STATE OF ARIZONA

Joint Legislative Budget Committee

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MEETING NOTICE

DATE: Tuesday, June 10, 2003

TIME: 8:30 a.m.

PLACE: HOUSE HEARING ROOM 4

TENTATIVE AGENDA

- Call to Order

- DIRECTOR'S REPORT (if necessary).

1. DEPARTMENT OF EDUCATION - Review Change to State Aid Based on Change in Assessed Valuation.

2. DEPARTMENT OF HEALTH SERVICES - Review of Behavioral Health Capitation Rate Changes.

3. DEPARTMENT OF ECONOMIC SECURITY - Review of Long Term Care Capitation Rate Changes.

4. AHCCCS - Review of Comprehensive Medical Dental Program (CMDP) Capitation Rate Changes.

5. GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING - Review of Changes to the Disproportionate Share Hospital Program.

6. ARIZONA COMMUNITY COLLEGES - Review of Workforce Development Plan Activities and Expenditures.

The Chairman reserves the right to set the order of the agenda.
06/09/03

People with disabilities may request accommodations such as interpreters, alternative formats, or assistance with physical accessibility. Requests for accommodations must be made with 72 hours prior notice. If you require accommodations, please contact the JLBC Office at (602) 542-5491.

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DATE: June 2, 2003

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Assistant Director

SUBJECT: DEPARTMENT OF EDUCATION – REVIEW CHANGE TO STATE AID BASED ON CHANGE IN ASSESSED VALUATION

Request

The Arizona Department of Education (ADE) requests a favorable review of its plan to provide $163,700 in corrected state aid funding to the Fredonia-Moccasin Unified School District pursuant to A.R.S. § 15-915(B). This adjustment is due to changes in the district's assessed property value.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request, as it meets the requirements for revising Basic State Aid.

Analysis

A.R.S. § 15-915(B) requires ADE to adjust state aid for a school district in the current year if its governing board asks ADE to recalculate its state aid for a prior year due to a change in assessed valuation that occurred as the result of a successful valuation appeal in state tax court. Pursuant to this law, the Fredonia-Moccasin Unified School District has asked ADE to recalculate its state aid for FY 2001 through FY 2003 due to the recent reclassification of certain properties in the district retroactive to FY 2001. The reclassification will require the district to refund a portion of its Qualifying Tax Rate (QTR) collections for FY 2001 through FY 2003 to a local property owner, which under A.R.S. § 15-915(B) entitles it to receive "corrected" state aid.

(Continued)

This issue pertains to lodging and campground facilities that are located in the Glen Canyon National Recreation Area (GCNRA) near Page, Arizona. These facilities are on federal land that a private vendor (Aramark Sports and Entertainment, Inc.) leases from the federal government and pays property taxes on each year. Based on a February 2001 state court tax ruling for similar properties in the Havasu National Wildlife Refuge, Aramark appealed to the Coconino County Assessor to reclassify its facilities from property "Class 1" (commercial) to property "Class 9" (possessory interests) retroactive to FY 2001. This would reduce Aramark's annual property tax costs because "Class 1" properties are taxed at 25% of their full cash value (FCV) whereas "Class 9" properties are taxed at only 1% of their FCV.

Because of the similar nature of the Havasu and Aramark properties, the Coconino County Assessor reclassified the Aramark properties from "Class 1" to "Class 9" in October 2002 and made the change retroactive to FY 2001. This entitles Aramark to a refund of about $163,700 in K-12 QTR taxes that it paid to Fredonia-Moccasin Unified for FY 2001 through FY 2003. Aramark's QTR levy for those years originally was computed based on "Class 1" valuations, but now is being based on valuations for "Class 9."

Given the legal requirements in A.R.S. § 15-915(B), the JLBC Staff recommends a favorable review for this issue.

RS/SS:jb
Attachment

State of Arizona
Department of Education

Tom Horne
Superintendent of
Public Instruction

RECEIVED
APR 15 2003
JOINT BUDGET COMMITTEE

Memo

To: Senator Robert "Bob" Burns", JLBC Chairman

From: Lyle Friesen, School Finance

CC: Richard Stavneak, Director, JLBC Staff
Vicki Salazar, Associate Superintendent Financial Services, ADE
John Livingston, Fredonia Moccasin Unified School District

Date: 4/8/2003

Re: Correction to State Aid pursuant to A.R.S. §15-915(B)

We are submitting this memorandum to you pursuant to A.R.S. §15-915(B), which provides that corrections to state aid based on a change in assessed valuation are subject to review of the JBLC.

The Coconino County Assessor's office has corrected the assessed valuations for property located in the Fredonia Moccasin School District. These corrections affect tax years 2000, 2001, and 2002. Prior year corrections will be made for 2000 and 2001, with correction made for tax year 2002 during the current years state aid calculations.

For tax years 2000 and 2001, the correction to state aid for Fredonia Moccasin totals $91,839.52. The correction to this year's state aid will be approximately $71,821.22. We would like to include the $91,839.52 in the May apportionment, with the correction for the current year being made prior to the final payment of state aid.

Please contact me at (602) 542-4351, or via e-mail at lfriese@ade.az.gov, with questions.

Please see enclosed documents for details and calculations.

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: June 2, 2003

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Fiscal Analyst

SUBJECT: DEPARTMENT OF HEALTH SERVICES – REVIEW OF BEHAVIORAL HEALTH CAPITATION RATE CHANGES

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) must present its plan to the Committee for review prior to implementing any change in capitation rates for the Title XIX behavioral health programs. DHS is requesting an 8.7% change in the Developmental Disabilities (DD) Title XIX Behavioral Health rates. These rate changes will affect the Children's Behavioral Health (CBH) and Seriously Mentally Ill (SMI) Special Line Items. The federal government requires that capitation rates be actuarially sound.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of this request, assuming that the Department can absorb any additional costs if no new funding is approved. The capitation rate adjustment is projected to have a FY 2004 state General Fund cost of $282,800. Funding for this capitation rate increase is not included in the House Engrossed version of the FY 2004 General Appropriation Act.

