

Joint Legislative Budget Committee - Fiscal Year 2000 and 2001 Budget - Analysis and Recommendations

DEPT: AZ Health Care Cost Containment System JLBC: Jennifer Vermeer/Gretchen Logan OSPB: Shelli Silver/Aimee Petrosky
 PROG: Administration House: Johnson Senate: Wettaw

DESCRIPTION	FY 1998 ACTUAL	FY 1999 ESTIMATE	FY 2000		FY 2001	
			OSPB	JLBC	OSPB	JLBC
OPERATING BUDGET						
<i>Full Time Equivalent Positions</i>	2,209.7	2,270.7	2,489.8	2,310.5	2,531.3	2,327.5
Personal Services	29,188,500	31,896,900	34,031,000	30,211,300	34,031,000	30,211,300
Employee Related Expenditures	6,836,500	7,330,300	8,006,600	6,846,700	8,271,500	7,028,400
All Other Operating Expenditures:						
Professional and Outside Services	5,170,100	5,784,800	5,524,500	4,566,900	5,268,500	4,566,900
Travel - In State	203,300	266,300	275,100	253,300	275,100	253,300
Travel - Out of State	34,500	57,900	57,900	46,900	57,900	46,900
Other Operating Expenditures	12,188,500	12,844,200	13,072,400	12,302,200	13,072,700	12,065,100
Equipment	2,476,500	2,528,900	1,474,900	2,416,500	2,395,300	2,416,500
OPERATING SUBTOTAL	56,097,900	60,709,300	62,442,400	56,643,800	63,372,000	56,588,400
SPECIAL LINE ITEMS						
DOA Data Center	4,325,300	4,978,600	6,473,200	4,978,600	8,386,400	4,978,600
Indian Advisory Council	200,100	209,300	216,000	212,400	216,800	213,300
DES Eligibility	37,614,800	38,731,700	42,804,500	42,047,400	43,029,100	42,156,700
DES Disability Determination	169,300	208,200	209,600	0	210,200	0
DES PASARR	67,800	81,800	82,500	0	82,800	0
DES MEDICS	107,400	96,000	0	0	0	0
DES Title XIX Pass-Through	0	0	0	291,600	0	292,800
DHS Licensure	768,900	804,500	887,000	0	891,800	0
DHS PASARR	114,800	212,900	215,400	0	215,800	0
DHS Indirect Cost-Licensure	236,800	236,500	258,000	0	258,000	0
DHS Title XIX Pass-Through	0	0	0	1,374,400	0	1,380,100
Health Care Group	755,500	9,294,200	1,231,300	1,267,000	1,234,600	1,270,400
Office of Administrative Hearings	0	0	515,100	158,300	512,800	156,900
CHIP - Administration	0	3,840,000	5,547,000	5,492,100	7,294,300	7,216,300
CHIP - Services	0	34,560,000	55,470,000	54,921,000	72,942,600	72,163,000
PROGRAM TOTAL	98,993,600	153,963,000	176,352,000	167,386,600	198,647,200	186,416,500
BY FUND SOURCE						
General Fund	47,814,700	50,846,800	54,320,900	51,019,700	55,570,900	51,164,800
Donations Fund	755,500	1,294,200	1,244,200	1,253,200	1,247,600	1,256,600
Tobacco Tax Funds	0	8,000,000	0	0	0	0
Children's Health Insurance Program Fund	0	38,400,000	61,017,000	60,413,100	80,236,900	79,379,300
Federal Funds	50,423,400	55,422,000	59,769,900	54,700,600	61,591,800	54,615,800
TOTAL - ALL SOURCES	98,993,600	153,963,000	176,352,000	167,386,600	198,647,200	186,416,500

Program Description — Administration responsibilities related to health plan contracting include rate negotiations, health plan auditing and financial oversight, and assisting with the formulation of new health plans. Other major Administration responsibilities include the development and maintenance of the management information system, adjudicating provider or eligibility grievances, policy development and research, and agency finance and accounting. Additionally, the Administration performs eligibility determinations for the Arizona Long-Term Care System and for SSI Medical Assistance only (MAO) Eligibility. Eligibility for the Acute Care program is conducted by the Department of Economic Security (DES), counties, and the federal Social Security Administration. The appropriation for DHS – AHCCCS represents an allocation of costs incurred by the Department of Health Services (DHS) in its role of performing licensing and inspections of Title XIX-certified nursing care facilities. This function is a federal Medicaid requirement and is conducted in accordance with an intergovernmental agreement between AHCCCS and DHS.

