

Arizona Health Care Cost Containment System
Summary

A.R.S. § 36-2901

Director: Anthony D. Rogers

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	FY 2008 ACTUAL	FY 2009 ESTIMATE	FY 2010 APPROVED
PROGRAM BUDGET			
Administration	200,915,900	203,875,900	199,631,300
Acute Care	4,154,123,100	5,044,107,200	5,945,674,900
Long-Term Care	1,071,663,400	1,245,904,900	1,289,876,000
Lump Sum Reduction	0	(9,359,500)	(23,508,000) ^{1/2/}
Lump Sum Reduction Deferral	0	0	(344,201,700)
AGENCY TOTAL	5,426,702,400	6,484,528,500	7,067,472,500
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3,179.0	3,201.4	3,044.4 ^{3/}
Personal Services	35,796,300	39,193,300	39,193,300
Employee Related Expenditures	14,403,100	15,882,100	16,157,500
Professional and Outside Services	4,048,700	3,554,400	3,554,400
Travel - In State	105,300	97,300	97,300
Travel - Out of State	46,900	39,900	39,900
Other Operating Expenditures	9,764,300	10,819,000	10,819,000
Equipment	662,600	496,400	496,400
OPERATING SUBTOTAL	64,827,200	70,082,400	70,357,800
Special Line Items (SLI)	5,361,875,200	6,414,446,100	6,997,114,700
AGENCY TOTAL	5,426,702,400	6,484,528,500	7,067,472,500 ^{4/5/6/}
FUND SOURCES			
General Fund	1,227,373,900	1,179,780,700	1,185,709,600 ^{7/}
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	9,709,900	48,634,300	2,993,500
Children's Health Insurance Program Fund	134,885,900	145,970,900	114,978,200
Healthcare Group Fund	5,088,100	6,374,800	6,179,700
Temporary Medical Coverage Fund	1,975,400	3,247,200	0
TPTF Emergency Health Services Account	14,579,500	23,331,800	23,331,800
TTHCF Medically Needy Account	60,885,700	53,738,100	53,738,100
SUBTOTAL - Other Appropriated Funds	227,124,500	281,297,100	201,221,300
SUBTOTAL - Appropriated Funds	1,454,498,400	1,461,077,800	1,386,930,900
<u>Expenditure Authority Funds</u>			
County Funds	294,470,900	308,871,600	314,601,300
Third Party Collections Fund	72,800	194,700	194,700
Title XIX Funds	3,504,259,000	4,547,107,500	5,198,468,700 ^{7/}
Tobacco Settlement Fund	115,627,300	118,280,200	118,280,200
TPTF Proposition 204 Protection Account	57,774,000	48,996,700	48,996,700
SUBTOTAL - Expenditure Authority Funds	3,972,204,000	5,023,450,700	5,680,541,600
SUBTOTAL - Appropriated/Expenditure Authority Funds	5,426,702,400	6,484,528,500	7,067,472,500
<u>Other Non-Appropriated Funds</u>			
Federal Funds	108,070,500	93,836,300	95,585,300
TOTAL - ALL SOURCES	5,574,938,900	6,616,662,500	7,194,933,300

^{1/} The lump sum reduction may not be taken against the appropriation made for rural hospital reimbursement. (General Appropriation Act footnote)

^{2/} It is the intent of the Legislature that the Arizona Health Care Cost Containment System administration make the reductions associated with the agencywide lump sum reduction against administrative functions and, to the extent possible, not against programmatic functions. (General Appropriation Act footnote)

^{3/} Includes 1,001.7 GF, 172 OF, and 968.8 EA FTE Positions funded from Special Line Items in FY 2010 prior to lump sum reductions.

