Arizona Health Care Cost Containment System

Acute Care

JLBC: Amy Upston/Blake Riley
OSPB: Bret Cloninger

DESCRIPTION	FY 2008 ACTUAL	FY 2009 ESTIMATE	FY 2010 JLBC
SPECIAL LINE ITEMS			
Traditional Medicaid Population			
Capitation	1,955,417,500	2,110,483,500	2,391,405,000
Reinsurance	96,120,200	134,202,200	129,621,800
Fee-For-Service	432,294,300	573,395,700	514,455,500
Medicare Premiums	91,754,200	96,275,300	104,550,000
Breast and Cervical Cancer	984,100	1,530,000	1,699,600
Ticket to Work	6,154,500	8,913,400	6,944,300
Dual Eligible Part D Copay Subsidy	2,602,100	1,029,700	1,029,700
Medicare Clawback Payments	26,734,600	28,844,600	31,925,600
Temporary Medical Coverage	9,922,000	3,247,200	0
Proposition 204 Services			
Proposition 204 - Capitation	1,122,958,800	1,205,445,600	1,439,908,100
Proposition 204 - Reinsurance	38,454,100	129,920,200	81,730,000
Proposition 204 - Fee-For-Service	163,979,900	243,375,100	209,821,500
Proposition 204 - Medicare Premiums	28,902,400	31,316,900	33,051,400
Proposition 204 - County Hold Harmless	0	4,825,600	4,825,600
KidsCare Services			
KidsCare - Children	120,716,100	145,267,700	134,516,500
KidsCare - Parents	39,069,100	34,900,700	33,624,100
Payments to Hospitals			
Disproportionate Share Payments	4,202,300	30,350,000	30,350,000
Graduate Medical Education	0	44,906,200	46,298,300
Critical Access Hospitals	1,698,800	1,700,000	1,700,000
Rural Hospital Reimbursement	12,158,100	12,158,100	12,158,100
PROGRAM TOTAL	**4,154,123,100**	**4,842,087,700**	**5,209,615,100**
FUND SOURCES			
General Fund	990,264,200	1,216,752,400	1,380,990,500
Other Appropriated Funds			
Budget Neutrality Compliance Fund	7,026,800	0	0
Children's Health Insurance Program Fund	125,366,400	138,835,300	130,976,400
Temporary Medical Coverage Fund	1,975,400	3,247,200	0
TPTF Emergency Health Services Account	14,579,500	25,716,500	23,331,800
TTHCF Medically Needy Account	60,885,700	62,886,200	53,738,100
SUBTOTAL - Other Appropriated Funds	209,833,800	230,685,200	208,046,300
SUBTOTAL - Appropriated Funds	**1,200,098,000**	**1,447,437,600**	**1,589,036,800**
Expenditure Authority Funds			
County Funds	52,852,000	52,229,200	51,711,900
Third Party Collections Fund	72,800	194,700	194,700
Title XIX Funds	2,727,699,000	3,174,217,500	3,401,394,800
Tobacco Settlement Fund	115,627,300	114,004,100	118,280,200
TPTF Proposition 204 Protection Account	57,774,000	54,004,600	48,996,700
SUBTOTAL - Expenditure Authority Funds	2,954,025,100	3,394,650,100	3,620,578,300
SUBTOTAL - Appropriated/Expenditure Authority Funds	**4,154,123,100**	**4,842,087,700**	**5,209,615,100**
Other Non-Appropriated Funds	24,229,200	22,888,600	24,637,600
Federal Funds	2,738,600	99,900	99,900
TOTAL - ALL SOURCES	4,181,090,900	4,865,076,200	5,234,352,600

CHANGE IN FUNDING SUMMARY

	FY 2009 to FY 2010 JLBC	
	$ Change	% Change
General Fund	164,238,100	13.5%
Other Appropriated Funds	(22,638,900)	(9.8%)
Expenditure Authority Fund	225,928,200	6.7%
Total Appropriated/Expenditure Authority Funds	367,527,400	7.6%
Non-Appropriated Funds	1,749,000	7.6%
Total - All Sources	369,276,400	7.6%

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 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2010 JLBC
• % of AHCCCS children receiving well child visits in the first 15 months of life (EPSDT)	58	57	57	60
• % of AHCCCS children's access to primary care provider	78	76	77	85
• % of AHCCCS women receiving annual cervical screening	55	57	60	60
• Member satisfaction as measured by percentage of enrollees that choose to change health plans	2.0	3.5	2.0	2.0

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 Federal Poverty Level (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 their parents up to 200% FPL, who are not covered by the regular Title XIX program.

