

## Arizona Health Care Cost Containment System

	FY 2010 ACTUAL	FY 2011 ESTIMATE	FY 2012 BASELINE
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	3,017.4	2,983.4	2,973.4
Personal Services	37,306,800	41,145,300	40,281,700
Employee Related Expenditures	16,203,900	18,280,400	17,943,300
Professional and Outside Services	2,990,000	4,908,400	4,731,200
Travel - In State	58,100	80,800	80,200
Travel - Out of State	7,900	23,400	23,400
Other Operating Expenditures	16,840,400	16,339,500	16,072,900
Equipment	326,200	618,900	617,900
<b>OPERATING SUBTOTAL</b>	<b>73,733,300</b>	<b>81,396,700</b>	<b>79,750,600</b>
<b>SPECIAL LINE ITEMS</b>			
<b>Administration</b>			
DES Eligibility	39,993,100	54,537,500	54,537,500
Proposition 204 - AHCCCS Administration	8,356,100	6,689,500	6,689,500
Proposition 204 - DES Eligibility	36,047,000	38,157,200	38,157,200
<b>Acute Care</b>			
Traditional Medicaid Services	2,986,252,500	3,507,845,400	3,269,193,300
Proposition 204 Services	2,376,882,700	2,635,912,300	2,486,182,900
KidsCare	90,395,600	47,801,300	36,067,800
<b>Payments to Hospitals</b>			
Disproportionate Share Payments	0	13,487,100	13,487,100
Rural Hospitals	850,000	13,858,100	13,858,100
<b>Arizona Long Term Care System</b>			
ALTCS Services	1,262,451,400	1,293,703,300	1,243,360,200
<b>AGENCY TOTAL</b>	<b>6,874,961,700</b>	<b>7,693,388,400</b>	<b>7,241,284,200</b>
<b>FUND SOURCES</b>			
General Fund	1,190,314,400	1,376,901,300	1,814,194,300
<b>Other Appropriated Funds</b>			
Budget Neutrality Compliance Fund	2,235,600	3,117,300	3,161,100
Children's Health Insurance Program Fund	77,827,900	40,967,600	30,189,500
Healthcare Group Fund	2,979,100	5,183,700	3,537,600
TPTF Emergency Health Services Account	20,230,200	19,222,900	19,222,900
TTHCF Medically Needy Account	38,295,800	38,295,800	38,295,800
SUBTOTAL - Other Appropriated Funds	141,568,600	106,787,300	94,406,900
<b>SUBTOTAL - Appropriated Funds</b>	<b>1,331,883,000</b>	<b>1,483,688,600</b>	<b>1,908,601,200</b>
<b>Expenditure Authority Funds</b>			
County Funds	6,860,000	238,945,400	302,984,400
Federal Medicaid Authority	5,387,114,500	5,821,980,500	4,880,924,700
Third Party Collections Fund	95,700	194,700	194,700
Tobacco Litigation Settlement Fund	105,394,100	108,211,300	108,211,300
TPTF Proposition 204 Protection Account	43,614,400	40,367,900	40,367,900
SUBTOTAL - Expenditure Authority Funds	5,543,078,700	6,209,699,800	5,332,683,000
<b>SUBTOTAL - Appropriated/Expenditure Authority Funds</b>	<b>6,874,961,700</b>	<b>7,693,388,400</b>	<b>7,241,284,200</b>
<b>Other Non-Appropriated Funds</b>			
Other Non-Appropriated Funds	70,100,600	85,420,300	81,791,500
Federal Funds	32,489,800	29,368,900	24,724,300
<b>TOTAL - ALL SOURCES</b>	<b>6,977,552,100</b>	<b>7,808,177,600</b>	<b>7,347,800,000</b>

**AGENCY DESCRIPTION** — The Arizona Health Care Cost Containment System (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 is the state's federally matched Medicaid program and provides acute and long-term care services.

**Operating Budget**

The Baseline includes \$79,750,600 and 1,206.4 FTE Positions for the operating budget in FY 2012. These amounts consist of:

	<b>FY 2012</b>
General Fund	\$28,639,800
Healthcare Group Fund (HGF)	3,537,600
Children's Health Insurance Program (CHIP) Fund	1,646,500
Federal Medicaid Authority (FMA)	45,926,700

FY 2012 adjustments would be as follows:

**Healthcare Group HGF (1,646,100)  
Administrative Decrease**

The Baseline includes an agency-requested decrease of \$(1,646,100) and (10) FTE Positions from the Healthcare Group Fund for decreased administrative expenses in Healthcare Group in FY 2012. AHCCCS forecasts enrollment of 6,900 in healthcare insurance in June 2012 compared to 11,000 in June 2010. Healthcare Group's contract limits administrative expenses to 7% of total premium revenues.

*Background* – The following line items are now incorporated into the operating budget with no additional adjustments to the budget: ADOA Data Center Charges, Healthcare Group Administration and Reinsurance, KidsCare – Administration, and Board of Nursing.

**Administration**

**DES Eligibility**

The Baseline includes \$54,537,500 and 995.9 FTE Positions for Department of Economic Security (DES) Eligibility services in FY 2012. These amounts consist of:

General Fund	25,754,700
Federal Medicaid Authority	28,782,800

These amounts are unchanged from FY 2011.

Through an Intergovernmental Agreement, DES performs eligibility determinations. The DES Title XIX Pass-Through line item is now rolled into the DES Eligibility line item with no additional adjustment.

**Proposition 204 - AHCCCS Administration**

The Baseline includes \$6,689,500 and 167.2 FTE Positions for Proposition 204 - AHCCCS Administration costs in FY 2012. These amounts consist of:

General Fund	2,270,800
Federal Medicaid Authority	4,418,700

These amounts are unchanged from FY 2011.

