

**Arizona Health Care Cost Containment System**  
**Acute Care**

**A.R.S. § 36-2901**

JLBC Analyst: Amy Upston

	FY 2009 ACTUAL	FY 2010 ESTIMATE	FY 2011 APPROVED
<b>SPECIAL LINE ITEMS</b>			
<b>Traditional Medicaid Populations</b>			
Capitation	2,148,624,600	2,186,857,500	2,599,150,600 <sup>1/</sup>
Reinsurance	103,033,300	148,630,300	163,429,700
Fee-For-Service	531,755,000	514,963,200	590,693,600
Medicare Premiums	96,170,100	109,550,000	122,535,900
Breast and Cervical Cancer	913,500	1,699,600	1,802,700
Ticket to Work	6,449,800	6,944,300	7,149,200
Dual Eligible Part D Copay Subsidy	2,150,900	0	0
Medicare Clawback Payments	28,794,400	20,922,400	23,083,700
Temporary Medical Coverage	3,138,000	0	0
<b>Proposition 204 Services</b>			
Proposition 204 - Capitation	1,540,180,400	2,119,598,700	2,240,528,500 <sup>1/</sup>
Proposition 204 - Reinsurance	73,596,200	87,601,900	95,373,500
Proposition 204 - Fee-For-Service	222,136,900	229,802,300	265,776,600
Proposition 204 - Medicare Premiums	22,734,900	33,051,400	34,233,700
Proposition 204 - County Hold Harmless	0	4,825,600	0
<b>KidsCare Services</b>			
KidsCare - Children	115,412,200	124,313,100	47,801,300 <sup>2/</sup>
KidsCare - Parents	30,625,100	6,967,500	0
<b>Payments to Hospitals</b>			
Disproportionate Share Payments	4,202,300	6,515,200	13,487,100 <sup>3/4/</sup>
Graduate Medical Education	0	0	0
Critical Access Hospitals	1,700,000	1,700,000	1,700,000
Rural Hospital Reimbursement	0	12,158,100	12,158,100
<b>PROGRAM TOTAL</b>	<b>4,931,617,600</b>	<b>5,616,101,100</b>	<b>6,218,904,200 <sup>5/6/</sup></b>
<b>FUND SOURCES</b>			
General Fund	974,369,700 <sup>2/</sup>	1,012,561,500 <sup>2/</sup>	1,170,607,600 <sup>2/</sup>
<u>Other Appropriated Funds</u>			
Children's Health Insurance Program Fund	114,204,800	109,330,200	39,321,100
Temporary Medical Coverage Fund	3,138,000	0	0
TPTF Emergency Health Services Account	22,131,800	19,222,900	19,222,900
TTHCF Medically Needy Account	50,803,300	38,295,800	38,295,800
SUBTOTAL - Other Appropriated Funds	190,277,900	166,848,900	96,839,800
<b>SUBTOTAL - Appropriated Funds</b>	<b>1,164,647,600</b>	<b>1,179,410,400</b>	<b>1,267,447,400</b>
<u>Expenditure Authority Funds</u>			
County Funds	0	51,711,900	51,438,400
Federal Title XIX Funds	3,594,552,600 <sup>2/</sup>	4,236,204,900 <sup>2/</sup>	4,751,244,500 <sup>2/</sup>
Third Party Collections Fund	0	194,700	194,700
Tobacco Litigation Settlement Fund	125,588,500	108,211,300	108,211,300
TPTF Proposition 204 Protection Account	46,828,900	40,367,900	40,367,900
SUBTOTAL - Expenditure Authority Funds	3,766,970,000	4,436,690,700	4,951,456,800
<b>SUBTOTAL - Appropriated/Expenditure Authority Funds</b>	<b>4,931,617,600</b>	<b>5,616,101,100</b>	<b>6,218,904,200</b>
Other Non-Appropriated Funds	0	39,809,000	39,809,000
Federal Funds	0	23,670,000	23,670,000
<b>TOTAL - ALL SOURCES</b>	<b>4,931,617,600</b>	<b>5,679,580,100</b>	<b>6,282,383,200</b>

**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.

**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 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 up to 200% FPL who are not covered by the regular Title XIX program.

As of May 1, 2010, AHCCCS programs served 1,359,534 clients.

The following issues are reflected in several different line items:

**Title XIX Caseload and Capitation Rate Growth**

The budget 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 4.3% from June 2010 to June 2011.

<b>Population</b>	<b>June 2010</b>	<b>June 2011</b>	<b>% Change</b>
<i>Title XIX</i>			
Traditional Medicaid	818,216	867,309	6.0%
Proposition 204	<u>362,456</u>	<u>366,080</u>	<u>1.0%</u>
Subtotal	1,180,672	1,233,389	4.5%
Fee-For-Service/Other	<u>168,355</u>	<u>176,773</u>	<u>5.0%</u>
Subtotal – Title XIX	1,349,027	1,410,162	4.3%
<i>Title XXI</i>			
KidsCare-Children	<u>30,190</u>	<u>11,095</u>	<u>(63.3)%</u>
<b>Total Acute Care</b>	<b>1,379,217</b>	<b>1,421,257</b>	<b>3.0%</b>
Long-Term Care	<u>27,740</u>	<u>28,905</u>	<u>4.2%</u>
<b>Total AHCCCS</b>	<b>1,406,957<sup>2/</sup></b>	<b>1,450,162</b>	<b>3.0%</b>

<sup>1/</sup> The figures represent point-in-time estimates, while figures in *Tables 3 and 4* display estimated averages for FY 2011. 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.