As of December 1, 2008, AHCCCS programs served 1,152,698 clients.

Table 1

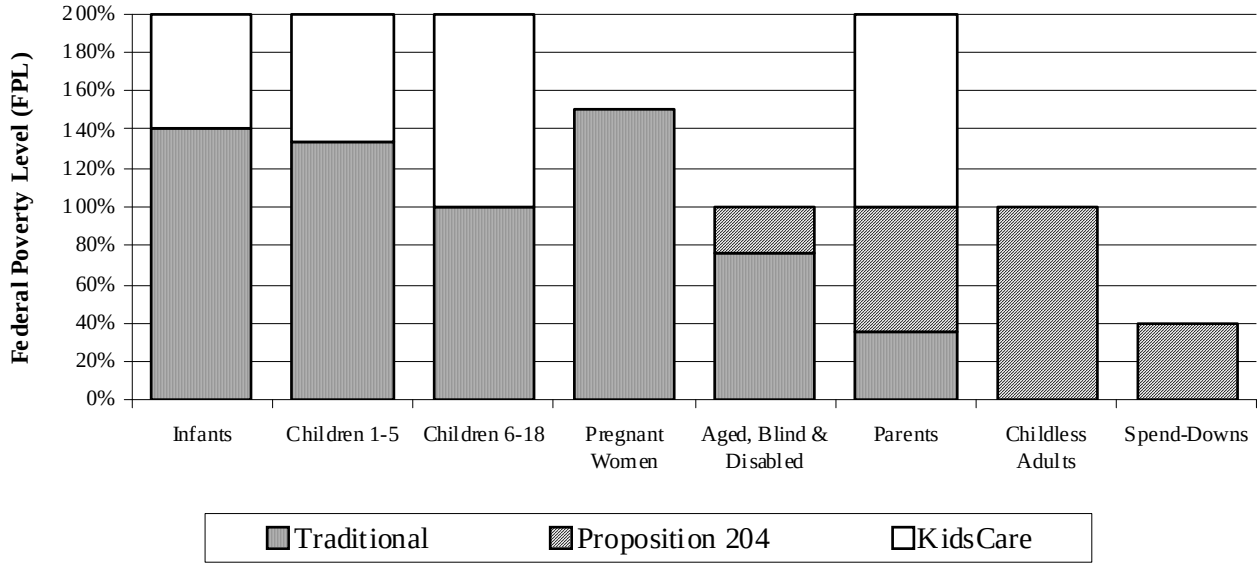
JLBC Forecasted Member Months[1/]

Population	June 2009	June 2010	% Change
Title XIX:			
Traditional Medicaid	699,374	773,718	10.6%
Proposition 204	232,945	248,156	6.5%
Fee-For-Service/Other	159,809	165,822	3.8%
Subtotal – Title XIX	1,092,128	1,187,696	8.8%
Title XXI			
KidsCare - Children	67,794	70,425	3.9%
KidsCare - Parents	8,703	8,758	0.6%
Total Acute Care	1,168,625	1,266,879	8.4%
Long-Term Care	24,272	25,291	4.2%
Total AHCCCS	1,192,897[2/]	1,292,170	8.3%

1/ The figures represent point-in-time estimates, while figures in *Tables 3 and 4* display estimated averages for FY 2010. 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.

2/ Represents budgeted forecast.

Chart 1



The following issues are reflected in several different line items:

Title XIX Caseload and Capitation Rate Growth
The JLBC includes caseload 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 assumed to grow by 8.8% from June 2009 to June 2010. 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 measuring AHCCCS caseload growth. AHCCCS updated their estimate just prior to publishing the Baseline. Given the uncertainty of growth in the AHCCCS population, these estimates were not incorporated into the Baseline. The JLBC recommends that we continue to monitor caseload growth and adjust the estimates accordingly. The revised AHCCCS estimate would have increased the FY 2010 growth rate from 8.8% to 9.2%.

In comparison to caseload growth rates which vary by population, capitation rate inflation is assumed to be 0% above FY 2009 across all capitated programs. 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.

In total, the amount includes $400,782,400 in new Title XIX and Title XXI funding for standard caseload growth. Of this amount, $155,979,700 is from the General Fund and $244,802,700 is in Federal and County Expenditure Authority. These numbers also incorporate growth in fee-for-service and reinsurance as discussed later.

In addition to the funding increases discussed above, the JLBC also includes savings as a result of one-time FY 2008 appropriations and a revision to the outlier payment methodology. The budget includes $(10,752,900) in General Fund savings due to the final year of a 3-year phase-in of a revision to the outlier payment methodology.

