

Arizona Health Care Cost Containment System

Summary

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DESCRIPTION	FY 2008 ACTUAL	FY 2009 ESTIMATE	FY 2010 JLBC
PROGRAM BUDGET			
Administration	200,915,900	208,827,900	208,827,900
Acute Care	4,154,123,100	4,842,087,700	5,209,615,100
Long-Term Care	1,071,663,400	1,195,249,600	1,290,346,300
AGENCY TOTAL	5,426,702,400	6,246,165,200	6,708,789,300

OPERATING BUDGET

<i>Full Time Equivalent Positions</i>	3,179.0	3,201.4	3,201.4
Personal Services	35,796,300	39,193,300	39,193,300
Employee Related Expenditures	14,403,100	15,882,100	15,882,100
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	70,082,400
Special Line Items (SLI)	5,361,875,200	6,176,082,800	6,638,706,900
AGENCY TOTAL	5,426,702,400	6,246,165,200	6,708,789,300

FUND SOURCES

General Fund	1,227,373,900	1,425,272,300	1,626,304,900
<u>Other Appropriated Funds</u>			
Budget Neutrality Compliance Fund	9,709,900	48,634,300	30,956,300
Children's Health Insurance Program Fund	134,885,900	145,970,900	138,093,900
Healthcare Group Fund	5,088,100	6,526,800	6,526,800
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	227,124,500	292,981,900	252,646,900
SUBTOTAL - Appropriated Funds	1,454,498,400	1,718,254,200	1,878,951,800
<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	4,050,836,000	4,347,764,600
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	3,972,204,000	4,527,911,000	4,829,837,500
SUBTOTAL - Appropriated/Expenditure Authority Funds	5,426,702,400	6,246,165,200	6,708,789,300
Other Non-Appropriated Funds	108,070,500	93,836,300	95,585,300
Federal Funds	40,166,000	38,297,800	31,875,500
TOTAL - ALL SOURCES	5,574,938,900	6,378,299,300	6,836,250,100

CHANGE IN FUNDING SUMMARY

	FY 2009 to FY 2010 JLBC	
	\$ Change	% Change
General Fund	201,032,600	14.1%
Other Appropriated Funds	(40,335,000)	(13.8%)
Expenditure Authority Fund	301,926,500	6.7%
Total Appropriated/Expenditure Authority Funds	462,624,100	7.4%
Non-Appropriated Funds	(4,673,300)	(3.5%)
Total - All Sources	457,950,800	7.2%

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.

PERFORMANCE MEASURES	FY 2006	FY 2007	FY 2008	FY 2010
	Actual	Actual	Actual	JLBC
• % of people under age 65 that are uninsured	17	15.5	19.0	18.0

Administration

KidsCare FMAP Adjustment	GF	\$ 18,100
	OF	(18,100)
BNCF Statutory Adjustment	GF	(152,500)
	OF	152,500

FORMAT — Varies by Program

FOOTNOTES

Standard Footnotes

Before making fee-for-service program or rate changes that pertain to hospital, nursing facility or home and community based services rates or for any of the other fee-for-service rate categories that have increases that, in the aggregate, are 2% above and \$1,500,000 from the state General Fund greater than budgeted medical inflation in FY 2010, the Arizona Health Care Cost Containment System Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee.

Acute Care

Traditional Medicaid Population	GF	102,066,400
	OF	(5,102,700)
	EA	129,993,700
Proposition 204 Services	GF	65,703,000
	OF	(6,430,100)
	EA	95,180,000
KidsCare Caseload and Capitation Rate Growth	GF	(2,513,100)
	OF	(8,238,100)
KidsCare Parents Caseload and Capitation Rate Growth	GF	(1,655,800)
	OF	379,200
Temporary Medical Coverage Premium Collection Decrease	OF	(3,247,200)
Payments to Hospitals	GF	637,600
	EA	754,500

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.

