

Arizona Health Care Cost Containment System

Acute Care

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DESCRIPTION	FY 2006 ACTUAL	FY 2007 ESTIMATE	FY 2008 JLBC
SPECIAL LINE ITEMS			
Traditional Medicaid Population			
Capitation	1,681,627,900	1,774,885,100	1,956,516,900
Reinsurance	85,000,100	99,109,100	99,742,300
Fee-For-Service	403,425,300	447,375,500	491,827,200
Medicare Premiums	79,430,300	120,729,900	121,654,200
Breast and Cervical Cancer	553,900	1,251,800	1,946,800
Ticket to Work	5,141,400	4,765,900	8,727,500
Dual Eligible Part D Copay Subsidy	0	1,029,700	1,029,700
Medicare Clawback Payments	7,569,800	27,082,200	28,480,600
Temporary Medical Coverage	0	7,651,800	10,326,400
Proposition 204 Services			
Proposition 204 - Capitation	932,837,000	998,767,600	1,061,851,400
Proposition 204 - Reinsurance	79,157,400	84,146,900	92,542,200
Proposition 204 - Fee-For-Service	130,816,400	148,204,600	161,162,200
Proposition 204 - Medicare Premiums	23,805,000	28,496,100	29,908,800
Proposition 204 - County Hold Harmless	4,825,600	4,825,600	4,825,600
KidsCare Services			
KidsCare - Children	88,325,200	104,276,300	118,759,200
KidsCare - Parents	41,820,800	44,801,900	0
Payments to Hospitals			
Disproportionate Share Payments	112,206,700	143,477,300	143,477,300
Graduate Medical Education	21,820,000	34,512,800	35,262,400
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
Trauma Centers	0	0	0
PROGRAM TOTAL	3,712,220,700	4,090,248,200	4,382,898,800
FUND SOURCES			
General Fund	800,120,500	975,264,900	1,088,242,900
<u>Other Appropriated Funds</u>			
Children's Health Insurance Program Fund	102,434,500	116,017,600	91,925,200
Temporary Medical Coverage Fund	0	1,151,800	1,976,400
TPTF Emergency Health Services Account	35,143,500	29,371,200	29,371,200
TTHCF Medically Needy Account	79,128,800	83,162,500	83,162,500
SUBTOTAL - Other Appropriated Funds	216,706,800	229,703,100	206,435,300
SUBTOTAL - Appropriated Funds	1,016,827,300	1,204,968,000	1,294,678,200
<u>Expenditure Authority Funds</u>			
County Funds	62,635,700	54,433,300	53,744,400
Federal Title XIX Funds	2,455,618,000	2,682,671,000	2,886,300,300
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	86,301,200
TPTF Proposition 204 Protection Account	66,147,700	61,680,000	61,680,000
SUBTOTAL - Expenditure Authority Funds	2,695,393,400	2,885,280,200	3,088,220,600
SUBTOTAL - Appropriated/Expenditure Authority Funds	3,712,220,700	4,090,248,200	4,382,898,800
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	4,473,894,900

CHANGE IN FUNDING SUMMARY

	FY 2007 to FY 2008 JLBC	
	\$ Change	% Change
General Fund	112,978,000	11.6%
Other Appropriated Funds	(23,267,800)	(10.1%)
Expenditure Authority Funds	202,940,400	7.0%
Total Appropriated/Expenditure Authority Funds	292,650,600	7.2%
Non Appropriated Funds	0	0.0%
Total - All Sources	292,650,600	7.0%

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	FY 2005	FY 2006	FY 2008
	Actual	Actual	Actual	JLBC
• % 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

CHANGES FROM FY 2007

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 2007) up to 200% FPL who are not covered by the regular Title XIX program.

