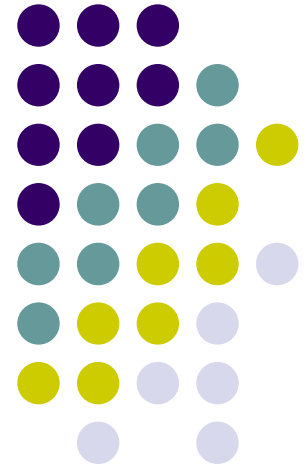




AHCCCS Update

March 24, 2010



AHCCCS Update



- Summary of Current Budget Problem
- Summary of Governor's Proposal
- Summary of the Final Budget for AHCCCS
- Summary of Health Care Reform Proposals
- Agency Priorities

AHCCCS Budget Limitations



- Medicaid has 3 areas to cut:
 - Eligibility/Enrollment
 - Rates
 - Benefits
- Federal Stimulus legislation established a maintenance of effort requirement limiting ability to reduce eligibility
- Substantive provider rate reductions and freezes were already included in the budget
- Legislature did not make any substantive changes to benefits

Budget Changes to Date



- Arizona's Program is \$743 million less today because of budget policy decisions
- Rates - \$635 million impact
 - \$505 million in reductions to provider rates freezes to statutorily mandated rate increases.
 - \$130 million in health plan reductions
 - Example – eliminated \$42 m in GME and \$25.6 m in DSH
- Eligibility - \$72.2 million impact
 - Eliminated CHIP parents coverage for 9,000 adults and imposed cap and freeze in CHIP program – 8,000 kids on waiting list in first month
- Cost Sharing - \$10.6 million –
- Administrative Reductions - \$25 million

What's the Problem?



In January the budget had to address three interconnected problems

- Current year deficit – shortfall of \$1.4 billion remains for FY 2010
- Structural deficit – projected shortfall of \$3.2 billion for FY 2011 and beyond
- Cash flow – treasurer borrowing \$1.0 billion – state recently completed \$735 million sales of assets

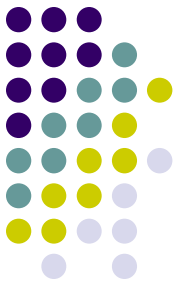
How did we get here?