Long Term Care

Caseload and Capitation Rate Growth	GF	17,903,900
	EA	74,977,400
Eliminate One-Time Suspension of County Refunds	GF	17,830,500
	OF	(17,830,500)
Medicare Clawback Payment	GF	1,194,500
	EA	1,020,900

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

FY 2009 Shortfall

AHCCCS is estimated to have an \$87.1 million General Fund shortfall in FY 2009. This shortfall has 2 components:

- Caseload Growth and Inflation: \$70.6 million
- Tobacco Tax Revenue Shortfall: \$16.5 million.

These 2 items are discussed in more detail below.

Caseload Growth and Inflation

Through November 2008, AHCCCS caseloads have been higher than forecasted. The FY 2009 budget allowed for total acute care caseload growth of 2.6% from June 2008 to June 2009. Revised forecasts now estimate that caseloads will grow by 8.8% during that same time period. Additionally, the budget allowed for Acute Care capitation rate growth of 6.0% but the actual rates adopted by AHCCCS effective October 1, 2008 represented an

increase of 8.7%. These 2 items account for \$70.6 million of the total shortfall.

Tobacco Tax Revenue Shortfall

In the November 2006 election the voters approved Proposition 203, which included an 80-cent increase in the tobacco tax to fund early childhood programs. In addition, voters also approved Proposition 201, which included a 2-cent increase to fund enforcement of the Smoke-Free Arizona Act. As a result of this increase in the tax, consumption has declined. Although overall revenues have increased due to the additional 82 cents in taxes, the other funds that receive funding from the tobacco tax have seen a decline in revenues.

The FY 2008 Revised Budget backfilled \$26.4 million from the General Fund to account for this shortfall. Since then, tobacco tax revenues have continued to decline. As a result of the greater than expected decline in consumption, appropriated FY 2009 tobacco tax revenues are projected to be \$16.5 million less than forecast. This decline in revenue will result in a shortfall of a corresponding magnitude in the AHCCCS budget.