Population	June 2007	June 2008	% Change
Title XIX:			
Traditional Medicaid	616,495	634,988	3.0%
Proposition 204	190,963	196,698	3.0%
Fee-For-Service/Other	<u>163,539</u>	<u>181,471</u>	<u>11.0%</u>
Subtotal – Title XIX	970,997	1,013,157	4.3%
Title XXI:			
KidsCare (excl. parents)	<u>57,628</u>	<u>63,250</u>	9.8%
Total Acute Care	1,028,625	1,076,407	4.6%
Long-Term Care	<u>26,152</u>	<u>26,772</u>	<u>2.4%</u>
Total AHCCCS	1,054,777	1,103,179	4.6%

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.

The following issues are reflected in several different line items:

Title XIX Caseload and Capitation Rate Growth

The JLBC includes 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 3% from June 2007 to June 2008. This growth

estimate reflects a consensus 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% 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 \$334,777,900 in new Title XIX and Title XXI funding for caseload and capitation rate growth. Of this amount, \$121,005,800 is from the General Fund and \$213,772,100 is in Federal and County Expenditure Authority.

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 actual expenditure level in FY 2007.

Fee-For-Service and Reinsurance

All 4 categories of Fee-For-Service or 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 JLBC includes \$86,301,200 from the Tobacco Settlement Fund for state match expenditures in the Proposition 204 program in FY 2008. This amount is unchanged from FY 2007. The Master Settlement Agreement (MSA) 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 2008 is based on the amount received in FY 2007. As required by the ballot initiative, these funds are then directed to Proposition 204 expenditures.

