JLBC Analyst: Jenna Goad/Blake Riley

	FY 2007 Actual	FY 2008 Estimate	FY 2009 Approved
OPERATING BUDGET			
Full Time Equivalent Positions	3,159.4	3,179.0	3,201.4[1/]
Personal Services	36,328,800	39,231,300	39,231,300
Employee Related Expenditures	13,772,000	14,940,900	14,947,200
Professional and Outside Services	3,079,600	3,079,900	3,079,900
Travel - In State	173,800	232,100	232,100
Travel - Out of State	63,400	29,600	29,600
Other Operating Expenditures	11,204,100	11,629,700	11,629,700
Equipment	1,797,200	964,900	964,900
OPERATING SUBTOTAL	**66,418,900**	**70,108,400**	**70,114,700**
SPECIAL LINE ITEMS			
ADOA Data Center Charges	6,321,200	5,717,500	5,717,500
Indian Advisory Council	212,100	232,900	232,900
DES Eligibility	51,963,100	55,688,300	55,688,300[2/]
DES Title XIX Pass-Through	236,300	357,800	357,800
Healthcare Group Administration and Reinsurance	3,766,600	14,968,700	11,526,800
Office of Administrative Hearings	226,300	271,300	271,300
KidsCare - Administration	10,914,900	9,445,300	9,362,300
Proposition 204 - AHCCCS Administration	10,702,100	11,401,900	11,402,900
Proposition 204 - DES Eligibility	35,216,200	40,229,700	43,629,700
Computer System Planning	250,700	0	0
Claims Computer System Replacement	0	0	0
DES Eligibility System Upgrade	0	1,600,000	2,600,000
2-1-1 System	1,783,800	1,279,400	0
PROGRAM TOTAL	**188,012,200**	**211,301,200**	**210,904,200**[3/]
FUND SOURCES			
General Fund	85,636,200	94,088,200	93,358,700
Other Appropriated Funds			
Budget Neutrality Compliance Fund	2,531,900	2,683,100	2,841,000
Children's Health Insurance Program Fund	8,496,800	7,219,100	7,135,600
Healthcare Group Fund	3,766,600	8,468,700	6,526,800
SUBTOTAL - Other Appropriated Funds	14,795,300	18,370,900	16,503,400
SUBTOTAL - Appropriated Funds	**100,431,500**	**112,459,100**	**109,862,100**
Expenditure Authority Funds			
Federal Title XIX Funds	87,580,300	98,842,100	101,042,100
Third Party Collections	400	0	0
SUBTOTAL - Expenditure Authority Funds	87,580,700	98,842,100	101,042,100
SUBTOTAL - Appropriated/Expenditure Authority Funds	**188,012,200**	**211,301,200**	**210,904,200**
Other Non-Appropriated Funds	78,049,600	71,609,500	74,470,400
Federal Funds	597,300	5,942,900	5,942,900
TOTAL - ALL SOURCES	266,659,100	288,853,600	291,317,500

1/ Includes 1,001.7 GF, 172 OF, and 968.8 EA FTE Positions funded from Special Line Items in FY 2009.
2/ 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)
3/ 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 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2009 Approved
• % of applications processed on time	68	84	91	95
Comments: AHCCCS is required by federal law to maintain a 95% on time rate for error-free applications. AHCCCS indicates that it is unable to meet its target rate primarily because it has been unable to recruit and maintain the staff necessary to process the large number of applications.				
• Customer satisfaction rating for eligibility determination clients (Scale 1-8)	NA	NA	NA	6.0
Comments: AHCCCS did not submit information for this measure in FY 2007 as required by the General Appropriation Act. AHCCCS reports that the equipment for the data survey is no longer operational, but it has developed a new survey which they plan to mail out in October 2007.				

Operating Budget

The budget provides $70,114,700 and 1,058.9 FTE Positions for the operating budget in FY 2009. These amounts consist of:

General Fund	$28,592,900
Federal Expenditure Authority	41,521,800

These amounts fund the following adjustments:

Continue FY 2008 Statewide Adjustments
The budget continues an increase of $800 from the General Fund in FY 2009 for FY 2008 statewide adjustments. *(Please see the FY 2008 Statewide Adjustments narrative at the end of this Appropriations Report for details.)*

New Statewide Adjustments
The budget provides an increase of $6,300 from the General Fund in FY 2009 for new statewide adjustments. *(Please see the New Statewide Adjustments section at the end of this Appropriations Report for details.)*

ADOA Data Center Charges

The budget provides $5,717,500 for the Arizona Department of Administration (ADOA) Data Center Charges in FY 2009. This amount consists of:

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

These amounts are unchanged from FY 2008.