The FY 2010 forecast is developed from a FY 2009 base that overall is $87 million higher than the FY 2009 General Fund appropriation. The FY 2009 shortfall is due primarily to caseloads growing faster than budgeted. *(Please see the AHCCCS Summary section for additional information on the FY 2009 Shortfall.)*

In the narrative descriptions below, FY 2010 funding increases are compared to that program's FY 2009 appropriated levels, as well as its revised expenditure level in FY 2009.

Tobacco Taxes and Settlement Monies
As a result of declining tobacco tax revenues, the budget provides an increase of $16,540,700 from the General Fund and corresponding decreases in the various tobacco tax accounts in FY 2009 and FY 2010. *(Please see the AHCCCS Summary section for additional information on tobacco tax revenues.)*

The budget also provides a decrease of $(4,276,100) from the General Fund and a corresponding increase to the Tobacco Settlement Fund in FY 2009 and FY 2010 based on estimates from the Attorney General's office.

Fee-For-Service and Reinsurance
Both Traditional and Proposition 204 Fee-For-Service categories were grown at 4% from current FY 2009 levels for FY 2010. The increases account for caseload growth.

Both Traditional and Proposition 204 Reinsurance categories were decreased by (6)% from FY 2009 to FY 2010 because of changes in reinsurance policy. Beginning in Contract Year 2009, one of the largest health plans elected to increase its deductible from $20,000 to $35,000. This change is expected to lead to lower costs for reinsurance in FY 2009 and FY 2010, but was offset by higher capitation rates in FY 2009.

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 2010, both the Title XIX FMAP (0.12% decline) and the Title XXI FMAP (0.1% decline) are decreasing, effective October 1, 2010. The SFY 2010 FMAPs are 65.76% for Title XIX and 76.03% for Title XXI. These decreases will result in General Fund cost increases in federally matched programs of $5,591,800 and are included in the growth numbers presented below.

Traditional Medicaid Population

The following Traditional Medicaid line items fund these populations *(see Chart 1)*:

- Children less than 1, up to 140% of the FPL
- Pregnant women up to 150% FPL 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
- Women diagnosed through the Breast and Cervical Cancer Screening Program, up to 250% FPL
- Individuals aged 16-64 receiving Supplemental Security Income, up to 250% FPL

These line items exclude the Proposition 204 and KidsCare populations.

Capitation

The JLBC includes $2,391,405,000 for Capitation expenditures for the Traditional population in FY 2010. This amount consists of:

General Fund	$712,907,800
County Funds	51,711,900
TTHCF Medically Needy Account	53,738,100
Third Party Collections	194,700
Federal Title XIX Expenditure Authority	1,572,852,500

The FY 2010 adjustments would be as follows:

Formula Growth **GF 103,898,200**
EA 192,312,500

This adjustment would increase Traditional Title XIX population funding for caseload growth by $296,210,700 in FY 2010.

The FY 2010 adjustment would represent capitation enrollment growth of 10.6% from June 2009 to June 2010. This would result in approximately 739,022 member years being served in FY 2010. The amount includes no capitation rate increase.

Outlier Methodology **GF (5,235,800)**
EA (10,053,400)

This adjustment would decrease funding by $(15,289,200) due to a revision to the outlier payment methodology in FY 2010.

Laws 2007, Chapter 263 revised the outlier methodology by utilizing the most recent statewide urban and statewide rural average cost-to-charge ratios (CCRs) published by the federal Centers for Medicare and Medicaid Services (CMS). These CCRs are to be updated annually to reflect any changes in the figures published by CMS. Laws 2007, Chapter 263 also required that AHCCCS phase-in the new CCRs over a 3-year time period and that the phase-in be completed by October 1, 2010. In total, the revised methodology will result in General Fund savings of $(10,752,900) during the third year of the 3-year phase-in. *(Please see the Traditional and Proposition 204 Capitation, Reinsurance, and Fee-For-Service Special Line Items for the rest of the outlier methodology revision savings.)*

Maricopa Deflator **GF 517,300**
EA (517,300)

This adjustment would increase funding by $517,300 from the General Fund and decrease County Funds by a corresponding amount in FY 2010 for a decrease in County Acute Care contributions from Maricopa County. *(See Table 2.)*

A.R.S. § 11-292 includes 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 2.3%, as measured by the November estimate of the calendar year 2008 GDP price deflator. This decreases the county contribution for Maricopa County by $(517,300). 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.