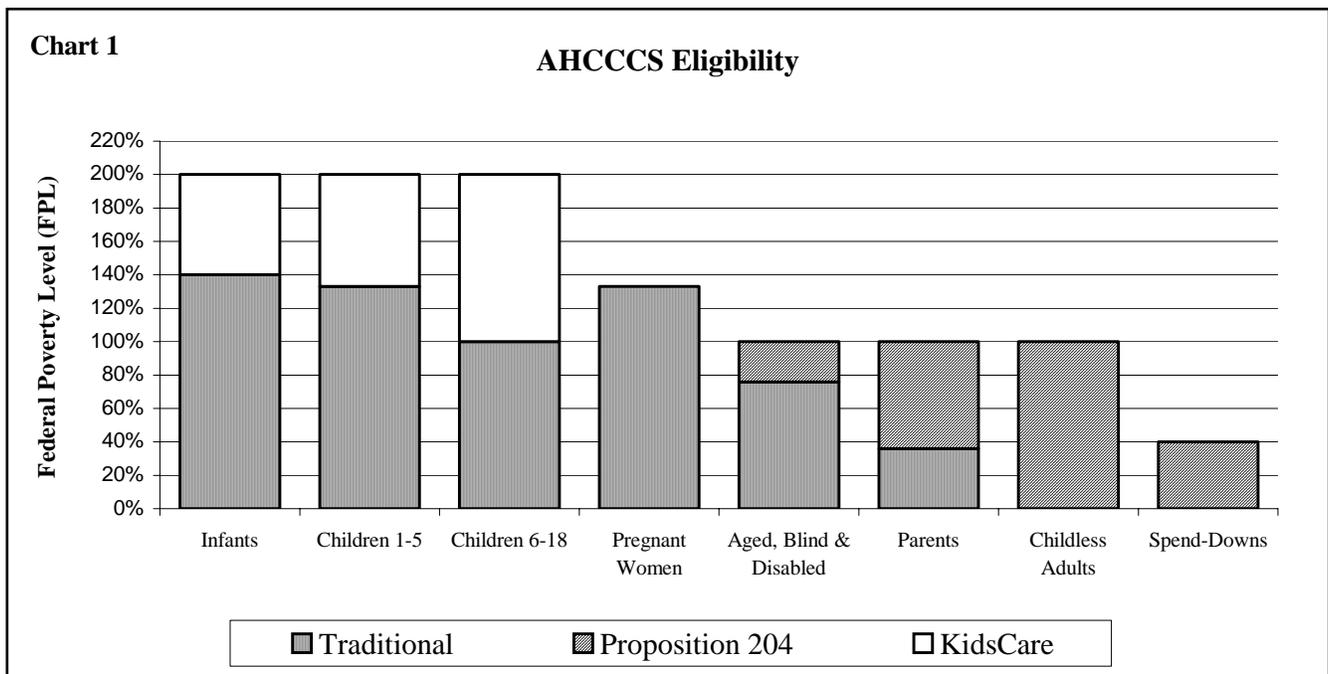
Federal Match Rate Change

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. These decreases will result in General Fund cost increases in federally matched programs of \$7,892,600, 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 and 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 includes \$1,956,516,900 for Capitation expenditures in FY 2008 for the Traditional population. This amount consists of:

	FY 2008
General Fund	\$546,843,100
County Funds	53,744,400
TTHCF Medically Needy Account	58,840,800
Third Party Collections	194,700
Federal Title XIX Expenditure Authority	1,296,893,900

These amounts would fund the following adjustments:

Caseload and Capitation	GF	67,052,000
Rate Growth	EA	114,579,800

The JLBC includes an increase of \$181,631,800 in FY 2008 for caseload and capitation rate growth in the Traditional Title XIX population. This amount consists of:

General Fund	67,052,000
Federal Title XIX Expenditure Authority	114,579,800

The JLBC includes capitation enrollment growth of 3% from June 2007 to June 2008. This will result in approximately 626,454 member years being served in FY 2008. Additionally, the amount assumes capitation rate increases of 6% above FY 2007. FY 2007 costs have been above forecast. The FY 2008 estimates are grown off the higher FY 2007 base.

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 capitation rates and enrollment by AHCCCS rate code for FY 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.

Traditional Medicaid		
Federally-Eligible Rate Codes	FY 2008 Member Years ^{1/}	FY 2008 Capitation Rates ^{2/}
TANF < 1	52,601	503.47
TANF 1-13	300,501	113.36
TANF 14-44 Female	112,750	200.57
TANF 14-44 Male	45,815	140.76
TANF 45+	9,601	384.49
SSI w/ Medicare	42,947	192.91
SSI w/o Medicare	53,254	665.52
Family Planning	8,985	18.15
Total	626,454	
Deliveries ^{3/}	31,408	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 Contribution	GF	688,900
	EA	(688,900)

The JLBC includes 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 on the following page.*)

Laws 2006, Chapter 331 included 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.

Reinsurance

The JLBC includes \$99,742,300 for Reinsurance expenditures in FY 2008 for the Traditional population. This amount consists of:

General Fund	33,645,600
Federal Title XIX Expenditure Authority	66,096,700

These amounts would fund the following adjustments:

Caseload and Capitation	GF	540,700
Rate Growth	EA	92,500

The JLBC includes an increase of \$633,200 in FY 2008 for caseload and inflation increases. This amount consists of:

Table 3

County Contributions for Acute Care and Administration

<u>County</u>	<u>FY 2007</u>			<u>FY 2008</u>		
	<u>Acute</u>	<u>DUC</u>	<u>BNCF</u>	<u>Acute</u>	<u>DUC</u>	<u>BNCF</u>
Apache	\$ 268,800	\$ 87,300	\$ 83,400	\$ 268,800	\$ 87,300	\$ 88,600
Cochise	2,214,800	162,700	155,700	2,214,800	162,700	165,200
Coconino	742,900	160,500	153,600	742,900	160,500	162,900
Gila	1,413,200	65,900	63,100	1,413,200	65,900	66,900
Graham	536,200	46,800	44,800	536,200	46,800	47,600
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	23,067,900	0	0
Mohave	1,237,700	187,400	179,200	1,237,700	187,400	190,200
Navajo	310,800	122,800	117,500	310,800	122,800	124,700
Pima	14,951,800	1,115,900	1,067,700	14,951,800	1,115,900	1,133,000
Pinal	2,715,600	218,300	208,900	2,715,600	218,300	221,700
Santa Cruz	482,800	51,600	49,400	482,800	51,600	52,400
Yavapai	1,427,800	206,200	197,300	1,427,800	206,200	209,400
Yuma	1,325,100	183,900	175,900	1,325,100	183,900	186,700
Subtotal	\$51,787,100	\$2,646,200	\$2,531,900	\$51,098,200	\$2,646,200	\$2,686,800
Acute Care Total	\$54,433,300			\$53,744,400		
Administration Total			\$2,531,900			\$2,686,800
Total	\$56,965,200			\$56,431,200		