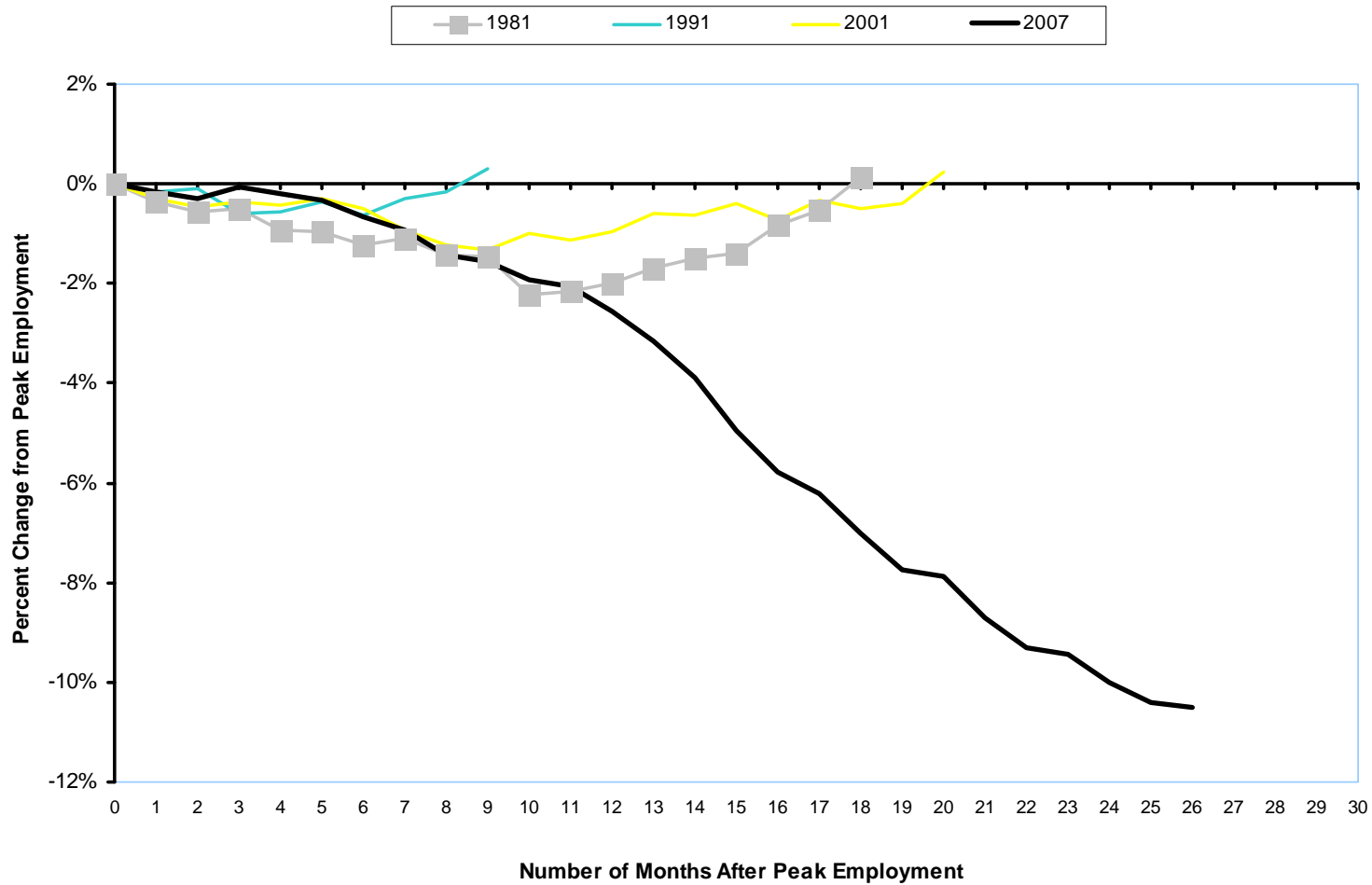
There are at least six reasons that led us to this point:

- The Economy
- Reduced Revenues
- Added Spending
- State Actions
- Constraints Imposed by the Voters
- The Federal Government

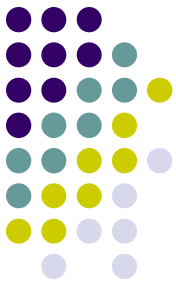
How did we get here?