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Change in Funding Summary	FY 1999 to FY 2000 JLBC		FY 2000 JLBC to FY 2001 JLBC	
	\$ Change	% Change	\$ Change	% Change
General Fund	\$172,900	0.3%	\$145,100	0.3%
Donations Fund	(41,000)	(3.2)%	3,400	0.3%
Tobacco Tax	(8,000,000)	(100.0)%	-0-	N/A
CHIP Fund	22,013,100	57.3%	18,966,200	31.4%
Federal Funds	(721,400)	(1.3)%	(84,800)	(0.2)%
Total Appropriated Funds	\$13,423,600	8.7%	\$19,029,900	11.4%

Recommended Changes from Prior Year

		<u>FY 2000</u>	<u>FY 2001</u>
Standard Changes			
Pay Annualization	GF	\$ 488,800	\$ -0-
	TF	768,500	-0-
ERE Rates	GF	66,700	144,900
	TF	79,300	317,400
Risk Management	GF	(34,800)	-0-
	TF	(83,000)	-0-
Rent	GF	31,500	200
	TF	73,900	500
Other	GF	-0-	-0-
	TF	(125,000)	-0-
Equipment	GF	-0-	-0-
	TF	-0-	-0-

The JLBC recommends retaining the FY 1999 level of funding for Equipment, which provides \$1,123,500 GF and \$2,529,400 TF in FY 2000 for replacement equipment. This recommendation includes funding for 470 personal computers, 21 lap top computers, 11 servers, 29 printers, telecommunications equipment, 20 alternative fuel vehicles, 4 copiers, and other equipment. For FY 2001, the JLBC recommends continuing the FY 2000 level of funding. The FY 2001 recommendation includes funding for 440 personal computers, 23 lap top computers, 90 printers, 11 servers, telecommunications and imaging equipment, 21 alternative fuel vehicles, 4 copiers, and other equipment. The Executive recommends \$151,000 GF in FY 2000 and \$940,600 GF in FY 2001 for replacement equipment.

Expand Early Fraud Detection Unit	GF	128,100	-0-
	TF	128,100	-0-

The JLBC recommends an increase of \$128,100 GF in FY 2000 to expand the Early Fraud Detection Unit in Maricopa County and to begin the program in Pima County. This amount includes \$103,100 GF in Personal Services and \$25,000 GF in Employee Related Expenditures to fund 4 additional FTE Positions. County eligibility workers perform AHCCCS eligibility determinations at the hospital for state-only groups such as the Medically Needy/Medically Indigent (MN/MI) and State Emergency Services. The fraud investigators review all AHCCCS applications at the hospital and conduct home visits to verify inconsistent information prior to

approval. It is anticipated that the expansion of this unit will result in savings of \$(1,000,000) GF in Acute Care costs in FY 2001. These savings have been incorporated in the Acute Care Program. In FY 2001, the JLBC recommends continuing the FY 2000 level of funding. The Executive recommends \$156,300 in FY 2000 and a reduction of \$(20,000) in FY 2001 for expansion of the Early Fraud Detection Unit, but does not address Acute Care savings.

Decision Support System	GF	-0-	-0-
	TF	(634,500)	(237,600)

The JLBC recommends \$340,500 TF in FY 2000 for continued development of the Decision Support System (DSS). Combined with the elimination of \$(975,000) TF in one-time FY 1999 funding for the DSS project, this results in a net decrease of \$(634,500) TF in FY 2000. For FY 2001, the JLBC recommends a total of \$102,900 TF for maintenance and on-going costs associated with the DSS project. Combined with the elimination of \$(340,500) TF in one-time FY 2000 funding, this results in a net decrease of \$(237,600).

