

AHCCCS Appropriation Hearing

March 5, 2009

Information Included

AHCCCS Overview

FY 2009 Budget Adjustments

Additional Information

Federal Stimulus Funding

Healthcare Group

SCHIP/KidsCare Federal Reauthorization

Proposition 204 Funding Comparison to old MNMI Program

Enrollment Trends

AHCCCS Model

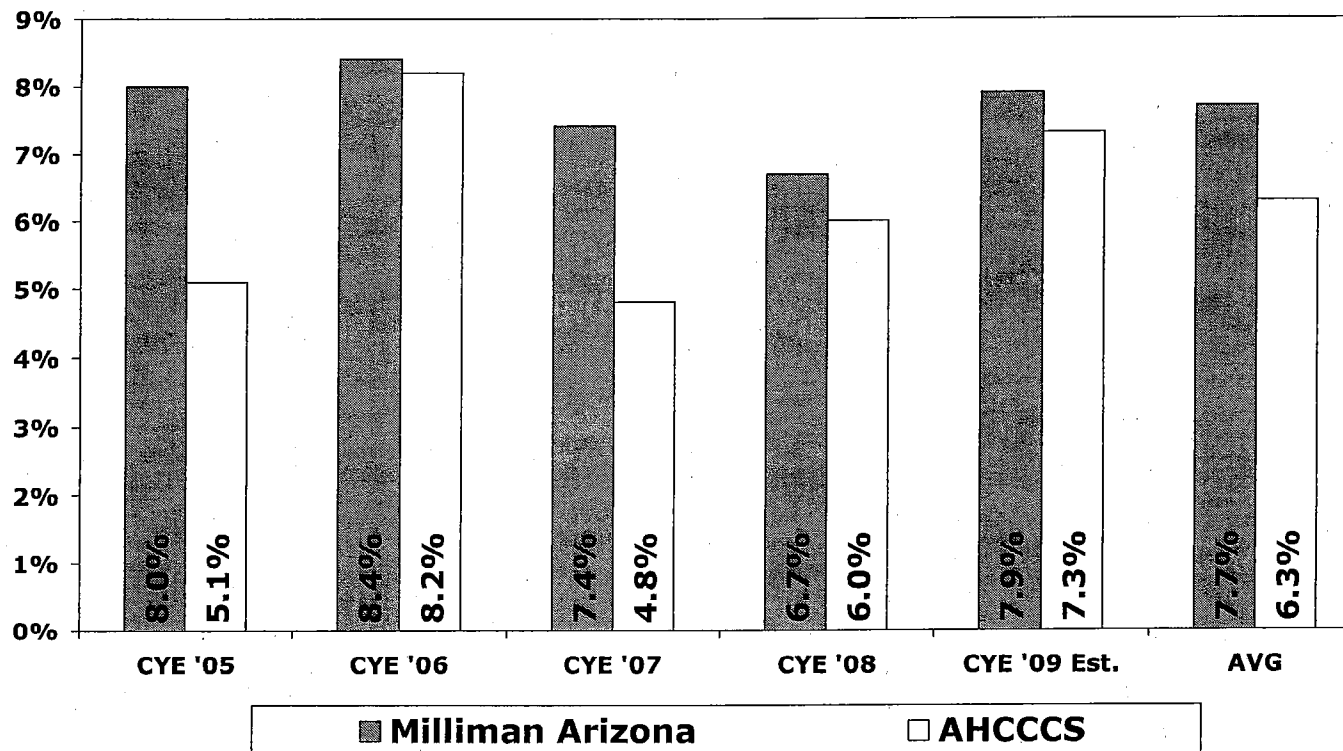
- AHCCCS Managed Care Model emphasizes private sector contracting and competition
- AHCCCS Managed Care Model integrates members and supports statewide health care infrastructure important to all Arizonans
- Over the past decade the uninsured rate in Arizona has decreased from 24.5% to 18.3% in 2007
- Managed Care Model has generated tremendous results
 - 2nd lowest PMPM nationally
 - Strong quality performance indicators