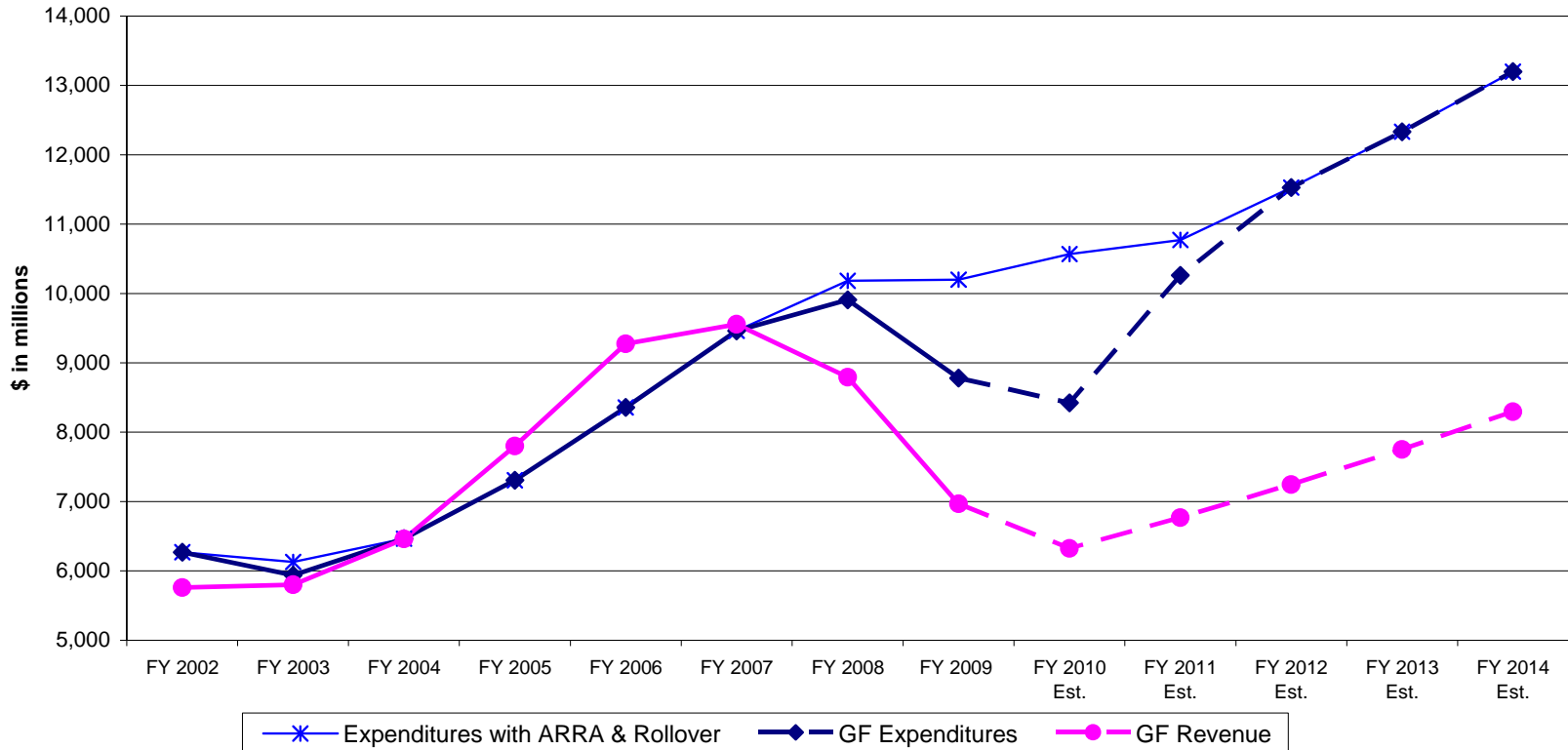
Arizona
Number of Months needed to surpass a peak in employment.



How did we get here?