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound, capitation rates are not set by the Legislature. DHS contracts with an actuarial firm, which uses claims, encounter data, and projected enrollment to determine the actual costs of services and thereby recommends increases or decreases in the capitation rates. Once DHS requests a change in rates, the new rates must be approved by the Arizona Health Care Cost Containment System (AHCCCS).

DHS has received approval from AHCCCS to change the DD Title XIX Behavioral Health rate from $57.46 to $62.48 per member month, an increase of 8.74%. The effective date for these changes is October 1, 2002.

The increases were developed using historical claims and enrollment data for the general Title XIX Behavioral Health population, which were then adjusted for the demographics of the DD population. The assumptions used to develop these estimates include:

- Prescription drug cost increases ranging from 10% to 20%
- Other services cost increases ranging from 3% to 10%
- Increasing the administrative allocation to BHS from 8.3% to 10.3% (which yields a $61,000 increase, of which $20,000 is from the General Fund.)

DHS estimates that this rate increase translates into a $230,000 General Fund ($700,000 Total Funds) increase for FY 2003. This funding was included in the FY 2003 supplemental budget enacted under Laws 2003, 1st Special Session, Chapter 1. In general, the Legislature does not fund administrative cost increases that are included in capitation rates, because administrative costs are not funded as part of the Title XIX Special Line Items but as a separate component of the budget. However, the FY 2003 supplemental budget did include funding for the administrative increase.

Based on current JLBC Staff estimates for FY 2004, the rate increase (less the additional administrative costs) would generate $282,800 in additional General Fund expenditures ($863,600 Total Funds). This funding is not included in the House Engrossed budget proposal.

RS/BK:ck

Arizona Department of Health Services

Office of the Director

1740 W. Adams Street
Phoenix, Arizona 85007-2670
(602) 542-1025
(602) 542-1062 FAX

JANET NAPOLITANO, GOVERNOR
CATHERINE R. EDEN, DIRECTOR

RECEIVED
MAR 14 2003
JOINT BUDGET COMMITTEE

March 14, 2003

The Honorable Russell Pearce
Chairman, Joint Legislative Budget Committee
1700 West Washington Street
Phoenix, Arizona 85007

Dear Representative Pearce:

Pursuant to a footnote in the General Appropriation Act, the Arizona Department of Health Services (ADHS) request placement on the next Joint Legislative Budget Committee's agenda to review proposed changes in Developmental Disabilities Title XIX Behavioral Health Services (BHS) capitation rates for FY 2003. The effective date for these changes is October 1, 2002.

The Federal government requires states to review their capitation rates annually to assure that the rates are sufficient to properly support the Title XIX program. As a result, the capitation rate for the behavioral health component is increasing from $57.46 to $62.48 per member month. The Arizona Health Care Cost Containment System (AHCCCS), along with Mercer Consulting, reviewed the medical trend data provided by ADHS/BHS and recommended adjusting the capitation rate based on the encounter data submitted, blending the rates for ventilator dependent and non-ventilator dependent members, and adjusting the administrative rate. AHCCCS estimates the Total Fund authority needed to implement these changes is $700,000. The General Fund amount is $230,000 (see attached memo), which is included in the compromise agreement between the Governor and the Legislature for FY 2003 supplemental funding.

If you need additional information, please contact my staff at 542-6386 in the Central Budget Office.

Sincerely,

Cathy Eden

Catherine R. Eden
Director

CRE:pm
Attachment

cc: Senator Robert Burns, Vice Chairman
David Jankofsky, Director, Governor's Office of Strategic Planning and Budgeting
Bob Chapko, Budget Manager, Governor's Office of Strategic Planning and Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee
Beth Kohler, Fiscal Analyst, Joint Legislative Budget Committee
Leslie Schwalbe, Deputy Director, Department of Health Services
Danny Valenzuela, Deputy Director, Department of Health Services
Pat Mah, Director, Central Budget Office, Department of Health Services

Jane Dee Hull
Governor

Phyllis Biedess
Director

RECEIVED DEC 2 6 2002

AHCCCS

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

MEMORANDUM

December 23, 2002

Ms. Kris Ward
Acting Director
Office of Strategic Planning and Budget
1700 West Washington, Suite 500
Phoenix, Arizona 85007

Dear Ms Ward:

AHCCCS, in conjunction with Mercer Government Human Resource Consulting (Mercer), has finished the annual review of the Division of Developmental Disabilities' (DDD) capitation rates. Based on that review, AHCCCS is recommending a capitation rate adjustment for DDD to ensure that the rates are actuarially sound as required by the Balance Budget Act of 1997. Although the total weighted adjustment to the rates is a 5.14% increase, the rates were adjusted individually:

Rate Component	CYE '02 Rate	CYE '03 Rate	% Change
Non-Ventilator Dependent (net of Behavioral Health)	$2,439.00	$2,560.40	4.98%
Ventilator Dependent (net of BH)	$8,861.25	$10,371.70	17.05%
Behavioral Health Component	$57.30	$62.48	9.00%
Total Weighted			5.14%

	DDD	BHS
Estimated SFY '03 Total Fund Impact	$ 16,700,000	$700,000
Estimated SFY '03 State Fund Impact	$ 5,500,000	$230,000

Increases to the non-ventilator dependent rate are primarily due to the provider rate increase that DDD implemented effective July 1, 2002. Also, the administration component was increased for HIPAA costs. The ventilator dependent rate was increased to better align it with DDD's financial experience, and to include the additional costs for provider rate increase and HIPAA compliance. The ventilator dependent capitation rate has not been adjusted the last two years.

The behavioral health component of DDD's capitation rate is transferred directly to the Department of Behavioral Health Services (BHS) by AHCCCSA. This component was increased based on medical trend data obtained from BHS.

