

**Joint Legislative Budget Committee  
Staff Memorandum**

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DATE: April 24, 2013  
TO: Richard Stavneak, Director  
FROM: Jon Stall, Fiscal Analyst  
Amy Upston, Principal Analyst  
SUBJECT: APRIL BASELINE COST ESTIMATES FOR AHCCCS AND DHS

JLBC Staff has updated its Medicaid baseline forecast for the Arizona Health Care Cost Containment System (AHCCCS) and the Department of Health Services (DHS). The Baseline forecast reflects the projected cost of the Medicaid funding formula, including the mandatory components of the federal Affordable Care Act (ACA). As with our January estimate, the April Baseline assumes the continuation of the childless adult (CA) freeze past its current expiration date of December 31, 2013. Both Baselines include the continuation of the federal match. This memo, however, does provide our estimate of the state General Fund cost if the federal government does not extend their match.

April Baseline Summary

JLBC Staff has rebased its estimates of Medicaid funding formula costs for AHCCCS and DHS. The April Baseline includes General Fund formula funding for the 2 agencies of \$1.88 billion in FY 2014, \$2.01 billion in FY 2015, and \$2.11 billion in FY 2016. These rebased estimates are lower than the January Baseline by \$(66) million in FY 2014, \$(162) million in FY 2015, and \$(191) million in FY 2016 (see Attachment 1).

April Baseline estimates are the result of several changes made to January Baseline assumptions:

- 1) A reduction of Traditional and non-CA Proposition 204 annual caseload growth to 1.5% in FY 2014 through FY 2016. The January Baseline assumed a 3% annual increase. This adjustment to 1.5% was made as a result of nearly flat enrollment growth experienced year-to-date in FY 2013 and the expectation that improved economic conditions will limit enrollment increases in future years. Actual data for FY 2013 that has become available since the January Baseline is incorporated into the April Baseline.
- 2) An increased federal match rate of 67.71% in FY 2015 and FY 2016, which would reduce the state's cost. The January Baseline assumed a 66.84% match in each year. Based on new information from Federal Funds Information for States, Arizona's projected match rate is expected to increase to 67.71% in FY 2015.
- 3) A slower decline in the expected CA population. The dropout rate under the freeze has slowed in recent months. The April Baseline assumes an average FY 2015 enrollment of 45,400 individuals, compared to 32,200 in the January estimate.

New CA enrollment has been frozen since July 2011. During FY 2012, enrollees left the program at an approximate rate of (6)% per month. There has been a general expectation, however, that the

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dropout rate would slow over time. Some CAs are only temporarily on the program due to a short term loss of income. Others may be long term participants, however, due to medical and other conditions.

At this time, there is no reliable means to project the dropout rate, beyond trend analysis. The January Baseline assumed that the dropout rate would decline to (5)% in FY 2013 and (4)% in FY 2014. During the last 6 months, however, the dropout rate has slowed to (3)%. Given the establishment of that trend, JLBC Staff has revised its dropout rate to (3)% through the end of FY 2014, (2)% in FY 2015 and (1)% in FY 2016.

- 4) A 5% increase to January Baseline capitation rates for CAs in FY 2014 through FY 2016. This adjustment is over and above the across the board capitation rate increase in the Baseline for all eligibility categories. Individual CAs that remain enrolled in the program in future years are presumed to have greater health care needs than past enrollees, on average. The per person cost of insuring the remaining CAs is therefore expected to increase more than for other AHCCCS populations.

#### Cost of the Childless Adult Freeze

As part of the April Baseline, the JLBC Staff estimates the total funds cost of the CA program would be \$329 million on a full year basis in FY 2015. Given the Baseline assumption of a continuing federal match, the General Fund share of the cost would be \$99 million, and federal funds would cover the remaining \$230 million (*see Attachment 2*). These estimates include the childless adults that receive care as part of the federal Indian Health Service (IHS) and related tribal facilities.

If the federal government chooses to end its participation in the CA program in January 2014, the state could decide whether to continue the program with state-only funds. The state would need to add \$135 million in FY 2014, \$230 million in FY 2015 and \$199 million in FY 2016 above the April Baseline to backfill the loss of federal funds. Since the CA population is expected to decline with each subsequent year, the costs in FY 2016 and beyond would decline from the FY 2015 level.

#### Comparison with Executive Estimates

The Executive has estimated the state-only cost of continuing the CA freeze at \$353 million in FY 2015 compared with the \$329 million JLBC Staff estimate. The Executive does not provide the cost of continuing the freeze with a federal match, presumably under the assumption that the federal government will not participate after December 2013. There is, however, no final federal decision in this regard.