General Fund Ongoing Revenue and Expenditures before Solutions

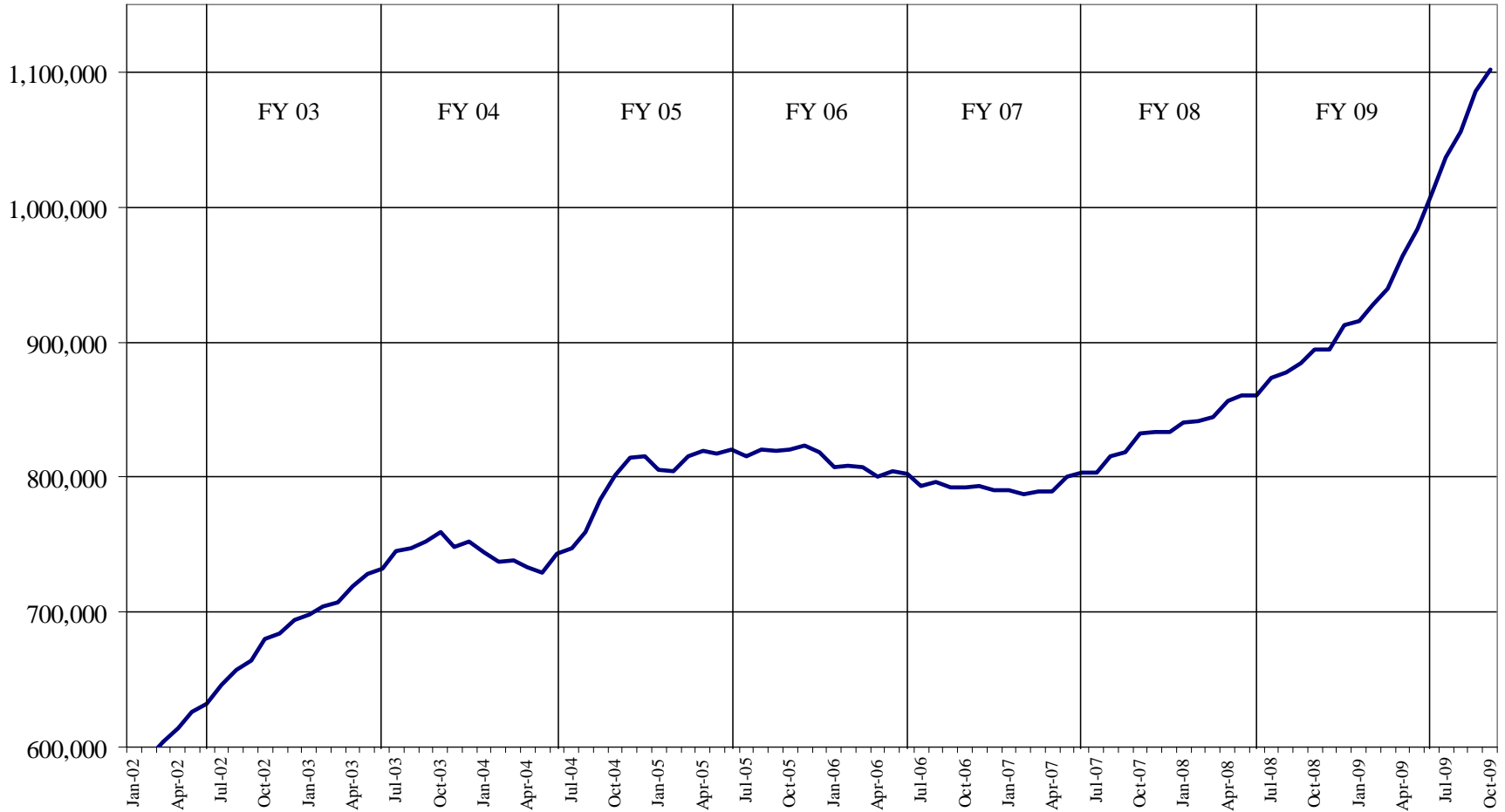


Assumptions: **Revenue:** Ongoing revenue does not include one time items such as fund transfer, asset sales, etc. Growth rates assumptions: FY10: -9.2%, FY11:7%, FY12 and 7%. **Expenditure:** Ongoing expenditure does not include rollover or ARRA. FY10 and FY11 estimated Expenditure from most current S&U, FY12 and beyond assuming 7% growth.

How did we get here?



AHCCCS All TXIX Capitation Member Months



How did we get here?