General Fund 540,700
Federal Title XIX Expenditure Authority 92,500

The included amount assumes an increase of 0.6% above the FY 2007 appropriation and 11% above actual 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 JLBC includes \$491,827,200 for Fee-For-Service expenditures in FY 2008 for the Traditional population. This amount consists of:

General Fund 103,281,500
Federal Title XIX Expenditure Authority 388,545,700

These amounts would fund the following adjustments:

Caseload and Capitation GF 13,493,200
Rate Growth EA 30,958,500

The JLBC includes an increase of \$44,451,700 in FY 2008 for caseload and inflation increases. This amount consists of:

General Fund 13,493,200
Federal Title XIX Expenditure Authority 30,958,500

This additional funding would provide for a 9.9% increase in the Fee-For-Service program above the FY 2007 appropriation and 11% above actual caseload levels for FY 2007. These increases include monies for enrollment growth and medical inflation.

The Fee-For-Service line item is for payments made by AHCCCS directly to health care providers on behalf of members not covered under the capitated portion of the

AHCCCS program. There are 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.

Table 4 shows AHCCCS FY 2008 estimates of state costs by Fee-For-Service group.

Table 4

Traditional Fee-for-Service Distribution of State Costs	
<u>Category</u>	<u>% of Total</u>
Immigrants	49%
IHS Referrals	39%
FQHC	11%
Temporary Eligibles	1%
	100%

Medicare Premiums

The JLBC includes \$121,654,200 in FY 2008 for Medicare Premiums expenditures for the Traditional Medicaid population. This amount consists of:

General Fund	36,010,300
Federal Title XIX Expenditure Authority	85,643,900

These amounts would fund the following adjustments:

Caseload and Capitation	GF	1,215,500
Rate Growth	EA	(291,200)

The JLBC includes an increase of \$924,300 in FY 2008 for caseload growth and inflation. This amount consists of:

General Fund	1,215,500
Federal Title XIX Expenditure Authority	(291,200)

This amount provides a 0.8% increase in the Medicare Premiums program above the FY 2007 appropriation and 8% above actual caseload levels for FY 2007. This increase is caused by premium increases and enrollment growth.

This line item provides funding for the purchase of Medicare Part B (supplemental medical insurance) on behalf of those eligible for Medicaid and Part A (hospital insurance) coverage. Purchasing supplemental coverage reduces state expenditures since the federal Medicare program absorbs a portion of the costs. In addition, the line item includes the costs of payment of Part A premium costs for certain disabled workers. The line item also includes funding for low-income Qualified Medicare Beneficiaries. Finally, the line item includes funding for the 100% federally funded Medicare Part B buy-in program.

Breast and Cervical Cancer

The JLBC includes \$1,946,800 for Breast and Cervical Cancer in FY 2008 for caseload and inflation increases. This amount consists of:

General Fund	459,700
Federal Title XIX Expenditure Authority	1,487,100

These amounts would fund the following adjustments:

Caseload and Capitation	GF	167,000
Rate Growth	EA	528,000

The JLBC includes an increase of \$695,000 in FY 2008 for caseload and inflation increases. This amount consists of:

General Fund	167,000
Federal Title XIX Expenditure Authority	528,000

The included amount provides a 55.5% increase in the Breast and Cervical Cancer program above the FY 2007 appropriation. This population continues to grow quickly which has resulted in a large increase for FY 2008. FY 2007 costs through August 2006 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. As of October 2006, approximately 122 people were enrolled in the program. This represents an October-over-October increase of 36% over the 90 enrollees as of October 2005.