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 2009. These amounts consist of:

General Fund	116,600
Federal Expenditure Authority	116,300

These amounts are unchanged from FY 2008.

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 $55,688,300 and 991.6 FTE Positions for the Department of Economic Security (DES) Eligibility services in FY 2009. These amounts consist of:

General Fund	26,467,600
Federal Expenditure Authority	29,220,700

These amounts fund the following adjustments:

Continue FY 2008 Statewide Adjustments
The budget continues an increase of $900 from the General Fund in FY 2009 for FY 2008 statewide adjustments.

Through an intergovernmental agreement, DES 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 2009. These amounts consist of:

General Fund	154,000
Federal Expenditure Authority	203,800

These amounts are unchanged from FY 2008.

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 $11,526,800 and 30 FTE Positions for Healthcare Group Administration and Reinsurance in FY 2009. These amounts consist of:

General Fund	5,000,000
Healthcare Group Fund	6,526,800

These amounts fund the following adjustments:

New Statewide Adjustments

The budget provides an increase of $5,800 from the Healthcare Group Fund in FY 2009 for new statewide adjustments.

Healthcare Group Subsidy

The budget provides a decrease of $(1,500,000) from the General Fund in FY 2009. In the original FY 2008 budget, a one-time subsidy of $8,000,000 was provided for Healthcare Group (HCG). As part of the FY 2008 budget revisions, this amount was reduced by $(1,500,000). The FY 2009 budget reduced the subsidy by another $(1,500,000), which resulted in a total FY 2009 appropriation of $5,000,000.

The Health and Welfare Budget Reconciliation Bill (Laws 2008, Chapter 288) included a number of reforms designed to improve both the financial stability as well as the legislative oversight of HCG. Chapter 288:

1) Eliminates 1-person employer groups from coverage but states that current participants can remain eligible.
2) Reduces the period for which one must go without health care coverage (go bare period) from 180 days to 90 days.
3) Prohibits reimbursing a non-contracting hospital (except for an emergency) and sets the reimbursement rates for those services at 114% to 125% of AHCCCS rates.
4) Requires AHCCCS to adjust premiums based on actuarial reviews by an independent actuary.
5) Requires AHCCCS to submit quarterly financial reports and an annual financial audit to JLBC.
6) Limits the growth in the number of employer groups to no more than 5% above the prior year.

Administrative Costs

The budget provides a decrease of $(1,947,700) from the Healthcare Group Fund in FY 2009 due to a decrease in projected administration expenses. Laws 2008, Chapter 288 capped growth in Healthcare Group enrollment, which decreases the need for sales, administrative and operational positions.

Background – HCG offers health insurance to small businesses with between 2 and 50 employees. 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 June 2008, there were 21,217 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 2009. These amounts are unchanged from FY 2008.

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 $9,362,300 and 177.5 FTE Positions for KidsCare Administration costs in FY 2009. These amounts consist of:

General Fund	2,226,700
Children's Health Insurance Program (CHIP) Fund	7,135,600

These amounts fund the following adjustments:

New Statewide Adjustments

The budget provides an increase of $8,300 in FY 2009 for new statewide adjustments. This amount consists of:

General Fund	500
Children's Health Insurance Program (CHIP) Fund	7,800

FMAP Change

The budget provides a decrease of $(91,300) from the CHIP Fund in FY 2009 to reflect the lowering of the enhanced federal medical assistance percentage (FMAP) on October 1, 2008 from 76.34% to 76.04%.

KidsCare, also known as the Children's Health Insurance Program (CHIP), provides health insurance coverage to uninsured children 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. The Health and Welfare Budget Reconciliation Bill (Laws 2008, Chapter 288) establishes permanent statutory authority for the KidsCare Parents Program.

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 FY 2009 KidsCare Administration funding level from the CHIP Fund is approximately 5% of the FY 2008 CHIP Fund program costs.

Proposition 204 - AHCCCS Administration

The budget provides $11,402,900 and 202.3 FTE Positions for Proposition 204 AHCCCS Administration costs in FY 2009. These amounts consist of:

General Fund	5,724,800
Federal Expenditure Authority	5,678,100

These amounts fund the following adjustments:

Continue FY 2008 Statewide Adjustments

The budget continues an increase of $200 from the General Fund in FY 2009 for FY 2008 statewide adjustments.

Proposition 204 expanded AHCCCS coverage up to 100% of the 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.

New Statewide Adjustments

The budget provides an increase of $1,000 from the General Fund in FY 2009 for new statewide adjustments.