DDD and BHS are responsible for obtaining their respective state match for this increase and transferring it to AHCCCS prior to the payment of capitation. Therefore, you will be contacted by the two agencies regarding their state appropriation for these increases.

The capitation rate adjustments will be retroactively effective October 1, 2002 for the period October 1, 2002 through September 30, 2003. If you have any questions, please contact me at 602-417-4591.

Sincerely

Anne Winter

Anne Winter
Reimbursement and Projects Administrator
Office of Managed Care

c: Phyllis Biedess
Tom Betlach
Kari Price
Jim Cockerham
Alan Schafer
Andy Genualdi (DES/DDD)
Ed Rapoport (DES/DDD)
Derik Leavitt (OSPB)
Leslie Schwalbe (ADHS/BHS)

RECEIVED DEC 2 6 2002

Jane Dee Hull, Governor
Phyllis Biedess, Director

AHCCCS

Our first care is your health care
ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

701 East Jefferson, Phoenix AZ 85034
PO Box 25520, Phoenix AZ 85002
phone 602 417 4000
www.ahcccs.state.az.us

December 23, 2002

Leslie Schwalbe, Deputy Director
Arizona Department of Health Services
Division of Behavioral Health Services
2122 E. Highland, Suite 100
Phoenix, AZ 85016

Dear Ms. Schwalbe:

This letter is to inform you of the AHCCCS recommended capitation rate increase to the Division of Behavioral Health Services (BHS) for providing behavioral health services to Title XIX and Title XXI members enrolled with the Division of Developmental Disabilities (DDD). The adjustment is retroactive to October 1, 2002, and will be effective for the period October 1, 2002 through September 30, 2003 (CYE 2003).

In prior years, rates were developed separately for ventilator dependent and non-ventilator dependent members. It was recently discovered that since October 2001, AHCCCS has been paying the higher, non-ventilator rate for all members. This resulted in an overpayment to BHS of approximately $25,100. This overpayment will be recouped in January 2003.

AHCCCS, along with actuarial consultants from Mercer Government Human Services Consulting, has reviewed the medical trend data provided by BHS, and is recommending the following changes:

- To simplify the payment process, AHCCCS will pay BHS a blended rate for both ventilator dependent and non-ventilator dependent members, effective October 1, 2002. The CYE 2003 rate was calculated by trending the 2002 rates forward based on trend data provided by BHS, then blending the rate based on the mixture of ventilator and non-ventilator members.

- The behavioral health administrative load was increased from 8.3% to 10.3%.

- In total, the blended rate increased 9%, from $57.30 to $62.48.

Please review your state match appropriation to determine if a supplementary request is necessary. BHS may be required to request participation on the JLBC agenda for review of this

increase. Please call me when you have been placed on the agenda. If you have questions, please call me at 602-417-4591.

Sincerely,

Anne Winter

Anne Winter
Reimbursement & Projects Administrator
Office of Managed Care

C: Kari Price
Chris Coleman
Bonnie Marsh
Marina Whitmore

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: June 3, 2003

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Principal Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REVIEW OF LONG TERM CARE CAPITATION RATE CHANGES

Request

Pursuant to a footnote in the FY 2003 Supplemental Bill, the Department of Economic Security (DES) is presenting to the Committee its expenditure plan for the federal Title XIX Long Term Care (LTC) program as a result of an increase in capitation rates. The plan indicates that this year's capitation rate for most clients in DES' LTC program will increase 4.98% from last year's capitation rate. In addition, the capitation rate for the last quarter of the previous contract year (July 1 - September 30, 2002) will increase 3.94% above the old rate. The federal government requires that capitation rates be actuarially sound.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request. The approved FY 2003 budget includes sufficient funds for the requested increase.

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound, capitation rates are not set by the Legislature. DES contracts with an actuarial firm, which uses claims, encounter data, and projected enrollment to determine the actual costs of services and thereby recommends increases or decreases in the capitation rates. Once DES requests a change in rates, the new rates must be approved by the Arizona Health Care Cost Containment System (AHCCCS).

DES provides services to developmentally-disabled (DD) clients eligible for the Arizona Long Term Care System (ALTCS). The Arizona Health Care Cost Containment System (AHCCCS) passes through federal funding to DES to provide ALTCS services to these DD clients. DES matches those federal funds with General Fund monies appropriated in its budget. DES receives money based on a capitation rate; that is, AHCCCS provides DES with a set amount of funds for each ALTCS client that DES serves. AHCCCS is required to set these capitation rates at actuarially sound levels.

(Continued)

Laws 2003, Chapter 1, 1st Special Session, which amended DES' FY 2003 appropriation, includes the following footnote:

> "Before implementation of any changes in capitation rates for the Long Term Care program, the Department of Economic Security shall report its plan to the Joint Legislative Budget Committee for its review."

In a November 27, 2002 letter to DES, AHCCCS recommended capitation rates for Federal Fiscal Year (FFY) 2003, which started on October 1, 2002. Additionally, on April 23, 2003, AHCCCS notified DES that it was retroactively increasing the capitation rate for the final quarter of FFY 2002, running from July 1 through September 30, 2002. The revised monthly rates are shown in the table below. Almost all clients served by DES in the LTC program are categorized as enrolled.