Proposition 204 expanded AHCCCS coverage up to 100% of the Federal Poverty level (FPL). This line item contains funding for AHCCCS' administration costs of the Proposition 204 program.

**Proposition 204 - DES Eligibility**

The Baseline includes \$38,157,200 and 603.9 FTE Positions for Proposition 204 DES Eligibility costs in FY 2012. These amounts consist of:

General Fund	17,679,300
Budget Neutrality Compliance Fund	3,161,100
Federal Medicaid Authority	17,316,800

FY 2012 adjustments would be as follows:

**Statutory Adjustment GF (43,800)  
BNCF 43,800**

The Baseline includes a decrease of \$(94,200) from the General Fund and a corresponding increase from the Budget Neutrality Compliance Fund (BNCF) to reflect a statutorily-required increase of county contributions in FY 2012 (A.R.S. § 11-2920). *(Please see Table 5 for contributions by county.)*

*Background* – The BNCF is comprised of contributions from Arizona counties for administrative costs of the implementation of Proposition 204. Prior to the proposition, the counties funded and administered the health care program for some of the Proposition 204 population.

**Acute Care**

Acute Care Services contains funding for services provided for the Traditional Medicaid population, the Proposition 204 expansion population, and the KidsCare program. *(See Chart 1 and Other Issues for Legislative Consideration.)*

**Traditional Medicaid Services**

The Baseline includes \$3,269,193,300 for Traditional Medicaid Services in FY 2012. This amount consists of:

General Fund	937,988,800
County Funds	51,251,500
TTHCF Medically Needy Account	38,295,800
Third Party Collections	194,700
Federal Medicaid Authority	2,241,462,500

FY 2012 adjustments would be as follows:

<b>Formula Adjustment</b>	<b>GF 219,842,200</b>
	<b>EA (458,494,300)</b>

The Expenditure Authority (EA) amount consists of \$(458,307,400) in Federal Medicaid Authority and \$(186,900) in County Funds. Besides the federal match rate change, the formula adjustments include:

- A \$(44,758,400) General Fund base adjustment for lower than expected FY 2011 caseloads and capitation rates. The June 2011 traditional caseload is expected to be 814,000 rather than the budgeted level of 867,000.
- 2.3% enrollment growth in FY 2012 to a level of 833,000 (see Table 3).
- 1.8% increase in fee-for-service and 2.3% increase in reinsurance expenses.
- \$(186,900) decrease in Maricopa County Acute Care contribution under A.R.S § 11-292 with a corresponding OF increase.

Two additional formula adjustments are included in the Traditional Medicaid Services line item. These include:

- A \$(34,421,300) General Fund savings for the annualization of provider rate adjustments. AHCCCS has stated that they will be reducing most provider rates by 5% beginning on April 1, 2011.

- A \$(10,525,700) General Fund savings from drug rebates.

(Please see Other Issues for Legislative Consideration for more information.)

Background – Traditional Medicaid Services funds the following populations (see Chart 1):

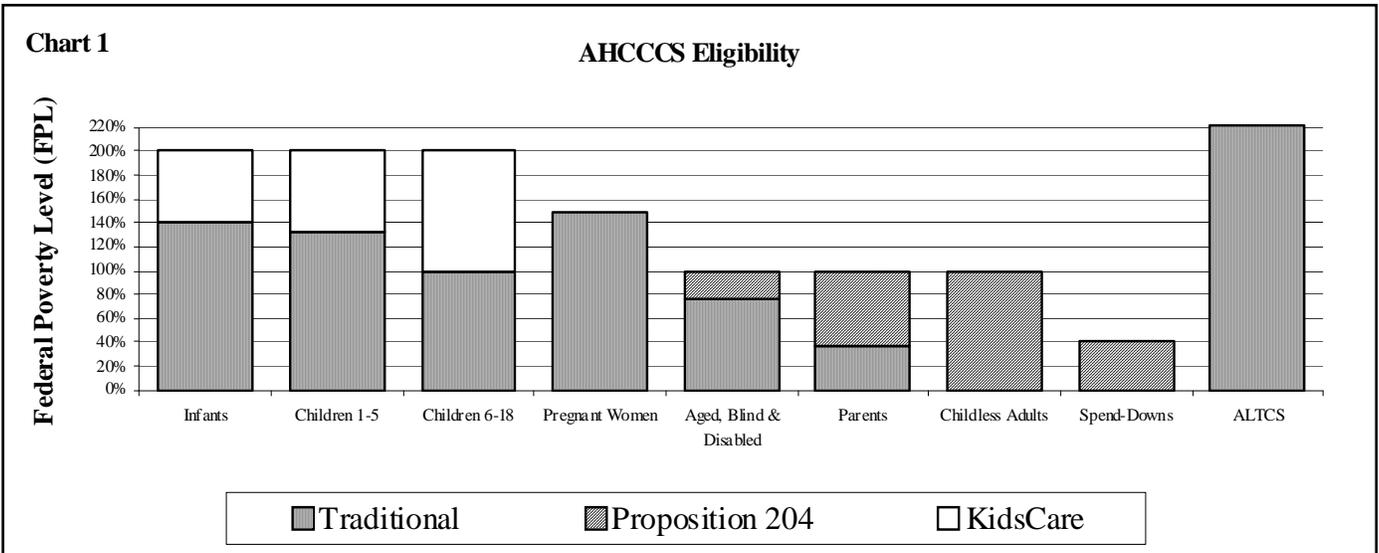
- Children less than 1, up to 140% FPL
- Children aged 1-5, up to 133% FPL
- Children aged 6-18, up to 100% FPL
- Pregnant women, up to 150% FPL
- Aged, blind, and disabled adults, up to 75% FPL
- Parents, up to 23% FPL
- Women diagnosed through the Breast and Cervical Cancer Screening Program, up to 250% FPL
- Individuals aged 16-64 receiving Supplemental Security Income, up to 250% FPL (“Ticket to Work”)

Previously, this line item was comprised of 7 individual line items: Capitation, Reinsurance, Fee-For-Service, Medicare Premiums, Breast and Cervical Cancer, Ticket to Work, and Medicare Clawback Payments.