The Decision Support System will allow AHCCCS to obtain more timely information on service utilization, which is used in operational and financial decision making. The increase includes federal expenditure authority in FY 2000 for \$340,500 TF in Other Operating Expenditures. In FY 2001, the increase includes federal expenditure authority for \$102,900 TF in Other Operating Expenditures. AHCCCS estimates the state match for this project will be \$109,500 in FY 2000 and \$116,100 in FY 2001. The JLBC recommendation assumes the state match will be funded through the agency's base budget. The Executive does not address this issue.

5% Administration Reduction	GF	(1,437,900)	-0-
	TF	(2,880,200)	-0-

The JLBC recommends a 5% GF reduction in FY 2000 in the Administration operating budget, which results in a reduction of (26.6) GF and (54.6) TF FTE Positions. Many of AHCCCS's General Fund programs have experienced caseload declines. For example, across all rate codes in the Acute Care program, caseloads have declined 12% from FY 1993 to FY 1998. Across the different age categories, Temporary Assistance for Needy Families (TANF) caseloads have experienced a total decline of 8% from FY 1993 to FY 1998. The most

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dramatic decline has been in the state-only rate codes where there has been a total caseload decline of 63%. Based on these caseload decreases, the JLBC recommends a decrease of 5% in the Administration budget. The Executive does not address this issue.

DES Eligibility Reduction	GF	(2,928,400)	-0-
	TF	(5,856,800)	-0-

The JLBC recommends a 15% GF reduction in FY 2000 in the DES Eligibility Special Line Item, which results in a reduction of (80.2) GF and (160.4) TF FTE Positions. Although enrollment in Temporary Assistance for Needy Families (TANF) has decreased approximately 47% from its average FY 1995 level, there has not been a corresponding reduction in Eligibility Interviewer positions. The Executive recommends a FY 2000 reduction of \$(2,450,000) GF in the DES Eligibility Special Line Item. *(Please see the Eligibility Staff Reductions issue in the DES Benefits & Medical Eligibility narrative for further details).*

DES Cost Allocation	GF	4,360,500	-0-
	TF	8,721,000	-0-

The federal government is changing how costs for eligibility determination are allocated, which results in a shift of costs from the TANF program in the Department of Economic Security (DES) to AHCCCS. Prior to the change, costs were often allocated to TANF, which was designated as the primary program. Now costs are allocated to all benefiting programs based on the relative benefits derived from each program. This change results in a FY 2000 increase in the DES Eligibility Special Line Item of \$4,360,500 GF and \$8,721,000 TF. TANF savings are being reallocated in the DES budget. The Executive recommends a FY 2000 increase of \$4,302,500 GF in the DES Eligibility Special Line Item to comply with the federal change in how costs are allocated. *(Please see the Federal Food Stamp Participation and Cost Allocation issue in the DES Benefits & Medical Eligibility narrative for further discussion of the reallocation of the TANF savings.)*

Healthcare Group One-time Expenditure	GF	-0-	-0-
	TF	(8,000,000)	-0-

Laws 1998, Chapter 214 transferred \$8,000,000 from the Tobacco Tax Medical Services Stabilization Fund in FY 1999 to provide reinsurance to Healthcare Group health plans. In FY 1998, Healthcare Group health plans' costs exceeded the amount they received in premiums. This situation appeared to be the result of several factors, including changes in federal law and actions by private insurance companies. These changes resulted in the pool of Healthcare Group participants containing fewer healthy members and more members with pre-existing conditions and high health care costs.

To help discourage the adverse selection that was taking place in Healthcare Group, Chapter 214 changed Healthcare Group eligibility for small businesses to prevent businesses from only enrolling their less healthy full-time employees in Healthcare Group. If a company has fewer than 5 full-time employees, then 100% of these employees must be enrolled in Healthcare Group. If a company has between 6 and 50 full-time employees, then at least 80% of these employees must be enrolled in Healthcare Group. If an employee has other existing health care coverage (such as through a spouse's employer) and elects not to participate in Healthcare Group, that employee is not counted when determining the above percentages.

