

**AZ HEALTH CARE COST CONTAINMENT SYSTEM - ACUTE CARE**

**A.R.S. § 36-2901**

<b>General Fund, Federal and Other Funds</b>	<b>FY 1999 Actual</b>	<b>FY 2000 Estimate</b>	<b>FY 2001 Approved</b>
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FTE Positions

Capitation	(SM) 283,729,700	369,086,700	425,514,000 <sup>1/2/</sup>
	(TF) 810,270,000	859,902,400	942,589,800 <sup>1/3/</sup>
Fee-For-Service	(SM) 47,165,700	69,028,800	76,247,400 <sup>1/</sup>
	(TF) 201,006,900	215,377,400	252,439,700 <sup>1/</sup>
Reinsurance	(SM) 19,439,700	18,188,000	28,033,600 <sup>1/</sup>
	(TF) 36,318,700	39,477,200	54,692,300 <sup>1/</sup>
Medicare Premiums	(SM) 6,911,100	9,354,300	10,037,300
	(TF) 20,007,900	31,052,600	48,724,100
Qualified Medicare Beneficiaries	(SM) 1,485,700	0	0
	(TF) 4,300,600	0	0
Qualified Individuals I & II	(SM) 0	0	0
	(TF) 171,900	0	0
Disproportionate Share Payments	(SM) 36,392,900	43,891,500	44,171,800 <sup>1/4/5/</sup>
	(TF) 101,593,000	124,891,500	125,171,800 <sup>1/4/5/</sup>
Graduate Medical Education	(SM) 9,189,600	9,243,900	9,243,900
	(TF) 18,289,800	18,289,800	18,289,800
<b>Total Appropriations</b>	<b>(SM) 404,314,400</b>	<b>518,793,200</b>	<b>593,248,000</b>
	<b>(TF) 1,191,958,800</b>	<b>1,288,990,900</b>	<b>1,441,907,500<sup>6/7/8/</sup></b>

Fund Summary

General Fund	404,314,400	421,109,000	440,656,700 <sup>9/</sup>
Tobacco Tax Funds	25,636,200	30,276,200	31,648,500
Third Party Collections	1,448,100	1,124,800	882,000
County Funds	66,689,500	66,689,500	66,689,500
Federal Funds	693,870,600	769,791,400	821,293,400
State Funding Set-Aside	0	0	53,773,900 <sup>1/</sup>
Total Fund Set-Aside	0	0	80,737,400 <sup>1/</sup>
<b>Total Appropriations</b>	<b>1,191,958,800</b>	<b>1,288,990,900</b>	<b>1,441,907,500</b>

SM = State Match, and consists of the state General Fund, Tobacco Tax, Third Party Collections and County Funds.

TF = Total Funds, and represents the sum of the State Match and Federal Funds.

1/ The State Funding Set-Aside and the Total Fund Set-Aside includes \$40,497,200 SF and \$40,408,800 TF for the Capitation Special Line Item, \$4,160,300 SF and \$27,305,800 TF for the Fee-For-Service Special Line Item, \$8,836,100 SF and \$12,742,500 TF for the Reinsurance Special Line Item, and \$280,300 SF and \$280,300 TF for the Disproportionate Share Special Line Item for a total Acute Care set-aside of \$53,773,900 SF and \$80,737,400 TF. The set-aside is not formally appropriated to the budget but reflects the current estimate of a potential FY 2001 supplemental.

2/ Includes \$(205,100) GF transferred to the Department of Health Services by Laws 1999, Chapter 313.

3/ Includes \$(600,000) TF transferred to the Department of Health Services by Laws 1999, Chapter 313.