Ticket to Work

The JLBC includes \$8,727,500 for Ticket to Work in FY 2008. This amount consists of:

General Fund	2,944,000
Federal Title XIX Expenditure Authority	5,783,500

These amounts would fund the following adjustments:

Caseload and Capitation	GF	1,352,200
Rate Growth	EA	2,609,400

The JLBC includes an increase of \$3,961,600 in FY 2008 for caseload and inflation increases. This amount consists of:

General Fund	1,352,200
Federal Title XIX Expenditure Authority	2,609,400

The included amount provides an increase of 83.1% in the Ticket to Work program over the FY 2007 appropriation. FY 2007 costs through August 2006 have been above forecast. The FY 2008 estimates are grown off the higher FY 2007 base.

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 October 2006, approximately 936 people were enrolled in the program.

Dual Eligible Part D Copay Subsidy

The JLBC includes \$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.

The included amount provides for an increase of 10% in the Proposition 204 Reinsurance program over the FY 2007 appropriation and 11% above actual caseload levels for FY 2007. Monies for these reinsurance payments are made to health plans for catastrophic cases in the Proposition 204 population.

Table 5

Proposition 204		
Federally-Eligible Rate Codes	FY 2008 Member Years ^{1/}	FY 2008 Capitation Rates ^{2/}
TANF	64,130	213.03
SSI	23,729	233.72
Prop 204 Conversions ^{3/}	67,963	458.17
Prop 204 Medically Eligible ^{4/}	5,201	1,018.11
Prop 204 Newly Eligible ^{5/}	<u>33,023</u>	458.17
Total	194,046	
Hospital "Kick" ^{6/}	5,964	10,963.40
Deliveries ^{7/}	1,755	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 - Fee-For-Service

The JLBC includes \$161,162,200 for Fee-For-Service expenditures in FY 2008 for the Proposition 204 population. This amount consists of:

General Fund	31,754,800
Federal Title XIX Expenditure Authority	129,407,400

These amounts would fund the following adjustments:

Caseload and Capitation	GF	2,520,400
Rate Growth	EA	10,437,200

The JLBC includes an increase of \$12,957,600 in FY 2008 for caseload and inflation increases. This amount consists of:

General Fund	2,520,400
Federal Title XIX Expenditure Authority	10,437,200

This funding provides an 8.7% increase in Fee-For-Service expenditures for the Proposition 204 program above the

FY 2007 appropriation and 11% above actual 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.)

Table 6 shows AHCCCS FY 2008 estimates of state costs by Proposition 204 Fee-For-Service group.

Table 6

Proposition 204 Fee-for-Service Distribution of State Costs	
Category	% of Total
IHS Referrals	58%
Immigrants	15%
Temporary Eligibles	14%
FQHC	<u>13%</u>
	100%

Proposition 204 - Medicare Premiums

The JLBC includes \$29,908,800 for Medicare Premiums expenditures in FY 2008 for the Proposition 204 population. This amount consists of:

General Fund	10,090,900
Federal Title XIX Expenditure Authority	19,817,900

These amounts would fund the following adjustments:

Caseload and Capitation	GF	568,900
Rate Growth	EA	843,800

The JLBC includes an increase of \$1,412,700 in FY 2008 for caseload growth and inflation. This amount consists of:

General Fund	568,900
Federal Title XIX Expenditure Authority	843,800

These amounts provide a 5% increase above the FY 2007 appropriation and 8% above actual caseload levels for FY 2007. This increase is caused by premium increases and enrollment growth.