The JLBC does not recommend continuing the appropriation in FY 2000, because it is not clear what impact the changes made by Chapter 214 will have in FY 2000 and FY 2001. In addition, issues such as how to restructure Healthcare Group are more appropriately addressed through separate legislation. The Executive concurs and recommends that if further subsidies are needed for Healthcare Group, that funding come from Tobacco settlement monies.

Transfer to OAH	GF	(294,900)	-0-
	TF	(309,500)	-0-

As recommended by the 1997 Joint Study Committee on Regulatory Reform and Enforcement and enacted in Laws 1998, Chapter 57, AHCCCS is required to transfer the agency's hearing and grievance staff to the Office of Administrative Hearings (OAH). This results in a FY 2000 decrease of \$(294,900) GF and \$(13,800) OF from the Administration operating budget. AHCCCS will retain federal expenditure authority for funds associated with the transferred positions. Therefore, federal funding for these positions has been placed in a new OAH Special Line Item. Personnel to be transferred include 7 hearing officers, 1 legal secretary, and 2 support staff for a transfer of 9 TF FTE Positions. The Executive recommends transfer of \$296,900 GF and \$12,900 OF in FY 2000, but stipulates that state funding for these transferred positions remain in the AHCCCS budget and that an interagency service agreement (ISA) be entered into with OAH to pay for expenditures related to the transferred FTE positions. *(See the Office of Administrative Hearings budget for further discussion.)*

Combining Special Line Items	GF	-0-	-0-
	TF	-0-	-0-

The JLBC recommends consolidating the DES Disability Determination, DES PASARR, and DES MEDICS Special Line Items into the DES Title XIX pass-through Special Line Item. The JLBC also recommends consolidating the DHS Licensure, DHS PASARR, and DHS Indirect Cost-Licensure Special Line Items into the DHS Title XIX pass-

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through Special Line Item. The Executive does not address this issue.

DHS Licensure Staffing	GF	-0-	-0-
	TF	62,100	-0-

The JLBC recommends a FY 2000 increase of \$62,100 TF in the DHS Title XIX pass-through Special Line Item. This amount includes \$45,200 TF and 0.8 FTE Positions for DHS Licensure and \$16,900 TF for indirect costs related to DHS Licensure. Growth in ALTCS enrollment has created an increased demand for Title XIX certified nursing facilities, which must be inspected and licensed by the DHS Licensure staff. The Executive concurs. *(Please see the DHS Administration narrative for further discussion.)*

DES MEDICS	GF	(48,000)	-0-
	TF	(96,000)	-0-

The JLBC recommends the elimination of the DES MEDICS Special Line Item in FY 2000. This funding had been used to automate the eligibility system for SOBRA women and children and other "medical assistance only" programs. The elimination of funding reflects the ending of the lease-purchase payments for the DES MEDICS equipment. The Executive concurs.

Children's Health Insurance

Program - Services OF 20,361,000 17,242,100
Laws 1998, Chapter 4, 4th Special Session established the

Children's Health Insurance Program (CHIP) and appropriated \$38,400,000 from the CHIP Fund in FY 1999. This consisted of \$9,251,100 in state matching funds from the Medically Needy Account of the Tobacco Tax and Health Care Fund and \$29,148,900 in Federal matching funds (25% state/75% Federal). The CHIP Fund is shown as Other Appropriated Funds (OF) because both the Tobacco Tax monies and the Federal Funds are appropriated. The program provides health insurance coverage to uninsured children whose families meet certain income requirements. The bill set the income limit at 150% of the Federal Poverty Level (FPL) in FY 1999, 175% FPL in FY 2000 and 200% FPL in FY 2001.