<sup>2/</sup> Represents revised forecast.

In comparison to caseload growth rates, which vary by population, capitation rate adjustments are assumed to be 0% above FY 2011 across all capitated programs. Yearly capitation rate changes have averaged 4.9% over the last 5 years, with the lowest being a (2.9)% decrease in FY 2010 and a high of 8.7% coming in FY 2009. If capitation rates were grown at 5% in FY 2011, this would have cost an additional \$62,500,000 from the General Fund in FY 2011.

<sup>1/</sup> Laws 2009, Chapter 12 appropriated \$344,344,800 in FY 2011 to reflect deferred payments from FY 2010, including \$118,032,000 from the General Fund. The FY 2011 General Appropriation Act appropriated the same amount in FY 2012 to reflect deferred payments from FY 2011. These deferrals were allocated among the 2 Capitation line items.

<sup>2/</sup> Laws 2010, Chapter 232 appropriated \$9,000,000 from the General Fund and \$40,900,000 from the Children’s Health Insurance Program Fund. Of these amounts, \$8,480,200 from the General Fund and \$39,321,100 from the Children’s Health Insurance Program Fund are allocated to this line item.

<sup>3/</sup> The \$4,702,300 appropriation for Disproportionate Share Payments for FY 2011 made pursuant to A.R.S. § 36-2903.01P includes \$4,202,300 for the Maricopa County Healthcare District and \$500,000 for private qualifying disproportionate share hospitals. (General Appropriation Act footnote)

<sup>4/</sup> This amount includes \$3,000,000 from the General Fund and \$5,784,800 in Expenditure Authority appropriated in Laws 2010, 7<sup>th</sup> Special Session, Chapter 10.

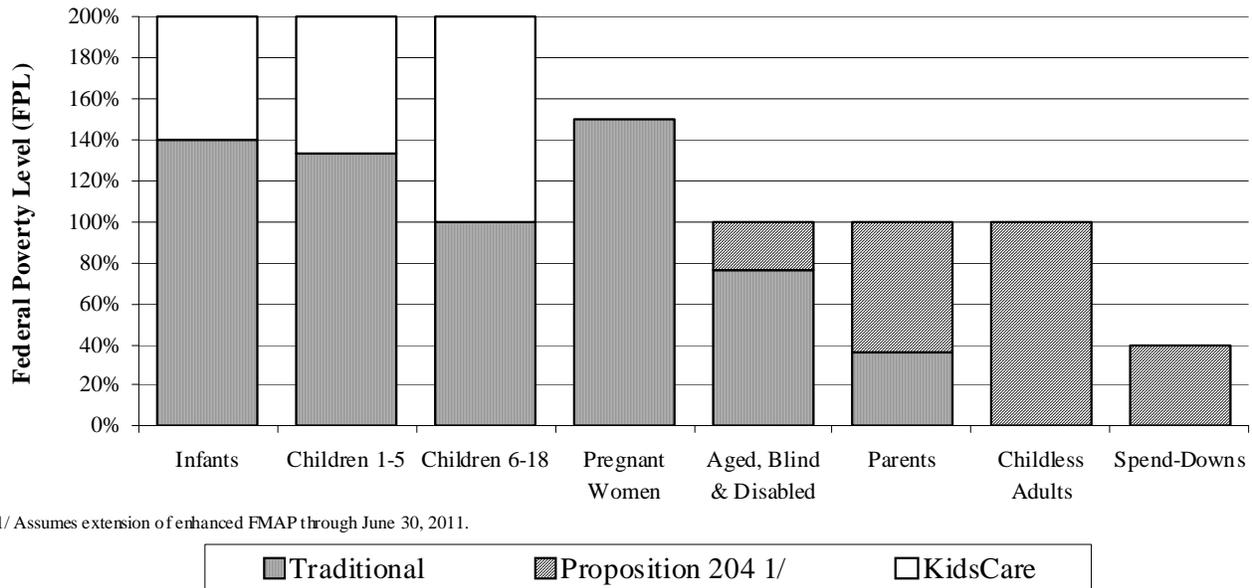
<sup>5/</sup> The General Appropriation Act specified that the amounts included in the Proposition 204 - AHCCCS Administration, Proposition 204 - DES Eligibility, Proposition 204 - Capitation, Proposition 204 - Reinsurance, Proposition 204 - Fee-For-Service, and Proposition 204 - Medicare Premiums Special Line Items includes all available sources of funding consistent with A.R.S. § 36-2901.01B. Laws 2010, Chapter 232 specifies that it is the intent of the Legislature that the AHCCCS Administration expend an additional \$361,000,000 in state General Fund monies in FY 2011 on Proposition 204 costs.