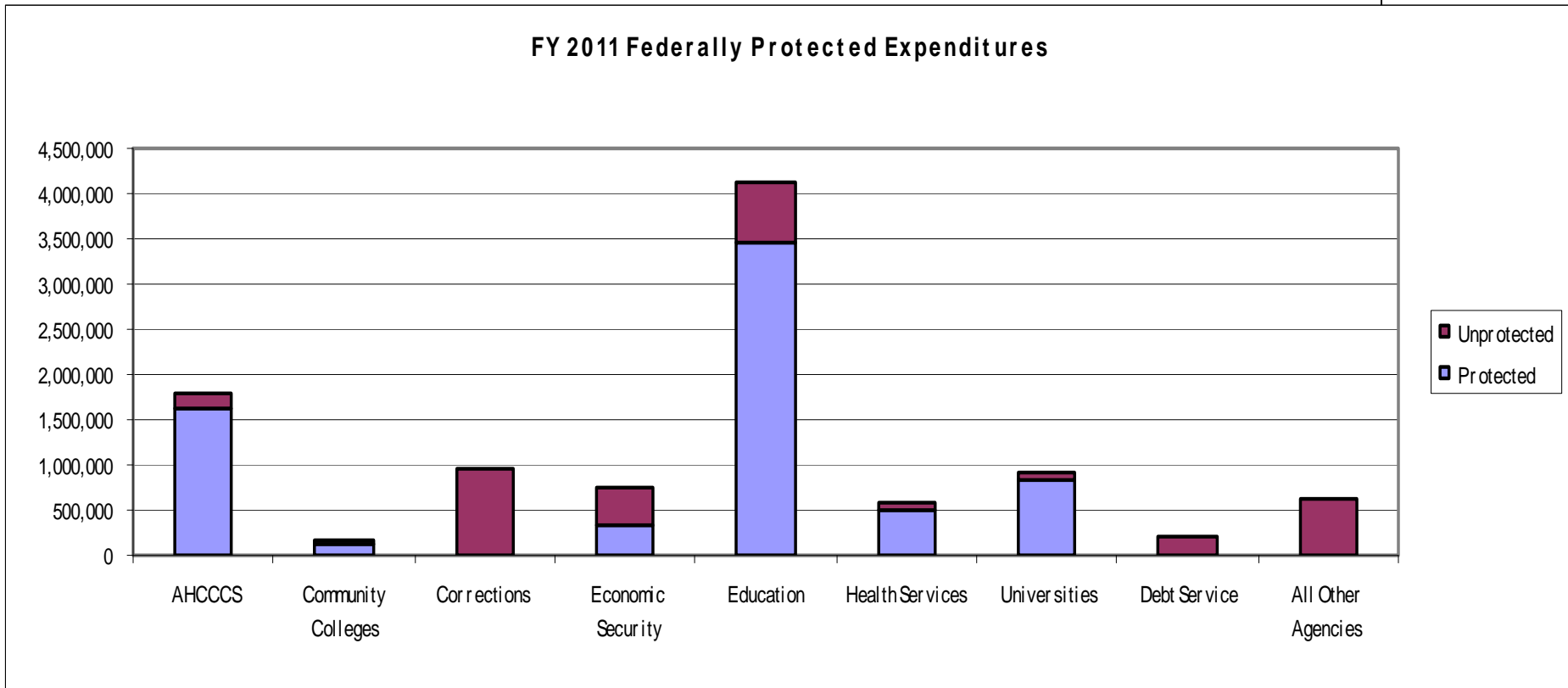
Growing Populations – Including FY 2011 Estimates

Current revenues = FY 2004

- Since FY 2004, Arizona has added 121,500 K-12 students and more than \$1.0 billion in annual costs to the K-12 system.
- Since FY 2004, enrollment in State universities has increased enrollment by 18,100 students and annual General Fund costs of \$393.5 million.
- Since FY 2004, Corrections has added 10,800 prisoners and annual General Fund costs of \$405.4 million.
- Since FY 2004, AHCCCS has added 475,000 new members and annual costs of nearly \$1.5 billion (General Fund).

FY 2011

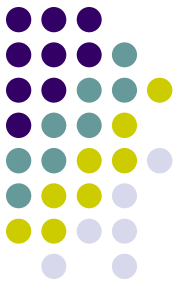
ARRA MOE Requirements



Approximately \$3.2 billion unprotected

(Note: Federal MOE for Medicaid currently ends on December 31, 2010)

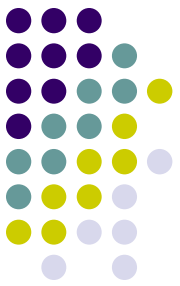
The Governor's Plan – Overview



FY 2010 Solution

Budget Reductions	6%	\$92.0
Rollovers	28%	\$450.0
Debt	45%	\$750.0
Fund Transfers	1%	\$16.0
Lottery	2%	\$30.0
Revenue	16%	\$263.0
Other	2%	\$26.0
Total		\$1,627.0