AGENCY DESCRIPTION — The Arizona Health Care Cost Containment System (AHCCCS) is Arizona’s alternative to a traditional fee-for-service Medicaid system. Started in 1982, AHCCCS operates on a health maintenance organization model in which contracted providers receive a predetermined monthly capitation payment for the medical services cost of enrolled members. AHCCCS members gain eligibility through a variety of federal and state programs. In some cases, eligibility based on federal programs is tied to the applicant also being eligible for a cash assistance program, such as Supplemental Security Income (SSI). Although another cash assistance program, Aid to Families with Dependent Children (AFDC), was replaced and its automatic link to eligibility severed, citizens who meet AFDC eligibility criteria as of July 16, 1996 remain eligible for AHCCCS. Low-income pregnant women and children can qualify under a federal “medical assistance only” category. Individuals not qualifying under one of these programs, but with incomes below 100% of the Federal Poverty Level (FPL), can qualify for health coverage under Proposition 204. In addition to an acute medical services program, AHCCCS also operates the Arizona Long-Term Care System (ALTCS), a Medicaid program that provides long-term nursing care in nursing facilities or home and community based settings.

Agencywide Lump Sum Reduction

The budget includes an agencywide lump sum reduction of \$(9,359,500) for the midyear FY 2009 revisions and \$(23,508,000) for FY 2010. The latter reduction reflects the adjustment to the originally enacted FY 2009 appropriation.

	<u>FY 2009</u>	<u>FY 2010</u>
Lump Sum Reduction		
General Fund	\$(11,108,200)	\$(12,652,400)
Federal Expenditure Authority	3,495,100	(4,205,800)

Personnel Expense Reduction

General Fund	(1,746,400)	(4,198,100)
Federal Expenditure Authority	0	(2,451,700)

Additionally, the FY 2009 budget includes reductions of \$(8,996,900) from 4 specific line items. Of this amount, \$(5,879,900) is from the General Fund and \$(3,117,000) from Federal Expenditure Authority.

The FY 2009 amounts cited above reflect how AHCCCS actually implemented their cuts, and some amounts vary from the original legislative intent. AHCCCS indicates that in some cases, they were unable to make reductions consistent with legislative intent. *Table 1* provides a comparison of how actual reductions were taken.

Table 1

FY 2009 Midyear General Fund Budget Reductions

	<u>Budgeted</u>	<u>Implemented</u>
Lump Sum Reductions		
Lump Sum Suspension	\$(11,631,100)	\$ 0
DRA Premiums	(75,000)	0
DRA Alternative Benefit Package	(42,000)	0
Prop 204 - County Hold Harmless	0	(4,825,600)
Part D Copays	0	(1,500,000)
5% Fee-for-Service Reduction	0	(1,021,800)
KidsCare & KidsCare Parents Premium Increase	0	(270,000)
Acute Care Rates – Provider 5% Reduction	0	(1,384,000)
Additional Administrative Reductions	0	(1,306,800)
Other	<u>0</u>	<u>(800,000)</u>
Subtotal	\$(11,748,100)	\$(11,108,200)
Personnel Expense Reduction	\$(1,746,400)	\$(1,746,400)
Healthcare Group	(5,000,000)	(2,200,000)
Graduate Medical Education	(1,440,800)	(1,414,700)
DES Eligibility System Upgrade	(1,300,000)	(1,300,000)
Rural Hospital Reimbursement ^{1/}	<u>2,500,800</u>	<u>(965,200)</u>
Total	\$(18,734,500)	\$(18,734,500)

^{1/} See Rural Hospital Reimbursement line item in Acute Care Cost Center for more detail.

- ^{4/} Before making fee-for-service program or rate changes that pertain to fee-for-service rate categories, 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)
- ^{5/} 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)
- ^{6/} General Appropriation Act appropriation format varies by program. As appropriated by Laws 2009, 1st Regular Session, Chapter 12.
- ^{7/} Reflects the enhanced FMAP rate.

Lump Sum Reduction Deferral

The budget includes an additional reduction of \$(344,201,700) related to a lump sum deferral. This amount consists of:

General Fund	(117,889,100)
Federal Title XIX Expenditure Authority	(226,312,600)

To offset this reduction, the FY 2010 Health and Welfare Budget Reconciliation Bill (BRB) (Laws 2009, 3rd Special Session, Chapter 10) requires AHCCCS to delay capitation payments. For plans with at least 100,000 members in May 2010, AHCCCS is required to suspend 100% of acute care capitation payments for 1 month. For plans with less than 100,000 members in May 2010, AHCCCS is required to suspend 50% of acute care capitation payments for 1 month. The BRB further provided that health plans shall receive 0.5% interest for the delayed payment.