<sup>6/</sup> General Appropriation Act funds are appropriated by Special Line Items by Program.

<sup>7/</sup> Reflects enhanced Federal Medical Assistance Percentage (FMAP) rate.

**Chart 1**

**AHCCCS Eligibility**



In total, the budget includes \$594,861,000 in new Title XIX and Title XXI funding for caseload growth. Of this amount, \$148,849,500 is from the General Fund and \$446,011,500 is in Federal and County Expenditure Authority. These numbers also incorporate growth in fee-for-service and reinsurance as discussed later. These amounts include the continuation of the FY 2010 supplemental of \$87,598,000. (Please see Summary section for more on the FY 2010 supplemental.)

In the narrative descriptions below, FY 2011 funding increases are compared to that program’s FY 2010 appropriated levels, including the FY 2010 supplemental.

**Payment Deferral**

The FY 2011 Health Budget Reconciliation Bill (BRB) requires AHCCCS to defer \$344,201,700 in FY 2011 acute care payments for up to 2 months, including \$117,688,200 from the General Fund. The deferral is to be paid back with 0.5% interest. This continues the deferment that began in June 2010.

**Tobacco Taxes and Settlement Monies**

As a result of declining tobacco tax revenues, the budget continues an increase of \$28,180,000 from the General Fund and corresponding decreases in the various tobacco tax accounts both in FY 2010 and FY 2011.

The budget also continues an increase of \$10,068,900 from the General Fund and a corresponding decrease from the Tobacco Settlement Fund in FY 2010 and FY 2011 based on updated estimates from the Attorney General’s office. (Please see the AHCCCS Summary section and the

Summary document for additional information on tobacco tax revenues and tobacco settlement monies.)

**Fee-For-Service and Reinsurance**

Fee-For-Service categories were grown at 14.5% and 12% for Traditional and Proposition 204 populations, respectively, in FY 2011. Reinsurance for both categories is expected to significantly increase in FY 2011. Traditional Reinsurance is grown at 16.5% and Proposition 204 Reinsurance is grown at 23% in FY 2011. (Please see Reinsurance line items for more information.)

**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 and Title XXI (KidsCare) program. These rates are set on a state-by-state basis and are revised each year. Typically the federal government provides an approximate 2:1 match for Title XIX services and 3:1 match for Title XXI services. The American Recovery and Reinvestment Act of 2009 (ARRA) increased the Title XIX match rate to approximately 3:1 from October 1, 2008 until December 31, 2010. The FY 2011 Appropriations Report assumes the extension of the enhanced FMAP through June 2011. For both SFY 2010 and SFY 2011, the expected Title XIX FMAP is 75.93%. All costs shown in the Acute Care Cost Center reflect the enhanced FMAP.

In FY 2011, the Title XXI FMAP (0.07% increase) is increasing to 76.10%, effective October 1, 2010. The FY 2011 FMAPs are 65.83% for Title XIX and 76.08% for Title XXI.

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**Traditional Medicaid Population**

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

- Children less than 1, up to 140% of the FPL
- Children aged 1-5, up to 133% FPL
- Children aged 6-18, up to 100% FPL
- Pregnant women, up to 150% FPL
- Aged, blind, and disabled adults, up to 75% FPL
- Parents, up to 23% 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 (“Ticket to Work”)

These line items exclude the Proposition 204 and KidsCare populations.

**Capitation**

The budget includes \$2,599,150,600 for Capitation expenditures for the Traditional population in FY 2011. This amount consists of:

	<b>FY 2011</b>
General Fund	\$534,630,100
County Funds	51,438,400
TTHCF Medically Needy Account	38,295,800
Third Party Collections	194,700
Federal Title XIX Expenditure Authority	1,974,591,600

These amounts fund the following adjustments:

**Formula Growth**

The budget includes an increase of \$250,919,900 in FY 2011 for Traditional Title XIX population funding for caseload growth. This amount consists of:

General Fund	60,502,100
Federal Title XIX Expenditure Authority	190,417,800

The FY 2011 increase represents capitation enrollment growth of 6% from June 2010 to June 2011. This results in approximately 844,572 member years being served in FY 2011. The amount includes no capitation rate increase.

**Payment Deferral Interest**

The budget includes an increase of \$143,100 in FY 2011 to fund the interest from the deferred payment from FY 2010. This amount consists of:

General Fund	(200,900)
Federal Title XIX Expenditure Authority	344,000

This pays the interest on the \$344,201,700 deferment that began in June 2010.

**Payment Deferral Shift**

The budget includes an increase of \$161,837,400 in FY 2011 to shift payments from the Proposition 204 - Capitation line item to the Traditional Capitation line item. This amount consists of:

General Fund	55,438,700
Federal Title XIX Expenditure Authority	106,398,700

The FY 2010 budget divided the payment deferrals between the Traditional Capitation and Proposition 204 - Capitation line items. The FY 2011 General Appropriation Act shifted the deferral to this line item since no General Fund monies were allocated to Proposition 204 in the latter half of FY 2011. A corresponding decrease is displayed in the Proposition 204 - Capitation line item.