Table 2

County Contributions for Acute Care and Administration

County	FY 2009			FY 2010		
	Acute	DUC	BNCF	Acute	DUC	BNCF
Apache	$ 268,800	$ 87,300	$ 93,600	$ 268,800	$ 87,300	$ 98,600
Cochise	2,214,800	162,700	174,700	2,214,800	162,700	184,100
Coconino	742,900	160,500	172,300	742,900	160,500	181,500
Gila	1,413,200	65,900	70,800	1,413,200	65,900	74,600
Graham	536,200	46,800	50,300	536,200	46,800	53,000
Greenlee	190,700	12,000	12,900	190,700	12,000	13,600
La Paz	212,100	24,900	26,800	212,100	24,900	28,200
Maricopa	21,552,700	0	0	21,035,400	0	0
Mohave	1,237,700	187,400	201,100	1,237,700	187,400	211,900
Navajo	310,800	122,800	131,800	310,800	122,800	138,900
Pima	14,951,800	1,115,900	1,198,100	14,951,800	1,115,900	1,262,400
Pinal	2,715,600	218,300	234,400	2,715,600	218,300	247,000
Santa Cruz	482,800	51,600	55,400	482,800	51,600	58,400
Yavapai	1,427,800	206,200	221,400	1,427,800	206,200	233,300
Yuma	1,325,100	183,900	197,400	1,325,100	183,900	208,000
Subtotal	**$49,583,000**	**$2,646,200**	**$ 2,841,000**	**$49,065,700**	**$2,646,200**	**$ 2,993,500**
Acute Care Total			**$52,229,200**			**$51,711,900**
Administration Total			**2,841,000**			**2,993,500**
Total			**$55,070,200**			**$54,705,400**

Tobacco Tax Shortfall **GF 5,102,700**
OF (5,102,700)

This adjustment would be an increase of $5,102,700 from the General Fund and a corresponding decrease of $(5,102,700) from the TTHCF Medically Needy Account in FY 2010 to offset declining tobacco tax revenues.

Background – 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 5-year period upon the completion of a competitive bidding process in which the health plans respond to a Request for Proposal from AHCCCS. Health plans bid by AHCCCS rate code, meaning that different rates are paid for different groups. *Table 3* details the projected capitation rates and enrollment by AHCCCS rate code for FY 2010. The 5-year contracts were effective October 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.

Reinsurance

The JLBC includes $129,621,800 for Reinsurance expenditures for the Traditional population in FY 2010. This amount consists of:

General Fund	44,389,000
Federal Title XIX Expenditure Authority	85,232,800

The FY 2010 adjustments would be as follows:

Formula Growth **GF 877,900**
EA 1,246,700

This adjustment would increase Traditional Title XIX Reinsurance funding for caseload growth by $2,124,600 in FY 2010.

The FY 2010 adjustment would be a decrease of (6)% below current FY 2009 caseload levels, but 1.6% above budgeted FY 2009 caseloads.

Table 3

Traditional Medicaid

Federally-Eligible Rate Codes	FY 2010 Member Years [1/]	FY 2010 Capitation Rates [2/]
TANF < 1	57,375	515.26
TANF 1-13	368,151	112.63
TANF 14-44 Female	135,969	243.18
TANF 14-44 Male	58,400	145.55
TANF 45+	12,454	405.70
SSI w/ Medicare	44,429	156.94
SSI w/o Medicare	57,340	742.21
Family Planning	4,904	19.03
Total	739,022	
Deliveries [3/]	37,330	6,635.02

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 2010, the rates reflect 1 quarter at the CY 2009 level and 3 quarters at the CY 2010 level.

3/ This is the projection of actual birth deliveries to be made by enrollees in AHCCCS health plans.

Outlier Methodology **GF (2,296,100)**
EA (4,408,900)

This adjustment would decrease funding by $(6,705,000) due to a revision to the outlier payment methodology in FY 2010.

Background – The Reinsurance line item is a stop-loss program which represents payments made to health plans for patients with unusually high costs. AHCCCS provides both regular and catastrophic reinsurance coverage. For regular reinsurance coverage, the health plan is responsible for paying all costs until an annual deductible has been met. After the deductible has been met, AHCCCS will pay 75% of the cost of service until it reaches $650,000. After this level, AHCCCS will pay 100% of the cost. Catastrophic reinsurance coverage is available for patients that have certain, very costly medical conditions. For patients with these specific health conditions, AHCCCS will pay 85% of the cost of service. After the $650,000 deductible has been met, AHCCCS will pay 100% of the cost.

Fee-For-Service

The JLBC includes $514,455,500 for Fee-For-Service expenditures for the Traditional population in FY 2010. This amount consists of:

General Fund	103,010,300
Federal Title XIX Expenditure Authority	411,445,200

The FY 2010 adjustments would be as follows:

Formula Growth **GF (4,691,400)**
EA (51,765,300)

This adjustment would decrease Traditional Title XIX Fee-For-Service funding for caseload growth by $(56,456,700) in FY 2010. This adjustment would be a 4% increase above current FY 2009 caseload levels, but (9.8)% below budgeted FY 2009 caseloads.