Proposition 204 - County Hold Harmless

The JLBC includes \$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. This recommendation 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 JLBC includes \$118,759,200 for KidsCare children's services in FY 2008. This amount consists of:

General Fund	26,834,000
CHIP Fund	91,925,200

These amounts would fund the following adjustments:

Caseload and Capitation	GF	3,651,200
Rate Growth	EA	10,831,700

The JLBC includes an increase of \$14,482,900 in FY 2008 for caseload and inflation growth in the KidsCare - Children population. This amount consists of:

General Fund	3,651,200
CHIP Fund	10,831,700

The included amount provides enrollment growth of approximately 5,622 members, or 9.8%, 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 weighs 25% from FY 2005, 65% from FY 2006 and 10% on year-to-date FY 2007 through August 2006. Total enrollment in June 2008 is expected to reach approximately 63,250. Additionally, the amount provides capitation rate increases of 6%.

KidsCare - Parents

The JLBC includes no funding for KidsCare Parents in FY 2008 to reflect the expiring statutory authority for this program. This amount would fund the following adjustments:

KidsCare Parents	GF	(9,877,800)
	OF	(34,924,100)

The decrease of \$(44,801,900) in FY 2008 consists of:

General Fund	(9,877,800)
CHIP Fund	(34,924,100)

Laws 2006, Chapter 331 eliminates the statutory authority for the coverage of this population effective July 1, 2007. As of August 2006, approximately 13,687 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.

If statutory authorization of this program is extended, the cost would be \$10,743,600 from the General Fund and \$37,170,700 from the CHIP Fund. This level represents an increase of \$865,800 from General Fund and \$2,246,600 from the CHIP Fund above FY 2007. The increase is based on 9.6% caseload and 6% capitation rate growth. Administrative costs would require an additional \$456,000 from the General Fund and \$1,486,900 from the CHIP Fund to restore the FY 2007 spending level *(Please see the discussion in the KidsCare - Administration Special Line Item in the Administration cost center for more details.)*

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 includes \$143,477,300 for Disproportionate Share Hospital (DSH) Payments in FY 2008. This amount consists of:

General Fund	48,394,900
Federal Title XIX Expenditure Authority	95,082,400

These amounts would fund the following adjustments:

Decreased FMAP	GF	287,000
	EA	(287,000)

The JLBC includes an increase of \$287,000 from the General Fund in FY 2008 and a corresponding decrease of \$(287,000) in Federal Expenditure Authority Funds to reflect a technical adjustment in the FMAP. *(See Regular Federal Match Rate Change policy issue for more information.)*

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 7* on the following page presents the allocation of Disproportionate Share funding.

	FY 2007	FY 2008
Allocations:		
County-Operated Hospitals (COH)	\$ 84,652,400	\$ 84,652,400
Supplemental COH payment	4,202,300	4,202,300
Arizona State Hospital (ASH)	28,474,900	28,474,900
Private Hospitals	<u>26,147,700</u>	<u>26,147,700</u>
Total - Allocations	\$143,477,300	\$143,477,300
Revenue:		
County Withholding	\$ 84,652,400	\$ 84,652,400
ASH reversion	<u>28,474,900</u>	<u>28,474,900</u>
Total - GF Revenue	\$113,127,300	\$113,127,300

Of the total County-Operated Hospital allocation, \$4,202,300 is provided directly to Maricopa County for uncompensated care. The remainder of the allocation is recouped by the state through county Transaction Privilege Tax revenue to reimburse the state for indigent health care costs.

The total Private Hospital allocation consists of 2 pools. The first allocates \$15,150,000 based on private hospitals' level of care provided to Medicaid clients and/or the level of low-income clients served. The second pool allocates \$10,997,700 among private hospitals as compensation for uncompensated care.

The allocation to the Arizona State Hospital (ASH) will also generate General Fund revenue in FY 2008. An amount corresponding to the DSH allocation will be deposited into the General Fund.

