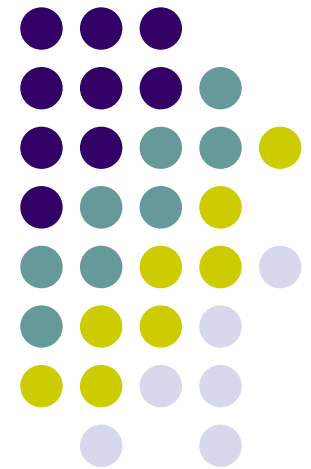




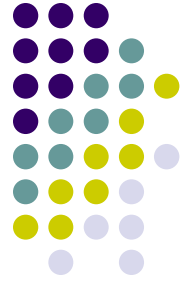
# AHCCCS Update

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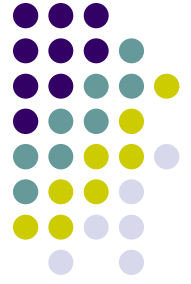
January 26, 2010



# AHCCCS Update

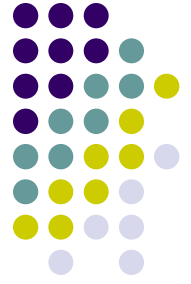


- Summary of Current Budget Problem
- Summary of Governor's Proposal
- Summary of Executive Budget for AHCCCS
- Summary of Health Care Reform Proposals
- Next Steps



# Budget Limitations

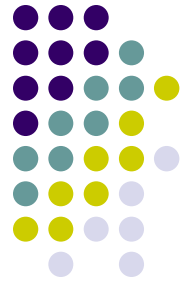
- Medicaid has 3 areas to cut:
  - Eligibility/Enrollment
  - Rates
  - Benefits
- Federal Stimulus legislation established a maintenance of effort requirement limiting ability to reduce eligibility
- Substantive provider rate reductions and freezes were already included in the budget
- Legislature did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



# Budget Changes to Date

- A number of funding changes have been made over the past 3 years – Program is \$743 million less today as a result of changes (see handout)
  - Inpatient Outlier Changes (08-09-10)
  - Inpatient/Outpatient Rate Freezes (09-10)
  - Broad Provider Rate Reductions (10)
  - Health Plan Payment Reductions (10)
  - Eligibility Changes (09-10)
  - Member Payment Requirements (09-10)
  - Administrative Reductions (08-09-10)
  - Hospital GME and DSH reductions (10)

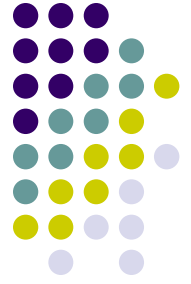
# What's the Problem?



There are 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?