Outlier Methodology **GF (850,500)**
EA (1,633,000)

This adjustment would decrease funding by $(2,483,500) due to a revision to the outlier payment methodology in FY 2010.

Background – 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.

Medicare Premiums

The JLBC includes $104,550,000 for Medicare Premium expenditures for the Traditional Medicaid population in FY 2010. This amount consists of:

General Fund	31,307,300
Federal Title XIX Expenditure Authority	73,242,700

The FY 2010 adjustments would be as follows:

Formula Growth **GF 2,284,600**
EA 5,990,100

This adjustment would increase funding for Medicare premiums caseload growth by $8,274,700 in FY 2010. This adjustment would be an increase of 4% above current FY 2009 caseload levels.

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 $1,699,600 for Breast and Cervical Cancer in FY 2010. This amount consists of:

General Fund	407,400
Federal Title XIX Expenditure Authority	1,292,200

The FY 2010 adjustments would be as follows:

Formula Growth **GF 41,900**
EA 127,700

This adjustment would increase Breast and Cervical Cancer funding for caseload growth by $169,600 in FY 2010. The FY 2010 adjustment would be an increase of 4% above current FY 2009 caseload levels, but 34% above budgeted FY 2009 caseloads.

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. Enrollment as of December 1, 2008 was 131 individuals.

Ticket to Work

The JLBC includes $6,944,300 for Ticket to Work in FY 2010. This amount consists of:

General Fund	2,378,100
Federal Title XIX Expenditure Authority	4,566,200

The FY 2010 adjustments would be as follows:

Formula Growth **GF (663,400)**
EA (1,305,700)
This adjustment would decrease Ticket to Work funding for caseload growth by $(1,969,100) in FY 2010.

The FY 2010 adjustment represents a (21.8)% decrease below the FY 2009 appropriation but an increase of 4% above current FY 2009 caseload levels.

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 December 1, 2008, approximately 1,046 members were enrolled in this program.

The FY 2010 budget estimates collections of $22,100 in premiums, which are used to offset the costs of services. Clients may be assessed premiums of $0 to $35 monthly, based on income.

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 2010. This amount is unchanged from FY 2009.

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, the copayment ranges from $1.05 to $6.01, depending on the class of the drug as well as the recipient's income.

Medicare Clawback Payments

The JLBC includes $31,925,600 from the General Fund for Medicare Clawback Payments in FY 2010. The FY 2010 adjustments would be as follows:

Formula Growth **GF 3,081,000**
This adjustment would increase Medicare Clawback Payment funding for caseloads and inflation by $3,081,000 from the General Fund in FY 2010.

As part of the Medicare Modernization Act (MMA) effective January 1, 2006, AHCCCS is not required to pay for prescription drug costs for members that are also eligible for Medicare. Instead, AHCCCS is required to make "Clawback" payments to Medicare based on 85% of the estimated prescription drug cost of this population in FY 2008. The state's share of 85% declines annually by 1.7% and the Clawback cost per member is annually increased based on national health trend information.

Temporary Medical Coverage

The JLBC includes no funding for Temporary Medical Coverage in FY 2010. The FY 2010 adjustments would be as follows:

Eliminate Temporary Medical Coverage Program **OF (3,247,200)**
This adjustment would decrease funding by $(3,247,200) from the Temporary Medical Coverage Fund in FY 2010 due to the elimination of the program.

The FY 2009 budget suspended the Temporary Medical Coverage program, but appropriated $3,247,200 from the Temporary Medical Coverage Fund to pay for reconciliation obligations incurred for claims with dates of services before July 1, 2008. This adjustment would discontinue the program and would require a statutory change.

The purpose of the program is to provide temporary medical coverage for persons who have previously been enrolled in AHCCCS who are now receiving federal disability insurance (SSDI) benefits and are not yet eligible for Medicare benefits. SSDI benefits would normally raise an individual's income above eligibility limits for AHCCCS. This program allows a person to continue to receive health benefits until those benefits are provided through Medicare. Persons receiving SSDI benefits are eligible for Medicare benefits after a period of 24 months. This program went into effect October 1, 2006. As of June 30, 2008, approximately 248 people were enrolled in the program.

Proposition 204 Services

Proposition 204 expanded the regular AHCCCS program to 100% FPL. The Proposition 204 program serves individuals with incomes that exceed the income limits for the Traditional population, but are below 100% FPL. Services provided to this population mirror the services provided in the regular AHCCCS program.