Arizona has the second lowest average annual Medicaid payment per member

| | | | | | |
|---|----------------|---|---------|--|---------|
| <input type="checkbox"/> California | \$2,701 | <input type="checkbox"/> Nevada | \$4,462 | <input type="checkbox"/> Iowa | \$5,692 |
| <input type="checkbox"/> Arizona | \$3,066 | <input type="checkbox"/> Wisconsin | \$4,505 | <input type="checkbox"/> Maryland | \$5,760 |
| <input type="checkbox"/> Georgia | \$3,560 | <input type="checkbox"/> New Mexico | \$4,565 | <input type="checkbox"/> Ohio | \$5,764 |
| <input type="checkbox"/> Oklahoma | \$3,571 | <input type="checkbox"/> Virginia | \$4,644 | <input type="checkbox"/> New Hampshire | \$5,896 |
| <input type="checkbox"/> Texas | \$3,598 | <input type="checkbox"/> Indiana | \$4,685 | <input type="checkbox"/> Kansas | \$5,902 |
| <input type="checkbox"/> Arkansas | \$3,617 | <input type="checkbox"/> Tennessee | \$4,761 | <input type="checkbox"/> Pennsylvania | \$5,932 |
| <input type="checkbox"/> Louisiana | \$3,823 | <input type="checkbox"/> Kentucky | \$4,763 | <input type="checkbox"/> West Virginia | \$6,121 |
| <input type="checkbox"/> Hawaii | \$4,051 | <input type="checkbox"/> Colorado | \$4,770 | <input type="checkbox"/> Massachusetts | \$6,837 |
| <input type="checkbox"/> South Carolina | \$4,260 | <input type="checkbox"/> Idaho | \$4,854 | <input type="checkbox"/> Minnesota | \$6,974 |
| <input type="checkbox"/> Michigan | \$4,348 | <input type="checkbox"/> Utah | \$4,914 | <input type="checkbox"/> New Jersey | \$7,022 |
| <input type="checkbox"/> Missouri | \$4,351 | <input type="checkbox"/> Wyoming | \$4,917 | <input type="checkbox"/> Connecticut | \$7,212 |
| <input type="checkbox"/> Alabama | \$4,378 | <input type="checkbox"/> South Dakota | \$4,939 | <input type="checkbox"/> Rhode Island | \$7,464 |
| <input type="checkbox"/> Florida | \$4,389 | <input type="checkbox"/> Delaware | \$4,992 | <input type="checkbox"/> North Dakota | \$7,496 |
| <input type="checkbox"/> Illinois | \$4,393 | <input type="checkbox"/> Vermont | \$5,315 | <input type="checkbox"/> Maine | \$7,691 |
| <input type="checkbox"/> Oregon | \$4,403 | <input type="checkbox"/> North Carolina | \$5,372 | <input type="checkbox"/> Alaska | \$7,699 |
| <input type="checkbox"/> Washington | \$4,439 | <input type="checkbox"/> Montana | \$5,383 | <input type="checkbox"/> New York | \$7,733 |
| <input type="checkbox"/> Mississippi | \$4,459 | <input type="checkbox"/> Nebraska | \$5,539 | <input type="checkbox"/> D.C. | \$7,941 |

Source: The Henry J. Kaiser Family Foundation, Statehealthfacts.org, based on data from CMS for FY2005 (accessed 01/05/09).

Overall Medical Inflation/Capitation Trends



AHCCCS Performance Measure Rates Compared to HEDIS Rates - CYE 2008

| Measurement Period: Rate Based on Contract Year End (CYE) | AHCCCS Performance Measure | Statewide KidsCare Average | Statewide Medicaid Average | 2007 HEDIS Medicaid Mean (Reported 2008) |
|---|--------------------------------------|----------------------------|----------------------------|--|
| CYE 2007 | Immunization of Two-year olds | | | |
| | <i>4:3:1 Series</i> | N/A | 84.4% | N/A |
| | <i>4:3:1:3:3 Series **</i> | 88.4% | 82.9% | 73.4%** |
| | <i>DTaP (4 doses)</i> | 92.1% | 85.6% | 79.3% |
| | <i>Polio (3 doses)</i> | 96.4% | 93.2% | 87.9% |
| | <i>MMR (1 dose)</i> | 96.9% | 94.2% | 91.1% |
| | <i>Hib (3 doses)</i> | 97.3% | 93.5% | 89.1% |
| | <i>HBV (3 doses)</i> | 96.3% | 94.0% | 88.4% |
| | <i>Varicella (1 dose)</i> | 95.6% | 92.0% | 88.9% |
| CYE 2007 | Dental Visits | 68.6% | 57.5% | 42.5% |
| CYE 2007 | Well-child Visits 15 Months | N/A | 58.6% | 55.6% |
| CYE 2007 | Well-child Visits 3 - 6 Years | 67.9% | 61.3% | 66.8% |

Bold indicates AHCCCS statewide rate above current HEDIS Medicaid average rate.