The JLBC recommends an increase of \$5,404,200 in Tobacco Tax monies and \$14,956,800 in Federal Funds, for a combined total of \$20,361,000 OF in FY 2000 for enrollment growth and inflation in the program. *(See Table 1 for further detail.)* Since the program has only been in operation for a few months and there is little historical data, forecasting enrollment growth in the program is difficult. However, the data does show that enrollment has been much lower than anticipated. As a result, the FY 2000 and FY 2001 estimates are lower than the estimates used during the 1998 Legislative Session. The JLBC recommendation is based on caseload growth of 151% in FY 2000 and an additional 35% in FY 2001, for a total of 45,635 member years in FY 2000 and 61,392 member years in FY 2001. The recommendation also

Table 1 Children's Health Insurance Program (CHIP) Funding Summary

		<u>FY 2000</u>		<u>Total</u>		<u>FY 2001</u>		<u>Total</u>
		<u>Increase</u>	<u>% Increase</u>	<u>FY 2000</u>		<u>Increase</u>	<u>% Increase</u>	<u>FY 2001</u>
CHIP Member Years		27,420	151%	45,635		15,757	35%	61,392
<u>CHIP Services:</u>								
Capitation	TT	\$ 5,256,600	67%	\$13,110,500		\$4,227,500	32%	\$17,338,000
	FF	14,585,000	59%	39,331,500		12,682,600	32%	52,014,100
Fee-for-Service	TT	24,700	6%	411,000		31,600	8%	442,600
	FF	15,700	1%	1,233,000		94,800	8%	1,327,800
Reinsurance	TT	122,900	143%	208,700		51,400	25%	260,100
	FF	356,100	132%	626,300		154,100	25%	780,400
Subtotal	TT	\$ 5,404,200	65%	\$13,730,200		\$ 4,310,500	31%	\$18,040,700
	FF	\$14,956,800	57%	\$41,190,800		\$12,931,500	31%	\$54,122,300
<u>CHIP Administration</u>^{1/}								
Administration	TT	271,400	33%	1,087,600		425,200	39%	1,512,800
	FF	951,300	37%	3,523,200		1,282,400	36%	4,805,600
Indirect	TT	154,700	142%	263,600		0	0%	263,600
	FF	184,100	54%	527,100		0	0%	527,100
Subtotal	TT	\$ 426,100	46%	\$ 1,351,200		\$ 425,200	32%	\$ 1,776,400
	FF	\$ 1,135,400	39%	\$ 4,050,300		\$ 1,282,400	32%	\$5,332,700
Total Increase	TT	\$ 5,830,300	63%	\$15,081,400		\$ 4,735,700	31%	\$19,817,100
	FF	\$16,092,200	55%	\$45,241,100		\$14,213,900	31%	\$59,455,000
	OF	\$21,922,500	57%	\$60,322,500		\$18,949,600	31%	\$79,272,100

^{1/} These amounts do not include Standard Changes. In FY 2000, Standard Changes equal \$90,600 TT and in FY 2001, Standard Changes equal \$16,600 OF.
TT = Tobacco Tax - Medically Needy Account
FF = Federal Funds

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assumes growth of 3.5% in both years for medical inflation. For FY 2001, we recommend a further increase of \$4,310,600 in Tobacco Tax monies and \$12,931,500 in Federal Funds for a combined total of \$17,242,100 OF in CHIP program costs). The Executive recommends a FY 2000 increase of \$20,910,000 OF and a FY 2001 increase of \$17,472,600 OF.

CHIP - Administration **OF** **1,222,700** **1,707,600**
 The JLBC recommends an increase of \$271,400 in Tobacco Tax monies and \$951,300 in Federal Funds for a combined total of \$1,222,700 OF and 66 FTE Positions for CHIP Administration costs in FY 2000. Chapter 4 allows AHCCCS to use 10% of total acute care program costs for administration and outreach expenditures. Most of the increase is for additional eligibility interviewers. The Executive recommends a FY 2000 administrative increase of \$1,277,600 OF.