**Fraud Investigator Savings**

The budget includes a decrease of \$(607,300) from the General Fund in FY 2011 for savings related to Fraud Investigators. The FY 2011 General Appropriation Act added 5 FTE Positions in the Office of Program Integrity to investigate fraud. Although the savings were reflected in the Administration Cost Center in the General Appropriation Act, they have been shifted to the Acute Care Center to reflect where the actual savings will occur. (*Please see the Administration Cost Center for additional details.*)

**Maricopa Deflator**

The budget includes an increase of \$273,500 from the General Fund and a corresponding decrease of \$(273,500) in County Funds in FY 2011 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 1.3%, as measured by the November estimate of the calendar year 2009 GDP price deflator. This decreases the county contribution for Maricopa County by \$(273,500). 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.

**Continue Tobacco Tax Backfill**

The budget continues an increase of \$15,442,300 from the General Fund and a corresponding decrease of \$(15,442,300) from the TTHCF Medically Needy Account to offset a decline in tobacco tax revenues. These adjustments began as part of the FY 2010 midyear revisions.

*Background* – The Capitation line includes monthly payments made to AHCCCS health plans for the cost of

**Table 2**

**County Contributions for Acute Care and Administration**

<u>County</u>	<u>FY 2010</u>			<u>FY 2011</u>		
	<u>Acute</u>	<u>DUC</u>	<u>BNCF</u>	<u>Acute</u>	<u>DUC</u>	<u>BNCF</u>
Apache	\$ 268,800	\$ 87,300	\$ 98,600	\$ 268,800	\$ 87,300	\$ 102,700
Cochise	2,214,800	162,700	184,100	2,214,800	162,700	191,700
Coconino	742,900	160,500	181,500	742,900	160,500	189,100
Gila	1,413,200	65,900	74,600	1,413,200	65,900	77,600
Graham	536,200	46,800	53,000	536,200	46,800	55,200
Greenlee	190,700	12,000	13,600	190,700	12,000	14,200
La Paz	212,100	24,900	28,200	212,100	24,900	29,400
Maricopa	21,035,400	0	0	20,761,900	0	0
Mohave	1,237,700	187,400	211,900	1,237,700	187,400	220,700
Navajo	310,800	122,800	138,900	310,800	122,800	144,600
Pima	14,951,800	1,115,900	1,262,400	14,951,800	1,115,900	1,314,500
Pinal	2,715,600	218,300	247,000	2,715,600	218,300	257,200
Santa Cruz	482,800	51,600	58,400	482,800	51,600	60,800
Yavapai	1,427,800	206,200	233,300	1,427,800	206,200	243,000
Yuma	<u>1,325,100</u>	<u>183,900</u>	<u>208,000</u>	<u>1,325,100</u>	<u>183,900</u>	<u>216,600</u>
<b>Subtotal</b>	<b>\$49,065,700</b>	<b>\$2,646,200</b>	<b>\$ 2,993,500</b>	<b>\$48,792,200</b>	<b>\$2,646,200</b>	<b>\$ 3,117,300</b>
<b>Acute Care Total</b>			<b>\$51,711,900</b>			<b>\$51,438,400</b>
<b>Administration Total</b>			<b><u>2,993,500</u></b>			<b><u>3,117,300</u></b>
<b>Total</b>			<b>\$54,705,400</b>			<b>\$54,555,700</b>

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 2011. The 5-year contracts were effective October 2008.

medical services utilization and costs incurred per AHCCCS member per month.

**Reinsurance**

The budget includes \$163,429,700 for Reinsurance expenditures for the Traditional population in FY 2011. This amount consists of:

General Fund	39,337,500
Federal Title XIX Expenditure Authority	124,092,200

These amounts fund the following adjustments:

**Formula Growth**

The budget includes an increase of \$14,799,400 in FY 2011 for Traditional Title XIX Reinsurance funding for caseload growth. This amount consists of:

General Fund	3,566,100
Federal Title XIX Expenditure Authority	11,233,300

The FY 2011 adjustment is an increase of 16.5% above current projected FY 2010 caseloads.

*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

**Table 3**

**Traditional Medicaid**

<u>Federally-Eligible Rate Codes</u>	<u>FY 2011 Member Years</u> <sup>1/</sup>	<u>FY 2011 Capitation Rates</u> <sup>2/</sup>
TANF < 1	54,352	\$491.52
TANF 1-13	435,686	12.86
TANF 14-44 Female	156,342	245.72
TANF 14-44 Male	75,372	148.11
TANF 45+	14,725	407.32
SSI w/ Medicare	45,979	157.25
SSI w/o Medicare	58,234	753.39
Family Planning	<u>3,882</u>	17.38
<b>Total</b>	<b>844,572</b>	
Deliveries <sup>3/</sup>	35,278	\$6,629.40

<sup>1/</sup> Member years are calculated as projected regular member months divided by 12 and do not necessarily indicate actual number of clients enrolled.