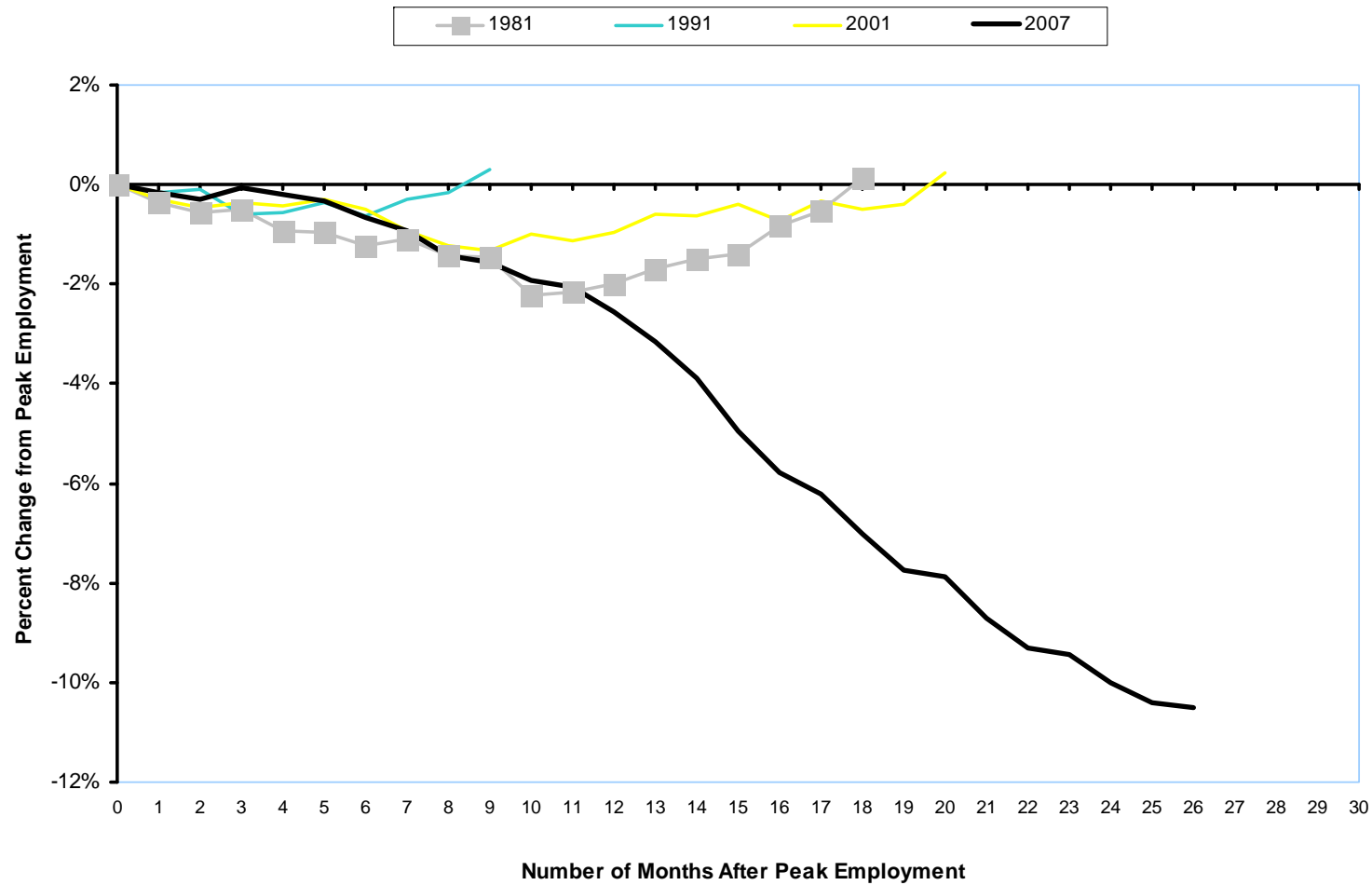
There are at least six reasons that led us to this point:

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

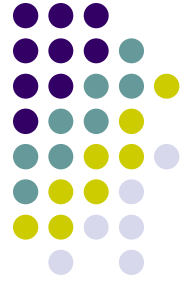
# How did we get here?



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



# How did we get here?



## 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).



# The 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

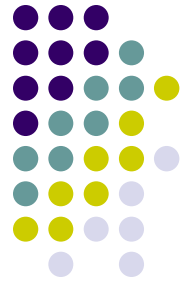


# The Plan – Overview

## 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 Plan – Health and Welfare



## AHCCCS Adjustments

- Baseline Budget - Medicaid Population Growth \$389 million General Fund (GF) (\$1.1 billion total fund) and Federal Stimulus Backfill \$202 million

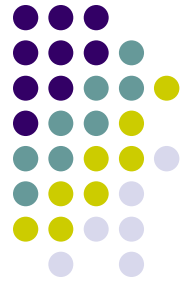
## Rate Reductions

- Capitation rate growth held flat; will likely result in provider rate reductions, saving \$57.1 million GF (\$167 million total fund)
- The Executive proposes eliminating GME and DSH hospital subsidies, leaving a \$500,000 total fund minimal DSH program. This equates to a \$21.1 GF savings and \$60.2 million total fund impact