For FY 2001, the JLBC recommends a further increase of \$425,200 in Tobacco Tax monies and \$1,282,400 in Federal Funds for a combined total of \$1,707,600 OF and 17 FTE Positions for increased administration and outreach costs. The Executive recommends a total increase of \$2,054,900 OF in FY 2001 for administrative increases. (See Table 1 for further detail.)

CHIP Indirect Costs	GF	(154,700)	-0-
	OF	154,700	-0-
	TF	-0-	-0-

To account for administrative costs associated with the CHIP program, Personal Services are decreased by \$(154,700) GF and \$(338,800) TF. These indirect costs associated with the CHIP program result in a corresponding increase of \$154,700 in Tobacco Tax monies and \$184,100 in Federal Funds for a combined total increase of \$338,800 OF from the CHIP Fund. This cost shift reflects the general administration personnel costs associated with the Children's Health Insurance Program. The Executive concurs for FY 2000, but recommends a further decrease of \$(300) in FY 2001. (See Table 1 for further detail.)

50% Out-of-State Travel	GF	(4,000)	-0-
Reduction	TF	(8,000)	-0-

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JLBC Recommended Format — Operating Lump Sum with Special Line Items for the Program

JLBC Recommended Footnotes

Continued Footnotes

It is the intent of the Legislature that the appropriation for the Department of Administration Data Center charges be used only for the payment of charges incurred by the

department for the use of computing services provided by the Department of Administration Data Center.

The amounts appropriated for the Department of Economic Security Special Line Items shall be used for intergovernmental agreements with the Department of Economic Security for the purpose of eligibility determination and other functions as set forth above. The General Fund share may be used for eligibility determination for other programs administered by the Division of Benefits and Medical Eligibility based upon the results of the Arizona random moment sampling survey.

The amounts appropriated for the Department of Health Services (DHS) Special Line Items shall be used for intergovernmental agreements with the DHS for the purpose of Medicaid-related licensure, certification and registration, and other functions as set forth above. Of the FY 2000 \$167,386,000 expenditure authority for Administration, \$51,019,700 is appropriated from the state General Fund. Of the FY 2001 \$186,416,500 expenditure authority for Administration, \$51,164,800 is appropriated from the state General Fund.

Deletion of Prior Year Footnotes

The JLBC recommends deleting the one-time footnote specifying that \$400,000 GF and \$400,000 in Federal Funds appropriated to the Administration Cost Center in FY 1998 be exempt from lapsing until the end of FY 1999 for use in the development of the Decision Support System.

The JLBC recommends deleting the footnote regarding the quarterly reports on implementing the Comprehensive Medical and Dental Plan as a health plan. These reports are to be provided through June 30, 1999.

The JLBC recommends deleting the footnote concerning the AHCCCS report on the feasibility of competitive bidding for the provision of services to developmentally disabled clients by FY 2002. This report is due May 31, 1999.

Other Issues for Legislative Consideration

Executive Recommendation

In addition to the above issues, the Executive recommends a FY 2000 net increase of \$1,051,100 GF in the AHCCCS operating budget for increases related to the administration of the ALTCS program, redesign of the ALTCS application system, increases in outside financial consulting, and decreases in miscellaneous operating expenditures. The Executive also recommends a FY 2000 increase of \$523,100 GF in the Department of Administration (ADOA) Data Center Special Line Item. For FY 2001, the Executive recommends a net reduction of \$(421,900) for one-time costs associated with the

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FY 2000 Executive recommendations related to the administration of the ALTCS program, redesign of the ALTCS application system, and financial and consulting services. In FY 2001, the Executive also recommends an increase of \$669,600 GF for DOA Data Center Special Line Item.

Performance Measures	FY 1997 Actual	FY 1998 Actual	FY 1999 Estimate	FY 2000 Estimate
Preliminary fraud and abuse investigations completed within 45 days	90%	90%	90%	90%
Member grievances completed within 30 days	95%	95%	95%	95%
Gross third party liability recovered (in millions)	\$6.2	\$4.3	\$2.0	\$2.0
Healthcare group enrollment	20,272	21,331	22,443	22,443
Eligibility accuracy as measured by quality control sample	97%	98%	98%	98%

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