* A rate for the 4:3:1:3:3 Series (Combination #1) is no longer reported by NCQA.

rev. 2/3/09

Definitions:

Immunization of Two Year Olds

The percentage of completed immunizations for two year old children.
(4:3:1 series: four doses of DTaP, three doses of IPV and one MMR dose)

Annual Dental Visits

The percentage of children ages 3 through 20 years who had at least one dental visit within the measurement period.

Well Child Visits in the First 15 Months of Life

The proportion of 15 month-olds who received the recommended number of well-child visits during the measurement period (six visits).

Well Child Visits in the Third, Fourth, Fifth and Sixth Years of Life

The proportion of children who were 3, 4, 5, or 6 years old at the end of the measurement period who had at least one well-child visit during the measurement period.

AHCCCS Budgetary Options

- Eligibility – Ability to change limited by Federal Stimulus
- Benefits – Established by Federal and State Statutes
- No changes made in most recent budget –
- Provider Reimbursement –
 - 5% Physician and Transportation FFS reduction 2-1-09
 - 5% Physician reduction to acute capitation – 5-1-2009
 - Other Reductions at start of new Contract
 - Some Rates are Statutorily Protected
(Hospitals/Ambulance)
- Admin – AHCCCS has made significant changes

AHCCCS Administration

| | December 2006 | June 2009 (Projected) | % Change |
|--------------------------|---------------|--------------------------|----------|
| Members Enrolled | 1,026,284 | 1,175,576 | 15% |
| Total AHCCCS \$ | 6,791,832,600 | 8,462,496,900 | 25% |
| AHCCCS GF Admin \$ | 38,787,300 | 35,173,400 | -9% |
| AHCCCS Staff * | 1,341 | 1,237 | -8% |
| Staff Turnover (%) * | 22.4 | 10.9 | -51% |
| Verification WEB Hits * | 807,976 | 1,474,845 | 83% |
| Virtual Office FTE * | 98 | 370 | 278% |
| Commute Miles Avoided | 1,019,370 | 3,000,000 | 194% |
| Rented Sq Feet | 153,646 | 66,395 | -57% |
| Annual Rent Costs (TF) | 2,716,753 | 1,148,353 | -58% |
| Cars in Fleet * | 107 | 65 | -39% |

Note – FY 2007 GF Admin Approp adjusted to include FY 2008 mandated salary adjustments

* Denotes current Levels

AHCCCS Oversight

- AHCCCS' portion of the operating budget is equal to 1.1% of all Medicaid and SCHIP funds managed
- \$5.7 million (TF) or 6.2% is allocated to ADOA to cover data center costs
- Of the remaining funding 80% of the agency's operating budget is for personnel services and ERE
- The vast majority of the remaining 20% in other operating is for numerous fixed costs
 - AzNet - software maintenance – risk management – federally mandated postage – Rent

FY 2009 Budget Adjustments

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM
FY09 BUDGET REDUCTION IMPACTS

| Budget Reductions: | GF | Attainable | Lump Sum |
|---|-------------------|-------------------|-------------------|
| Laws 2009, First Special Session, Chapter 1: | | | |
| Section 3: Appropriation reductions | 24,931,100 | | |
| HCG | | 2,200,000 | 2,800,000 |
| Rollback DES IT | | 1,300,000 | - |
| Rollback GME ¹ | | 7,000,000 | - |
| Lump Sum | | - | 8,356,100 |
| Optional Benefits | | - | 3,275,000 |
| Subtotal Appropriation Reductions | 24,931,100 | 10,500,000 | 14,431,100 |
| Section 6: Personnel Service Lump Sum | 1,746,400 | 1,746,400 | |
| Section 9: Additional Approp Reductions | | | |
| Cost Sharing DRA Premiums | 75,000 | - | 75,000 |
| Implement DRA Alt Benefit package | 42,000 | - | 42,000 |
| Subtotal Additional Approp Reductions | 117,000 | - | 117,000 |
| Laws 2009, First Special Session, Chapter 4: | | | |
| Section 7 and 10 - Eliminate DSH | 13,124,500 | | |
| MIHS Funding | | 4,202,300 | - |
| Private DSH ² | | 8,751,000 | 171,200 |
| Subtotal DSH | 13,124,500 | 12,953,300 | 171,200 |
| Total Budget Reductions | 39,919,000 | 25,199,700 | 14,719,300 |

Notes:

- 1) AHCCCS is seeking further dialog with CMS to determine if the full amount on the rollback of GME will be available based on the GME language in the State Plan.
- 2) The \$171,200 in GF represents state match for \$500,000 in private DSH that has been submitted to CMS for approval. Per Federal Statute, AHCCCS must make a minimal payment to all qualifying hospitals in order to participate in the DSH program.