**Proposition 204 Services**

The Baseline includes \$2,486,182,900 for Proposition 204 Services in FY 2012. This amount consists of:

General Fund	613,796,200
Tobacco Settlement Fund	108,211,300
TPTF Proposition 204 Protection Account	40,367,900
Emergency Health Services Account	19,222,900
Federal Medicaid Authority	1,704,584,600





Those CPEs result in the drawdown of Federal Funds. The state retains all of the Federal Funds with the exception of \$4,202,300 which is allocated to Maricopa Integrated Health System (MIHS).

Since FY 2008, local governments have had the authority to provide voluntary state match monies for Graduate Medical Education. MIHS has provided approximately \$6,000,000 in state match for this purpose annually since FY 2008. This local funding resulted in an annual federal match of approximately \$12,000,000 for MIHS. It also reduced their documented uncompensated care by an equal amount. Since the DSH limit for county operated hospitals is based on the amount of uncompensated care, the amount of federal funding for DSH has declined by an equal amount. Since most DSH revenues from county operated hospitals are directed to the General Fund, this has resulted in a decline in General Fund revenues.

**Rural Hospitals**

The Baseline includes \$13,858,100 for Rural Hospitals in FY 2012. This amount consists of:

General Fund	4,613,000
Federal Medicaid Authority	9,245,100

FY 2012 adjustments would be as follows:

<b>Formula Adjustment</b>	<b>GF</b>	<b>1,277,300</b>
	<b>FMA</b>	<b>(1,277,300)</b>

The formula adjustment represents a change in the match rate.

*Background* – This line item is comprised of 2 programs. The Rural Hospital Reimbursement program, established in FY 2006, increases inpatient reimbursement rates for qualifying rural hospitals. The Critical Access Hospitals program provides increased reimbursement to small rural hospitals that are federally designated as critical access hospitals. In FY 2010, 19 hospitals qualified for funding from Rural Hospital Reimbursement and 11 from Critical Access Hospitals.

**Arizona Long Term Care System**

**ALTCS Services**

The Baseline includes \$1,243,360,200 for Arizona Long Term Care System (ALTCS) expenditures in FY 2012. This amount consists of:

General Fund	172,812,200
County Contributions	251,732,900
Federal Medicaid Authority	818,815,100

FY 2012 adjustments would be as follows:

<b>Formula Adjustments</b>	<b>GF</b>	<b>40,906,900</b>
	<b>EA</b>	<b>(91,250,000)</b>

The Expenditure Authority (EA) amount consists of \$(155,475,900) in Federal Medicaid Authority and \$64,225,900 in County Funds. Besides the federal match rate change, the formula adjustments include:

- A \$(6,010,600) General Fund base adjustment for lower than expected FY 2011 caseloads and capitation rates. The June 2011 ALTCS caseload is expected to be 27,900 rather than the budgeted level of 28,900.
- 2.3% enrollment growth in FY 2012 to a level of 28,600.

Two additional formula adjustments are included in the ALTCS Services line item. These include:

- A \$(1,574,300) General Fund savings for the annualization of April 1, 2011 provider rate adjustments.
- A \$(1,468,800) General Fund savings from drug rebates.

The revised FY 2011 federal matching rate will also change county contributions. See *Table 5* for both the revised FY 2011 and new FY 2012 county amounts.

ALTCS provides coverage for individuals up to 222% of the FPL, or \$24,056 per person. The federal government requires coverage of individuals up to 100% of Supplemental Security Income limit (SSI), which is equivalent to 72% of FPL, or \$7,802 per person.

Clients contribute to the cost of their care based on their income and living arrangement, with institutionalized members contributing more of their income to the cost of their care. For FY 2010, AHCCCS estimates that client contributions paid for 7.1% of care.

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**FORMAT** — Operating Lump Sum with Special Line Items by Agency

**FOOTNOTES**

*Standard Footnotes*

Before making fee-for-service program or rate changes that pertain to fee-for-service rate categories, the Arizona Health Care Cost Containment System Administration shall report its expenditure plan for review by the Joint Legislative Budget Committee.

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.

The amounts appropriated for the Department of Economic Security Eligibility line item shall be used for intergovernmental agreements with the Department of Economic Security for the purpose of eligibility determination and other functions. The General Fund share may be used for eligibility determination for other programs administered by the Division of Benefits and Medical Eligibility based on the results of the Arizona Random Moment Sampling Survey.

The \$13,487,100 appropriation for Disproportionate Share Payments for FY 2012 made pursuant to A.R.S. § 36-2903.01P includes \$4,202,300 for the Maricopa County Healthcare District and \$9,284,800 for private qualifying disproportionate share hospitals.

Any Federal Funds that the Arizona Health Care Cost Containment System Administration passes through to the Department of Economic Security for use in long-term administration care for the developmentally disabled shall not count against the long-term care expenditure authority above.

The county portion of the FY 2012 nonfederal portion of the costs of providing long-term care services is included in the Expenditure Authority fund source.

The amounts included in the Proposition 204 - AHCCCS administration, Proposition 204 - DES eligibility, Proposition 204 Services line items includes all available sources of funding consistent with section A.R.S. § 36-2901.01B.

#### *New Footnotes*

All AHCCCS voluntary state match and related Federal Medicaid Authority monies for graduate medical education monies are appropriated in FY 2012. AHCCCS shall report these amounts from non-AHCCCS sources to the Joint Legislative Budget Committee by August 1, 2012 (*see Other Issues for Legislative Consideration for additional details*).