To offset this deferral, the General Appropriation Act (Laws 2009, 1st Regular Session, Chapter 12, Section 48) made an advanced appropriation of \$118,032,200 from the General Fund and \$226,312,600 from Federal Title XIX Expenditure Authority in FY 2011. Of that amount, \$143,100 from the General Fund will be used to pay 1 month of interest to the health plans. Federal law prohibits the use of Federal Title XIX Expenditure Authority to make interest payments.

Federal Assistance

The budget includes a decrease of \$(581,861,700) from the General Fund and a corresponding increase of \$581,861,700 from Federal Title XIX Expenditure Authority in FY 2010 for federal assistance. In FY 2009, the budget included a decrease of \$(359,648,000) from the General Fund and a corresponding increase of \$359,648,000 from Federal Title XIX Expenditure

The 2009 American Recovery and Reinvestment Act (ARRA) increased the Federal Medical Assistance percentage (FMAP) for Title XIX populations from October 1, 2008 until December 31, 2010. Typically, Arizona receives approximately a 2:1 match for most Title XIX services, but ARRA increases this amount to approximately a 3:1 match from October 1, 2008 to December 31, 2010. In FY 2010, the blended rate would have been 65.76%, but due to the enhanced FMAP, the federal government will pay 75.93% of Title XIX costs. In FY 2009, the federal government paid 66.2% of most Title XIX services from July 2008 through September 2008, 75.01% from October 2008 through March 2009, and 75.93% from April 2009 through June 2009. The increase from 75.01% to 75.93% was due to a formula specified in ARRA based on the state's unemployment rate.

In order to qualify for the enhanced FMAP, states:

- cannot lower existing eligibility limits for Title XIX populations;
- cannot increase county percent of state match;
- cannot increase monthly premiums for Title XIX enrollees; and
- cannot change redetermination periods. (*See "Legislation to Comply with ARRA" below for a discussion of statutory changes.*)

States are allowed to reduce benefit levels, however, as long as they comply with other federal regulations. These limitations are applicable only during the time in which a state receives the enhanced FMAP and do not apply to Title XXI populations (KidsCare and KidsCare Parents), administrative services (typically funded at 50%), disproportionate share hospital payments, nor any program which already receives an enhanced FMAP.

Due to the temporary nature of the enhanced FMAP, the General Appropriation Act includes the enhanced FMAP in a separate section. All costs shown in the individual cost center narratives reflect the regular FMAP.

Legislation to Comply with ARRA

In order to comply with the 2009 American Recovery and Reinvestment Act and receive the higher FMAP, the following legislative changes were made:

Redetermination

Laws 2009, 1st Regular Session, Chapter 4 restored the redetermination period for Proposition 204 childless adults to every 12 months. Previously, the redetermination period had been every 12 months, but the FY 2009 Health and Welfare Budget Reconciliation Bill (Laws 2008, Chapter 288) reduced the redetermination period from 12 months to 6 months. The federal government viewed this as an eligibility change, and required Arizona to change the redetermination period back to 12 months in order to receive the enhanced FMAP. Laws 2009, 1st Regular Session, Chapter 4, made this change.

County ALTCS Contributions

In FY 2008, counties paid approximately 62.2% of the state share of ALTCS contributions. Since political subdivisions are prohibited from paying a higher proportion of costs during the period in which a state receives the enhanced FMAP, county contributions were reduced from \$262,889,400 in FY 2010 to \$190,467,500 (Laws 2009, 3rd Special Session, Chapter 3).