SUMMARY OF FUNDS	FY 2008 Actual	FY 2009 Estimate
Budget Neutrality Compliance Fund (HCA2478/A.R.S. § 36-2928)		Appropriated
Source of Revenue: County contributions.		
Purpose of Fund: To provide administrative funding for costs associated with the implementation of the Proposition 204 expansion. Proposition 204 shifted some county administrative functions to the state, for which the counties now compensate the state. Laws 2008, Chapter 288 required that Maricopa County transfer \$24,168,400 and Pima County transfer \$3,794,400 to this fund. Additionally, the legislation instructed AHCCCS to retain \$17,830,500 that it would typically refund to the counties from prior-year long-term care surpluses; the money was deposited into this fund.		
Funds Expended	9,709,900	48,634,300
Year-End Fund Balance	600	600
Children's Health Insurance Program Fund (HCA2409/A.R.S. § 36-2995)		Appropriated
Source of Revenue: Includes the Federal Title XXI matching monies for Arizona's State Children's Health Insurance Program (SCHIP), called KidsCare. General Fund monies are used to leverage federal monies and are not included in the reported CHIP Fund expenditures.		
Purpose of Fund: To provide health insurance for low-income children 19 years of age and under. The eligibility limit for the program has been set at 200% of the Federal Poverty Level, which is approximately \$42,400 for a family of 4.		
Funds Expended	134,885,900	145,970,900
Year-End Fund Balance	1,661,800	1,661,800
County Funds (HCA2120 Acute Care/HCA2223 Long Term Care/A.R.S. § 36-2912 Acute Care/A.R.S. § 36-2953 Long Term Care)		Non-Appropriated
Source of Revenue: Statutorily prescribed county contributions.		
Purpose of Fund: For the provision of acute medical and long-term care services to Arizona Health Care Cost Containment System (AHCCCS) eligible populations. County contributions and state General Fund appropriations serve as the state match for federal Medicaid (Title XIX) dollars.		
Funds Expended	294,470,900	308,871,600
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2008 Actual	FY 2009 Estimate
Employee Recognition Fund (HCA2025/A.R.S. § 36-2903)		Non-Appropriated
Source of Revenue: Private donations.		
Purpose of Fund: To be used for the agency's employee recognition program.		
Funds Expended	28,000	35,000
Year-End Fund Balance	12,500	7,000
Federal - Medicaid Direct Services (HCA2120/A.R.S. § 36-2913)		Non-Appropriated
Source of Revenue: Federal funding through the U.S. Department of Health & Human Services, Centers for Medicare and Medicaid Services.		
Purpose of Fund: To reimburse schools participating in the Direct Services Claiming program for services provided to children with disabilities who are Title XIX eligible. All federal Medicaid monies must flow through AHCCCS; therefore, the Title XIX monies are obtained by AHCCCS and then passed on to the participating schools.		
Funds Expended	27,761,300	28,428,500
Year-End Fund Balance	0	0
Federal Funds (HCA2000/A.R.S. § 36-2913)		Non-Appropriated
Source of Revenue: Federal grant monies.		
Purpose of Fund: To provide federal match for non-appropriated state expenditures.		
Funds Expended	12,404,700	9,869,300
Year-End Fund Balance	163,800	0
Federal Title XIX Funds (HCA2120 Acute Care/HCA2223 Long Term Care/ A.R.S. § 36-2913 Acute Care/A.R.S. § 36-2953 Long Term Care)		Non-Appropriated
Source of Revenue: Federal funding through the U.S. Department of Health & Human Services, Centers for Medicare and Medicaid Services.		
Purpose of Fund: For AHCCCS' administrative costs and for the provision of acute and long term care services to categorically eligible populations.		
Funds Expended	3,504,259,000	4,050,836,000
Year-End Fund Balance	11,747,100	13,081,600
Healthcare Group Fund (HCA3197/A.R.S. § 36-2912.01)		Partially-Appropriated
Source of Revenue: Premiums paid by employers and employees enrolled in Healthcare Group, including monies to fund the administration of the Healthcare Group program.		
Purpose of Fund: A portion of this fund is appropriated to fund the administrative costs of Healthcare Group. The rest of the fund is non-appropriated and used to pay medical claims for members of Healthcare Group. Healthcare Group is operated by AHCCCS and is a premium based health insurance program available to small businesses and self-employed persons.		
Appropriated Funds Expended	5,088,100	6,526,800
Non-Appropriated Funds Expended	74,615,200	60,880,800
Year-End Fund Balance	14,079,700	14,350,500
Hospital Loan Residency Fund (HCA2532/A.R.S. § 36-2921)		Non-Appropriated
Source of Revenue: A \$1,000,000 deposit from the General Fund in FY 2007. In future years, will also include any repaid loan money received from the participating hospitals. This amount is not displayed below to avoid double counting.		
Purpose of Fund: To provide interest free loans to fund start-up and ongoing costs for residency programs in accredited hospitals, with priority given to rural areas.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2008 Actual	FY 2009 Estimate
Intergovernmental Service Fund (HCA2438/A.R.S. § 36-2927)		Non-Appropriated
Source of Revenue: Monies collected from the State of Hawaii.		
Purpose of Fund: To be used for costs associated with information technology services provided by AHCCCS to the State of Hawaii for the design, development, implementation, operation, and maintenance of a Medical Management Information System.		
Funds Expended	9,198,100	10,031,900
Year-End Fund Balance	2,896,700	2,295,400
Proposition 202 - Trauma and Emergency Services Fund (HCA2494/A.R.S. § 36-2903.07)		Non-Appropriated
Source of Revenue: Receives gaming monies from the Arizona Benefits Fund.		
Purpose of Fund: For unrecovered trauma center readiness and emergency services costs.		
Funds Expended:	24,229,200	22,888,600
Year-End Fund Balance:	6,300,300	6,440,600
Temporary Medical Coverage Fund (HCA2529/A.R.S. § 36-2930)		Appropriated
Source of Revenue: Received a one-time General Fund deposit of \$6,500,000 in FY 2007 in addition to revenue from premium payments. This program was suspended beginning in FY 2009, and AHCCCS was instructed to use the \$3.2 million appropriated from this fund to pay for reconciliation obligations incurred for claims with dates of services before July 1, 2008. This amount is not displayed below to avoid double counting.		
Purpose of Fund: To pay for the services and costs associated with persons who are eligible for temporary medical coverage.		
Funds Expended	1,975,400	3,247,200
Year-End Fund Balance	3,251,400	4,200
Third Party Collections Fund (HCA3791 Acute Care/HCA3019 Long Term Care/A.R.S. § 36-2913)		Non-Appropriated
Source of Revenue: Collections from third-party payers and revenues from lien and estate recoveries.		
Purpose of Fund: To provide acute medical services to AHCCCS members.		
Funds Expended	72,800	194,700
Year-End Fund Balance	511,800	391,400
Tobacco Litigation Settlement Fund (TRA2561/A.R.S. § 36-2901.02)		Non-Appropriated
Source of Revenue: Monies received from tobacco companies as part of a lawsuit settlement.		
Purpose of Fund: Established by Proposition 204 (enacted in the 2000 General Election) to provide funding to expand the AHCCCS program to 100% of the Federal Poverty Level and for 6 public health programs.		
Funds Expended	115,627,300	114,004,100
Year-End Fund Balance	5,000	5,000
Tobacco Tax and Health Care Fund (RVA1306/A.R.S. § 36-771)		Non-Appropriated
Source of Revenue: The fund consists of certain tax monies collected on cigarettes, cigars, smoking tobacco, plug tobacco, snuff and other forms of tobacco, and all interest earned on these monies.		
Purpose of Fund: To AHCCCS for the Medically Needy Account (70%), the Arizona Department of Health Services (DHS) for the Health Education Account (23%), the Health Research Account (5%), and the State Department of Corrections (DOC) for the Corrections Fund Adjustment Account (2%). Under A.R.S. § 36-775, the amount transferred to the Corrections Fund Account is to reflect only the actual amount needed to offset decreases in the Corrections Fund resulting from lower tax revenues. Any unexpended Corrections Fund Adjustment Account amounts are to be transferred out proportionally to the other 3 accounts. These taxes were enacted in Proposition 200 and approved by voters in the 1994 General Election.		