#### **STATUTORY CHANGES**

The Baseline would:

- As session law, continue to exclude AHCCCS from the ambulance provider rates set by the Department of Health Services.
- As session law, continue the risk contingency rate reduction for all managed care organizations. Continue to impose a reduction in funding for all

managed care organizations' administrative funding levels.

- As session law, continue to prohibit increases in institutional and non-institutional provider rates in the contract year beginning October 1, 2011. Allow AHCCCS to reduce institutional and non-institutional rates by up to 5% in contract year beginning October 1, 2011.
- As session law, set the County Acute Care contribution at \$48,605,300 (*see Table 5*).
- As session law, set the Disproportionate Share Hospital payments for FY 2012 at \$55,507,900 for a nonstate operated public hospital, \$28,474,900 for the Arizona State Hospital, and \$9,284,800 for qualifying private hospitals.
- As session law, continue the collection of \$2,646,200 in DUC pool contributions from all counties other than Maricopa County. The Baseline would exclude these contributions from county expenditure limitations, retroactive to June 30, 2004.
- As session law, continue the exclusion of Proposition 204 administration costs from county expenditure limitations retroactive to June 30, 2004.
- As session law in the General Appropriation Act, continue to defer \$344,201,700 in capitation payments for FY 2012 until FY 2013. Appropriate \$344,344,800 in FY 2013 for these deferred payments, including interest. Allow AHCCCS to pay the health plans no later than July 31, 2012.
- As session law, continue to state that it is the intent of the Legislature that AHCCCS comply with the Federal False Claims Act, achieve the maximum savings as possible under the federal act, and continue to consider best available technologies to reduce fraud.
- As session law, set the FY 2011 and FY 2012 county Long Term Care contribution (*see Table 5*).
- As session law, continue to permit AHCCCS to expend Federal Funds made available by local or tribal spending unless the spending would reduce the enhanced federal matching rate under the federal stimulus or cause the administration to exceed any limitations of federal spending.
- As session law, exempt AHCCCS from rulemaking requirements for determining eligibility necessary to implement a program within the available appropriation.

#### **OTHER ISSUES FOR LEGISLATIVE CONSIDERATION**

##### ***Overall AHCCCS Formula Adjustments***

The Baseline includes \$437,293,000 from the General Fund for AHCCCS formula changes in FY 2012 as delineated by *Table 2*. Those changes are described in further detail below the table.

**Table 2****FY 2012 General Fund Formula Changes**

	<u>Adjustment</u>
Federal Match Rate Backfill	\$652,651,700
Regular FMAP Adjustment	(71,056,800)
FY 2011 Base Adjustments & FY 2012 Caseload Growth	(32,009,100)
4/1 Provider Rate Adjustment	(62,172,600)
Drug Rebates	(20,000,000)
Continued FY 11 Capitation Savings	<u>(30,120,200)</u>
<b>Total</b>	<b>\$437,293,000</b>

**FMAP Backfill/Regular FMAP Adjustments**

Due to a reduction in the Federal Medicaid Assistance Percentage (FMAP), the Baseline includes \$652,651,700 to backfill the loss of Federal Funds. The FMAP is the rate at which the federal government matches state contributions to Medicaid programs. These rates are set on a state-by-state basis and are revised each year. The federal government had provided a 65.8% match for most Medicaid services and a 76.1% match for KidsCare.

During FY 2012, the blended FMAP for Medicaid will decline to 66.9% (7.1% decline). The rate would have otherwise returned to 65.8%, but the state's low personal income growth qualifies it for a higher rate. This better regular match rate generates savings of \$(71,056,800) to offset the \$652,651,700 backfill. In FY 2012, the KidsCare rate will increase to 76.7% (0.6% increase).

**FY 2011 Base Adjustments & FY 2012 Caseload Growth**

The Baseline includes a decrease of \$(32,009,100) from the General Fund for AHCCCS caseload changes. This amount consists of \$25,080,700 in FY 2012 caseload growth and \$(57,089,800) from lower than budgeted FY 2011 growth. From June 2011 to June 2012, caseloads are expected to grow by 1.9% to a level of 1,407,100 (see Table 3).

**Table 3****JLBC Forecasted Member Months<sup>1/</sup>**

<b>Population</b>	<b>June 2010</b>	<b>June 2011</b>	<b>June 2012</b>	<b>'11-'12 % Change</b>
<b>Acute Care</b>				
Traditional Capitation	807,142	813,818	832,535	2.3%
Prop 204 Capitation	<u>353,867</u>	<u>368,497</u>	<u>376,973</u>	<u>2.3</u>
Subtotal	1,161,009	1,182,315	1,209,508	2.3
KidsCare-Children	30,181	17,932	14,076	(21.5)
Fee-For-Service/Other	<u>159,521</u>	<u>152,418</u>	<u>154,893</u>	<u>1.6</u>
<b>Total Acute Care</b>	<b>1,350,711</b>	<b>1,352,665</b>	<b>1,378,477</b>	<b>1.9</b>
Long-Term Care	<u>27,246</u>	<u>27,932</u>	<u>28,574</u>	<u>2.3</u>
<b>Total AHCCCS</b>	<b>1,377,957</b>	<b>1,380,597</b> <sup>2/</sup>	<b>1,407,051</b>	<b>1.9</b>

1/ The figures represent point-in-time estimates. The Fee-For-Service/Other population includes the Dual Eligible (Medicare Premiums), Ticket to Work, and Breast and Cervical Cancer populations.

2/ Represents revised forecast.

**April 1 Provider Rate Adjustments**

The Baseline reflects the annualization of the April 1, 2011 provider rate adjustments. AHCCCS will reduce most provider rates beginning on April 1, 2011 continuing into FY 2012. The \$(62,172,600) in estimated General Fund savings is shown in the Traditional Services, Proposition 204 Services and ALTCS Services line items. These adjustments are also expected to reduce the costs to counties by \$(2,293,700) in FY 2012.

