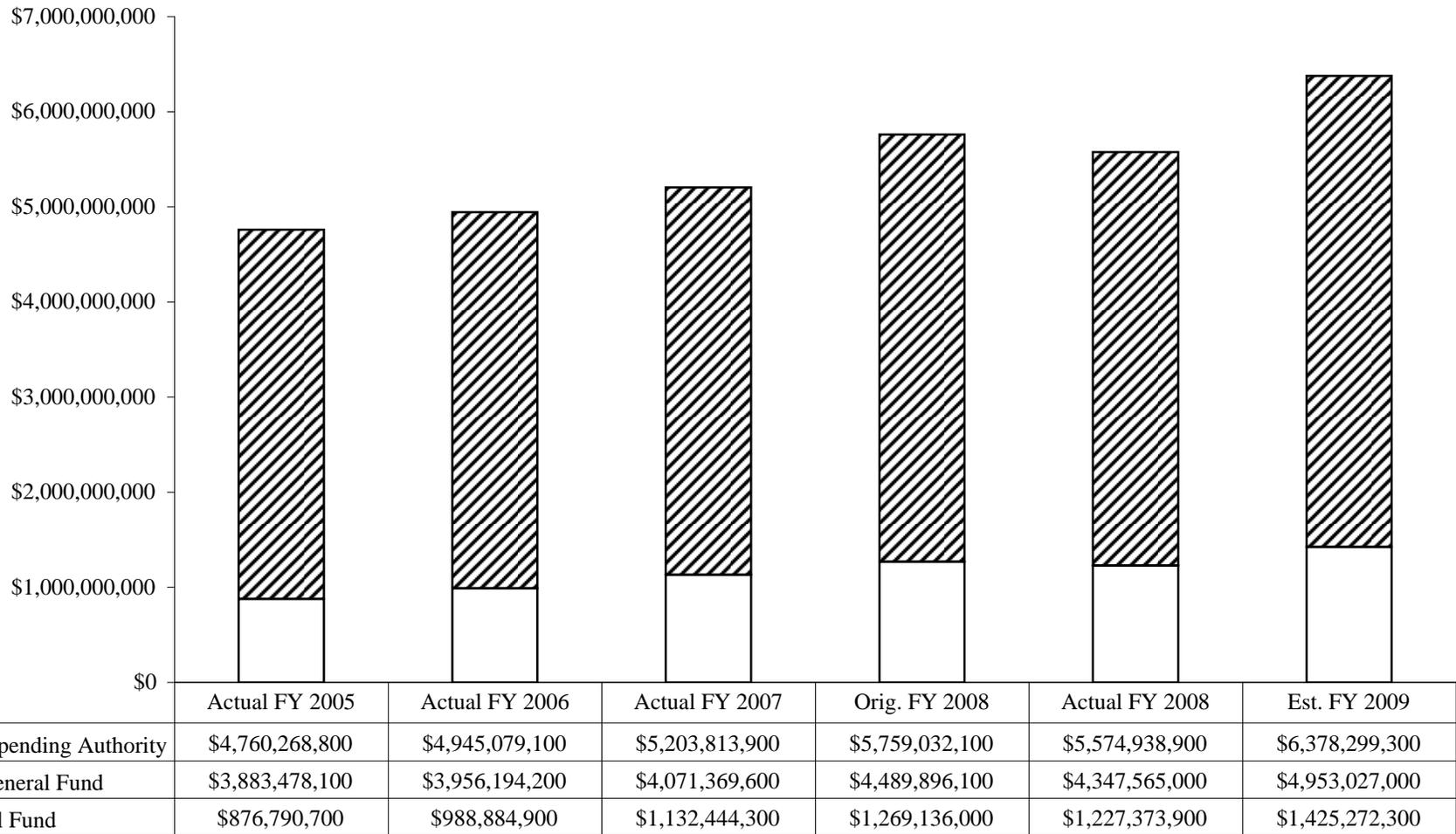


Arizona Health Care Cost Containment System Total Funds FY 2005 - FY 2009



General Fund
 Non-General Fund

Agency: Arizona Health Care Cost Containment System

Proposal: Lump Sum Reduction

FY 09 Savings: \$8,356,100

FY 10 Savings: \$12,534,200

This amount represents an agencywide 0.6% lump sum reduction in FY 2009 and 0.9% in FY 2010. This lump sum reduction would not be applied against current statutory funding formula programs.

Proposal: Personnel Savings

FY 09 Savings: \$1,746,400

FY 10 Savings: \$4,198,100

This option would reduce an agency's budget by the equivalent of 4.2% of its personnel expenses in FY 2009 and 10% in FY 2010 plus related benefit costs.