Proposition 204 - Capitation

The JLBC includes $1,439,908,100 for Capitation expenditures for the Proposition 204 population in FY 2010. This amount consists of:

General Fund	302,377,400
Tobacco Settlement Fund	118,280,200
TPTF Proposition 204 Protection Account	48,996,700
Emergency Health Services Account	23,331,800
Federal Title XIX Expenditure Authority	946,922,000

The FY 2010 adjustments would be as follows:

Formula Growth **GF 82,994,600**
EA 155,378,900

This adjustment would increase Proposition 204 funding for caseload growth by $238,373,500 in FY 2010.

The FY 2009 adjustment would represent Proposition 204 capitation enrollment growth of 6.5%, from June 2009 to June 2010. This would result in approximately 241,104 member years being served in FY 2010. The amount includes no capitation rate increase.

Outlier Methodology **GF (1,339,300)**
EA (2,571,700)

This adjustment would decrease funding by $(3,911,000) in FY 2010 due to a revision to the outlier payment methodology in FY 2010.

Increased Tobacco Settlement Monies **GF (4,276,100)**
EA 4,276,100

This adjustment would decrease funding by $(4,276,100) from the General Fund and include a corresponding increase from the Tobacco Settlement Fund due to an expected increase in tobacco settlement monies in FY 2010. The tobacco settlement monies are payments received as part of the Tobacco Master Settlement Agreement (MSA). In exchange for not suing certain tobacco companies, Arizona receives an annual payment from tobacco companies.

Tobacco Tax Shortfall **GF 11,438,000**
OF (6,430,100)
EA (5,007,900)

This adjustment would be an increase of $11,438,000 from the General Fund and a corresponding decrease of $(11,438,000) in FY 2010 to offset declining tobacco tax revenues. The Other Appropriated Fund and Expenditure Authority consists of:

TPTF Proposition 204 Protection Account	(5,007,900)
TTHCF Medically Needy Account	(4,045,400)
Emergency Health Services Account	(2,384,700)

Table 4 details the capitation rates and enrollment for the Proposition 204 program by AHCCCS rate code.

Table 4

Proposition 204

Federally-Eligible Rate Codes	FY 2010 Member Years [1/]	FY 2010 Capitation Rates [2/]
TANF	80,178	234.79
SSI	24,839	210.66
Prop 204 Conversions [3/]	39,209	492.47
Prop 204 Medically Eligible [4/]	5,233	1,017.59
Prop 204 Newly Eligible [5/]	91,645	492.47
Total	**241,104**	
Hospital "Kick" [6/]	4,285	10,900.00
Deliveries [7/]	1,727	6,635.02

1/ Member years are calculated as projected regular member months divided by 12 and do not necessarily indicate actual clients enrolled.
2/ Capitation rates are set on a Contract Year (CY) basis, which is from October 1 through September 30. For FY 2010, the rates reflect 1 quarter at the CY 2009 level and 3 quarters at the CY 2010 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 - Reinsurance

The JLBC includes $81,730,000 for the Proposition 204 - Reinsurance line item in FY 2010. This amount consists of:

General Fund	27,988,400
Federal Title XIX Expenditure Authority	53,741,600

The FY 2010 adjustments would be as follows:

Formula Growth **GF (15,667,400)**
EA (30,536,000)

This adjustment would decrease Proposition 204 reinsurance funding for caseload growth by $(46,203,400) in FY 2010.

The FY 2010 adjustment represents a decrease of (6)% below current FY 2009 caseload levels. This adjustment includes monies for enrollment growth. Monies for these reinsurance payments are paid to health plans for catastrophic cases in the Proposition 204 population.

Outlier Methodology **GF (680,400)**
EA (1,306,400)

This adjustment would decrease funding by $(1,986,800) in FY 2010 due to a revision to the outlier payment methodology in FY 2010.

Proposition 204 - Fee for Service

The JLBC includes $209,821,500 for Fee-For-Service expenditures for the Proposition 204 population in FY 2010. This amount consists of:

General Fund	40,349,600
Federal Title XIX Expenditure Authority	169,471,900

The FY 2010 adjustments would be as follows:

Formula Growth **GF (7,046,600)**
EA (25,482,600)

This adjustment would decrease funding for caseload growth by $(32,529,200) in FY 2010.

The FY 2010 adjustment would represent an increase of 4% above revised caseload levels for FY 2009 but (25)% below FY 2009 budgeted levels. These increases include monies for enrollment growth. 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.)*

Outlier Methodology **GF (350,800)**
EA (673,600)

This adjustment would decrease funding by $(1,024,400) in FY 2010 due to a revision to the outlier payment methodology in FY 2010.