4/ The FY 2000 and FY 2001 Disproportionate Share Payment of \$124,891,500 is based on federal FY 2000 and FY 2001 authorized expenditure level of \$81,000,000. If the final federal expenditure authorization is an amount different from the estimate, the Governor shall direct the Arizona Health Care Cost Containment System Administration, subject to the availability of monies and subject to the review of the Joint Legislative Budget Committee, to proportionately adjust authorization amounts among the identified recipients of disproportionate share hospital payment. Prior to the final payment, the Governor shall provide notification to the President of the Senate, the Speaker of the House of Representatives, the Chairmen of the Senate and House Appropriations Committees and the Staff Director of the Joint Legislative Budget Committee of the adjusted federal authorized expenditure level and the proposed distribution plan for these monies. (General Appropriation Act footnote)

5/ Of the appropriation for Disproportionate Share Payments for FY 2000 and FY 2001 made pursuant to A.R.S. § 36-2903.01R, the sum of \$83,894,300 is for qualifying county operated hospitals, \$23,831,900 is for deposit in the Arizona State Hospital Fund and \$15,150,000 is for other qualifying disproportionate share hospitals. The remaining \$2,015,300 is for in lieu payments to counties having a population of 500,000 persons or less according to the most recent United States decennial census in an amount that is the difference between the disproportionate share payments made pursuant to A.R.S. § 36-2903.01R, and \$201,700, if the disproportionate share payments are less than \$201,700. For each county that would receive less than \$100,900 from these in lieu payments, the Arizona Health Care Cost Containment System Administration shall make an additional in lieu payment that will provide the county with a total payment of \$100,900. (General Appropriation Act footnote)

## ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM - ACUTE CARE (Cont'd)

**Program 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 including some behavioral health services available to enrolled members. 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. As a federal demonstration project, the Acute Care program operates under a series of federal waivers that make the "managed care" concept possible. AHCCCS covers the mandatory federal eligibility groups, as well as certain optional state groups, such as the Medically Needy/Medically Indigent (MN/MI.) In cases involving catastrophic medical expenses, AHCCCS supplements Capitation through Reinsurance in order to preserve health plan financial viability.*

**FY 2001 Estimated Shortfall** — The estimated shortfall for Capitation, Fee-for-Service, and Reinsurance totals \$53,773,900 in State Funds (SF) and \$80,737,400 in Total Funds (TF). The estimated shortfall is not formally added to the department's budget, but reflects the current estimate of a potential FY 2001 supplemental.

**Medical Stabilization Fund** — A funding source for the estimated FY 2001 shortfall will need to be determined; however, one possibility is the Medical Stabilization Fund. The Medical Stabilization Fund was established to provide a funding source for AHCCCS if their appropriation in a given fiscal year is insufficient to cover the cost of AHCCCS medical services. AHCCCS must notify the Chairperson of the Joint Legislative Budget Committee (JLBC) and the Director of the Governor's Office of Strategic Planning and Budgeting that the appropriation is insufficient. Following the review of the evidence of a deficiency, the JLBC may recommend that AHCCCS withdraw the amount required to cover the shortfall from the Medical Stabilization Fund. The FY 2001 Medical Stabilization Fund balance is projected to be approximately \$75,972,900. Therefore, the fund has an adequate balance to cover the estimated FY 2001 state funding shortfall.

**Capitation** — The estimated FY 2001 shortfall includes an increase of \$40,497,200 SF and \$40,408,800 TF for medical inflation and caseload growth in Capitation. This estimate assumes that capitation rates will increase by 3.7% in FY 2001 instead of 3.5% as originally projected. This revised inflation estimate applies to all AHCCCS Acute Care populations except the Medically Needy/Medically Indigent (MN/MI). The MN/MI capitation rate is projected to increase by 10% in FY 2001 instead of 3.5% as originally projected. While the MN/MI population has been decreasing over the past 4 years, expenditures per enrollee have increased significantly. *Table 1* shows: 1) the projected FY 2000 and FY 2001

capitation rates used in the appropriation; 2) the revised FY 2000 and FY 2001 capitation rates; 3) the percent change from the appropriated to the revised rate; and, 4) the percent change from the FY 2000 revised to the FY 2001 revised rate.