Capitation rates normally reflect adjustments in utilization of services and medical inflation. If capitation rates increased by 5% in FY 2012, this would cost an additional \$74,559,100 from the General Fund in FY 2012.

**Drug Rebates**

The Baseline reflects a General Fund reduction of \$(20,000,000) for anticipated savings due to prescription drug rebates. The federal Affordable Care Act requires drug manufacturers to provide rebates for drugs sold to Medicaid managed care plans. AHCCCS issued a Request for Proposal to hire a vendor to oversee the collection of drug rebates, and anticipates the rebates will begin to be processed during spring 2011. In addition to General Fund savings, the rebates are estimated to provide \$(2,140,000) in savings for counties in FY 2012.

**Continued FY 2011 Capitation Savings**

The Baseline reflects \$(30,120,200) in capitation rate savings from FY 2011 that are continued into FY 2012, consisting of \$(4,007,400) in new co-payments and \$(26,112,800) in additional capitation rate adjustments. These are described in more detail in the *FY 2011 Net Funding Changes* section.

**Payment Deferral**

The Baseline includes \$344,344,800 to continue a payment deferral in FY 2012. This amount consists of:

General Fund	113,586,500
Federal Medicaid Authority	230,758,300

The FY 2011 Health and Welfare Budget Reconciliation Bill (Laws 2010, 7<sup>th</sup> Special Session, Chapter 10) required AHCCCS to delay capitation payments in FY 2011. To offset this deferral, the FY 2011 General Appropriation Act (Laws 2010, 7<sup>th</sup> Special Session, Chapter 10) made an advanced appropriation of \$344,344,800 in FY 2012. This advance appropriation will not appear in the FY 2012 General Appropriation Act.

**FY 2011 Net Funding Changes**

The FY 2011 budget initially had a shortfall of \$121,250,600 due to a lower than anticipated federal match rate. The American Recovery and Reinvestment Act of 2009 (ARRA) increased the Medicaid match rate for most services to 75.9% (KidsCare remained unchanged). The FY 2011 budget assumed the continuation of that rate through the end of FY 2011. The

federal government subsequently decided to phase down that match rate as of January 2011. The final blended FY 2011 FMAP is estimated to be 74.1%, which would require the state to increase its share of FY 2011 costs by \$121,250,600.

While the lower FMAP rate in FY 2011 is estimated to create a shortfall in FY 2011, this will be offset by savings of \$(128,017,500), for net savings of \$(6,766,900). The Baseline would ex-appropriate this amount from the AHCCCS budget in FY 2011. These items are discussed in more detail below (see Table 4).

	<u>Adjustment</u>
Lower Federal Match Rate	\$121,250,600
Lower Caseload	(57,089,800)
Co-Pay Implementation	(4,007,400)
Other Capitation Adjustments	(26,112,800)
Reconciliation Recoupments	(18,000,000)
Drug Rebates	(10,000,000)
4/1 Provider Rate Adjustment	<u>(12,807,500)</u>
<b>Total</b>	<b>\$ (6,766,900)</b>

The federal match rate cost of \$121,250,600 is described above. Almost half of this cost will be offset by lower than budgeted caseloads. While the original FY 2011 budget funded a June 2011 caseload of 1,450,200, the current projection is 1,380,600, a savings of \$(57,089,800).

AHCCCS will also generate FY 2011 savings through 5 initiatives. First, AHCCCS will begin implementation of co-pays for certain AHCCCS adult populations. This is expected to generate \$(4,007,400) in General Fund

savings. Second, AHCCCS made additional capitation rate adjustments, reducing anticipated General Fund expenses by approximately \$(26,112,800). This includes adjustments for utilization and other program changes. 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. Third, AHCCCS expects health plans to repay \$(18,000,000) in reconciliation recoupments. Health plans are limited to a specific percentage of profits in any given contract period. When they exceed this level, AHCCCS receives reconciliation recoupments. Fourth, savings from drug rebates, as described above, are expected to generate \$(10,000,000) of General Fund savings in FY 2011. Finally, AHCCCS has indicated that they plan to reduce capitation rates beginning on April 1, 2011, saving approximately \$(12,807,500) from the General Fund.

**County Contributions**

County governments make 4 different payments to defray the AHCCCS budget's costs, as summarized in Table 5.

The counties' single largest contribution is the ALTCS program. Pursuant to A.R.S. § 11-292, the state and the counties share in the growth of the ALTCS program, as defined by the following formula:

1. The growth is split 50% to the state, 50% to the counties.
2. The counties' portion is allocated among the counties based on their FY 2010 ALTCS utilization.
3. Each county's contribution is then limited to 90¢ per \$100 of net assessed property value. In FY 2012, this provision provides 1 county with a total of \$3,903,800 in relief.