Category	Prior FFY 02 rate	Revised FFY 2002 rate	New FFY 2003 rate	% Change FFY03/FFY02
Enrolled (Non-Ventilator Dependent)	$2,496.45	$2,592.56	$ 2,623.03	5.07%
Ventilator Dependent	$8,888.36	$8,888.36	$10,403.36	17.04%

The increases in the Enrolled category are allocated as follows:

Category	Prior FFY 02 rate	Revised FFY 2002 rate	New FFY 2003 rate	% Change FFY03/FFY02
Aid to Individuals	$1,774.21	$1,861.64	$1,883.11	6.14%
Acute Care Services	339.92	339.92	320.39	(5.74)%
Case Management Services	104.66	104.66	108.58	3.75%
Administration	184.16	191.42	210.48	14.29%
Risk/Profit	36.04	37.46	37.84	4.98%
Total - DES LTC	**$2,438.99**	**$2,535.10**	**$2,560.40**	**4.98%**
Behavioral Health (DHS pass-through)	57.46	57.46	62.63	9.00%
Total Enrolled Rate	$2,496.45	$2,592.56	$2,623.03	5.07%

As the table shows, DES' LTC program received an increase of approximately 5% in its portion of the capitation rate. (The Behavioral Health increase is addressed in another agenda item.) According to AHCCCS' November 21 letter, the 6.14% increase in the Aid to Individuals line item reflects SFY 2002 actual expenditures, new program costs (presumably the transfer of DD-related employment support services from the Division of Employment and Rehabilitation Services), the provider rate increase, and a utilization increase resulting from pent-up demand freed by the provider rate increase. The Acute Care line's (5.74)% decrease reflects actual capitation rates paid to providers. The Administration increase of 14.29% is mostly associated with complying with Health Insurance Portability and Accountability Act (HIPAA) requirements (i.e., new computer system). According to AHCCCS' April 23 letter, the 4.93% increase in the Aid to Individuals line item reflects the same methodology used to calculate the 6.14% increase for FFY 2003.

The original SFY 2003 budget assumed DES would receive an average SFY 2003 capitation rate of $2,557.46. The recommended capitation rate for SFY 2003 will average about $2,554. Laws 2003, Chapter 1, 1st Special Session added $9,190,900 (including $3,062,400 General Fund) to DES' original budget. This amount is intended to address any caseload growth above the original estimates and to cover any DES expenditures above the capitation rate revenue. As a result, JLBC Staff believes the capitation rate increase is within the current budget.

JLBC Staff recommends that the Committee give a favorable review to the attached report.

RS/SSH:jb
Attachment

ARIZONA DEPARTMENT OF ECONOMIC SECURITY
1717 W. Jefferson - P.O. Box 6123 - Phoenix, AZ 85005

Janet Napolitano
Governor

William Bell
Acting Director

MAY 15 2003

RECEIVED
MAY 16 2003
JOINT BUDGET COMMITTEE

Mr. Richard Stavneak
Director
Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007

Dear Mr. Stavneak:

I have received your letter of May 12, 2003 requesting a copy of our Division of Developmental Disabilities (DDD) rate capitation analysis. Per your instruction, I have requested that the Arizona Health Care Cost Containment System (AHCCCS) provide the full actuarial analysis used to support the capitation rate adjustment. I have enclosed a copy of the letter dated April 30, 2003 and a copy of the attachments on the DDD rate capitation analysis. I apologize for any inconvenience.

If you have any questions, please contact me at (602) 542-5678.

Sincerely,

William Bell
Acting Director

Attachments

Cc: The Honorable Russell Pearce, Chairman, House Appropriations Committee
The Honorable Robert Burns, Chairman, Senate Appropriations Committee
David Jankofsky, Director, Governor's Office of Strategic Planning and Budget
Kristine Ward, Deputy Director, Governor's Office of Strategic Planning and Budget
Stefan Shepherd, Analyst, Joint Legislative Budget Committee
Derik Leavitt, Analyst, Governor's Office of Strategic Planning and Budget

ARIZONA DEPARTMENT OF ECONOMIC SECURITY
1717 W. Jefferson - P.O. Box 6123 - Phoenix, AZ 85005

Janet Napolitano
Governor

William Bell
Acting Director

APR 30 2003

The Honorable Russell Pearce, Chairman
Joint Legislative Budget Committee
1700 West Washington
State Capitol – House Wing
Phoenix, Arizona 85007

Dear Representative Pearce:

Pursuant to the footnote in Laws 2002, Chapter 327, the Arizona Department of Economic Security (DES) requests to be placed on the meeting agenda for the next Joint Legislative Budget Committee meeting. The purpose of the request is to review the proposed changes for the State Fiscal Year 2003 capitation rates for the Long-Term Care Program for the Division of Developmental Disabilities (DDD).

For the time period of July 1, 2002 through September 30, 2002, the capitation rate for the regular clients is increased from $2,439.00 to $2,535.09. Additionally, from October 1, 2002, through June 30, 2003, the capitation rate for the regular clients is increased from $2,535.09 to $2,560.40. The monthly capitation rate for ventilator-dependent clients increased from $8,861.25 to $10,371.70. The new federal fiscal year 2003 proposed DDD rates of $2,560.40 and $10,371.70 reflect an increase of 4.98% for the regular rate and 17.05% for the ventilator-dependent rate. These rates exclude the behavioral health component, which DES passes through to the Arizona Department of Health Services, Division of Behavioral Health Services.

The above rate changes are the result of reviews by the AHCCCS consulting actuary, William M. Mercer, and are based upon actual encounter data provided by DES. The analysis for each component of the new rates is attached.

Please contact Lynne Smith, Acting Assistant Director, Division of Business and Finance, at (602) 542-7166 if you have any questions.

Sincerely,

William Bell
Acting Director

Attachments

c.
Senator Robert Burns, Chairman, Appropriations
David Jankofsky, Director, Governor's Office of Strategic Planning and Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee
Kristine Ward, Deputy Director, Governor's Office of Strategic Planning and Budgeting
Stefan Shepherd, Analyst, Joint Legislative Budget Committee
Derik Leavitt, Analyst, Governor's Office of Strategic Planning and Budgeting

Janet Napolitano, Governor
Phyllis Biedess, Director

AHCCCS

801 East Jefferson, Phoenix AZ 85034
PO Box 25520, Phoenix AZ 85002
phone 602 417 4000
www.ahcccs.state.az.us

Our first care is your health care
ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

April 23, 2003

Mr. Ed Rapoport
Business Manager
DES/DDD
1789 West Jefferson, Site Code 791A
Phoenix, AZ 85007

Dear Mr. Rapoport:

AHCCCS, in conjunction with actuaries from Mercer Government Human Services Consulting, has completed a retroactive capitation rate adjustment for the period July 1, 2002 through September 30, 2002. The increase will provide additional funds to DES/DDD to cover the cost of provider rate increases that became effective July 1, 2002.