State agencies would have the flexibility of determining how to implement this reduction in their personnel costs. These actions could include a furlough, pay reduction or other management actions. In implementing this proposal, agencies would not be permitted to reduce their aid to individuals or contracted services to organizations, as typically delineated in a budget's special line items.

Agency: Arizona Health Care Cost Containment System

Proposal: Eliminate Healthcare Group

FY 09 Savings: \$5,000,000

FY 10 Savings: \$5,000,000

This option would eliminate Healthcare Group (HCG), which offers health insurance to small businesses with between 2 and 50 employees. Coverage is offered through community-rated plans; an applicant cannot be denied coverage due to medical conditions, and there is no income limit.

HCG was intended to be self-sufficient with revenues from monthly premium collections being used to cover the cost of the program. In spring 2007, HCG announced that it was running an annual deficit and legislation in the 2007 and 2008 legislative sessions modified the program to improve its solvency and appropriated General Fund revenues to offset its shortfall. As of June 2008, 21,217 people were enrolled in HCG medical plans.

HCG has approximately \$15 million in unpaid prior year obligations and other liabilities. If HCG was eliminated, the state would need to address this issue.

Agency: Arizona Health Care Cost Containment System

Proposal: Eliminate KidsCare Children Program

FY 09 Savings: \$18,307,500

FY 10 Savings: \$35,612,300

This option would eliminate the KidsCare Children program, also referred to as the Children's Health Insurance Program (CHIP). The program provides health coverage to children in families with incomes below 200% of the federal poverty level (FPL), but above the levels required for the regular Arizona Health Care Cost Containment System (AHCCCS) program, which is between 100% and 140% FPL depending on the age of the child. KidsCare Children is an optional program that is not federally mandated. As of November 2008, 62,638 children were enrolled in the KidsCare Children program.

The FY 2009 budget included \$35 million for services and administration for the KidsCare Children program. Eliminating the program as of February 1, 2009 would result in General Fund savings of approximately \$18.3 million in FY 2009 and \$35.6 million in FY 2010. This amount includes both services and administration.

An alternative to eliminating the program altogether would be reducing the KidsCare Children income eligibility limit to 175% FPL. Implementing this change as of February 1, 2009 would result in General Fund savings of approximately \$3.4 million in FY 2009 and \$6.5 million in FY 2010. Based on information from AHCCCS, it is estimated that approximately 19% of KidsCare Children enrollees, 11,901 children, are between 175% and 200% FPL.

AHCCCS receives approximately \$3 in federal monies for every \$1 of state money spent for the KidsCare Children program. Implementation of this option would require a statutory change. Federal law mandates that before making any changes to the KidsCare Children program, the state must first eliminate the KidsCare Parents program.

Agency: Arizona Health Care Cost Containment System

Proposal: Eliminate KidsCare Parents

FY 09 Savings: \$4,738,900

FY 10 Savings: \$7,321,500

This option would eliminate the KidsCare Parents program, which provides healthcare coverage for parents between 100% and 200% of the federal poverty level (between \$21,200 and \$42,400 for a family of 4). Revenue from monthly premiums and enrollment fees are collected from participants and used to offset the cost of the program. As of November 2008, 9,376 parents were enrolled in the KidsCare Parents program. Eliminating this program as of February 1, 2009 would result in General Fund savings of \$4.7 million in FY 2009 and \$7.3 million in FY 2010. This savings includes \$267,100 for administration in FY 2009 and \$641,000 in FY 2010. The remaining amounts represent services. The Arizona Health Care Cost Containment System receives approximately \$3 in federal monies for every \$1 of state money spent for the KidsCare Parents program. Elimination of this program would require a statutory change.

Agency: Arizona Health Care Cost Containment System

Proposal: (5)% Rate Adjustments

FY 09 Savings: \$0

FY 10 Savings: \$71,000,000

This option would reduce fee-for-service rates by (5)% in the Arizona Health Care Cost Containment System (AHCCCS) for the contract year beginning October 1, 2009. AHCCCS sets rates for inpatient and outpatient hospital services, ambulatory surgical centers, nursing facilities, home and community based services, physician fee schedules, freestanding dialysis facilities, transportation, and dental services.

This option would impact 2 areas of the AHCCCS budget. First, it would reduce expenditures in the Fee-For-Service line items. Second, since some of the health plans receiving capitation payments use rate schedules that are consistent with the fee-for-service schedule, there would be savings realized in the Capitation line items. It is estimated that this option would save approximately \$71 million in FY 2010.