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM
FY09 BUDGET REDUCTION IMPACTS

| | General Fund | Estimated Total Fund ⁵ |
|--|-------------------|--------------------------------------|
| Lump Sum Allocation: | | |
| Rural Hospital Funding - Leaves \$537,500 (5/1/09) | 3,611,100 | 14,450,200 |
| Additional Administrative Reductions | 1,306,800 | 2,613,600 |
| County Prop 204 Hold Harmless ⁴ (6/15/09) | 4,825,600 | 4,825,600 |
| Eliminate Part D Copays (2/28/09) | 1,500,000 | 1,500,000 |
| Implement 5% FFS Reduction (2/1/09) | 1,021,800 | 4,088,800 |
| KidsCare and Parents Premiums Increase (5/1/09) | 270,000 | 1,130,700 |
| Acute Care Rates - Provider 5% reduction (4/1/09 - 5/1/09) | 1,384,000 | 5,538,400 |
| Retro Claim Out-of-State Hosp (6/1/09) ⁶ | 400,000 | 1,183,400 |
| Retro COB Claim (6/1/09) ⁷ | 400,000 | 1,183,400 |
| Total Lump Sum Reductions | 14,719,300 | 36,514,100 |
| Attainable Reductions: | | |
| HCG | 2,200,000 | 2,200,000 |
| Rollback DES IT | 1,300,000 | 2,600,000 |
| Rollback GME ^{1,3} | 7,000,000 | 20,449,900 |
| Personnel Services Reduction | 1,746,400 | 3,492,800 |
| DSH Reduction | | |
| MIHS | 4,202,300 | 4,202,300 |
| Private ² | 8,751,000 | 25,647,700 |
| Total Attainable Reductions | 25,199,700 | 58,592,700 |
| GRAND TOTAL AHCCCS REDUCTIONS | 39,919,000 | 95,106,800 |

Notes:

- 1) AHCCCS is seeking further dialog with CMS to determine if the full amount on the rollback of GME will be available based on the GME language in the State Plan.
- 2) The \$8,751,000 represents the difference between the FY09 Private DSH appropriation and the \$171,200 that will be used as state match for \$500,000 in private DSH that will be paid out if approved by CMS.
- 3) Although the increased FMAP provisions do apply to GME, the total fund available for GME is limited based on language in the State Plan.
- 4) The \$4,825,600 for County Hold Harmless includes \$234,200 for Graham County, \$3,817,800 for Pima County, \$234,400 for Greenlee County, \$159,700 for La Paz County, \$214,800 for Santa Cruz County, and \$164,700 for Yavapai County.
- 5) For matchable programmatic lines the estimated total fund impact is based on the projected FMAP increase in the Federal Stimulus of 75.01%.
- 6) This figure represents a retroactive adjustment to out-of-state hospital payments.
- 7) This figure represents claims AHCCCS discovered retroactively that should have been paid by Blue Cross Blue Shield, a commercial health insurer, as the primary payer. Under federal law, Medicaid must be the payer of last resort.



Rural Hospital Inpatient Fund Distribution

| | 2008 | Estimated 2009 |
|--|--------------------------|--------------------------|
| | <u>Allocation</u> | <u>Allocation</u> |
| <u>Total RHIF Available by Pool</u> | | |
| Pool 1: 25 or Fewer Beds | \$2,905,200 | \$413,875 |
| Pool 2: 26 to 75 Beds | \$5,241,111 | \$1,010,219 |
| Pool 3: 76 to 100 Beds | \$4,011,789 | \$726,806 |
| Total | \$12,158,100 | \$2,150,900 |
| | | |
| <u>Pool 1: 25 or Fewer Beds</u> | | |
| Wickenburg Regional Health Center * | \$19,032 | \$4,163 |
| Copper Queen Community Hospital* | \$46,725 | \$9,925 |
| White Mountain Regional Medical Center* | \$104,957 | \$18,700 |
| Sage Memorial Hospital * | \$63,825 | \$27,975 |
| Benson Hospital * | \$76,536 | \$12,077 |
| Little Colorado Medical Center * | \$861,372 | \$106,803 |
| Northern Cochise Community Hospital * | \$68,085 | \$8,720 |
| Carondelet Holy Cross* | \$734,670 | \$50,840 |
| Page Hospital * | \$329,038 | \$90,316 |
| Southeastern Az Medical Center * | \$84,736 | \$13,149 |
| Cobre Valley Community Hospital* | \$516,224 | \$71,207 |
| Pool 1 Total | \$2,905,200 | \$413,875 |
| | | |
| <u>Pool 2: 26 to 75 Beds</u> | | |
| La Paz Regional Hospital | \$170,084 | \$27,558 |
| Payson Regional Medical Center | \$1,369,185 | \$240,079 |
| Mount Graham Regional Medical Center | \$966,814 | \$162,714 |
| Navapache Regional Medical Center | \$1,749,848 | \$319,535 |
| YRMC East | \$231,602 | \$66,071 |
| Valley View Medical Center | \$753,579 | \$194,262 |
| Pool 2 Total | \$5,241,111 | \$1,010,219 |
| | | |
| <u>Pool 3: 76 to 100 Beds</u> | | |
| Sierra Vista Regional Health | \$1,575,472 | \$295,677 |
| Verde Valley Medical Center | \$2,436,317 | \$431,129 |
| Pool 3 Total | \$4,011,789 | \$726,806 |