The adjustment will be a 5.33% increase to the HCBS component of the DDD full long term care non-ventilator capitation rate. The increase was calculated using the same methodology that was used to arrive at the 5.33% increase that was applied to the HCBS component for the CYE 2003 rate. The 5.33% is comprised of an estimated 4.83% unit cost increase, with an additional .5% for pent up demand.

Based on non-ventilator member months for the quarter ending 9/30/2002, the rate increase will provide DDD with approximately $4 million in additional funds. Please see the attached sheet for details.

If you have any questions or comments, please contact me at (602) 417-4591.

Sincerely,

Anne Winter

Anne Winter
Reimbursement and Projects Administrator
Office of Managed Care

Enclosure

C: Kari Price
Ric Zaharia
Tom Betlach
Marina Whitmore
Chris Coleman

Jane Dee Hull
Governor

Phyllis Biedess
Director

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Committed to Excellence in Health Care

November 27, 2002

Mr. Ed Rapoport
Business Operations Manager
DES/DDD
1789 West Jefferson, Site Code 791A
Phoenix, Arizona 85007

Dear Mr. Rapoport:

This letter is to notify the Division of Developmental Disabilities (DDD) of its capitation rate adjustment for CYE 2003. AHCCCS, along with actuarial consultants from William M. Mercer, Inc., has reviewed the financial and encounter data submitted by DES/DDD and is recommending the following changes:

Non-Ventilator Dependent Rate

- The rate for institutional services decreased 23.33% from $134.00 to $102.74, based on DES/DDD's FFY03 rate proposal. The decrease is based on per member per month (PMPM) cost estimates from historical incurred claims data.

- The home and community based services component increased 8.54% from $1,640.21 to $1,780.37. This increase is based on PMPM calculations from the 2002 audited financial statements, and the inclusion of new program costs. The HCBS rate component also includes a substantial increase for DDD's provider rate increases implemented in SFY '02, as well as an increase in utilization for pent-up demand.

- Acute care services decreased 5.74% from $339.92 to $320.39, based on DDD's FFY 03 rate proposal. The rate is based on the actual capitation rates paid to DDD's acute care providers, combined with estimated reinsurance payouts.

- Case management increased 3.75% from $104.66 to $108.58. This increase was determined by using the ALTCS Case Management Model. The model was updated to include actual DDD salaries and employee related expenses, and was adjusted to reflect DDD's caseload ratios.

- Total Administration load increased from 8.3% to 9.1%. The bulk of the increase is due to additional costs associated with implementing HIPAA compliance measures.

The total increase in DDD's capitation rate (net of behavioral health services) is 4.98%.

Ventilator Dependent Rate

- The rate for ventilator dependent members increased 17.05% from $8,861.26 to $10,371.70. The increase is based on PMPM calculations from the 2002 audited financial statements, and also includes an increase due to DDD's provider rate increases.

The estimated SFY 03 impact to funding is an increase of $16,650,000. Please review your state match appropriation to determine if a supplementary request is necessary. DDD is required to request participation on the JLBC agenda for review of this increase.

AHCCCS would like to make this increase retroactive to October 1, 2002. Please call me when you have been placed on the JLBC agenda. If you have questions, please call me at 602-417-4591.

Sincerely,

Anne Winter

Anne Winter
Financial Manager
Office of Managed Care

c: Kari Price
Jack Wagner
Alan Schafer
Chris Coleman
Andy Genualdi
Rick Zaharia
Marina Whitmore

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: June 3, 2003

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Timothy Sweeney, Fiscal Analyst

SUBJECT: ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM – REVIEW OF CAPITATION RATES

Request

Pursuant to a General Appropriation Act footnote, the Arizona Health Care Cost Containment System (AHCCCS) is required to report federal Title XIX Acute Care capitation rate changes to the Committee for its review prior to implementation. AHCCCS is recommending a 23.8% increase to the CMDP capitation rates, retroactive to October 1, 2002. The federal government requires that capitation rates be actuarially sound.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to the capitation rate changes in the Comprehensive Medical and Dental Program (CMDP). The approved FY 2003 budget includes sufficient funds for the requested increases.

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound, capitation rates are not set by the Legislature. AHCCCS contracts with an actuarial firm, which uses claims, encounter data, and projected enrollment to determine the actual costs of services and thereby recommends increases or

(Continued)

decreases in the capitation rates. The CMDP program is administered by the Department of Economic Security (DES); CMDP provides medical and dental services to children in foster care. AHCCCS estimates that this increase will have a state match cost of $634,600 (with $1,303,100 in corresponding federal matching monies). This increase will help to prevent potential supplemental needs in the state-only side of the program, which is appropriated in the DES budget.

The capitation rate increase is in large part fueled by the correction of an error in the allocation of pharmacy expenses, dating back to September 2002. Approximately $100,000 per month had been allocated to the state-only side of the program, rather than the Medicaid portion of the program, which receives federal matching monies. Additionally, increases in the AHCCCS fee schedules for inpatient hospital services that were not included for FY 2003 are also driving up the CMDP capitation rate. Finally, the rate increase reflects increased administrative costs due to the continued implementation of the Health Insurance Portability and Accountability Act (HIPAA).

RS/TS:ck

Janet Napolitano, Governor
Phyllis Biedess, Director

801 East Jefferson, Phoenix AZ 85034
PO Box 25520, Phoenix AZ 85002
phone 602 417 4000
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AHCCCS

Our first care is your health care
ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

RECEIVED MAY 06 2003 JOINT BUDGET COMMITTEE

May 2, 2003

The Honorable Russell K Pearce, Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Dear Representative Pearce:

The Arizona Health Care Cost Containment System (AHCCCS) respectfully requests to be placed on the agenda for the next Joint Legislative Budget Committee meeting for the purpose of reviewing increases to the Comprehensive Medical Dental Program (CMDP) rates for the period October 1, 2002 through September 30, 2003. This review is required in the footnotes to the General Appropriation Act.