The FY 2001 estimated shortfall also assumes an average of 436,376 enrolled member years in the Acute Care program, an increase of 33,111 member years (8.2% increase) above the originally-assumed enrollment. *Table 2* shows: 1) the projected FY 2000 and FY 2001 member years used in the appropriation; 2) the revised FY 2000 and FY 2001 member year projections; 3) the percent change from the appropriated to the revised level; and, 4) the percent change from the FY 2000 revised to the FY 2001 revised enrollment projection.

One factor contributing to enrollment growth is the "woodwork effect" of the newly enacted Children's Health Insurance Program (CHIP). Outreach for the CHIP program has contributed to enrollment growth, because about half of the children who applied for health coverage under the CHIP program were actually eligible for the current AHCCCS program (Title XIX).

**Fee-For-Service** — The estimated FY 2001 shortfall includes an increase of \$4,160,300 SF and \$27,305,800 TF for medical inflation and caseload growth in Fee-for-Service. As discussed above, costs for the MN/MI population have increased substantially due to the increasing acuity of the population, which also results in increased Fee-for-Service costs. The second factor contributing to increased Fee-for-Service cost is an unanticipated increase in the number of Federal Emergency Services (FES) births. Finally, Indian Health Services (IHS) Facility reimbursement rates have increased; however, this issue is 100% federally funded, so it does not impact the state funding source.

6/ Of the \$1,288,990,900 expenditure authority for Acute Care in FY 2000, \$421,109,000 is appropriated from the state General Fund. Of the \$1,361,170,000 expenditure authority for Acute Care in FY 2001, \$440,656,700 is appropriated from the state General Fund. (General Appropriation Act footnote as adjusted for transfers pursuant to Laws 1999, Chapter 313)

7/ General Appropriation Act funds are appropriated by Special Line Items for the Program.

8/ Before making capitation changes to current fee for service programs that may have a budgetary impact in FY 2000 or FY 2001, the Arizona Health Care Cost Containment System Administration shall report its plan to the Joint Legislative Budget Committee for review. (General Appropriation Act footnote)

9/ These amounts represent direct appropriations. All other expenditures are part of total expenditure authority.

**ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM - ACUTE CARE (Cont'd)**

**Reinsurance** — The estimated FY 2001 shortfall includes an increase of \$8,836,100 SF and \$12,742,500 TF for the Reinsurance program. Increasing costs in this area are the result of measures taken by AHCCCS to target additional resources to health plans who are experiencing significant losses due to very high cost cases. The primary change has been the movement of health plans to lower deductible levels, which reduces the health plan’s risk associated with high cost cases.

**Disproportionate Share Payments** — The JLBC estimates that FY 2001 costs will increase by \$280,300 SF above the FY 2001 appropriation in the Disproportionate Share Payments (DSH) Special Line Item. This SF increase reflects the change in the state match required for the Federal Matching Assistance Percentage (FMAP). The FMAP will change from 65.92% to 65.77% effective October 1, 2000.

**Table 1**

	Capitation Rates						% Change FY 2000 Revised to FY 2001 Revised
	FY 2000			FY 2001			
<b>Federally-Eligible Rate Codes</b>	<b>Appropriated</b>	<b>Revised</b>	<b>% Change</b>	<b>Appropriated</b>	<b>Revised</b>	<b>% Change</b>	
TANF < 1 <sup>1/</sup>	330.25	322.70	(2.3)	\$ 341.81	\$ 331.67	(3.0)	<b>2.8</b>
TANF 1-13 <sup>1/</sup>	63.76	65.34	2.5	65.99	68.37	3.6	<b>4.6</b>
TANF 14-44 Female <sup>1/2/</sup>	175.99	128.64	(26.9)	182.15	117.23	(35.6)	<b>(8.9)</b>
TANF 14-44 Male <sup>1/</sup>	85.65	89.85	4.9	88.65	94.45	6.5	<b>5.1</b>
TANF 45+ <sup>1/</sup>	212.81	216.60	1.8	220.26	225.60	2.4	<b>4.2</b>
SSI with Medicare <sup>3/</sup>	142.77	147.62	3.4	147.77	154.65	4.7	<b>4.8</b>
SSI without Medicare <sup>3/</sup>	321.65	321.16	(0.2)	332.90	332.73	(0.1)	<b>3.6</b>
Family Planning	21.24	20.54	(3.3)	21.99	21.07	(4.2)	<b>2.6</b>
Deliveries	4,396.66	4,950.30	12.6	4,550.55	5,280.23	16.0	<b>6.7</b>
<b>State-Only Rate Codes</b>							
MN/MI <sup>4/</sup>	435.76	467.39	7.3	451.01	517.98	14.8	<b>10.8</b>
EAC/ELIC < 1 <sup>5/</sup>	330.25	322.70	(2.3)	341.81	331.67	(3.0)	<b>2.8</b>
EAC/ELIC 1-13 <sup>5/</sup>	63.76	65.34	2.5	65.99	68.37	3.6	<b>4.6</b>