<sup>2/</sup> Capitation rates are set on a Contract Year (CY) basis, which is from October 1 through September 30. For FY 2011, the rates reflect 1 quarter at the CY 2010 level and 3 quarters at the CY 2011 level.

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

In general, capitation rates are based on an actuarial assessment, by each of the AHCCCS rate codes, of the

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.

Health plans may typically choose 1 of 3 reinsurance deductibles: \$20,000, \$35,000, or \$50,000. However, in FY 2010 and FY 2011, the choice was limited to \$20,000 or \$35,000. The choice of deductibles should be cost neutral, but it impacts the timing of when health plans receive payments. A lower deductible results in lower capitation payments and higher reinsurance payments. Reinsurance claims have 15 months from the end date of service to be submitted. Claims made from 1 fiscal year are disbursed over 3 fiscal years. AHCCCS estimates that approximately 20% of claims are paid in the same fiscal year in which they occur, 74% in the following fiscal year, and 6% the year after that.

***Fee-For-Service***

The budget includes \$590,693,600 for Fee-For-Service expenditures for the Traditional population in FY 2011. This amount consists of:

General Fund	89,459,900
Federal Title XIX Expenditure Authority	501,233,700

These amounts fund the following adjustments:

**Formula Growth**

The budget includes an increase of \$75,730,400 in FY 2011 for Traditional Title XIX Fee-For-Service caseload growth. This amount consists of:

General Fund	19,745,500
Federal Title XIX Expenditure Authority	55,984,900

This adjustment is a 16.1% increase above current projected FY 2010 caseloads.

*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 budget includes \$122,535,900 for Medicare Premium expenditures for the Traditional Medicaid population in FY 2011. This amount consists of:

General Fund	29,494,400
Federal Title XIX Expenditure Authority	93,041,500

These amounts fund the following adjustments:

**Formula Growth**

The budget includes an increase of \$12,985,900 in FY 2011 for Medicare premiums caseload growth and inflation. This amount consists of:

General Fund	4,486,000
Federal Title XIX Expenditure Authority	8,499,900

This adjustment is a 12% increase above current projected FY 2010 caseloads. The 12% represents both caseload and premium increases.

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 cost 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 budget includes \$1,802,700 for Breast and Cervical Cancer in FY 2011. This amount consists of:

General Fund	420,200
Federal Title XIX Expenditure Authority	1,382,500

These amounts fund the following adjustments:

**Formula Growth**

The budget includes an increase of \$103,100 in FY 2011 for Breast and Cervical Cancer caseload growth. This amount consists of:

General Fund	12,800
Federal Title XIX Expenditure Authority	90,300

The FY 2011 adjustment is an increase of 8.5% above current projected FY 2010 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. This program serves women with incomes between 100-250% FPL. Enrollment as of May 1, 2010 was 137 individuals.

### ***Ticket to Work***

The budget includes \$7,149,200 for Ticket to Work in FY 2011. This amount consists of:

General Fund	1,720,800
Federal Title XIX Expenditure Authority	5,428,400

These amounts fund the following adjustments:

#### **Formula Growth**

The budget includes an increase of \$204,900 in FY 2011 for Ticket to Work program. This amount consists of:

General Fund	49,000
Federal Title XIX Expenditure Authority	155,900

This adjustment represents a 7.9% increase above current projected FY 2010 caseloads.

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 May 1, 2010, approximately 1,065 members were enrolled in this program.

The FY 2011 budget estimates collections of \$48,600 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 budget includes no funding for Dual Eligible Part D Copay Subsidy in FY 2011. This amount is unchanged from FY 2010.

The line item was 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 ranged from \$1.05 to \$6.01, depending on the class of the drug as well as the recipient's income.

### ***Medicare Clawback Payments***

The budget includes \$23,083,700 from the General Fund for Medicare Clawback Payments in FY 2011. These amounts fund the following adjustments:

#### **Formula Growth**

The budget includes an increase of \$1,056,200 from the General Fund in FY 2011 for formula growth associated with Medicare Clawback Payments.

#### **Savings Reduction**

The budget includes an increase of \$1,105,100 from the General Fund in FY 2011 for reduced savings in FY 2011. In February 2010, the federal government announced that it would apply the ARRA enhanced matching rate against the Medicare Clawback payments, thereby reducing the amounts made for Clawback payments. It is estimated that this will reduce Acute Care Clawback payments by \$(11,003,200) in FY 2010 and \$(9,898,100) in FY 2011. The savings in FY 2010 are greater than in FY 2011 due to the timing of these savings.

As part of the Medicare Modernization Act (MMA) effective January 1, 2006, AHCCCS is not required to pay for prescription drug costs for members who are also eligible for Medicare. Instead, AHCCCS is required to make "Clawback" payments to Medicare based on 83% of the estimated prescription drug cost of this population in FY 2009. The state's share of 83% declines annually by 1.7% and the Clawback cost per member is annually increased based on national health trend information.

### ***Temporary Medical Coverage***

The budget includes no funding for Temporary Medical Coverage in FY 2011. This amount is unchanged from FY 2010.