Graduate Medical Education

The JLBC includes \$35,262,400 for Graduate Medical Education (GME) expenditures in FY 2008. This amount consists of:

General Fund	11,894,000
Federal Title XIX Expenditure Authority	23,368,400

These amounts would fund the following adjustments:

Statutory Inflation Adjustment	GF	252,800
	EA	496,800

The JLBC includes 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 included amount reflects a 3.3% increase above the FY 2006 appropriation of \$21,820,000, based on the Centers for Medicare and Medicaid Services (CMS) Hospital Prospective Reimbursement Market Basket, as reported by AHCCCS. The additional \$12,000,000 appropriated in FY 2007 for recruiting Arizona physicians is not adjusted for inflation.

Decreased FMAP	GF	121,400
	EA	(121,400)

The JLBC includes 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.)

The GME program reimburses hospitals with graduate medical education programs for the additional costs of treating AHCCCS members with graduate medical students. Priority is given to hospitals with GME programs established before July 1, 2006 that do not currently receive GME funding for those programs. The second priority for these monies is for expansion of GME programs established before October 1, 1999. The third priority is for GME programs established after July 1, 2006.

Hospital Loan Residency Program

The JLBC includes \$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 JLBC includes \$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 would fund the following adjustments:

Decreased FMAP	GF	5,600
	EA	(5,600)

The JLBC includes 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.

Rural Hospital Reimbursement

The JLBC includes \$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 would fund the following adjustments:

Decreased FMAP	GF	8,500
	EA	(8,500)

The JLBC includes 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.

* * *

FORMAT — Special Line Items by Program

FOOTNOTES

Standard Footnotes

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.

The FY 2008 Disproportionate Share Payment of \$143,477,300 is based on the Federal FY 2007 authorized expenditure level of \$95,369,400. If the final federal expenditure authorization is an amount different from the estimate, the Governor shall direct the Arizona Health Care Cost Containment System Administration, subject to the availability of monies and subject to review of the Joint Legislative Budget Committee, to proportionately adjust authorization amounts among the identified recipients of the disproportionate share hospital payment. Before the final payment, the Governor shall provide notification to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Staff Director of the Joint Legislative Budget Committee of the adjusted federal authorized expenditure level and the proposed distribution plan for these monies.

The appropriation for Disproportionate Share Payments for FY 2008 made pursuant to A.R.S. § 36-2903.01P includes \$88,854,700 for qualifying county operated hospitals, \$26,147,700 for private qualifying disproportionate share hospitals and \$28,474,900 for deposit in the Arizona State Hospital Fund.

Before making fee-for-service program or rate changes that pertain to hospital, nursing facility or home and community based services rates or for any of the other fee-for-service rate categories that have increases that, in the aggregate, are 2% above and \$1,500,000 from the state General Fund greater than budgeted medical inflation in FY 2008, the Arizona Health Care Cost Containment System Administration shall report its expenditure plan to the Joint Legislative Budget Committee for review.

The Arizona Health Care Cost Containment System shall report to the Joint Legislative Budget Committee by March 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 23%. 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, b~~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 Joint Legislative Budget Committee review of policy changes shall not apply. (The final provision would be eliminated because statutory language was enacted.)~~

STATUTORY CHANGES

The JLBC would continue, as session law, to withhold state shared revenues based on the Disproportionate Share Hospitals Program appropriation to county-operated hospitals. For FY 2008, this withholding amount would be set at \$84,652,400.

The JLBC would set as session law the County Acute Care contribution at \$51,098,200. This amount would include adjusting the contribution for Maricopa County in FY 2008 downward by \$(688,900) for inflation by an amount equal to the GDP price deflator. JLBC would also

adjust 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 would continue as session law the use of \$2,646,200 in DUC pool contributions in AHCCCS for all counties other than Maricopa County.

The JLBC would change from session law to permanent law the redetermination period of 6 months for Temporary Assistance for Needy Families Cash Benefit clients age 21 or older and would require 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 would amend statute to allow General Fund monies appropriated to the Temporary Medical Coverage Fund to be expended from the Fund without a second appropriation.

SUMMARY OF FUNDS - SEE AGENCY SUMMARY