*CAH Hospital

AHCCCS

FY 2008 GME and DSH Payments

| | FY 2008 | | TOTAL |
|------------------------------------|----------------------|----------------------|----------------------|
| | GME | DSH | |
| ARROWHEAD COMMUNITY HOSPITAL | \$ - | \$ 14,695 | \$ 14,695 |
| BANNER BAYWOOD MEDICAL CENTER | \$ - | \$ 263,337 | \$ 263,337 |
| BANNER DESERT MEDICAL CENTER | \$ - | \$ 2,522,735 | \$ 2,522,735 |
| BANNER ESTRELLA MEDICAL CENTER | \$ - | \$ 630,217 | \$ 630,217 |
| BANNER GOOD SAMARITAN MED CENTER | \$ 1,066,999 | \$ 1,048,308 | \$ 2,115,307 |
| BANNER THUNDERBIRD MED CENTER | \$ - | \$ 1,104,352 | \$ 1,104,352 |
| CARONDELET HOLY CROSS HOSPITAL | \$ - | \$ 132,162 | \$ 132,162 |
| CARONDELET ST. JOSEPH'S - TUCSON | \$ - | \$ 172,376 | \$ 172,376 |
| CARONDELET ST. MARY'S HOSPITAL | \$ - | \$ 636,464 | \$ 636,464 |
| CASA GRANDE REGIONAL MEDICAL CTR | \$ - | \$ 357,257 | \$ 357,257 |
| CHANDLER REGIONAL HOSPITAL | \$ - | \$ 384,981 | \$ 384,981 |
| COBRE VALLEY COMMUNITY HOSPITAL | \$ - | \$ 30,276 | \$ 30,276 |
| COPPER QUEEN COMMUNITY HOSPITAL | \$ - | \$ 53,981 | \$ 53,981 |
| DEL E WEBB MEMORIAL HOSPITAL | \$ - | \$ 48,479 | \$ 48,479 |
| FLAGSTAFF MEDICAL CENTER | \$ - | \$ 479,499 | \$ 479,499 |
| HACIENDA DE LOS NINOS | \$ - | \$ 563,100 | \$ 563,100 |
| JOHN C LINCOLN HOSP - DEER VALLEY | \$ - | \$ 5,000 | \$ 5,000 |
| JOHN C LINCOLN HOSP - NORTH MTN | \$ - | \$ 363,317 | \$ 363,317 |
| KINGMAN REGIONAL MEDICAL CENTER | \$ 1,719,180 | \$ 10,268 | \$ 1,729,448 |
| MARICOPA COUNTY MEDICAL CENTER | \$ 2,541,377 | \$ 4,200,000 | \$ 6,741,377 |
| MARYVALE HOSPITAL MEDICAL CENTER | \$ - | \$ 3,382,372 | \$ 3,382,372 |
| MAYO HOSPITAL | \$ 1,021,852 | \$ - | \$ 1,021,852 |
| MT GRAHAM REGIONAL MEDICAL CENTR | \$ - | \$ 72,680 | \$ 72,680 |
| NAVAPACHE REGIONAL MEDICAL CTR | \$ - | \$ 144,545 | \$ 144,545 |
| NORTHWEST MEDICAL CENTER | \$ - | \$ 256,324 | \$ 256,324 |
| PAGE HOSPITAL | \$ - | \$ 78,856 | \$ 78,856 |
| PHOENIX BAPTIST HOSPITAL | \$ - | \$ 977,736 | \$ 977,736 |
| PHOENIX CHILDREN'S HOSPITAL | \$ 1,738,287 | \$ 3,550,291 | \$ 5,288,578 |
| SAGE MEMORIAL HOSPITAL | \$ - | \$ 29,062 | \$ 29,062 |
| SCOTTSDALE HEALTHCARE - OSBORN | \$ 3,014 | \$ 355,029 | \$ 358,043 |
| SCOTTSDALE HEALTHCARE - SHEA | \$ 16,031 | \$ 64,360 | \$ 80,391 |
| SIERRA VISTA REGIONAL HEALTH CTR | \$ 590,651 | \$ - | \$ 590,651 |
| SOUTHEAST ARIZONA MEDICAL CENTER | \$ - | \$ 113,233 | \$ 113,233 |
| ST. JOSEPH'S HOSPITAL - PHOENIX | \$ 2,660,887 | \$ 4,613,477 | \$ 7,274,364 |
| TEMPE ST. LUKE'S HOSPITAL | \$ - | \$ - | \$ - |
| TUCSON MEDICAL CENTER | \$ 374,771 | \$ 958,953 | \$ 1,333,724 |
| UNIVERSITY MEDICAL CENTER | \$ 3,745,776 | \$ 1,536,749 | \$ 5,282,525 |
| UNIVERSITY PHYSICIANS HOSP AT KINO | \$ 683,121 | \$ 470,873 | \$ 1,153,994 |
| WEST VALLEY HOSPITAL | \$ - | \$ 313,065 | \$ 313,065 |
| WHITE MOUNTAIN REGIONAL MC | \$ - | \$ 7,789 | \$ 7,789 |
| YUMA REGIONAL MEDICAL CENTER | \$ - | \$ 401,502 | \$ 401,502 |
| TOTAL | \$ 16,161,945 | \$ 30,347,700 | \$ 46,509,645 |