AHCCCS receives approximately \$2 in federal monies for every \$1 of state money spent for Title XIX programs.

Agency: Arizona Health Care Cost Containment System

Proposal: Rollback Recent Graduate Medical Education Increases

FY 09 Savings: \$7,000,000

FY 10 Savings: \$7,000,000

This option would rollback Graduate Medical Education (GME) General Fund funding by \$7 million (\$20.4 million total funds), to FY 2007 funding levels. It would retain \$24.5 million in total funding. Since FY 2007, General Fund GME appropriations have increased by \$7 million. It is estimated that these additional appropriations will fund an additional 224 residency slots. A.R.S. § 36-2903.01 gives priority for this funding to programs established or expanded after July 1, 2006 and to programs in counties with a population of less than 500,000 people at the time the residency program was established. A.R.S. § 36-2903.01 was also amended to allow local governments to provide funding for the state match for GME in order to receive Federal Funds to support additional residency positions. The agency receives approximately \$2 in federal monies for every \$1 of state money spent for this program.

Agency: Arizona Health Care Cost Containment System

Proposal: Rollback FY 2008 DES IT Eligibility Project

FY 09 Savings: \$1,300,000

FY 10 Savings: \$1,300,000

This option would rollback the \$1.3 million General Fund appropriation and 11 FTE Positions (plus matching Federal Funds) for continued upgrades to the Department of Economic Security (DES) eligibility system. These monies are part of a \$45 million 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. Expenditures from this line include equipment, internal IT support, and contracted programming and system development.

Agency: Arizona Health Care Cost Containment System

Proposal: Eliminate Ticket to Work Program

FY 09 Savings: \$1,766,300

FY 10 Savings: \$2,378,100

This option would eliminate the Ticket to Work program, which allows individuals receiving Supplemental Security Income (SSI) to work and retain their Arizona Health Care Cost Containment System (AHCCCS) health coverage. This program serves individuals who meet SSI eligibility criteria, who are aged 16-64, and who have earned income below 250% of the federal poverty level (FPL). (Without this program, individuals earning less than 100% FPL and parents earning under 200% FPL would still qualify for other AHCCCS coverage.) As of December 1, 2008, approximately 1,046 people were enrolled in this program. Premiums of \$0 to \$35 monthly are used to offset the cost of the program. Discontinuing this program on February 1, 2009 would result in General Fund cost savings of approximately \$1.8 million for 5 months of savings in FY 2009 and approximately \$2.4 million in FY 2010. AHCCCS receives approximately \$2 in federal monies for every \$1 of state money spent on this program. Elimination of this program would require a statutory change.

Agency: Arizona Health Care Cost Containment System

Proposal: Implement Deficit Reduction Act Copayments

FY 09 Savings: \$0

FY 10 Savings: \$1,600,000

This option would apply copayments for certain Arizona Health Care Cost Containment System (AHCCCS) benefits. Cost sharing in any form is limited to 5% of family income applied to certain households with incomes above 100% of the Federal Poverty Level (FPL). These cost sharing efforts can only be applied to certain groups of AHCCCS enrollees. There are 3 different copayments that could be implemented: general service copayments (ranging from 10%-20% of the service cost depending on income level), non-preferred prescription drug copayments (ranging from \$3 to 20% of the cost of the drug depending on income level), and copayments for non-emergency use of the emergency room (\$3-\$6 depending on income level).

In December 2006, AHCCCS estimated copayments would result in net General Fund revenues of \$1.6 million annually. AHCCCS estimated one-time start-up costs for copayments at \$0.5 million from the General Fund. These start-up costs have not been included in the savings estimate. AHCCCS' one-time start-up costs include computer enhancements to implement a copayment system and to enhance the premium billing system to allow AHCCCS to track total cost sharing to ensure that costs do not exceed 5% of family income.

Agency: Arizona Health Care Cost Containment System

Proposal: Implement Deficit Reduction Act Premiums

FY 09 Savings: \$375,000

FY 10 Savings: \$900,000

This option would implement the cost sharing provisions included in the federal Deficit Reduction Act (DRA). Cost sharing in any form is limited to 5% of family income applied to certain households with incomes above 100% of the Federal Poverty Level (FPL). These cost sharing efforts can only be applied to certain groups of Arizona Health Care Cost Containment System (AHCCCS) enrollees. Premiums would vary based on other cost sharing expenses in order to comply with the 5% cap.