CMDP rate increase

Before implementation of any changes in capitation rates the Arizona Health Care Cost Containment System Administration shall report its plan to the Joint Legislative Budget Committee for review and this includes any capitation rates used for the Proposition 204 populations.

AHCCCS with its consulting actuaries, Milliman USA, has conducted a review of cost and utilization data for CMDP, the program contained within the Department of Economic Security (DES), that provides acute care medical services to children in foster care. Children enrolled in CMDP population are a high acuity population with unique health care needs.

Based on cost and utilization trends, AHCCCS is recommending a 23.8% increase to CMDP's capitation rates for the period October 1, 2002 through September 30, 2003. This increase will provide federal funding that will offset CMDP's annual losses that are currently funded solely through the general fund.

Budget Impact due to rate increases by funding source

	SFY '03
Federal Funds	$ 1,303,128
State Funds	$ 634,609
Total Funds	$ 1,937,737

There were several contributing factors to the rate increase. First, CMDP realized that it was inappropriately booking a portion of the pharmacy expense for Title XIX members to its state funded only population's expenses. Therefore, until May of 2002, CMDP's Title XIX pharmacy expenditures were materially understated in their financial statements that have been used to develop capitation rates. Those expenditures, approximately $1,200,000, have been included in the proposed capitation rate for CYE '03. That adjustment alone was a 13.5% increase to medical expenditures.

Second, the rates were trended for pharmacy cost increases and the AHCCCS tier per diem rate increases for 2003. CMDP is required to pay our tier per diem rates. Because the AHCCCS fee for service rate schedule was frozen in 2003, no cost increases for those services were included. The trend increase was approximately 5%.

Finally, the administrative load was increased from 20% to 22.6% to help offset increased expeditures due to HIPAA implementation. All of these increases are necessary for actuarially sound rates. Attached is the letter from Milliman USA that attests to the actuarial soundness of the new capitation rates, a requirement of the Balance Budget Act of 1997.

The rate increase will be addressed in more detail at the Joint Legislative Budget Committee. Please feel free to contact me at (602) 417-4625 if you have any questions.

Sincerely,

Kari Price by aw

Kari Price
Assistant Deputy Director
Office of Managed Care

c. Phyllis Biedess, Director, AHCCCS
Tom Betlach, Deputy Director, AHCCCS
Richard Stavneak, Director, Joint Legislative Budget Committee Staff
Jim Cockerham, Assistant Director, Division of Business and Finance, AHCCCS
Lynn Dunton, Assistant Director, OPAC
Tim Sweeney, Joint Legislative Budget Committee Staff
Derik Leavitt, Governor's Office of Strategic Planning and Budgeting
Kris Ward, Governor's Office of Strategic Planning and Budgeting
Anne Winter, Reimbursement and Projects Administrator, Office of Managed Care

A MILLIMAN GLOBAL FIRM

Milliman USA
Consultants and Actuaries

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April 29, 2003

APR 2003
Received
A.H.C.C.C.S.
O.M.C.

Ms. Phyllis Biedess
Director
Arizona Health Care Cost Containment System
701 East Jefferson Street
Phoenix, Arizona 85034

RE: CMDP Rates for Contract Year 2003 – Revised Analysis

Dear Phyllis:

We were retained by the Arizona Health Care Cost Containment System (AHCCCS) to determine Contract Year 2003 capitation rates for the Comprehensive Medical and Dental Program (CMDP), to be paid to the Department of Economic Security. The purpose of this letter is to document our analysis and summarize the results of our study. This letter revises the results presented in our letter of April 28, 2003.

Data Reliance

In performing this analysis, we have relied on data and other information provided to us by AHCCCS. This includes the historical claim lag detail and membership information and audited financial statements. We have reviewed the data for reasonableness but have not audited or verified this data. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

Variability of Results

We have selected the assumptions and methodology presented here based on industry experience and on discussions with AHCCCS management. We believe these assumptions and methodologies in their totality are reasonable. However, a user of this report should note that (1) future experience will invariably be different from experience and (2) other knowledgeable individuals could have a different opinion about what the most appropriate assumptions and methodologies are. Ultimately, a user of this report must become familiar and comfortable with the key assumptions utilized.

Limitations on Distribution

This report has been prepared for the internal use of and is only to be relied upon by the AHCCCS. No portion of this report may be provided to any other party without Milliman's prior written consent. In the event such consent is given, the report must be provided in its entirety.

It is our understanding that AHCCCS intends to provide this report to the Centers for Medicare & Medicaid Services (CMS). Consent to do so is hereby granted. The report must be provided in its entirety.

General Approach

In our analysis we have analyzed claims history and other information for the CMDP population, looking at the Prospective and Prior Period Coverage groups separately. Our approach is to calculate the necessary rate increase for the 2003 contract year (the period October 1, 2002 through September 30, 2003) based on historical experience data, anticipated claim cost trends, and anticipated administrative costs for the plan. Using this information we have calculated the anticipated revenue required for 2003.

Key Assumptions

The following key assumptions underlie our analysis.

Base Claims Cost Level. Historical claims costs levels, as shown in the CMDP audited financial statements, have been erratic and exhibit very high recent trends. As such, both CMDP and AHCCCS management have concerns about the quality and reliability of the claims cost data shown in the financials. While AHCCCS and CMDP are working diligently to resolve these issues, we decided (and AHCCCS and CMDP agreed) that we should not rely upon the claims costs data for the Prospective population. (Actual claims experience was used for the PPC calculations, however).