<u>County</u>	<u>FY 2011</u>				<u>FY 2012</u>			
	<u>BNCF</u>	<u>Acute</u>	<u>DUC</u>	<u>ALTCS</u>	<u>BNCF</u>	<u>Acute</u>	<u>DUC</u>	<u>ALTCS</u>
Apache	\$ 102,700	\$ 268,800	\$ 87,300	\$ 485,000	\$ 104,200	\$ 268,800	\$ 87,300	\$ 631,800
Cochise	191,700	2,214,800	162,700	4,140,300	194,300	2,214,800	162,700	5,309,100
Coconino	189,100	742,900	160,500	1,455,400	191,700	742,900	160,500	1,896,300
Gila	77,600	1,413,200	65,900	1,670,700	78,700	1,413,200	65,900	2,113,600
Graham	55,200	536,200	46,800	1,098,000	56,000	536,200	46,800	1,430,800
Greenlee	14,200	190,700	12,000	124,600	14,400	190,700	12,000	162,300
La Paz	29,400	212,100	24,900	636,800	29,800	212,100	24,900	827,500
Maricopa	0	20,761,900	0	118,573,200	0	20,575,000	0	154,518,900
Mohave	220,700	1,237,700	187,400	5,629,100	223,800	1,237,700	187,400	7,335,500
Navajo	144,600	310,800	122,800	2,006,700	146,700	310,800	122,800	2,614,500
Pima	1,314,500	14,951,800	1,115,900	30,705,400	1,333,000	14,951,800	1,115,900	39,653,400
Pinal	257,200	2,715,600	218,300	11,455,700	260,800	2,715,600	218,300	15,702,000
Santa Cruz	60,800	482,800	51,600	1,476,300	61,600	482,800	51,600	1,933,300
Yavapai	243,000	1,427,800	206,200	7,228,300	246,400	1,427,800	206,200	9,586,200
Yuma	216,600	1,325,100	183,900	6,192,500	219,700	1,325,100	183,900	8,017,700
<b>Subtotal</b>	<b>\$3,117,300</b>	<b>\$48,792,200</b>	<b>\$2,646,200</b>	<b>\$192,878,000</b> <sup>1/</sup>	<b>\$3,161,100</b>	<b>\$48,605,300</b>	<b>\$2,646,200</b>	<b>\$251,732,900</b>
<b>Total</b>				<b>\$247,433,700</b>				<b>\$306,145,500</b>

<sup>1/</sup> This amount reflects revised contributions to account for the lower enhanced FMAP in FY 2011.

4. In counties with an “on-reservation” population of at least 20%, the contribution is limited by an alternative formula specified in statute. In FY 2012, this provision provides 3 counties with a total of \$15,753,600 in relief.
5. If any county would still pay more under the above provisions than under the previous statutory percentages, that county’s contribution is limited by a further alternative formula specified in statute. In FY 2012 no counties qualify for this relief.
6. The state pays for county costs above the average statewide per capita (\$37.64 in FY 2012). In FY 2012, this provision provides 7 counties with a total of \$12,274,400 in relief.

In FY 2012, provisions 3 through 6 of the ALTCS formula result in the state providing a total of \$31,931,800 in relief to 10 counties.

In FY 2011, the county share increased from \$187,507,000 to \$192,878,000, a change of \$5,371,000, due to lower than expected federal match partially offset by lower than budgeted caseloads. In FY 2012, the Baseline includes an increase of \$64,225,900 to \$251,732,900 to account for caseload growth and FMAP adjustments.

**Program Components**

Traditional Medicaid, Proposition 204, KidsCare, and ALTCS services include the following costs:

**Capitation**

The majority of AHCCCS payments are made through monthly capitated payments. This follows a health maintenance organization (HMO) model in which capitated providers accept a predetermined rate for each member. In FY 2012, the average capitation rate is expected to be \$344 per member per month (or \$4,130 annually). Of that amount, \$114 is from state match and \$230 from Federal Medicaid Authority.

**Reinsurance**

Reinsurance is a stop-loss program for health plans and program contractors for patients with unusually high costs. The health plan is responsible for paying all of a member’s costs until an annual deductible has been met.

**Fee-for-Service**

Rather than using Capitation, Fee-For-Service payments are made for 4 programs: 1) federally-mandated services for Native Americans living on-reservations; 2) rural Federally Qualified Health Centers (FQHC); 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.

**Medicare Premiums**

AHCCCS provides funding for the purchase of Medicare Part B (supplemental medical insurance) and Part A (hospital insurance). Purchasing supplemental coverage reduces state expenditures since the federal Medicare program absorbs a portion of the costs. In addition, this

includes the cost of premiums for certain disabled workers and low-income Qualified Medicare Beneficiaries.

**Clawback**

AHCCCS is not required to pay for prescription drug costs for members who are eligible for Medicare. Instead, AHCCCS is required to make “Clawback” payments to Medicare based on a certain percent (80.0% in 2012) of the estimated drug costs.

**Proposition 204**

The state match share of Proposition 204 is expected to cost \$911,182,800 in FY 2012. This amount consists of several different fund sources. Ballot propositions require that monies from the Tobacco Settlement Fund and the TPTF Proposition 204 Protection Account be spent on this program. The remaining monies total \$762,603,600; this includes \$743,380,700 from the General Fund and \$19,222,900 from the TPTF Emergency Health Services Account. These amounts include services and administration as well as costs incurred in both AHCCCS and the Department of Health Services (DHS). These costs are as follows:

	<b>GF</b>	<b>GF + OF</b>
AHCCCS, services only	\$614	\$782
AHCCCS, including administration	634	802
DHS & AHCCCS, services only	722	890
DHS & AHCCCS, including admin*	743	911

\* The combined cost is \$763 million excluding the tobacco funding specifically dedicated from ballot propositions to Proposition 204.

**Graduate Medical Education**

The Graduate Medical Education (GME) program reimburses hospitals with graduate medical education programs for the additional costs of treating AHCCCS members with graduate medical students. A.R.S. § 36-2903.01 allows local, county, and tribal governments, along with public universities to provide state match for GME, and entities may designate the recipients of such funds.

While the Baseline includes no General Fund GME support, AHCCCS’ budget permits federal expenditure authority for the non-AHCCCS match. AHCCCS expects to receive federal matching funds of \$79,688,100 in FY 2011 for GME based on \$32,201,900 in local and university funds.

**Children’s Rehabilitative Services**

The Children’s Rehabilitative Services (CRS) program offers comprehensive health care to children with handicapping or potentially handicapping conditions. Statute authorizes the Department of Health Services (DHS) to oversee the program, and previous budgets have appropriated these monies to DHS. Beginning on January 1, 2011, the Executive moved the oversight of the CRS

program from DHS to AHCCCS. Funding for AHCCCS' oversight is being provided through an interagency agreement. The Baseline continues to appropriate CRS monies in DHS since that agency is statutorily responsible for the program.