Please see the table following the summary of funds for consolidated information on the expenditures from each account receiving a distribution from the Tobacco Tax and Health Care Fund.

SUMMARY OF FUNDS

FY 2008
Actual**FY 2009**
Estimate

Tobacco Tax and Health Care Fund - Medically Needy Account
(HCA1306/A.R.S. § 36-774)**Partially-Appropriated**

Source of Revenue: The account receives 70¢ of each dollar deposited in the Tobacco Tax and Health Care Fund, administered by the Department of Revenue, and 27¢ of each dollar deposited into the Tobacco Products Tax Fund, also administered by the Department of Revenue. The fund also receives a portion of the monies reverting from the Corrections Fund Adjustment Account and an allocation from the Healthcare Adjustment Account. These taxes were enacted in Proposition 200 and approved by voters in the 1994 General Election.

Purpose of Fund: For health care services including, but not limited to, preventive care, transplants and the treatment of catastrophic illness or injury. Eligible recipients include persons statutorily determined to be medically indigent, medically needy, or low-income children. A portion of the monies is transferred to the DHS for statutorily established services, grants and pilot programs.

Tobacco Products Tax Fund (RVA1310/A.R.S. § 36-770)**Partially-Appropriated**

Source of Revenue: The fund consists of certain tax monies collected on cigarettes, cigars, smoking tobacco, plug tobacco, snuff and other forms of tobacco, and all interest earned on these monies. These taxes were enacted in Proposition 303 and approved by voters in the 2002 General Election.