SFY 2008 GME Distributions By Pool

| | DIRECT GME | | | INDIRECT ME | | Total |
|----------------------------------|-------------------------------------|-------------------------------------|--|---|-------------------------------------|-------------------|
| | GME A "Traditional" | GME B "Expansions" | GME C1 "Expansions - New" | IME C2 "Rural Rotations" | IME IGT | |
| Banner Good Samaritan | 2,665,882 | 901,479 | 165,520 | 0 | 0 | 3,732,880 |
| John C. Lincoln -- Deer Valley | 17,518 | 0 | 0 | 0 | 0 | 17,518 |
| Kingman Regional | 0 | 650,068 | 0 | 1,069,112 | 0 | 1,719,180 |
| Mayo Hospital | 0 | 938,024 | 83,827 | 0 | 0 | 1,021,852 |
| Maricopa County Medical Center | 7,925,439 | 1,997,168 | 544,208 | 0 | 18,000,000 | 28,466,815 |
| Phoenix Baptist Hospital | 171,929 | 0 | 0 | 0 | 0 | 171,929 |
| Phoenix Children's Hospital | 4,471,644 | 1,395,214 | 343,072 | 0 | 0 | 6,209,930 |
| Scottsdale Healthcare -- Osborn | 192,865 | 3,014 | 0 | 0 | 0 | 195,879 |
| Scottsdale Healthcare -- Shea | 53,393 | 16,031 | 0 | 0 | 0 | 69,425 |
| St. Joseph's Hospital -- Phoenix | 3,316,250 | 2,090,156 | 570,731 | 0 | 0 | 5,977,137 |
| Sierra Vista Regional | 0 | 0 | 131,270 | 459,381 | 0 | 590,651 |
| Tucson Medical Center | 736,196 | 365,559 | 9,212 | 0 | 0 | 1,110,966 |
| University Medical Center | 3,707,661 | 3,448,387 | 95,906 | 201,483 | 9,602,087 | 17,055,524 |
| University Physicians | 0 | 205,071 | 478,050 | 0 | 1,235,968 | 1,919,089 |
| Walter Boswell Memorial Hospital | 3,624 | 0 | 0 | 0 | 0 | 3,624 |
| | 23,262,400 | 12,010,172 | 2,421,797 | 1,729,976 | 28,838,055 | 68,262,400 |
| Federal Funds | 15,416,000 | 7,959,141 | 1,604,925 | 1,146,455 | 19,110,979 | 45,237,500 |
| General Funds | 7,846,400 | 4,051,031 | 816,872 | 583,521 | | 13,297,824 |
| Political Subdivision Funds | 0 | 0 | 0 | 0 | 9,727,076 | 9,727,076 |
| Total Funds | 23,262,400 | 12,010,172 | 2,421,797 | 1,729,976 | 28,838,055 | 68,262,400 |
| | ARS 36-2903.01 (H)(9)(a) | ARS 36-2903.01 (H)(9)(b) | ARS 36-2903.01 (H)(9)(c)(i) | ARS 36-2903.01 (H)(9)(c)(ii) | ARS 36-2903.01 (H)(9)(f) | |