SUMMARY OF FUNDS	FY 2010 Actual	FY 2011 Estimate
<b>Budget Neutrality Compliance Fund (HCA2478/A.R.S. § 36-2928)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> County contributions.		
<b>Purpose of Fund:</b> 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.		
<b>Funds Expended</b>	2,235,600	3,117,300
<b>Year-End Fund Balance</b>	0	0
<b>Children's Health Insurance Program Fund (HCA2409/A.R.S. § 36-2995)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Includes the Federal Title XXI matching monies for Arizona's State Children's Health Insurance Program (CHIP), called KidsCare. General Fund monies are used to leverage the federal monies and are not included in the reported CHIP Fund expenditures.		
<b>Purpose of Fund:</b> 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 \$44,100 for a family of 4.		
<b>Funds Expended</b>	77,827,900	40,967,600
<b>Year-End Fund Balance</b>	2,072,100	2,072,100
<b>County Funds (HCA2120 Acute Care/HCA2223 Long Term Care/ A.R.S. § 36-2912 Acute Care/A.R.S. § 36-2953 Long Term Care)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Statutorily prescribed county contributions.		
<b>Purpose of Fund:</b> 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.		
<b>Funds Expended</b>	6,860,000	238,945,400
<b>Year-End Fund Balance</b>	0	0
<b>Employee Recognition Fund (HCA2025/A.R.S. § 36-2903)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Private donations.		
<b>Purpose of Fund:</b> To be used for the agency's employee recognition program.		
<b>Funds Expended</b>	14,400	14,400
<b>Year-End Fund Balance</b>	15,100	10,700
<b>Federal - Medicaid Direct Services (HCA2120/A.R.S. § 36-2913)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Federal funding through the U.S. Department of Health & Human Services, Centers for Medicare and Medicaid Services.		
<b>Purpose of Fund:</b> 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.		
<b>Funds Expended</b>	28,829,700	28,315,100
<b>Year-End Fund Balance</b>	0	0
<b>Federal Funds (HCA2000 Acute Care/A.R.S. § 36-2913)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Federal grant monies.		
<b>Purpose of Fund:</b> To provide federal match for non-appropriated state expenditures.		
<b>Funds Expended</b>	3,660,100	1,053,800
<b>Year-End Fund Balance</b>	55,300	55,300

SUMMARY OF FUNDS	FY 2010 Actual	FY 2011 Estimate
<b>Federal Medicaid Funds</b> (HCA2120/HCA2223 Long Term Care/ A.R.S. § 36-2913 Acute Care/A.R.S. § 36-2953 Long Term Care)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Federal funding through the U.S. Department of Health & Human Services, Centers for Medicare and Medicaid Services.		
<b>Purpose of Fund:</b> For AHCCCS' administrative costs and for the provision of acute and long term services to categorically eligible populations.		
<b>Funds Expended</b>	5,387,114,500	5,821,980,500
<b>Year-End Fund Balance</b>	62,633,800	46,185,700
<b>Healthcare Group Fund</b> (HCA3197/A.R.S. § 36-2912.01)		<b>Partially -Appropriated</b>
<b>Source of Revenue:</b> Premiums paid by employers and employees enrolled in Healthcare Group, including monies to fund the administration of the Healthcare Group program.		
<b>Purpose of Fund:</b> 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.		
<b>Appropriated Funds Expended</b>	2,979,100	5,183,700
<b>Non-Appropriated Funds Expended</b>	45,787,800	47,871,000
<b>Year-End Fund Balance</b>	9,102,800	8,446,700
<b>Hospital Loan Residency Fund</b> (HCA2532/A.R.S. § 36-2921)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Received 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.		
<b>Purpose of Fund:</b> To provide interest free loans to fund start-up and ongoing costs for residency programs in accredited hospitals, with priority given to rural areas.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	100,000	0
<b>IGA and ISA Fund</b> (HCA2500/A.R.S. § 36-2925)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies voluntarily given to AHCCCS from local governments and tribal communities in order to obtain a federal match.		
<b>Purpose of Fund:</b> To expand funding for Graduate Medical Education or other payments to hospitals.		
<b>Funds Expended</b>	2,304,700	2,157,500
<b>Year-End Fund Balance</b>	0	0
<b>Intergovernmental Service Fund</b> (HCA2438/A.R.S. § 36-2927)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies collected from the State of Hawaii.		
<b>Purpose of Fund:</b> 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.		
<b>Funds Expended</b>	7,486,700	8,009,000
<b>Year-End Fund Balance</b>	1,249,600	596,100
<b>Proposition 202 - Trauma and Emergency Services Fund</b> (HCA2494/A.R.S. § 36-2903.07)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Receives gaming monies from the Arizona Benefits Fund.		
<b>Purpose of Fund:</b> For unrecovered trauma center readiness and emergency services costs.		
<b>Funds Expended</b>	7,944,000	20,338,400
<b>Year-End Fund Balance</b>	5,377,900	5,427,900