The Executive would fund a higher CA caseload than JLBC. For example, the Executive projects an average FY 2015 CA caseload of 52,100, compared to 45,400 in the JLBC forecast. This caseload difference is partially offset since JLBC Staff has a higher per member monthly cost (\$605 in FY 2015) than the Executive (\$565).

The following table lists the main FY 2015 cost estimates concerning continuation of the CA freeze.

<b>Cost of Continuing the Childless Adult Freeze in FY 2015</b>		
(\$ in Millions)		
	<b><u>Cost</u></b>	<b><u>\$ above April Baseline</u></b>
JLBC - Continuation of Federal Match	\$ 99	\$ 0
JLBC - No Federal Match	329	230
Executive - No Federal Match	353	254

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*Attachment 3* provides the projected caseload and per person costs of the JLBC and Executive estimates.

April Baseline ACA Estimates by Expansion Option

JLBC Staff also summarized April Baseline estimates under different scenarios of expanding coverage through federal health care reform (*see Attachment 4*). The top section of *Attachment 4* displays estimates of complying with mandatory requirements of the Affordable Care Act. These required costs are included in the April Baseline funding formula estimates in *Attachment 1*. The bottom section of the document summarizes additional costs of expanding Medicaid beyond the mandatory level of coverage.

JS/AU:ts

Attachments (4)

**AHCCCS / DHS**  
**Funding Formula in April Baseline (Prior to Optional Expansion)**  
 (\$ in millions)

	Jan.	FY 14	Difference	Jan.	FY 15	Difference	Jan.	FY 16	Difference
	Baseline	April Baseline		Baseline	April Baseline		Baseline	April Baseline	
AHCCCS	1,368.0	1,333.4	(34.6)	1,542.2	1,428.0	(114.2)	1,635.0	1,496.5	(138.5)
DHS	576.7	545.3	(31.4)	632.3	584.4	(47.9)	661.8	609.3	(52.4)
<b>Total</b>	<b>1,944.8</b>	<b>1,878.7</b>	<b>(66.0)</b>	<b>2,174.5</b>	<b>2,012.3</b>	<b>(162.2)</b>	<b>2,296.8</b>	<b>2,105.8</b>	<b>(191.0)</b>

Funding Formula Revisions:

- Caseload growth revised from 3% to 1.5% in FY 14 - FY 16.
- Blended federal match rate increased from 66.84% to 67.71% in FY 15 and FY 16.
- Baseline childless adult capitation rates increased 5% in FY 14 through FY 16.
- Childless adult freeze monthly drop-off rate reduced to (3)% through FY 14, (2)% in FY 15, and (1)% in FY 16.

	Average childless adult population			Rebased childless adult cost relative to Baseline estimates (assumes continued match)	
	Jan. Baseline	April Baseline	Difference	(\$ millions)	
FY 14 *	43,400	55,800	12,400	FY 14	\$28.4
FY 15	32,200	45,400	13,200	FY 15	\$29.4
FY 16	23,800	38,000	14,200	FY 16	\$31.9

\* FY 14 population amounts are averages of January to June 2014 projections.  
 (See CA Freeze attachment for JLBC / Executive comparisons of childless adult estimates)

**AHCCCS / DHS**  
**Comparison of JLBC April Baseline to Executive Budget (Prior to Optional Expansion)**  
 (\$ in millions)

	April	FY 14	Difference	April	FY 15	Difference	April	FY 16	Difference
	Baseline	Executive Budget		Baseline	Executive Budget		Baseline	Executive Budget	
AHCCCS	1,333.4	1,366.7	33.3	1,428.0	1,503.6	75.6	1,496.5	1,569.9	73.4
DHS	545.3	594.9	49.6	584.4	649.1	64.8	609.3	665.1	55.8
<b>Total</b>	<b>1,878.7</b>	<b>1,961.6</b>	<b>82.9</b>	<b>2,012.3</b>	<b>2,152.7</b>	<b>140.4</b>	<b>2,105.8</b>	<b>2,235.0</b>	<b>129.2</b>

<b>April Baseline of the Childless Adult Freeze</b>						
(\$ in millions)						
<b>Year</b>	<b>April TF</b>	<b>April GF</b>	<b>April GF Above Jan. GF</b>	<b>April GF (No Match) 1/2/</b>	<b>No Match Cost Above April Baseline 1/2/</b>	
FY 13	584.3	182.5	-	-	-	-
FY 14	426.8	131.1	28.4	266.2	135.1	
FY 15	329.5	99.1	29.4	329.5	230.4	
FY 16	284.0	85.4	31.9	284.0	198.6	

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- 1/ The state's authority to cover childless adults expires December 31, 2013. If the authority is not renewed and the federal government no longer participates, the state has the option to pay the full cost of covering childless adults in the 2nd half of FY 2014 and for the entire year thereafter.
  - 2/ The no federal match scenario assumes that the state would pay the entire costs of insuring Medicaid-eligible Native American childless adults after December 31, 2013. Indian Health Services (IHS) and related tribal facility costs of caring for this population are currently 100% federally funded.