Proposition 204 - DES Eligibility

The budget provides $43,629,700 and 719.2 FTE Positions for Proposition 204 DES Eligibility costs in FY 2009. These amounts consist of:

General Fund	22,051,400
Budget Neutrality Compliance Fund	2,841,000
Federal Expenditure Authority Funds	18,737,300

These amounts fund the following adjustments:

Continue FY 2008 Statewide Adjustments

The budget continues an increase of $600 from the General Fund in FY 2009 for FY 2008 statewide adjustments.

Redetermination Workers

The budget provides an increase of $3,400,000 and 36.0 FTE Positions in FY 2009 for additional redetermination workers. These amounts consist of:

General Fund	1,700,000
Federal Expenditure Authority	1,700,000

The Health and Welfare Budget Reconciliation Bill (Laws 2008, Chapter 288) reduces the redetermination period for childless adults from 12 months to 6 months. The budget provides funding for additional eligibility workers to accommodate the increased workload associated with processing more redeterminations. The Department of Economic Security Division of Benefits and Medical Eligibility budget provides a corresponding decrease of $(1,700,000) from the General Fund in FY 2009. *(Please see the Proposition 204 Capitation Special Line Item in the Acute Care Cost Center for a discussion of the savings associated with reducing the redetermination period.)*

Statutory Adjustment

This budget provides an increase of $157,900 from the Budget Neutrality Compliance Fund (BNCF) and a corresponding General Fund decrease in FY 2009 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 2.7%, as measured by the October 2007 estimate of the calendar year 2007 Gross Domestic Product (GDP) price deflator, and population growth of 3.1%, as estimated by the DES Population Statistics Unit. Using these rates, JLBC Staff calculated a FY 2009 increase of $157,900 above the FY 2008 contribution amount of $2,683,100. *(Please see Table 3 in the Acute Care Cost Center for contributions by county.)*

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 2009. This amount is unchanged from FY 2008.

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 original FY 2008 budget provided funding for the replacement of the claims computer system in a separate line item.

Claims Computer System Replacement

The budget provides no funding for Claims Computer System Replacement in FY 2009. This amount funds the following adjustments:

Continue Claims Computer System Replacement Rollback

The budget continues a decrease of $(2,090,900) and (2.4) FTE Positions in FY 2009 originally enacted as part of the FY 2008 budget revisions. These amounts consist of:

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

This amount represents all of the funding provided for replacement of the claims computer system in the original FY 2008 budget.

This line item was intended to replace the claims computer system used by AHCCCS to pay provider claims for fee-for-service charges. This funding would have implemented the computer system planning study completed in FY 2007.

DES Eligibility System Upgrade

The budget provides $2,600,000 and 11 FTE Positions for the DES Eligibility System Upgrade Special Line Item in FY 2009. These amounts consist of:

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

These amounts fund the following adjustments:

Restore DES Eligibility System Upgrade Funding

The budget provides an increase of $1,000,000 in FY 2009 to restore funding for the DES Eligibility System Upgrade. This amount consists of:

General Fund	500,000
Federal Expenditure Authority	500,000

The FY 2008 revisions included a one-time $(1,000,000) decrease in funding for this issue. This amount was part of the $(895,000) AHCCCS General Fund lump sum reduction.

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 and DES are expected to seek $45,029,900 over the project lifetime, of which approximately $14,180,900 would be from the General Fund and $30,849,700 would be federal funds. Expenditures from this line include equipment, internal IT support, and contracted programming and system development. *(See the Eligibility System Upgrade discussion in the DES Benefits and Medical Eligibility Division for more details.)*

2-1-1 System

The budget provides no funding for the 2-1-1 System in FY 2009 due to its transfer to other state agencies. This amount funds the following adjustments:

Continue 2-1-1 System Reduction

The budget continues a decrease of $(2,143,000) from the General Fund in FY 2009 originally enacted as part of the FY 2008 budget revisions. This amount includes $(600,000) to eliminate one-time equipment and $(1,543,000) as a 2-1-1 program finding reduction. This amount represents all of the funding for the telephone portion of 2-1-1.

Transfer 2-1-1 System Funding

The budget provides an additional decrease of $(1,279,400) and (11.2) FTE Positions from the General Fund in FY 2009 for the 2-1-1 System. All funding for the 2-1-1 System was removed from AHCCCS and $1,175,200 was transferred to the Government Information Technology Agency and $104,200 was transferred to the Department of Emergency and Military Affairs to maintain the online portion of the 2-1-1 System.

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. The telephone component of 2-1-1 consisted of funding for call center infrastructure, with the intent that local governments would fund the actual call centers and personnel. To date, no local call centers have been established.