SUMMARY OF FUNDS	FY 2010 Actual	FY 2011 Estimate
<b>Temporary Medical Coverage Fund (HCA2529/A.R.S. § 36-2930)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> 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 \$3,200,000 appropriated from this fund to pay for reconciliation obligations incurred for claims with dates of services before July 1, 2008. This program has since been eliminated.		
<b>Purpose of Fund:</b> To pay for the services and costs associated with persons who are eligible for temporary medical coverage.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0
<b>Third Party Collections Fund (HCA3791 Acute Care/ HCA3019 Long Term Care/A.R.S. § 36-2913)</b>		<b>Partially-Appropriated</b>
<b>Source of Revenue:</b> Collections from third-party payers and revenues from lien and estate recoveries.		
<b>Purpose of Fund:</b> To provide acute medical services to AHCCCS members.		
<b>Appropriated Funds Expended</b>	95,700	194,700
<b>Non-Appropriated Funds Expended</b>	6,563,000	7,030,000
<b>Year-End Fund Balance</b>	731,100	592,700
<b>Tobacco Litigation Settlement Fund (TRA2561/A.R.S. § 36-2901.02)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies received from tobacco companies as part of a lawsuit settlement.		
<b>Purpose of Fund:</b> 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.		
<b>Funds Expended</b>	105,394,100	108,211,300
<b>Year-End Fund Balance</b>	31,500	31,500
<b>Tobacco Tax and Health Care Fund (RVA1306/A.R.S. § 36-771) *</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> 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.		
<b>Purpose of Fund:</b> 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.		
<b>Tobacco Tax and Health Care Fund - Medically Needy Accounts *</b> (HCA1306/A.R.S. § 36-774)		<b>Partially-Appropriated</b>
<b>Source of Revenue:</b> 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.		
<b>Purpose of Fund:</b> 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.		
<b>Tobacco Products Tax Fund - Emergency Health Services Account *</b> (HCA1304/A.R.S. § 36-776)		<b>Appropriated</b>
<b>Source of Revenue:</b> This account receives 20¢ of each dollar deposited into the Tobacco Products Tax Fund, administered by the Department of Revenue.		
<b>Purpose of Fund:</b> For primary care services, reimbursement of uncompensated care costs, and trauma center readiness costs.		

SUMMARY OF FUNDS	FY 2010 Actual	FY 2011 Estimate
<b>Tobacco Products Tax Fund - Proposition 204 Protection Account *</b> (HCA1303/A.R.S. § 36-778)		<b>Non-Appropriated</b>

**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.

\* See Table 7

Table 7

**Summary of Tobacco Tax and Health Care Fund and Tobacco Products Tax Fund**

	<u>FY 2010</u>	<u>FY 2011</u>
<b>Medically Needy Account</b>		
<u>Funds Available</u>		
Balance Forward	\$ 486,600	\$ 3,805,300
Transfer In - Tobacco Tax and Health Care Fund	49,883,800	47,869,700
Transfer In - Tobacco Products Tax Fund	<u>27,081,300</u>	<u>25,950,900</u>
<b>Total Funds Available</b>	<b>\$77,451,700</b>	<b>\$77,625,900</b>
<u>Allocations</u>		
<i>AHCCCS</i>		
Traditional Medicaid State Match Appropriation	<u>\$38,295,800</u>	<u>\$38,295,800</u>
Total AHCCCS Allocations	<b>\$38,295,800</b>	<b>\$38,295,800</b>
<i>DHS</i>		
Behavioral Health GF Offset	\$35,006,300	\$34,767,000
Folic Acid	<u>338,600</u>	<u>400,000</u>
Total DHS Allocations	<b>\$35,344,900</b>	<b>\$35,167,000</b>
Administrative Adjustments	<u>(5,700)</u>	<u>0</u>
<b>Balance Forward</b>	<b>\$ 3,805,300</b>	<b>\$ 4,163,100</b>
<b>AHCCCS Proposition 204 Protection Account</b>		
<u>Funds Available</u>		
Balance Forward	\$ 0	\$ 0
Transfer In - Tobacco Products Tax Fund	<u>43,614,400</u>	<u>40,367,900</u>
<b>Total Funds Available</b>	<b>\$43,614,400</b>	<b>\$40,367,900</b>
<u>Allocations</u>		
AHCCCS State Match	<u>\$43,614,400</u>	<u>\$40,367,900</u>
<b>Balance Forward</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>AHCCCS Emergency Health Services Account</b>		
<u>Funds Available</u>		
Balance Forward	\$ 173,900	\$ 3,900
Transfer In - Tobacco Products Tax Fund	<u>20,060,200</u>	<u>19,222,900</u>
<b>Total Funds Available</b>	<b>\$20,234,100</b>	<b>\$19,226,800</b>
<u>Allocations</u>		
AHCCCS State Match Appropriation	\$20,230,200	\$19,222,900
Administrative Adjustments	<u>0</u>	<u>3,900</u>
<b>Balance Forward</b> <sup>1/</sup>	<b>\$ 3,900</b>	<b>\$ 0</b>
<b>DHS Health Education Account</b>		
<u>Funds Available</u>		
Balance Forward	\$ 6,772,600	\$ 6,311,000
Transfer In - Tobacco Tax and Health Care Fund	16,531,900	15,654,000
Transfer In - Tobacco Products Tax Fund	<u>2,019,300</u>	<u>1,916,000</u>
<b>Total Funds Available</b>	<b>\$25,323,800</b>	<b>\$23,881,000</b>
<u>Allocations</u>		
Tobacco Education and Prevention Program	\$16,349,600	\$16,349,600
Leading Causes of Death - Prevention and Detection	<u>2,663,200</u>	<u>2,663,200</u>
<b>Balance Forward</b>	<b>\$ 6,311,000</b>	<b>\$ 4,868,200</b>
<b>Health Research Account</b>		
<u>Funds Available</u>		
Balance Forward	\$ 3,717,300	\$ 2,114,400
Transfer In - Tobacco Tax and Health Care Fund	3,563,000	3,419,200
Transfer In - Tobacco Products Tax Fund	5,048,300	4,805,700
Interest Revenue	<u>27,300</u>	<u>0</u>
<b>Total Funds Available</b>	<b>\$12,355,900</b>	<b>\$10,339,300</b>
<u>Allocations</u>		
Arizona Biomedical Research Commission	\$ 9,741,500	\$ 8,547,700
Biotechnology (Laws 2002, Ch. 186)	<u>500,000</u>	<u>500,000</u>
<b>Balance Forward</b>	<b>\$ 2,114,400</b>	<b>\$ 1,291,600</b>

<sup>1/</sup> Any unencumbered funds in the Emergency Health Services Account are transferred to the Proposition 204 Protection Account at the end of each year.