The purpose of the program was 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 allowed 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 and was suspended beginning on July 1, 2008. The FY 2010 Health and Welfare BRB permanently eliminated 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.

The General Appropriation Act limited spending for Proposition 204 programs to the amounts funded by the Tobacco Settlement and the Proposition 204 Protection Account in the last 6 months of FY 2011. Laws 2010, Chapter 232 appropriated an additional \$361,000,000 to the Proposition 204 line items contingent upon the federal government extending the enhanced federal match rate until the end of FY 2011. This display assumes the extension of the enhanced matching rate through June 2011. (Please see the Summary section for additional detail.) A portion of Proposition 204 monies are allocated to the Administrative Cost Center.

General Fund	371,493,100
Tobacco Settlement Fund	108,211,300
TPTF Proposition 204 Protection Account	40,367,900
Emergency Health Services Account	19,222,900
Federal Title XIX Expenditure Authority	1,701,233,300

These amounts fund the following adjustments:

**Formula Growth**

The budget includes an increase of \$282,767,200 in FY 2011 for Proposition 204 funding for caseload growth. This amount consists of:

General Fund	78,879,000
Federal Title XIX Expenditure Authority	203,888,200

The FY 2011 adjustment represents Proposition 204 capitation enrollment growth of 1% above current projected FY 2010 caseloads.

**Payment Deferral Shift**

The budget includes a decrease of \$(161,837,400) in FY 2011 to shift payments from the Proposition 204 - Capitation line item to the Traditional Capitation line item. This amount consists of:

General Fund	(55,438,700)
Federal Title XIX Expenditure Authority	(106,398,700)

(See the Capitation line item for more details.)

**Continue Tobacco Tax Backfill**

The budget continues an increase of \$12,737,700 from the General Fund and a corresponding decrease of \$(12,737,700) in FY 2011 to offset declining tobacco tax revenues. These adjustments began as part of the FY 2010 midyear revisions. These amounts consist of:

General Fund	12,737,700
TPTF Proposition 204 Protection Account	(8,628,800)
Emergency Health Services Account	(4,108,900)

**Continue Tobacco Settlement Backfill**

The budget continues an increase of \$10,068,900 from the General Fund and a corresponding Tobacco Litigation Settlement Fund decrease of \$(10,068,900) in FY 2011 to offset a decline in tobacco settlement revenues. These adjustments began as part of the FY 2010 midyear revisions.

**Table 4**

<b>Proposition 204</b>		
<b>Federally-Eligible Rate Codes</b>	<b>FY 2011 Member Years <sup>1/</sup></b>	<b>FY 2011 Capitation Rates <sup>2/</sup></b>
TANF	130,788	\$ 242.69
SSI	26,147	195.75
Prop 204 Conversions <sup>3/</sup>	61,563	523.39
Prop 204 Medically Eligible <sup>4/</sup>	6,243	1,291.47
Prop 204 Newly Eligible <sup>5/</sup>	<u>139,675</u>	523.39
<b>Total</b>	<b>364,416 <sup>6/</sup></b>	
Deliveries <sup>7/</sup>	2,796	\$6,629.40

- <sup>1/</sup> Member years are calculated as projected regular member months divided by 12 and do not necessarily indicate actual clients enrolled.
- <sup>2/</sup> Capitation rates are set on a Contract Year (CY) basis, which is from October 1 through September 30. For FY 2011, the rates reflect 1 quarter at the CY 2010 level and 3 quarters at the CY 2011 level. These rates represent the average rates for the population listed.
- <sup>3/</sup> 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.
- <sup>4/</sup> 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.
- <sup>5/</sup> Represents enrollees that mirror the former Medically Indigent population, except their income ranges from 40 - 100% FPL.
- <sup>6/</sup> Numbers due not add due to rounding.
- <sup>7/</sup> This is the projection of actual birth deliveries to be made by Proposition 204 enrollees in AHCCCS health plans.

**Proposition 204 - Capitation**

The budget includes \$2,240,528,500 for Capitation expenditures for the Proposition 204 population in FY 2011. This amount consists of:

**Proposition 204 - Reinsurance**

The budget includes \$95,373,500 for the Proposition 204 - Reinsurance line item in FY 2011. This amount consists of:

General Fund	22,956,400
Federal Title XIX Expenditure Authority	72,417,100

These amounts fund the following adjustments:

General Fund	283,300
Federal Title XIX Expenditure Authority	899,000

**Formula Growth**

The budget includes an increase of \$7,771,600 in FY 2011 for Proposition 204 Reinsurance funding. This amount consists of:

General Fund	1,803,400
Federal Title XIX Expenditure Authority	5,968,200

The FY 2011 adjustment represents an increase of 23% above current projected FY 2010 caseloads. 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. (See *Traditional Reinsurance for more information.*)

The FY 2011 adjustment represents an increase of 6.2% above FY 2010 current projected caseloads.

**Proposition 204 - County Hold Harmless**

The budget includes no funding for Proposition 204 County Hold Harmless payments in FY 2011. This amount funds the following adjustments:

**Eliminate Funding**

The budget includes a decrease of \$(4,825,600) from the General Fund in FY 2011 for the elimination of Proposition 204 - County Hold Harmless Funding.