## Benefit Changes

- The Executive Budget includes reduction of \$6.3 million GF (\$18.3 million total fund)
- Benefit changes are similar to list that was developed last spring and includes items like Podiatry, orthotics, emergency dental services, health screenings, transplants and physical therapy. More information can be found at <http://www.azahcccs.gov/shared/Downloads/News/BenefitsRedesignPacket.pdf>
- Budget proposes transferring Adult General Mental Health and Substance Abuse funding to AHCCCS plans (\$43 million GF - \$141 m TF)

# The Plan – Health and Welfare



## Eligibility Changes

### *KidsCare*

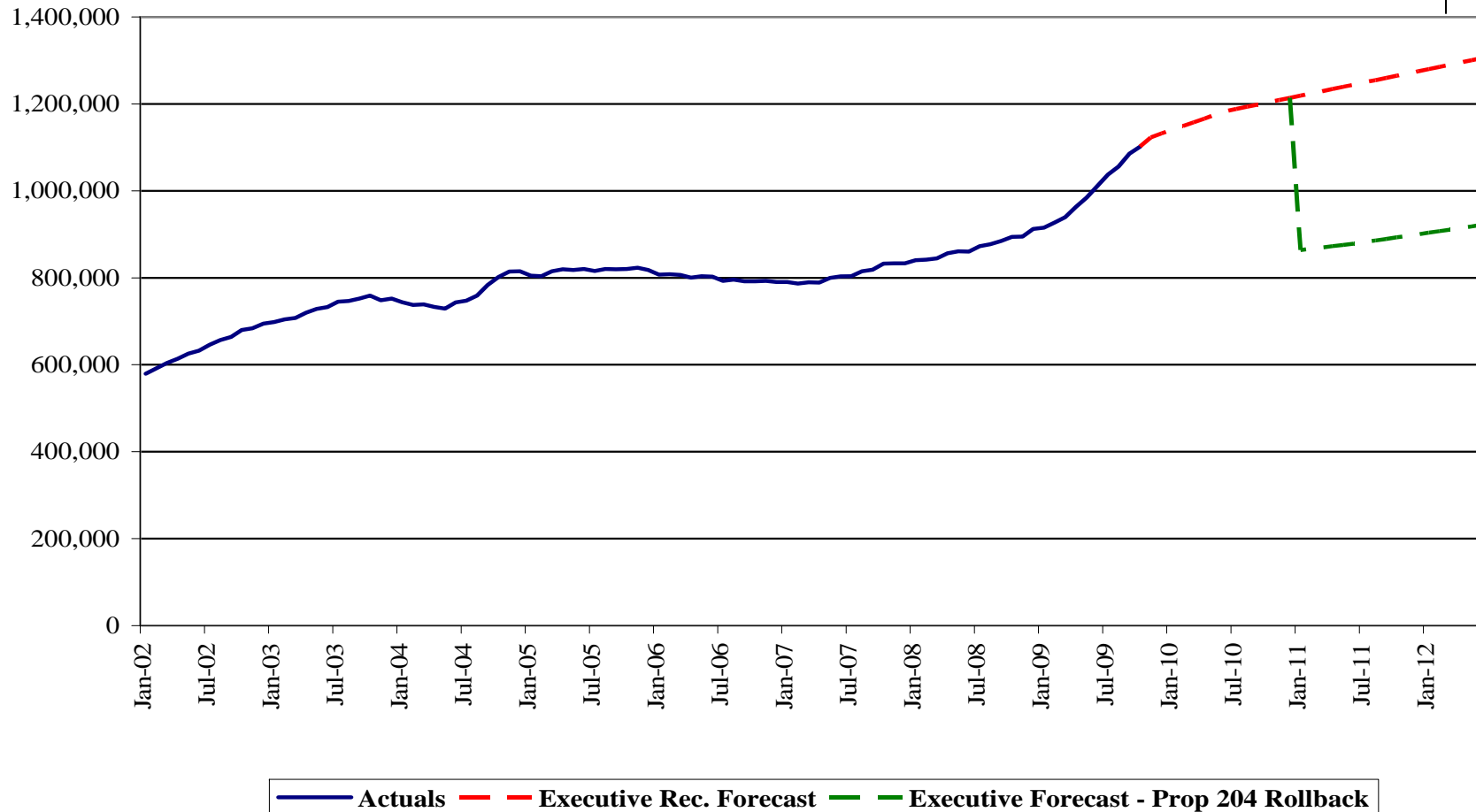
- The Executive recommends eliminating the KidsCare program, saving \$22.9 million GF (\$119 million total fund). KidsCare currently provides health coverage for 46,800 children with incomes below 200% of FPL.
- As of January 1, 2010 there were 3,726 American Indian KidsCare members