Session law was also added to increase county ALTCS reversions. Statute specifies that if budgeted state contributions for ALTCS are higher than the actual cost, the excess will be split 50/50. For the FY 2009 reversion,

counties will receive 62.2% of excess payments (Laws 2009, 3rd Special Session, Chapter 3).

Additional County Refunds

Laws 2009, 3rd Special Session, Chapter 3, requires 2 additional refunds to counties if required to comply with ARRA. Section 3 requires AHCCCS to refund monies to counties if their share of the FY 2009 acute care contribution is in excess of the amount allowed under ARRA. Section 5 requires AHCCCS to refund monies to counties if their share of the FY 2009 administrative contributions is in excess of the amount allowed under ARRA.

Capitation Adjustments

Overall, the AHCCCS budget includes \$22,400,000, or 1.5% growth, for capitation adjustments. Capitation adjustments reflect both medical inflation and utilization changes. Yearly capitation rate increases have averaged 6.7% over the last 5 years, with the lowest increase of 5.7% coming in FY 2007 and the high of 8.7% coming in FY 2009. To offset this lower than average capitation adjustment increase, the FY 2010 Health and Welfare BRB (Laws 2009, 3rd Special Session, Chapter 10) included the following:

Reimbursement Rates

Section 22 prohibited increases in specific hospital rates in the contract year beginning October 1, 2009 and allows AHCCCS to reduce non-institutional rates by up to 5%.

Reinsurance Thresholds

Section 34 permitted AHCCCS to reduce by 1 level the thresholds beyond which patient costs are paid by reinsurance for the contract year 2010. Currently, health plans may choose one of 3 levels for reinsurance: \$20,000, \$35,000, or \$50,000. This policy would shift the plans which chose the \$50,000 level to \$35,000 and \$35,000 to \$20,000. When the reinsurance threshold is lowered, capitation rates are also lowered since reinsurance kicks in earlier.

Administrative Costs

Section 35 permitted AHCCCS to reduce the risk contingency rate setting for all managed care organizations by 50% and impose a 5.88% reduction on funding for all managed care organizations administrative funding levels.

A risk contingency is added to capitation rates to cover unforeseen circumstances and/or pricing mismatches (e.g. actual trends differ from assumptions). If this risk contingency is not necessary, or is insufficient, it is retained as profit (or loss) and there is no limit. Currently risk contingency is set at 2%.

In the Acute Care Program, an 8.5% administrative expense is built in the capitation rates when they are

developed. For the ALTCS Program, the administrative expense built into the majority of the capitation rates is 8%; some contractors have a lower percentage.

Ambulance Rates

Section 30 excluded AHCCCS from being required to reimburse ambulance providers at the rate set by the Department of Health Services (DHS). Thus, AHCCCS would not be subject to any rate increases approved by DHS.

Dentures

A recent Arizona Court of Appeals decision in a lawsuit held that dentures were considered medically necessary when requested by a dentist. Previously, AHCCCS had only paid for this benefit under some circumstances. AHCCCS estimated that the additional cost of providing dentures under this criteria was approximately \$8,600,000 from the General Fund. In order to curtail this additional expense, the statute was changed to eliminate dentures as a covered service for all recipients aged 21 and over.

FY 2009 Supplemental

The FY 2009 budget includes a supplemental increase of \$256,871,700 for higher than anticipated caseload growth and a tobacco tax revenue shortfall in FY 2009. These amounts consist of:

General Fund	132,890,900
Tobacco Settlement Fund	4,276,100
TPTF Proposition 204 Protection Account	(5,007,900)
TTHCF Medically Needy Account	(9,148,100)
Emergency Health Services Account	(2,384,700)
Federal Title XIX Expenditure Authority	136,245,400

Of the General Fund amount, \$70,556,900 was due to higher than budgeted caseload and inflation, \$16,540,700 was due to a tobacco tax revenue shortfall, and \$45,793,300 was due to a technical shift from the Budget Neutrality Compliance Fund. These supplemental amounts were added to Traditional Capitation Line Item and Proposition 204 – Capitation Line Item in the Acute Care Cost Center and the ALTCS Lump Sum Appropriation in the Long-Term Care Cost Center. (Please see the respective line items for additional information.)