Therefore, we have used an alternative method to estimate claims, as an interim proxy until the data issues can be resolved. The proxy is to estimate Contract Year 2002 claims to be equal to Contract Year 2002 capitation payments, less a 20% allowance for administrative costs, plus an adjustment for historical underreporting of prescription drug claims.

Adjustment for Historical Underreporting of Prescription Drug Claims. Prescription drug claims for CMDP Title XIX (Medicaid-eligible) recipients have been historically underreported in CMDP's financial statements. The issue involves the allocation of drug costs between CMDP AHCCCS eligibles and non-AHCCCS eligibles. Because these costs were used to calculate the CYE 2002 capitation rates, the interim proxy method to estimate claims (described above) is understated by this amount. We have estimated this amount to be $1,200,000 in CYE 2002. (This adjustment applies to the Prospective population only).

Trends. We have assumed a composite trend rate of 5.2% for CYE 2003. This trend assumption is based on our estimates of future utilization levels and AHCCCS reimbursement levels (cost per unit of service).

Administrative Costs. We have continued to make an allowance of 20% of claims for the CMDP plan, less an adjustment for trend, plus an adjustment to reflect extraordinary HIPAA compliance costs. While 20% is a higher-than-normal administrative allowance (when compared with other AHCCCS plans), it is appropriate given the relatively small size of the CMDP plan and the special circumstances of its insured population.

The adjustment for trend reflects the fact that medical claim costs are increasing at a rate significantly higher than the general inflation rate. The adjustment is $5.09 PMPM, which sets the administrative load equal to 20% of the **2002** (not 2003) claim cost level.

The additional adjustment for HIPAA is intended to reflect CMDP's estimate of an additional $630,000 (or $9.20 PMPM) in administrative expense associated with HIPAA compliance in CYE 2003. (This adjustment has been applied to the Prospective population only).

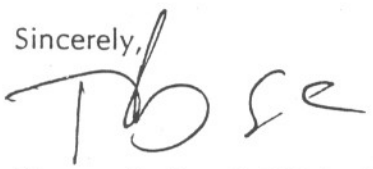
Summary of Results

Based on the methodology outlined above, we calculate a necessary rate increase of 24.2% for the Prospective population and 14.0% for the Prior Period Coverage group.

Actuarial Certification

A Statement of Actuarial Opinion is attached to this letter.

Sincerely,



Thomas D. Snook, F.S.A., M.A.A.A.
Principal & Consulting Actuary

TDS/pc

cc: Anne Winter

STATE OF ARIZONA

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DATE: June 2, 2003

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Fiscal Analyst

SUBJECT: GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING – REVIEW OF CHANGES TO THE DISPROPORTIONATE SHARE HOSPITAL PROGRAM

Request

Pursuant to a footnote in the General Appropriation Act, any changes to the distribution of disproportionate share hospital (DSH) spending as determined by the Governor are subject to review by the Committee. The Governor's Office of Strategic Planning and Budgeting (OSPB) has requested that the Committee review a revised plan to reduce FY 2003 DSH spending by $(23,062,400) in the Arizona Health Care Cost Containment System (AHCCCS). In addition to the reduction in DSH payments, county withholdings of transaction privilege tax (TPT) distributions will be reduced by a corresponding amount, from $120,826,200 to $97,763,800.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of this request. These changes are necessary to keep the state's DSH program consistent with federal policy. The revised plan will result in decreased expenditures of $(23,062,400), including $(8,474,400) from the General Fund and $(14,588,000) in Federal Funds. The new plan will not reduce any county hospital payments, as these particular monies were all ultimately returned to the state. Private hospitals will have their payments reduced from $26 million to $25 million as a technical adjustment.

TPT distributions to Maricopa and Pima counties are withheld to recoup some of the DSH payments made to counties. These withholdings are deposited into the General Fund. The Treasurer will reduce county withholdings (and state General Fund revenue) by a corresponding amount, $(23,062,400). Therefore, including both the reduced General Fund expenditures $(8,474,400) and the reduced withholdings $(23,062,400), the net impact to the General Fund is $(14,588,000).

We have already reported on this lost General Fund revenue in our Monthly Fiscal Highlights. Without this change, the state General Fund revenue is $39.4 million above forecast through the end of April. With this change, the revenue surplus will decline by $23.1 million, from $39.4 million to $16.3 million.

Analysis

The federal DSH program provides supplementary payments to hospitals that serve a disproportionate number of low-income patients. For these payments, state monies are matched with federal monies at approximately a $2 to $1 rate. Payments are made in the AHCCCS budget to private and county hospitals, as well as the Arizona State Hospital.

The federal government has established limits on the total DSH payments hospitals can receive. States have a limited amount of discretion in these calculations. During the original FY 2003 budget development, OSPB and AHCCCS had assumed the state would be able to move to a slightly different system of calculating these payments, which would have allowed for additional payments to county hospitals. Therefore, the General Appropriation Act included authorized expenditures of $179,651,100 (including $59,797,200 from the General Fund and $119,893,900 in Federal Funds). Of this amount, $125,179,900 was for county hospitals (specifically, Maricopa Medical Center and Kino Community Hospital).

The federal government has not yet approved the new plan. As a result, OSPB has revised the FY 2003 DSH spending estimate to reflect the current method of calculating the distributions. The revised estimate includes a reduction of $(23,062,400) in Total Fund spending ($8,474,400 General Fund, $14,588,000 Federal Funds). Table 1 displays the original DSH spending plan and the revised estimates:

Table 1

	Original FY 2003 DSH Spending	Revised FY 2003 DSH Spending
Arizona State Hospital	$ 28,474,900	$ 28,474,900
Private Hospitals	25,996,300	24,959,600
Maricopa	105,963,100	83,939,100
Kino	19,216,800	19,215,100
Total	$179,651,100	$156,588,700
General Fund	$ 59,797,200	$ 51,282,900
Federal Funds	$119,893,900	$105,305,800

The reduction in payments to private hospitals is a technical adjustment necessary to recoup overpayments that the hospitals received in FY 2002. A $1 million payment intended for county hospitals was accidentally paid to private hospitals in FY 2002. To adjust for this error, FY 2003 payments to private hospitals will be reduced by $1 million and county payments will be increased by a corresponding amount.