### *Proposition 204*

- The Executive proposes holding a special election and amending the federal waiver to eliminate General Fund support for this program as of January 1, 2011.
  - An estimated 310,500 people will lose coverage
  - State will lose \$737.6 million in Federal matching funds
  - GF will save \$382.5 million in FY 2011, \$1 billion in FY 2012
  - AHCCCS estimates that there are approximately 34,000 American Indians impacted. Up to 27,000 adults receive coverage through FFS.
- Two potential federal issues could impact this recommendation include Health care reform and extended stimulus funding.

# The Plan – Health and Welfare

AHCCCS TXIX Capitation Member Months  
Actuals and Forecasts

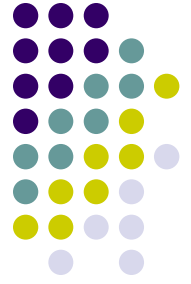


Approximately 25 percent of the current Medicaid population will lose services.

# The Plan – Other Proposals



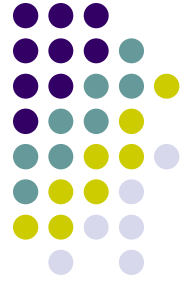
- Eliminates Department of Juvenile Corrections (\$70 million and 900+ staff)
- Reduces state employee pay (5 percent)
- Eliminating Growing Smarter payments and sweeping the Land Conservation Fund (\$124 million)
- Moves ADEQ, Water, Tourism to self funding



# 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
- Budget Neutrality is also an issue and recently AHCCCS updated surplus estimate from \$130 million to \$670 million

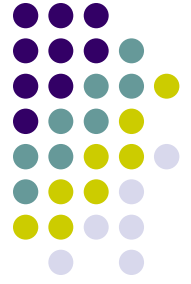
# Senate/House Comparison



## Health Care Reform

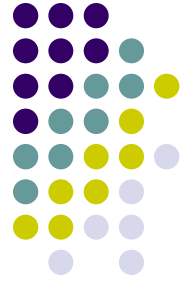
- Senate expand Medicaid to all individuals with incomes up to 133% FPL (to be implemented in 2014).
- The Senate rolls CHIP into Medicaid and Exchange starting in 2015
- The Senate bill is projected to increase AHCCCS costs by \$4.0 Billion from 2014 through 2020.
- Expand Medicaid to all individuals with incomes up to 150% FPL.
- The House bill is projected to save Arizona almost \$7 Billion from 2011 through 2020. (No savings generated from July 1, 2011 through Jan. 1, 2013)
- Major policy difference on funding involves support of childless adult expansion.





# Concerns for Arizona

- Governor's December 30<sup>th</sup> Statement
  - House Delegation members should “forcefully reject” the Senate bill because it will only exacerbate Arizona fiscal problems
  - Bill creates unfunded mandate and punishes Arizona for previous expansion
  - Taxpayers in Arizona will need to support costs in our state and others
  - Bill eliminates discretion of States
- December 4, Governor sends letter to AZ Congressional delegation outlining State's fiscal crisis
  - Governor does not support mandated expansion of Medicaid at this time but if Congress pursues mandated expansion, it should be 100% federally funded
  - States should be allowed to retain some flexibility with regards to MOE requirements because Arizona needs ability to cap expansion populations such as childless adults
- AHCCCS Letter to Governor on fiscal impact can be found on website.



# Budget – Next Steps

- Legislature will begin by looking at Governor's Budget and other potential staff options (see handout)
- Process will in all likelihood play out over the next several months.
- AHCCCS will provide updated information on Web and through additional meetings