Proposition 204 - Medicare Premiums

The JLBC includes $33,051,400 for Medicare Premiums expenditures for the Proposition 204 population in FY 2010. This amount consists of:

General Fund	11,318,500
Federal Title XIX Expenditure Authority	21,732,900

The FY 2010 adjustments would be as follows:

Formula Growth **GF 631,000**
EA 1,103,500

This adjustment would increase funding for caseload growth by $1,734,500 in FY 2010. The FY 2010 adjustment would represent an increase of 4% above current caseload levels for FY 2009.

Proposition 204 - County Hold Harmless

The JLBC includes $4,825,600 from the General Fund for Proposition 204 County Hold Harmless payments in FY 2010. This amount is unchanged from FY 2009.

The table at the beginning of the Acute Care section indicates that no monies were spent on Proposition 204 - County Hold Harmless in FY 2008. This is due to the fact that the FY 2008 appropriation was not distributed to the recipient counties until FY 2009. These expenditures are counted in the state's overall administrative adjustment total for FY 2009.

As a result of the implementation of Proposition 204, some counties experienced revenue losses. The amount continues prior year appropriations to hold these counties harmless. The primary recipient of the appropriation is Pima County, which 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 budget provides $134,516,500 for KidsCare children's services in FY 2010. This amount consists of:

General Fund	30,483,700
CHIP Fund	104,032,800

The FY 2010 adjustments would be as follows:

Formula Growth **GF (2,513,100)**
OF (8,238,100)

This adjustment would decrease caseload growth funding in the KidsCare Children population by $(10,751,200) in FY 2010. This OF amount consists of the CHIP Fund.

These amounts would represent enrollment growth of approximately 2,603 members, or 3.9%, from June 2009 to June 2010. Total enrollment in June 2010 is expected to reach approximately 70,425. As of November 2008, approximately 64,748 children were enrolled in the program. The amount includes no capitation rate increase.

The above amounts include an estimate of $7.3 million in premiums, which are used to offset the costs of services. Monthly premiums range from $10 to $35 depending on household income and the number of children enrolled. The maximum premium is $35 per month to cover all children in the household.

KidsCare - Parents

The JLBC includes $33,624,100 in FY 2010 for KidsCare Parents in FY 2010. This amount consists of:

General Fund	6,680,500
CHIP Fund	26,943,600

The FY 2010 adjustments would be as follows:

Formula Growth	**GF**	**(1,655,800)**
	OF	**379,200**

This adjustment would decrease caseload growth funding in the KidsCare – Parents population by $(1,276,600) in FY 2010. The adjustment would consist of a decrease in the General Fund appropriation and an increase in the CHIP Fund appropriation.

These amounts would represent enrollment growth of approximately 55 members, or 0.6%, from June 2009 to June 2010. However, our revised estimates reflects an expected enrollment decline of (8.7)% from June 2008 to June 2009. Total enrollment in June 2010 is expected to be approximately 8,758. As of November 2008, approximately 9,376 parents were receiving services in this 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.

The above amounts include an estimate of $5.8 million in premiums, which are used to offset the costs of services. Premiums for this population total 3%-5% of the family's monthly income depending on income level for coverage of all parents and children. In addition, parents pay an enrollment fee of $15-$25 per person depending on income to enroll in the KidsCare Parents program. There is no enrollment fee if only children are being enrolled in the program. The $5.8 million in premiums are appropriated from the CHIP Fund. These premium payments offset the cost of the program for FY 2010.

Table 5

Disproportionate Share Hospital Program

	FY 2009	FY 2010
Allocations:		
County-Operated Hospitals (COH)	$ 85,675,400	$ 85,675,400 1/
Supplemental COH payment	4,202,300	4,202,300
Arizona State Hospital (ASH)	28,474,900	28,474,900 2/
Private Hospitals	26,147,700	26,147,700
Total Allocations	**$144,500,300**	**$144,500,300**
Revenue:		
County Withholding	$ -	$ -
ASH reversion	-	-
Federal DSH to GF (Maricopa)	54,910,300	54,892,300
Federal DSH to GF (ASH)	18,727,900	18,722,200
Total Revenue	**$ 73,638,200**	**$ 73,614,500**
Less GF Appropriation	**(8,950,400)**	**(8,955,600)**
Net GF Impact	**64,687,800**	**64,658,900**

1/ Includes $30,668,500 in CPE which draw down federal DSH payments.
2/ Includes $9,763,900 in CPE which draw down federal DSH payments.