A portion of the DSH distribution to county hospitals is recouped through withholding of county TPT distributions, which are then deposited into the General Fund. This amount was originally estimated to be $120,826,200. Laws 2002, Chapter 329 allows the Governor, in consultation with the chairpersons of the House and Senate Appropriations Committees, to direct the Treasurer to adjust the withholding levels to accommodate changes in federal policies that reduce DSH payments to county hospitals below those specified in the General Appropriation Act. Because DSH payments will be less than originally anticipated, the Governor will direct the Treasurer to reduce withholdings by $23,062,400 to $97,763,800.

Table 2 displays the change in county withholdings.

Table 2

	Original FY 2003	Revised FY 2003	Difference
Total GF DSH Payments	$ 59,797,200	$ 51,282,900	$(8,474,400)
GF Revenue			
Maricopa County Withholding	$101,760,800	$ 78,829,300	
Pima County Withholding	19,065,400	18,934,500	
Arizona State Hospital Revertment [1/]	28,474,900	28,474,900	
Total GF Revenue	$149,301,100	$126,238,700	$(23,062,400)
Net GF Impact			**$(14,588,000)**

1/ The State Hospital receives $28,474,900 in DSH payments. The hospital then reverts a corresponding amount to the General Fund.

In conjunction with the lower General Fund DSH payments, the net impact to the General Fund of this change is $(14,588,000).

RS/BK:ck

Janet Napolitano
Governor

GOVERNOR'S OFFICE OF
STRATEGIC PLANNING AND BUDGETING
1700 West Washington, Suite 500, Phoenix, Arizona 85007
(602) 542-5381 • FAX: (602) 542-0868

David Jankofsky
Director

April 14, 2003

The Honorable Russell Pearce, Chairman
Joint Legislative Budget Committee
Arizona House of Representatives
Phoenix, Arizona 85007

The Honorable Bob Burns, Chairman
Joint Legislative Budget Committee
Arizona Senate
Phoenix, Arizona 85007

Dear Chairmen Pearce and Burns:

Under the terms specified in Laws 2002, Chapter 327, Section 6 and Laws 2002, Chapter 329, Section 22 (D.), please consider this as our request to be placed on the next available agenda of the Joint Legislative Budget Committee to discuss recent changes in federal policy regarding the Disproportionate Share Hospital program for Fiscal Year 2003. As a result of these changes, it will be necessary to augment both payments and withholdings from the levels assumed in the Fiscal Year 2003 General Appropriations Act.

Thank you for your consideration of this request. Should there be any questions regarding this issue, please contact me at 542-5381.

Sincerely,

David Jankofsky
Director

cc: Richard Stavneak, JLBC Staff
Phyllis Biedess, AHCCCS

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: June 2, 2003

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: ARIZONA COMMUNITY COLLEGES – REVIEW OF WORKFORCE DEVELOPMENT PLAN ACTIVITIES AND EXPENDITURES

Request

Pursuant to A.R.S. § 15-1472, the community college districts are required to annually submit a report of their previous year's workforce development plan activities and expenditures to the Committee for review.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the report.

Due to the number of reports received, JLBC Staff plans to work in the future with the Arizona Community College Association to develop a standardized reporting format.

Analysis

A.R.S. § 15-1472 requires each community college district to establish a workforce development account. Monies in the account are derived from Proposition 301 sales tax revenues and shall be used for workforce development and job training, including expenditures for: 1) partnerships with businesses and educational institutions; 2) additional faculty; 3) technology and equipment; 4) student services for new and expanded job opportunities; and 5) property and new construction, remodeling, or repair of facilities.

The table below presents total FY 2002 workforce development revenues and expenditures and a brief description of key expenditures by district. Total revenues in FY 2002 were $8,968,700 and total expenditures in the same year were $6,803,600. The table does not include $1 million in revenues

(Continued)

received by the Navajo County Community College District to provide matching capital funds for the Snowflake campus pursuant to A.R.S. § 15-1463. In addition, the table does not include revenues or expenditures for Dine College or Tohono O'odham Community College. Both of these colleges received workforce development monies in FY 2002, but A.R.S. § 15-1472 only requires community college *districts* to report expenditures. Revenue figures are as reported on the State Treasurer's Web site.

District	FY 2002 Revenues	FY 2002 Expenditures	Key Expenditures (Over $100 K)
Cochise	$ 452,000	$ 353,400	On-line campus faculty – $140 K Interactive television system – $174 K
Coconino	318,000	318,000	Remodel career technical education center – $185 K
Graham	427,900	438,400	Interactive television technology connectivity – $257 K Computer lab upgrades – $170 K
Maricopa	4,230,200	2,446,100	New faculty positions – $1.7 M Rapid response projects – $286 K Capital – $213 K Labor market survey; Partial funding of National Director for Teacher Education position – $136 K
Mohave	362,800	367,300	Remodel classroom facilities – $109 K
Navajo	372,400	373,400	Salary and ERE – $256 K
Pima	1,486,700	1,345,900	Veterinary technician program – $296 K Electronics and optics program – $105 K New faculty positions in occupational programs – $753 K
Pinal	443,500	379,000	Create Dean of Workforce and Economic Development position; Establish three Workforce Development offices – $233 K
Yavapai	409,700	409,700	Additional technology faculty – $141 K
Yuma/La Paz	465,500	372,400	Technology equipment; Create technology support services technician position – $209 K
TOTAL	$8,968,700	$6,803,600	

Since there is no standard reporting format, it is difficult to categorize and determine precise expenditures for each allowable expenditure category. In addition, some of the categories overlap. As stated earlier, JLBC Staff will work with the Arizona Community College Association to develop a standardized reporting format that allows for a more comparative analysis.

RS/JC:ss