In December 2006, AHCCCS estimated net ongoing revenues of \$0.9 million to the General Fund each year from implementing cost sharing. If premiums were implemented on February 1, 2009, this would result in General Fund savings of \$375,000 in FY 2009. AHCCCS estimated one-time start-up costs for premiums at \$5.1 million from the General Fund. These start-up costs have not been included in the savings estimate. Start-up costs include enhancements to the AHCCCS and Department of Economic Security premium billing systems and purchasing hardware to support premium processing and ensure that total cost sharing does not exceed 5% of family income.

Agency: Arizona Health Care Cost Containment System

Proposal: Implement DRA Alternative Benefit Package

FY 09 Savings: \$210,000

FY 10 Savings: \$504,000

This option would implement an alternative benefit package. The Federal Deficit Reduction Act (DRA) of 2005 allowed states to use a benchmark health plan as a Medicaid substitute health plan. The alternative package selected was the state employee health benefit plan. The current Arizona Health Care Costs Containment System (AHCCCS) benefit package is more generous than the state employee plan in 2 areas: prescription lenses for children and non-emergency transportation. The state employee plan is more generous in some areas including chiropractic services and infertility treatment.

Federal law prohibits states from making a benchmark benefit plan mandatory for long-term care members, pregnant women, Medicare eligible members, certain low-income families, and other specified groups. Members in these groups account for approximately 81% of the AHCCCS population, but most of these members may voluntarily choose the alternative package. The alternative plan may be made mandatory for the remaining 19% of the population (SOBRA children and childless adults).

In December 2006, AHCCCS estimated its benefit plan is between \$0.01 and \$0.12 per person per month more expensive than the state employee benefit package. Assuming 1.2 million members are being served in FY 2009, if 30% (all 19% of the population that can be mandated plus another 11%) use the alternative benefit package, this would result in General Fund cost savings of \$42,000 to \$504,000 per year. The \$210,000 estimate represents 5 months of cost savings in FY 2009 and the \$504,000 estimate represents a full year of savings in FY 2010. To the extent that members in the optional groups do not choose to participate in the alternative benefit package, savings will be reduced.

This analysis did not account for the federal requirement that the state provide certain benefits for children under the age of 19. To the extent that additional services would need to be added to comply with federal mandates, cost savings would be decreased. Some benefits not covered under the state employee plan (prescription lenses for children for example) would need to be provided if the state employee plan were implemented.

Agency: Arizona Health Care Cost Containment System

Proposal: Eliminate Optional Services

FY 09 Savings: \$16,375,000

FY 10 Savings: \$39,300,000

This option would eliminate Arizona Health Care Cost Containment System (AHCCCS) services that are not federally mandated. AHCCCS does not have a current estimate of these expenses available. However, after adjusting Federal Fiscal Year 2006 data, it is estimated that these optional services will cost approximately \$39.3 million in FY 2009, or \$16.4 million for 5 months of savings.

Two optional services have been excluded from this proposal since their elimination is likely to increase costs: ALTCS home and community based services and prescription drugs. Under the home and community based services option, AHCCCS may provide eligible individuals with services that allow them to remain in a non-institutional setting. The elimination of this option would likely move some individuals to a more expensive setting. Eliminating prescription drug funding may result in higher future medical costs. These 2 optional items are expected to cost approximately \$272.5 million and \$126.3 million, respectively, in FY 2009. Implementation of this option would require a statutory change.

<u>Optional Service</u>	<u>Estimated Spending (\$ in Millions)</u>
Durable Medical Equipment	13.0
Transplant Services	5.6
Emergency Dental Services	3.9
Podiatrist Services	1.9
Therapy Services	3.9
Optometrist Services Following Cataract Surgery	0.1
Screening, Diagnostics, Rehabilitation, and Preventive Services	3.0
Other Practitioner Services	6.9
Hospice for Non-ALTCS Members	1.0
Other Behavioral Health Services	No Estimate Available

Agency: Arizona Health Care Cost Containment System

Proposal: Eliminate Non-Federally Required ALTCS

FY 09 Savings: \$77,116,300

FY 10 Savings: \$153,166,400

This option would eliminate Long-Term Care Services for Arizona Health Care Cost Containment System (AHCCCS) enrollees who are above 72% of the Federal Poverty Level (FPL), or \$7,500 per person. Currently, the program provides services for individuals up to 222% of the FPL, or \$23,100 per person.

The Arizona Long Term Care System (ALTCS) provides federal Medicaid long-term care services to persons meeting federally-prescribed income and resource standards and at risk of being institutionalized. The state and the counties share in the cost of ALTCS program growth pursuant to a formula based on utilization, net assessed property value growth, per-capita costs, and reservation populations. The federal government requires coverage of long-term care services for people who are below 100% of the Supplemental Security Income eligibility limit, which is equivalent to 72% of the FPL.