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

SUMMARY COMPARISON: GME "EXPANSIONS" FUNDING SFY 2007 vs. SFY 2008

| | Residents 2007 | | Funds 2007 | Residents 2008 | | Funds 2008 | Increase or Decrease | | |
|--|----------------|-------------------|-------------------------|----------------|-------------------|-------------------------|----------------------|-------------------|-------------------------|
| | Total Eligible | Medicaid-Adjusted | Expansions Distribution | Total Eligible | Medicaid-Adjusted | Expansions Distribution | Total Eligible | Medicaid-Adjusted | Expansions Distribution |
| Banner Good Samaritan | 35 | 10 | \$900,473 | 33 | 12 | \$1,066,999 | -2 | 1 | \$166,525 |
| Del Webb Memorial | 0 | 0 | \$0 | 0 | 0 | \$0 | 0 | 0 | \$0 |
| John C. Lincoln -- Deer Valley | 0 | 0 | \$0 | 0 | 0 | \$0 | 0 | 0 | \$0 |
| John C. Lincoln -- North Mtn | 0 | 0 | \$0 | 0 | 0 | \$0 | 0 | 0 | \$0 |
| Kingman Regional Medical Center | 20 | 6 | \$526,829 | 24 | 7 | \$650,068 | 3 | 1 | \$123,239 |
| Mayo Clinic Hospital | 90 | 5 | \$389,405 | 111 | 11 | \$1,021,852 | 21 | 7 | \$632,446 |
| Maricopa County Medical Center | 39 | 33 | \$2,893,945 | 42 | 28 | \$2,541,377 | 3 | -6 | -\$352,568 |
| Phoenix Baptist Hospital | 0 | 0 | \$0 | 0 | 0 | \$0 | 0 | 0 | \$0 |
| Phoenix Children's Hospital | 28 | 14 | \$1,221,842 | 34 | 19 | \$1,738,287 | 6 | 5 | \$516,444 |
| Scottsdale Healthcare -- Osborn | 0 | 0 | \$0 | 0 | 0 | \$3,014 | 0 | 0 | \$3,014 |
| Scottsdale Healthcare -- Shea | 1 | 0 | \$9,985 | 1 | 0 | \$16,031 | 0 | 0 | \$6,046 |
| St. Joseph's Hospital -- Phoenix | 34 | 15 | \$1,323,650 | 58 | 29 | \$2,660,887 | 24 | 14 | \$1,337,237 |
| Sierra Vista Regional Health Center | 5 | 1 | \$120,460 | 5 | 1 | \$131,270 | 0 | 0 | \$10,810 |
| Tucson Medical Center | 9 | 4 | \$327,660 | 10 | 4 | \$374,771 | 1 | 0 | \$47,110 |
| University Medical Center | 81 | 32 | \$2,789,817 | 86 | 38 | \$3,544,293 | 5 | 6 | \$754,476 |
| University Physicians Hospital at Kino | 1 | 0 | \$42,574 | 18 | 7 | \$683,121 | 17 | 7 | \$640,548 |
| Walter Boswell Memorial Hospital | 0 | 0 | \$0 | 0 | 0 | \$0 | 0 | 0 | \$0 |
| | 344 | 122 | \$10,546,641 | 422 | 157 | \$14,431,969 | 78 | 35 | \$3,885,329 |

All figures above are rounded.

| | | |
|--|---------------|---------------|
| | 2007 | 2008 |
| Statewide Average Per-Resident Conversion Factors: | \$86,483.6661 | \$92,119.2383 |

Additional Information

**ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM
FEDERAL FMAP INCREASE PROPOSAL BY COMPONENT**

| | Unemployment Tier 2 - State Match by SFY | | | | Total |
|--------------------------|--|--------------------|--------------------|-------------------|----------------------|
| | SFY09 | SFY10 | SFY11 | SFY12+ | |
| Hold Harmless | 24,800,900 | 37,003,300 | 20,248,200 | 809,200 | 82,861,600 |
| General 6.2% | 357,596,100 | 515,432,500 | 278,980,800 | 11,146,000 | 1,163,155,400 |
| Unemployment | 150,536,400 | 216,979,500 | 117,441,500 | 4,692,000 | 489,649,400 |
| Total State Match | 532,933,400 | 769,415,300 | 416,670,500 | 16,647,200 | 1,735,666,400 |
| GF Savings | 484,745,700 | 702,411,700 | 379,609,200 | 14,647,600 | 1,581,414,200 |
| County Savings | 48,187,700 | 67,003,600 | 37,061,300 | 1,999,600 | 154,252,200 |