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 $30,350,000 for Disproportionate Share Hospital (DSH) Payments in FY 2010. This amount consists of:

General Fund	8,954,300
Federal Title XIX Expenditure Authority	21,395,700

The table at the beginning of the Acute Care section indicates that no monies were spent on DSH Payments in FY 2008. This is due to the fact that the FY 2008 appropriation was not distributed to the recipient hospitals until FY 2009. These expenditures are counted in the state's overall administrative adjustment total for FY 2009.

The FY 2010 adjustments would be as follows:

Decreased FMAP	**GF**	**32,100**
	EA	**(32,100)**

Background - 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 5* presents the allocation of Disproportionate Share Funding. The changes in FY 2010 reflect the adjustment to the FMAP which requires that

increased CPE be shown in order to draw down the same amount of federal funding as last year.

The state only appropriates General Fund dollars for DSH payments to private hospitals ($26,147,700) and monies retained by Maricopa Integrated Health Services (MIHS) ($4,202,300). 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.

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.

Graduate Medical Education

The JLBC includes $46,298,300 for Graduate Medical Education (GME) expenditures in FY 2010. This amount consists of:

General Fund	15,911,500
Federal Title XIX Expenditure Authority	30,386,800

The FY 2010 adjustments would be as follows:

Statutory Inflation Adjustment	**GF**	**475,000**
	EA	**917,100**

This adjustment would increase funding for a statutory inflation adjustment by $1,392,100 in FY 2010. The adjustment reflects a 3.1% yearly increase above the FY 2009 appropriation of $44,906,200, based on the CMS Hospital Prospective Reimbursement Market Basket, as reported by AHCCCS. This inflation adjustment is required by statute. The additional $12,000,000 appropriated in FY 2007 for recruiting Arizona physicians and the additional $8,894,200 appropriated in FY 2008 is not adjusted for inflation.

Decreased FMAP	**GF**	**113,400**
	EA	**(113,400)**

Critical Access Hospitals

The JLBC includes $1,700,000 for Critical Access Hospitals in FY 2010. This amount consists of:

General Fund	582,300
Federal Title XIX Expenditure Authority	1,117,700

The FY 2010 adjustments would be as follows:

Decreased FMAP	**GF**	**2,200**
	EA	**(2,200)**

The Critical Access Hospitals program provides increased reimbursement to small rural hospitals that are federally designated as critical access hospitals. In FY 2008, 10 hospitals qualified for funding under this program.

Rural Hospital Reimbursement

The JLBC includes $12,158,100 for Rural Hospital Reimbursement payments in FY 2010. This amount consists of:

General Fund	4,163,500
Federal Title XIX Expenditure Authority	7,994,600

The FY 2010 adjustments would be as follows:

Decreased FMAP	**GF**	**14,900**
	EA	**(14,900)**

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 item, $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 $30,350,000 appropriation for Disproportionate Share Payments for FY 2010 made pursuant to A.R.S. § 36-2903.01P includes $4,202,300 for the Maricopa County Healthcare District and $26,147,700 for private qualifying disproportionate share hospitals.

Deletion of Prior Year Footnotes
The JLBC would delete the Prior Year Temporary Medical Coverage Program Reconciliation Payments footnote since it is no longer applicable.

The JLBC would delete the footnote allowing AHCCCS to expend funds for federally-matched hospice services to non-ALTCS members.

STATUTORY CHANGES

The JLBC would:
- As permanent law, would eliminate the temporary Medical Coverage program.

- Continue to set as session law the County Acute Care contribution at $51,711,900. This amount would include adjusting the contribution for Maricopa County in FY 2009 downward by $(622,800) for inflation by an amount equal to the GDP price deflator. JLBC would also adjust Maricopa County's contribution downward for inflation in FY 2009. *(Please see the Maricopa Deflator policy issue under the Traditional Capitation Special Line Item.)*
- Continue to set as session law the Disproportionate Share Hospital payments for FY 2010 at $89,877,700 for a nonstate operated public hospital, $28,474,900 for the Arizona State Hospital, and $26,147,700 for qualifying private hospitals. *(Please see the Disproportionate Share Payments Special Line Item for additional information.)*
- Continue as session law the collection of $2,646,200 in DUC pool contributions from all counties other than Maricopa County. The JLBC would exclude these contributions from county expenditure limitations, retroactive to June 30, 2004.
- Continue to include as session law the exclusion of Proposition 204 administration costs from county expenditure limitations retroactive to June 30, 2004.
- The JLBC would, as session law, prohibit increases in reimbursement rates in the contract year beginning October 1, 2009.