As a result of the implementation of Proposition 204, some counties experienced revenue losses. In past years, an amount had been appropriated to hold counties harmless. The primary recipient of prior year appropriations was Pima County, which received \$3,817,800. The remaining \$1,007,800 was allocated among Graham, Greenlee, La Paz, Santa Cruz, and Yavapai Counties.

**Proposition 204 - Fee for Service**

The budget includes \$265,776,600 for Fee-For-Service expenditures for the Proposition 204 population in FY 2011. This amount consists of:

General Fund	34,784,800
Federal Title XIX Expenditure Authority	230,991,800

These amounts fund the following adjustments:

**Formula Growth**

The budget includes an increase of \$35,974,300 in FY 2011 for caseload growth. This amount consists of:

General Fund	2,388,600
Federal Title XIX Expenditure Authority	33,585,700

The FY 2011 adjustment represents an increase of 12% above current projected FY 2010 caseloads. 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 at higher income levels. (Please see the *Fee-For-Service narrative above for more information.*)

**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. 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.

Effective January 1, 2010, AHCCCS froze enrollment in the KidsCare program. AHCCCS was notified of retroactive federal approval of the freeze on March 15, 2010. This freeze allows individuals who are currently on the program to remain on the program as long as they continue to pay their premiums, but all new applicants are added to a waiting list.

**Proposition 204 - Medicare Premiums**

The budget includes \$34,233,700 for Medicare Premiums expenditures for the Proposition 204 population in FY 2011. This amount consists of:

General Fund	8,240,000
Federal Title XIX Expenditure Authority	25,993,700

These amounts fund the following adjustments:

**Formula Growth**

The budget includes an increase of \$1,182,300 in FY 2011 for caseload growth. This amount consists of:

The General Appropriation Act eliminated the KidsCare program effective June 15, 2010. The passage of federal health care legislation on March 23, 2010 required states to maintain eligibility levels that were in effect as of the March 23, 2010 or risk losing all federal funding for Title XIX and Title XXI programs. (Please see the *AHCCCS Summary section for additional information.*) To comply with federal requirements, Laws 2010, Chapter 232 restored the KidsCare program and appropriated \$9,000,000 to operate the program in FY 2011. The

funding level assumes that the program will continue to operate under a freeze. (Additional funding is also provided for the administration of the KidsCare program in the AHCCCS Administration cost center.)

**KidsCare - Children**

The budget includes \$47,801,300 for KidsCare children’s services in FY 2011. This amount consists of:

General Fund	8,480,200
CHIP Fund	39,321,100

These amounts fund the following adjustments:

**Caseload Declines**

The budget includes a decrease of \$(76,511,800) in FY 2011 for caseload growth funding in the KidsCare Children population. This amount consists of:

General Fund	(11,800,100)
CHIP Fund	(64,711,700)

These amounts represent enrollment decline of approximately (19,095) members, or (63.3)%, from June 2010 to June 2011. Total enrollment in June 2011 is expected to be 11,095. This amount assumes that individuals will continue to drop off of the program due to the enrollment freeze. The amount includes no capitation rate increase.

The above amounts include an estimated \$1,311,400 in premiums, which are used to offset the costs of services. Monthly premiums range from \$10 to \$70 depending on household income and the number of children enrolled. The maximum premium is \$70 per month to cover all children in the household.

**KidsCare - Parents**

The budget includes no funding for KidsCare Parents in FY 2011. This amount funds the following adjustments:

**Program Elimination**

The budget includes a decrease of \$(6,967,500) in FY 2011 due to the elimination of this program. This amount consists of:

General Fund	(1,670,100)
Federal Title XIX Expenditure Authority	(5,297,400)

The FY 2010 budget eliminated KidsCare Parents as of October 1, 2009, and monies were appropriated in FY 2010 to pay for 3 months of services.

The KidsCare Parents program began in 2003 and provided coverage to parents of children in the KidsCare program, whose incomes are between 100%-200% FPL.

**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 budget includes \$13,487,100 for Disproportionate Share Hospital (DSH) Payments in FY 2011. This amount consists of:

General Fund	3,170,800
Federal Title XIX Expenditure Authority	10,316,300

These amounts fund the following adjustments:

**Adjustment Increases**

The budget includes an increase of \$6,971,900 in FY 2011 for DSH payments. This amount consists of:

General Fund	2,999,500
Federal Title XIX Expenditure Authority	3,972,400

The 5<sup>th</sup> Special Session reductions, along with the General Appropriation Act, reduced DSH payments to private hospitals from \$26,147,700 to \$500,000 in FY 2010. Most of the FY 2011 adjustment increase reflects the restoration of some of this reduction in Laws 2010, 7<sup>th</sup> Special Session, Chapter 10. This partially restores funding to private hospitals.

Laws 2010, Chapter 86, amended session law to allow local governments and public universities in FY 2010 to provide additional state match dollars for disproportionate share payments; contributors may designate specific hospitals to receive state and accompanying matching federal monies. As of May 2010, it is unclear how much this provision may increase DSH payments in FY 2010.

