

The budget provides a decrease of \$(195,600) in FY 2008 to reflect one-time funding for FY 2007 equipment monies for citizenship verification. This amount consists of:

General Fund	(97,800)
Federal Expenditure Authority	(97,800)

This Special Line Item contains funding for DES Eligibility costs, in DES, of the Proposition 204 program. This funding primarily represents eligibility services provided by DES.

Computer System Planning

The budget provides no funding for Computer System Planning in FY 2008. This amount funds the following adjustments:

One-Time Funding for Computer System Planning

The budget provides a decrease of \$(2,000,000) in FY 2008 to reflect one-time funding for Computer System Planning. This amount consists of:

General Fund	(200,000)
Federal Expenditure Authority	(1,800,000)

This line item provided funding for AHCCCS to study and plan for the replacement of its claims computer system. This study was completed in FY 2007 and the FY 2008 budget provides funding for the replacement of the claims computer system in a separate line item.

Claims Computer System Replacement

The budget provides \$2,090,900 and 2.4 FTE Positions for the new Claims Computer System Replacement Special Line Item in FY 2008. This amount consists of:

General Fund	500,000
Federal Expenditure Authority	1,590,900

This line item will be used replace the claims computer system used by AHCCCS to pay provider claims for fee-for-service charges. The claims system is one of AHCCCS’ oldest systems and processes a high volume of requests. Expenditures from this line include equipment, internal information technology (IT) support and contracted programming, and system development. The claims system is one of many systems used by AHCCCS. AHCCCS anticipates replacing additional systems once the claims system replacement has been completed.

DES Eligibility System Upgrade

The budget provides \$2,600,000 and 11 FTE Positions for the new DES Eligibility System Upgrade Special Line Item in FY 2008. This amount consists of:

General Fund	1,300,000
Federal Expenditure Authority	1,300,000

These monies are part of a \$45,000,000 total fund multi-year IT upgrade project to replace the current case management/eligibility determination system used by DES for Medicaid, TANF, General Assistance and other welfare programs. AHCCCS is expected to seek \$24,730,000 over the project lifetime, of which approximately half would be sought from the General Fund and half would be Federal Expenditure Authority. The remaining costs would be covered by DES with \$12,722,500 from the General Fund and \$7,547,500 in non-appropriated federal monies. Expenditures from this line include equipment, internal IT support, and contracted programming and system development. (See the IT Specialist Rent discussion in the DES Administration Division and the Eligibly System Upgrade discussion in the DES Benefits and Medical Eligibility Division for more details.)

2-1-1 System

The budget provides \$3,422,400 and 11.2 FTE Positions from the General Fund for the 2-1-1 System in FY 2008. This amount funds the following adjustments:

Statewide Adjustments

The budget provides an increase of \$22,400 from the General Fund in FY 2008 for statewide adjustments.

State 2-1-1 Infrastructure

The budget provides an increase of \$2,400,000 and 6.2 FTE Positions from the General Fund in FY 2008 for State 2-1-1 Infrastructure. This money will be used to establish state infrastructure capacity to support locally-run call centers. This infrastructure will include call center

connectivity projects, call center support and referral services, and marketing and community relations activities.

Eliminate One-Time Equipment

The budget provides a decrease of \$(900,000) from the General Fund in FY 2008 for elimination of one-time FY 2007 equipment monies.

Arizona 2-1-1 online, www.az211.gov, became operational on June 29, 2005. The online 2-1-1 system provides referrals to available health and human services in Arizona. The 2-1-1 system can also be used to communicate updates during emergencies. The online component of 2-1-1 was initially funded with federal grants.

Additional Legislation

Healthcare Group

In the spring of 2007 it was announced that Healthcare Group (HCG) was running an annual deficit. The budget provides a one-time subsidy of \$8,000,000 from the General Fund for HCG in FY 2008. In addition to providing a General Fund subsidy, the Legislature also passed a number of reforms to the HCG program.

The Health and Welfare Budget Reconciliation Bill (Laws 2007, Chapter 263) included a number of reforms designed to improve both the financial stability as well as the legislative oversight of HCG. Chapter 263 includes:

- 1) Caps enrollment at 9,800 businesses from July 1, 2007 to the effective date of the legislation, September 19, 2007. After September 19, 2007, only businesses participating in the program prior to the effective date may continue to participate.
- 2) Sets default reimbursement rates for HCG contractors that do not have a contract with a provider at 114% of the AHCCCS reimbursement rates.
- 3) Establishes a study committee to examine the feasibility of continuing HCG in its current form, converting HCG into a high risk pool, or both. The committee shall report its findings and recommendations by December 15, 2007.
- 4) Directs the Department of Insurance to conduct a statutory financial examination of HCG and report its findings by February 15, 2008.
- 5) Clarifies the definition of HCG appropriated expenses to include HCG’s PPO program.

Health Care Insurer Data Reporting

The Health and Welfare Budget Reconciliation Bill (Laws 2007, Chapter 263) requires health care insurers to accept the state's right to recover monies from a third party payor for items of service for which AHCCCS has made a payment and respond to any inquiry from the AHCCCS Director regarding a claim for health care payment that is submitted within 3 years after the date of service. This provision fulfills requirements established by the Federal Deficit Reduction Act. In addition, the legislation requires health care insurers to provide enrollment data to the AHCCCS administration and becomes effective on February 29, 2008.