Additional FY 2009 Revisions

Alternative Benefit Package

Laws 2009, 1st Special Session, Chapter 4, required AHCCCS to establish an alternative benefit package as allowed under the Federal Deficit Reduction Act (DRA) of 2005. The DRA allowed states to use a benchmark health plan, or an alternative benefit plan, as a Medicaid substitute health plan, for certain populations. In Arizona,

2 groups could be moved to this plan: childless adults with income up to 100% FPL and adults with incomes up to 40% FPL after deducting medical expenses and who do not otherwise qualify for any other Medicaid program. Other individuals would have had the option of choosing this plan instead of the traditional Medicaid program.

AHCCCS proposed to modify the requirement by implementing benefit reductions and limitations across all Medicaid acute care adult populations. AHCCCS' alternative proposal required statutory changes which were not implemented during the budget process. Neither the alternative benefit package nor AHCCCS' proposal were implemented.

DRA Premiums

Laws 2009, 1st Special Session, Chapter 4, also required AHCCCS to establish premiums for certain Medicaid populations as long as it did not prohibit Arizona from receiving the enhanced federal matching rate under the federal stimulus package. Since the federal government determined that this was a violation of the ARRA, this policy was not implemented.

<i>Fund Transfers</i>

The budget includes the following midyear FY 2009 revisions and FY 2010 transfers to the General Fund from the funds listed below:

	<u>FY 2009</u>	<u>FY 2010</u>
AHCCCS Fund - EBT*	\$(1,963,300)	\$0
AHCCCS Third Party Collections - EBT	(195,700)	(130,700)
Healthcare Group - Salary	(152,000)	(361,900)
Intergovernmental Services - EBT*	(1,147,700)	(273,200)

* These transfers are from non-appropriated funds.

Tobacco Tax and Health Care Fund and Tobacco Products Tax Fund ^{1/}	FY 2008	FY 2009 ^{1/}	FY 2010 ^{1/}
Medically Needy Account			
<u>Funds Available</u>			
Balance Forward	\$ 54,900	\$ 0	\$ 0
Transfer In - Tobacco Tax and Health Care Fund	59,862,700	57,765,000	57,765,000
Transfer In - Tobacco Products Tax Fund	32,660,800	31,497,900	31,497,900
Interest and Revertments	600	0	0
Total Funds Available	\$92,579,000	\$89,262,900	\$89,262,900
<u>AHCCCS Allocations</u>			
<u>GF Offsets</u>			
Traditional Medicaid State Match Appropriation	\$41,261,900	\$53,738,100	\$53,738,100
Proposition 204 State Match Appropriation	19,465,300	0	0
Total AHCCCS Allocations	\$60,727,200	\$53,738,100	\$53,738,100
<u>DHS Allocations</u>			
Behavioral Health GF Offset	\$28,135,000	\$34,524,800	\$34,524,800
DHS Health Crisis Fund ^{2/}	584,900	0	0
Folic Acid	290,500	400,000	400,000
Community Health Centers	4,446,800	900,000	900,000
Total DHS Allocations	\$33,457,200	\$35,824,800	\$35,824,800
<u>Other Allocations</u>			
Department of Insurance - Healthcare Group	\$ 102,100	\$ 0	\$ 0
Total AHCCCS/DHS Allocations	94,184,400	89,562,900	89,562,900
Administrative Adjustments	0	0	0
Balance Forward	\$ (204,200) ^{3/}	\$ (300,000) ^{3/}	\$ (300,000) ^{3/}
AHCCCS Proposition 204 Protection Account			
<u>Funds Available</u>			
Balance Forward	\$ 800	\$ 2,000	\$ 2,000
Transfer In - Tobacco Products Tax Fund	57,774,000	48,996,700	48,996,700
Transfer In - Emergency Health Services Account	0	0	0
Interest Revenue	1,200	0	0
Total Funds Available	\$57,776,000	\$48,998,700	\$48,998,700
<u>Allocations</u>			
AHCCCS State Match	\$50,785,000	\$48,996,700	\$48,996,700
Administrative Adjustments	6,989,000	0	0
Balance Forward	\$ 2,000	\$ 2,000	\$ 2,000
AHCCCS Emergency Health Services Account			
<u>Funds Available</u>			
Balance Forward	\$ 0	\$ 0	\$ 0
Transfer In - Tobacco Products Tax Fund	14,579,500	23,331,800	23,331,800
Interest Revenue	0	0	0
Total Funds Available	\$14,579,500	\$23,331,800	\$23,331,800
<u>Allocations</u>			
AHCCCS State Match Appropriation	\$24,205,200	\$23,331,800	\$23,331,800
Transfer Out - Prop 204 Protection Account	0	0	0
Administrative Adjustments	0	0	0
Balance Forward ^{4/}	\$ (9,625,700) ^{3/}	\$ 0	\$ 0