<sup>1/</sup> Temporary Assistance for Needy Families (TANF)  
<sup>2/</sup> There is a significant decrease in the TANF 14-44 female rate code and an increase in the Deliveries rate, due to the birth “kick” (i.e., the Deliveries capitation payment) being paid for all AHCCCS members. Prior to this change, the birth “kick” was not paid for all AHCCCS populations. Due to the decrease in the TANF 14-44 female capitation rate, this change is revenue neutral.  
<sup>3/</sup> Supplemental Security Income (SSI)  
<sup>4/</sup> Medically Needy/Medically Indigent (MN/MI)  
<sup>5/</sup> Eligible Assistance Children/Eligible Low-Income Children (EAC/ELIC)

**ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM - ACUTE CARE (Cont'd)**

**Table 2**

	<b>Enrollment</b>						<b>% Change FY 2000 Revised to FY 2001 Revised</b>
	<b>FY 2000 Member Years <sup>1/</sup></b>			<b>FY 2001 Member Years <sup>1/</sup></b>			
	<b><u>Appropriated</u></b>	<b><u>Revised</u></b>	<b><u>% Change</u></b>	<b><u>Appropriated</u></b>	<b><u>Revised</u></b>	<b><u>% Change</u></b>	
<b>Federally-Eligible Rate Codes</b>							
TANF < 1	33,910	35,476	4.6	35,033	36,708	4.8	<b>3.5</b>
TANF 1-13	172,909	187,821	8.6	177,299	209,658	18.3	<b>11.6</b>
TANF 14-44 Female	60,198	63,149	4.9	60,642	61,938	2.1	<b>(1.9)</b>
TANF 14-44 Male	12,739	15,932	25.1	12,773	14,909	16.7	<b>(6.4)</b>
TANF 45+	2,579	3,012	16.8	2,579	2,602	0.9	<b>(13.6)</b>
SSI with Medicare	20,310	20,152	(0.8)	20,278	20,136	(0.7)	<b>(0.1)</b>
SSI without Medicare	48,050	45,764	(4.8)	49,689	47,228	(5.0)	<b>3.2</b>
Family Planning	24,069	21,856	(9.2)	24,069	21,767	(9.6)	<b>(0.4)</b>
Deliveries	1,529	1,819	18.9	1,578	1,900	20.4	<b>4.5</b>
<b><u>State-Only Rate Codes</u></b>							
MN/MI	19,159	19,260	0.5	19,161	18,965	(1.0)	<b>(1.5)</b>
EAC/ELIC < 1	12	53	340.2	12	41	241.7	<b>(22.4)</b>
EAC/ELIC 1-13	142	490	244.8	<u>152</u>	<u>523</u>	<u>244.1</u>	<b>6.8</b>
<b>Total Member Years</b>	<b>395,606</b>	<b>414,785</b>	<b>4.8</b>	<b>403,265</b>	<b>436,376</b>	<b>8.2</b>	<b>5.2</b>
Revised Increase		19,179			33,111		

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

[Click here for more information from the initial biennial appropriations report \(June 1999\)](#)