AHCCCS estimates that approximately 44% of individuals currently eligible for ALTCS have income levels above 72% of the Federal Poverty Level. This option would provide a savings of \$77 million from the General Fund (\$226 million in total funds) in FY 2009 if implemented beginning February 1, 2009. General Fund savings of \$153 million would be generated in FY 2010 (\$511 million in total funds, of which \$22 million would be returned to the counties). This option assumes that the General Fund would take 100% savings associated with this option before any county savings is taken.

As of November 2008, 23,139 people were enrolled in ALTCS. This option would eliminate services for approximately 10,181 people and would require a statutory change.

Agency: Arizona Health Care Cost Containment System

Proposal: Eliminate County Hold Harmless

FY 09 Savings: \$4,825,600

FY 10 Savings: \$4,825,600

This option would eliminate hold harmless payments made to 6 counties after the passage of Proposition 204 in 2000. Prior to the passage of Proposition 204, counties were paying \$35.2 million in eligibility and medical liability costs. When the state assumed these costs as part of implementing Proposition 204, it made changes in county financing. At that time, all of these changes resulted in a total net gain to 9 counties of \$6.6 million, ranging from \$113,000 in Cochise County to \$3.2 million in Maricopa County. The changes also created a total net loss of \$(4.2) million for 6 counties ranging from \$(59,700) in La Paz County to \$(3.7) million in Pima County. In order to ensure that these 6 counties did not suffer a net loss as a result of the implementation of Proposition 204, the state enacted County Hold Harmless Payments for these 6 counties and provided enough funds to offset their losses and have a net gain of \$100,000. These payments were begun in FY 2003 at \$4.8 million and have remained constant through FY 2009. This proposal would eliminate the \$4.8 million that is divided among the 6 counties; the impacts to counties that are impacted are displayed below. Since these payments are not typically made until the end of the fiscal year, this savings could be taken in both FY 2009 and FY 2010.

Proposition 204 County Hold Harmless Payments	
Pima	\$3,817,800
Greenlee	234,400
Graham	234,200
Santa Cruz	214,800
Yavapai	164,700
La Paz	159,700
Total	\$4,825,600

Agency: Arizona Health Care Cost Containment System

Proposal: Eliminate Disproportionate Share Hospital Payments

FY 09 Savings: \$13,124,500

FY 10 Savings: \$13,156,600

This option would eliminate the state match for Disproportionate Share Hospital payments (DSH) for private hospitals and transfer monies which currently go to Maricopa County to the General Fund.

States receive DSH payments based on the number of 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.

The total Private Hospital allocation consists of 2 pools totaling \$8.9 million from the General Fund (\$26.1 million in Total Funds). The first allocates \$5.2 million from the General Fund (\$15.2 million in Total Funds) based on private hospitals' level of care provided to Medicaid clients and/or the level of low-income clients served. The second pool allocates \$3.8 million from the General Fund (\$11.0 million in Total Funds) among private hospitals as compensation for uncompensated care. This option would have the state no longer make the state match, saving the state \$8.9 million. It would also result in a loss of \$13.2 million in federal funds to private hospitals.

The remaining \$4.2 million in Federal Title XIX Expenditure Authority is disbursed to Maricopa Integrated Health System (MIHS), a county-owned hospital. Publicly operated hospitals are required to document uncompensated care costs to the federal government through a certified public expenditure (CPE) process. Those CPEs result in the drawdown of Federal Funds, which are then deposited as reserves in the state General Fund. This option would not disburse the \$4.2 million to MIHS.

Agency: Arizona Health Care Cost Containment System

Proposal: Require All Counties to Pay 100% of ALTCS Growth

FY 09 Savings: \$0

FY 10 Savings: \$12,385,100

This option would require all counties to pay 100% of ALTCS growth in FY 2010. In FY 2009, Maricopa and Pima Counties were required to pay 100% of ALTCS growth, while the remaining counties paid 50% of ALTCS growth.

In FY 1998, the state began to share in the costs of the ALTCS program and funds at least 50% of the State Match growth from year to year. In FY 2009, the state's budgeted share of the ALTCS State Match for ALTCS services is \$116.2 million, and JLBC Staff currently estimates that the General Fund share would increase by \$37.4 million to \$153.2 million in FY 2010. If the state required all counties to pay for 100% of their growth from FY 2009 levels, the state would save approximately \$12.4 million in FY 2010. This amount is in addition to the \$28.0 million Maricopa and Pima Counties paid in FY 2009; this option assumes the 2 counties continue their FY 2009 payment in FY 2010. Implementation of this option would require a statutory change.