Tobacco Tax and Health Care Fund and Tobacco Products Tax Fund ^{1/}	FY 2008	FY 2009	FY 2010
DHS Health Crisis Fund ^{2/}			
<u>Funds Available</u>			
Balance Forward	\$916,000	\$0	\$0
Transfer In - AHCCCS Medically Needy Account	84,000	0	0
Total Funds Available	\$1,000,000	\$0	\$0
<u>Allocations</u>			
Governor's Discretionary Health Spending	584,900	0	0
Balance Forward	\$415,100	\$0	\$0
DHS Health Education Account			
<u>Funds Available</u>			
Balance Forward	\$11,472,700	\$ 8,305,800	\$ 3,805,700
Transfer In - Tobacco Tax and Health Care Fund	20,243,100	18,979,900	18,979,900
Transfer In - Tobacco Products Tax Fund	2,403,200	2,333,200	2,333,200
Total Funds Available	\$34,119,000	\$29,618,900	\$25,118,800
<u>Allocations</u>			
Tobacco Education and Prevention Program	\$21,751,900	\$21,751,900	\$21,751,900
Leading Causes of Death - Prevention and Detection	4,061,300	4,061,300	4,061,300
Balance Forward	\$8,305,800	\$ 3,805,700	\$ (694,400) ^{3/}
Health Research Account			
<u>Funds Available</u>			
Balance Forward	\$ 7,370,900	\$ 6,551,300	\$ 4,266,300
Transfer In - Tobacco Tax and Health Care Fund	4,286,700	4,126,000	4,126,000
Transfer In - Tobacco Products Tax Fund	6,048,300	5,832,900	5,832,900
Interest Revenue	290,700	0	0
Total Funds Available	\$17,996,600	\$16,510,200	\$14,225,200
<u>Allocations</u>			
Arizona Biomedical Research Commission	\$4,842,000	\$5,543,900	\$5,543,900
Alzheimer's	1,000,000	1,000,000	0
Public Health	0	0	1,000,000
Autism Training - Department of Economic Security	103,300	200,000	200,000
Biotechnology (Laws 2002, Ch. 186)	500,000	500,000	500,000
Bioresearch Non-Appropriated Allocation ^{5/}	5,000,000	5,000,000	5,000,000
Balance Forward	\$6,551,300	\$4,266,300	\$1,981,300
^{1/} FY 2009 reflects revenue estimates as of January 2009. The FY 2010 revenue estimates (transfer-in) equals the FY 2009 estimate. ^{2/} Laws 2009, 1 st Special Session, Chapter 4 eliminated the Health Crisis Fund. ^{3/} Actual balances will not be negative. ^{4/} Any unencumbered funds in the Emergency Health Services Account are transferred to the Proposition 204 Protection Account at the end of each year. ^{5/} Laws 2002, Chapter 320 appropriated \$5,000,000 annually from FY 2003 to FY 2007 to the Translational Genomics Research Institute (TGen). The Arizona Biomedical Research Commission signed a contract with TGen to continue this appropriation through FY 2012 through the commission's non-appropriated grant program.			