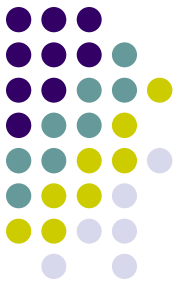
The Governor's Plan – Overview



FY 2011 Solution

Budget Reductions	36%	\$1,159.0
FY 2010 Ending Balance	7%	\$230.0
SFB Debt Restructure	2%	\$60.0
Lottery	2%	\$60.0
Prop. 105 Balances	12%	\$384.0
New Revenue	34%	\$1,092.0
Fund Transfers	5%	\$173.0
Salary Reduction	2%	\$60.0
Total		\$3,218.0

The Final Budget – AHCCCS



AHCCCS Adjustments

- Baseline Budget - Medicaid Population Growth \$357 million General Fund (GF) (\$1.1 billion total fund) and Federal Stimulus Backfill \$224 million

Rate Reductions

- Capitation rate growth held flat; will likely result in provider rate reductions, saving \$57.1 million GF (\$167 million total fund)
- Agency has authority to apply rate reductions to Institutions as well up to 5%
- For FY 2011 State supported GME has been eliminated – (\$42 m TF)
- Private DSH hospital funding is set at approximately \$10 million TF – Pool 3 was eliminated

Benefit Changes

- The Budget includes reduction of \$6.3 million GF (\$18.3 million total fund)
- Benefit changes includes items like Podiatry, orthotics, emergency dental services, health screenings, transplants and physical therapy.
- Separate Legislation (SB 1390) proposes transferring Adult General Mental Health and Substance Abuse funding to AHCCCS plans (\$43 million GF - \$141 m TF)

The Final Budget – AHCCCS



Eligibility Changes

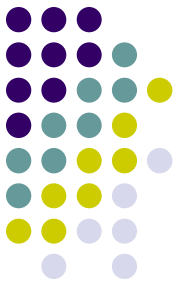
KidsCare

- The Budget eliminates KidsCare on June 15, 2010, saving \$22.9 million GF (\$119 million total fund). KidsCare currently provides health coverage for 38,600 children with incomes below 200% of FPL.

Proposition 204

- The Budget cuts \$385 million General Fund (over \$1.0 B TF) and requires AHCCCS “to implement a program within available appropriation”.
- Under current federal law where increased federal participation expires on January 1, 2011, AHCCCS will need pursue the rollback of Proposition 204 eligibility levels
 - An estimated 310,500 people will lose coverage
 - State will lose \$737.6 million in Federal matching funds
 - In FY 2012 the GF saves \$1 billion and \$3 billion is cut from health care infrastructure
- If Congress extends stimulus funding the state will save roughly \$430 million over six months which should provide sufficient funds to continue existing eligibility.

The Final Budget – AHCCCS



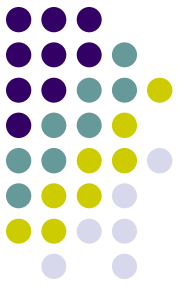
Contingency Budget

- Should sales tax not be passed by voters on May 18th, the budget includes additional reductions. For AHCCCS this amounts to \$114 m GF (\$350 m TF) resulting in additional provider cuts.

Administrative Resources

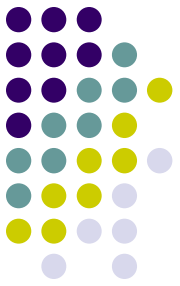
- Currently AHCCCS is down over 300 staff (22%) and will need to cut an additional \$7 million in administrative costs.

Health Care Reform - Medicaid



- Senate Bill expands Medicaid to all individuals with incomes up to 133% FPL (to be implemented in 2014).
- Maintenance of Effort requirements forces Arizona to continue programs at current levels. Arizona must restore KidsCare and not “Rollback” Proposition 204 or will face loss of all Federal Medicaid funding
- Requirement on Arizona is in essence a \$12 billion unfunded federal mandate (FFY 2011 through FFY 2020)
- Reconciliation Bill Improves federal participation for large portion of Proposition 204 but inequity still exists.