*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 displays the allocation of Disproportionate Share Funding. The changes in FY 2011 reflect the adjustment to the FMAP, which requires that increased certified public expenditure (CPE) be shown in order to draw down the same amount of federal funding as last year.

**Table 5**  
**Disproportionate Share Hospital Program**

	<b>FY 2010</b>	<b>FY 2011</b>
<b>Allocations:</b>		
County-Operated Hospitals (COH)	\$ 76,627,700	\$ 76,627,700 <sup>1/</sup>
Supplemental COH payment	4,202,300	4,202,300
Arizona State Hospital (ASH)	28,474,900	28,474,900 <sup>2/</sup>
Private Hospitals	<u>500,000<sup>3/</sup></u>	<u>9,248,800</u>
<b>Total Allocations</b>	<b>\$109,804,900</b>	<b>\$118,553,700</b>
<b>Revenue:</b>		
County Withholding	\$ -	\$ -
ASH reversion	-	-
Federal DSH to GF (Maricopa)	50,382,700	50,459,300
Federal DSH to GF (ASH)	<u>18,722,200</u>	<u>18,750,700</u>
<b>Total Revenue</b>	<b>\$ 69,104,900</b>	<b>\$ 69,210,000</b>
<b>Less GF Appropriation</b>	<b>(171,300)</b>	<b>(3,170,800)</b>
<b>Net GF Impact</b>	<b>\$ 40,528,700</b>	<b>\$ 46,172,900</b>

<sup>1/</sup> Includes \$30,668,500 in CPE which draw down federal DSH payments.

<sup>2/</sup> Includes \$9,291,400 in CPE which draw down federal DSH payments.

<sup>3/</sup> Due to a General Fund reduction (as part of the 5<sup>th</sup> Special Session lump sum reduction) without a corresponding Federal Title XIX Expenditure Authority Fund reduction, the appropriated private hospital allocation is \$2,312,900, of which \$171,300 is from the General Fund. The General Fund monies will allow for a \$328,700 federal match, or \$500,000 in total funds.

The state only appropriates General Fund dollars for DSH payments to private hospitals (\$9,284,800 in FY 2011). The monies retained by Maricopa Integrated Health System (\$4,202,300) would otherwise go to the General Fund. Publicly operated hospitals are required to document uncompensated care costs to the federal government through a CPE process. Those CPEs result in the drawdown of Federal Funds, which are then deposited to the state General Fund.

The total Private Hospital allocation consists of 2 pools. The first allocates based on private hospitals' level of care provided to Medicaid clients and/or the level of low-income clients served. The second pool allocates among private hospitals as compensation for uncompensated care. At the time of this writing, AHCCCS was unclear as to how the monies would be divided between the 2 pools in FY 2011.

### **Graduate Medical Education**

The budget includes no funding for Graduate Medical Education (GME) expenditures in FY 2011. This amount is unchanged from FY 2010.

The 5<sup>th</sup> Special Session lump sum revisions decreased the FY 2010 appropriation for GME by \$(1,302,300) from the General Fund and \$(2,511,200) from Federal Title XIX Expenditure Authority. The remainder of the FY 2010 funding was eliminated through 7<sup>th</sup> Special Session revisions.

*Background* – The GME program reimburses hospitals with graduate medical education programs for the additional costs of treating AHCCCS members with graduate medical students. Top priority is given to hospitals with GME programs established before July 1, 2006 and do not currently receive GME funding for those programs. The second priority for these monies is for expansion of GME programs established before October 1, 1999. The third priority is for GME programs established after July 1, 2006.

Although no monies are appropriated for GME in FY 2010 or FY 2011, hospitals may receive GME funding through other sources. Laws 2010, Chapter 86 allows local, county, and tribal governments, along with public universities, to provide state monies which will be matched by the federal funding. When other state match dollars are provided, contributing entities may designate the recipients of such funds.

### **Critical Access Hospitals**

The budget includes \$1,700,000 for Critical Access Hospitals in FY 2011. This amount consists of:

General Fund	409,200
Federal Title XIX Expenditure Authority	1,290,800

These amounts are unchanged from FY 2010.

The Critical Access Hospitals program provides increased reimbursement to small rural hospitals that are federally designated as critical access hospitals. In FY 2009, 11 hospitals qualified for funding under this program.

### **Rural Hospital Reimbursement**

The budget includes \$12,158,100 for Rural Hospital Reimbursement payments in FY 2011. This amount consists of:

General Fund	2,926,500
Federal Title XIX Expenditure Authority	9,231,600

These amounts are unchanged from FY 2010.

The Rural Hospital Reimbursement program, established in FY 2006, increases inpatient reimbursement rates for qualifying rural hospitals.

### **5<sup>th</sup> Special Session Reduction**

*Please see the agency summary for agencywide lump sum reductions.*

### *Fund Transfers*

The budget includes transfers from this agency's funds to the General Fund. *(Please see the Fund Transfers section at the back of this report for more details.)*