**CONTINUED CHILDLESS ADULT FREEZE ESTIMATES  
 COMPARISON OF EXECUTIVE AND JLBC APRIL BASELINE ESTIMATES <sup>1/</sup>**

	<b>TOTAL COST</b> (\$ millions)	<b>EXECUTIVE</b> AVERAGE CASELOAD	AVERAGE PMPM <sup>2/</sup>
FY 14 (Jan-Jun)	199.7	60,200	\$552.78
FY 15 Annual	353.2	52,100	\$565.21
FY 16 Annual	309.6	44,300	\$582.17

	<b>TOTAL COST</b> (\$ millions)	<b>JLBC APRIL ESTIMATES</b> AVERAGE CASELOAD	AVERAGE PMPM <sup>2/</sup>
FY 14 (Jan-Jun)	194.0	55,800	\$579.17
FY 15 Annual	329.5	45,400	\$604.65
FY 16 Annual	284.0	38,000	\$622.82

	<b>TOTAL COST</b> (\$ millions)	<b>VARIANCE</b> AVERAGE CASELOAD	AVERAGE PMPM <sup>2/</sup>
FY 14 (Jan-Jun)	(5.7)	(4,400)	\$26.39
FY 15 Annual	(23.7)	(6,700)	\$39.44
FY 16 Annual	(25.6)	(6,300)	\$40.65

<sup>1/</sup> Represents total cost of childless adult population. Estimates include childless adults served at 100% federally funded Indian Health Services (IHS) and related tribal facilities.

<sup>2/</sup> PMPM stands for total cost per member per month. It is calculated by dividing total costs by the product of average caseload times number of months in the year.

**April Baseline of Medicaid Expansion Cost Estimates**

**General Fund (GF) and Federal Funds (FF)**

(\$ in millions)

		FY 14		FY 15		FY 16	
		<u>GF</u>	<u>FF</u> <sup>1/</sup>	<u>GF</u>	<u>FF</u> <sup>1/</sup>	<u>GF</u>	<u>FF</u> <sup>1/</sup>
<b><u>April Baseline Cost Above FY 13</u></b>							
Mandatory Expansion – 133% FPL Children, and increase from eligible but not enrolled	AHCCCS	58	244	155	400	168	388
	DHS	<u>16</u>	<u>34</u>	<u>54</u>	<u>115</u>	<u>62</u>	<u>137</u>
	<b>Total</b>	<b>74</b>	<b>278</b>	<b>209</b>	<b>515</b>	<b>230</b>	<b>525</b>
Continued Childless Adult Freeze Past 12/31/2013 (Regular Federal Match) <sup>2/</sup>	AHCCCS	48	108	78	183	67	158
	DHS	<u>12</u>	<u>27</u>	<u>21</u>	<u>47</u>	<u>18</u>	<u>41</u>
	<b>Total</b>	<b>60</b>	<b>135</b>	<b>99</b>	<b>230</b>	<b>85</b>	<b>199</b>
<b><u>Optional Cost Above April Baseline</u></b>							
1. Continued Childless Adult Freeze (No Federal Match)	AHCCCS	108	0	183	0	158	0
	DHS	<u>27</u>	<u>0</u>	<u>47</u>	<u>0</u>	<u>41</u>	<u>0</u>
	<b>Total</b>	<b>135</b>	<b>0</b>	<b>230</b>	<b>0</b>	<b>199</b>	<b>0</b>
2. Full Expansion to 133% FPL <sup>3/</sup>	AHCCCS	-2	191	68	1,078	54	1,380
	DHS	<u>0</u>	<u>52</u>	<u>17</u>	<u>294</u>	<u>14</u>	<u>374</u>
	<b>Total</b>	<b>-2</b>	<b>243</b>	<b>85</b>	<b>1,372</b>	<b>68</b>	<b>1,754</b>

1/ Includes Federal Medicaid Authority and the federal match for KidsCare.

2/ FY 14 estimates are only the costs of continuing the childless adult freeze from January through June of 2014 at a regular federal match rate. The current federal authority to cover this population expires after 12/31/2013. Estimates listed in FY 15 and FY 16 are full year costs.

3/ The federal government pays 100% of the cost of the adult expansion (100-133% FPL) from FY 14 to FY 16. The federal share gradually declines to 90% by 2020.