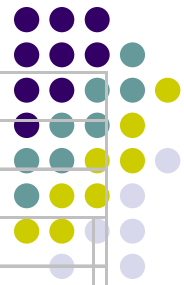
ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM



FEDERAL PARTICIPATION PERCENTAGE FOR ARIZONA CHILDLESS ADULTS 0-100% FPL

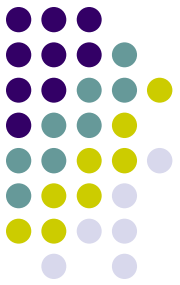
	2014	2015	2016	2017	2018	2019	2020
HOUSE	100%	91.00%	91.00%	91.00%	91.00%	91.00%	91.00%
SENATE	65.85%	65.85%	65.85%	65.85%	65.85%	65.85%	65.85%
RECONCILIATION (AZ)	82.93%	86.34%	89.76%	89.17%	91.19%	93.00%	90.00%
RECON. (Non expansion)	100%	100%	100%	95.00%	94.00%	93.00%	90.00%

**ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM
HEALTHCARE REFORM MAINTENANCE OF EFFORT IMPACT
STATE FISCAL YEAR 2010 ACUTE BUDGET**



POPULATION	CURRENT			HOUSE AND SENATE		
	OPTIONAL	MANDATORY	TOTAL	OPTIONAL	MANDATORY	TOTAL
Children & Families	-	3,042,000,000	3,042,000,000	-	3,042,000,000	3,042,000,000
Parent Expansion	540,200,000	-	540,200,000	-	540,200,000	540,200,000
Aged, Blind, & Disabled Base	-	1,112,000,000	1,112,000,000	-	1,112,000,000	1,112,000,000
Aged, Blind, & Disabled Expansion	134,100,000	-	134,100,000	-	134,100,000	134,100,000
Childless Adults	2,401,800,000	-	2,401,800,000	-	2,401,800,000	2,401,800,000
KidsCare (Title XXI)	103,300,000	-	103,300,000	-	103,300,000	103,300,000
Total Acute	3,179,400,000	4,154,000,000	7,333,400,000	-	7,333,400,000	7,333,400,000
Notes:						

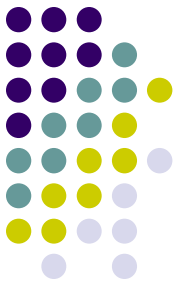
- 1) Dollars are Total Fund, based on State Fiscal Year 2010 AHCCCS September Budget (without Capitation Rollover).
- 2) Includes Behavioral Health and Children's Rehabilitative Services expenditures.
- 3) Does not include ALTCS, School Based Services, Administrative Costs, Freedom to Work, or Breast and Cervical Cancer populations
- 4) Does not include supplemental hospital payments, reconciliation payments, or Medicare Clawback payments.



Provider Tax

- AHCCCS Report looked at 3 types of provider Tax
 - Hospital – 1% net revenues= \$100 million
 - Nursing Facility - 1% revenues= approx \$10 million
 - Premium Ins. Tax - Managed Care Organizations – would need to include other Commercial lines – 1% = \$160 million
- Policy issues include
 - What should be taxed
 - What rate should it be taxed
 - What should be done with the funds
- Hospital specific Net revenue model on website

Health Information Technology Update



- Stimulus legislation created opportunity to increase use of Electronic Health Records.
- AHCCCS estimates that up to \$500 million could get paid out by Medicaid and Medicare over several years as incentive payments to providers.
- Health Information Exchange is important aspect for “Meaningful Use”
- Arizona Medical Information Exchange ceased operations December 2009
- AMIE and Southern Arizona Health Information Exchange (SAHIE) Boards came together and agreed to work to pursue vision of single state-wide HIE
- AMIE Board is currently funding 3 months joint planning effort with SAHIE
- Planning efforts have 2 teams focused on Technology (due diligence) and Governance
- Governor’s Office is still waiting for formal feedback from Office of the National Coordinator on \$9.3 million HIE funding
- CMS has published proposed regulation establishing “Meaningful Use” criteria