Purpose of Fund: To AHCCCS for the Proposition 204 Protection Account (42%), Medically Needy Account (27%), and the Emergency Health Services Account (20%), DHS for the Health Education Account (2%), the Health Research Account (5%), and the Healthcare Adjustment Account (4%).

Please see the table following the summary of funds for consolidated information on the expenditures from each account receiving a distribution from the Tobacco Products Tax Fund.

Tobacco Products Tax Fund - Emergency Health Services Account
(HCA1304/A.R.S. § 36-776)**Appropriated**

Source of Revenue: This account receives 20¢ of each dollar deposited into the Tobacco Products Tax Fund, administered by the Department of Revenue.

Purpose of Fund: For primary care services, reimbursement of uncompensated care costs, and trauma center readiness costs.

Tobacco Products Tax Fund - Proposition 204 Protection Account
(HCA1303/A.R.S. § 36-778)**Non-Appropriated**

Source of Revenue: This account receives 42¢ of each dollar deposited into the Tobacco Products Tax Fund, administered by the Department of Revenue.

Purpose of Fund: To fund state match costs in AHCCCS for the Proposition 204 program. These monies are non-appropriated and must be spent before any other state monies on the Proposition 204 program.

Tobacco Tax and Health Care Fund and Tobacco Products Tax Fund ^{1/}	FY 2008	FY 2009
Medically Needy Account		
<u>Funds Available</u>		
Balance Forward	\$54,900	\$0
Transfer In - Tobacco Tax and Health Care Fund	59,862,700	57,765,000
Transfer In - Tobacco Products Tax Fund	32,660,800	31,497,900
Interest and Revertments	600	0
Total Funds Available	\$92,579,000	\$89,262,900
 <u>AHCCCS Allocations</u>		
<u>GF Offsets</u>		
Traditional Medicaid State Match Appropriation	41,261,900	58,840,800
Proposition 204 State Match Appropriation	19,465,300	4,045,400
Total AHCCCS Allocations	\$60,727,200	\$62,886,200
 <u>DHS Allocations</u>		
Behavioral Health GF Offset	28,135,000	30,924,800
DHS Health Crisis Fund	584,900	500,000
Folic Acid	290,500	400,000
Community Health Centers	4,446,800	4,500,000
Total DHS Allocations	\$33,457,200	\$36,324,800
 <u>Other Allocations</u>		
Department of Insurance - Healthcare Group	102,100	0
Total AHCCCS/DHS Allocations	\$94,286,500	\$99,211,000
Administrative Adjustments	0	0
Balance Forward	\$(1,707,500) ^{2/}	\$(9,948,100) ^{2/}
 AHCCCS Proposition 204 Protection Account		
<u>Funds Available</u>		
Balance Forward	\$800	\$0
Transfer In - Tobacco Products Tax Fund	50,777,200	48,996,700
Transfer In - Emergency Health Services Account	0	0 ^{3/}
Interest Revenue	1,200	0
Total Funds Available	\$50,779,200	\$48,996,700
 <u>Allocations</u>		
AHCCCS State Match	\$50,785,000	\$54,004,600
Administrative Adjustments	(6,989,000)	0
Balance Forward	\$0	\$(5,007,900) ^{2/}
 AHCCCS Emergency Health Services Account		
<u>Funds Available</u>		
Balance Forward	\$0	\$0
Transfer In - Tobacco Products Tax Fund	24,193,200	23,331,800
Interest Revenue	0	0
Total Funds Available	\$24,193,200	\$23,331,800
 <u>Allocations</u>		
AHCCCS State Match Appropriation	24,205,200	25,716,500
Transfer Out - Prop 204 Protection Account	0	0 ^{3/}
Administrative Adjustments	0	0
Balance Forward	\$(12,000) ^{2/}	\$(2,384,700) ^{2/}

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