| | Unemployment Tier 2 for First 2 Quarters then Tier 3 - State Match by SFY | | | | Total |
|--------------------------|---|--------------------|--------------------|-------------------|----------------------|
| | SFY09 | SFY10 | SFY11 | SFY12+ | |
| Hold Harmless | 24,800,900 | 37,003,300 | 20,248,200 | 809,200 | 82,861,600 |
| General 6.2% | 357,596,100 | 515,432,500 | 278,980,800 | 11,146,000 | 1,163,155,400 |
| Unemployment | 168,847,400 | 293,463,400 | 158,839,000 | 6,345,600 | 627,495,400 |
| Total State Match | 551,244,400 | 845,899,200 | 458,068,000 | 18,300,800 | 1,873,512,400 |
| GF Savings | 501,448,900 | 772,234,900 | 417,324,900 | 16,102,800 | 1,707,111,500 |
| County Savings | 49,795,500 | 73,664,300 | 40,743,100 | 2,198,000 | 166,400,900 |

Notes:

- 1) Estimated savings are based primarily on AHCCCS December Rebase budget (adjusted for zero inflation) and include AHCCCS, ADHS (BHS and CRS), and DES DD expenditure savings.
- 2) Savings extend into SFY2012 due to the tail on reinsurance payments which is claimed based on the date of service FMAP. Some may actually extend into SFY13, however, the majority would be in by SFY12.

**ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM
FEDERAL FMAP RELIEF ANALYSIS**

Current FMAP:

| <u>FFY</u> | <u>FMAP</u> | <u>SMAP</u> |
|-------------|-------------|-------------|
| 2008 | 66.20% | 33.80% |
| 2009 | 65.77% | 34.23% |
| 2010 | 65.75% | 34.25% |

FMAP Recession Adjustment Period - October 1, 2008 to December 31, 2010
Covers 9 Quarters (3 in SFY09; 4 in SFY10; 2 in SFY11)

Section (a) Permitting Maintenance of FMAP (Hold Harmless):
Results in AZ maintaining FFY08 FMAP of 66.20% as starting point for entire adjustment period

Section (b) General 6.2% Increase:

| <u>FFY</u> | <u>FMAP</u> | <u>+6.2%</u> | <u>Adj FMAP</u> | <u>Adj SMAP</u> |
|-------------|-------------|--------------|-----------------|-----------------|
| 2008 | 66.20% | 6.20% | 72.40% | 27.60% |
| 2009 | 66.20% | 6.20% | 72.40% | 27.60% |
| 2010 | 66.20% | 6.20% | 72.40% | 27.60% |

Section (c) Increased Unemployment Adjustment:

Allows for an additional adjustment if the state meets criteria as a "High Unemployment State". The adjustment is calculated as the SMAP less 3.1 percentage points times the State unemployment reduction factor, which is determined based on the unemployment percentage increase between the most recent 3 consecutive month period (which for the first 2 quarters of the recession adjustment period is defined as Oct-08 to Dec-08) and the lowest average monthly unemployment for any 3 consecutive month period beginning 1/1/06.

The adjustment is as follows:

Less than 1.5% = 0% unemployment increase (State does not qualify as "High Unemployment")
 1.5% - 2.5% = 5.5% times SMAP (for Arizona it would be 33.8% less 3.1% times 5.5% = 1.69%)
 2.5% - 3.5% = 8.5% times SMAP (for Arizona it would be 33.8% less 3.1% times 8.5% = 2.61%)
 More than 3.5% = 11.5% times SMAP (for Arizona it would be 33.8% less 3.1% times 11.5% = 3.53%)

Based on a Bureau of Labor Statistics Report, for Arizona the lowest three consecutive months were April-June 2007 which averaged 3.63%. The most recent three consecutive month period is 6.1% for Oct-08; 6.3% for Nov-08; and 6.9% for December (preliminary). This would result in an average of 6.43 which is 2.8% higher than the lowest three months and would qualify Arizona for an additional 3.14% FMAP increase. If Arizona unemployment goes above 7.13% for three consecutive months we would move into the third tier.

| <u>FFY</u> | <u>FMAP</u> | <u>+6.2%</u> | <u>Adj FMAP</u> | <u>Unempl.</u> <u>(Tier 2)</u> | <u>Unempl.</u> <u>(Tier 3)</u> | <u>Adj FMAP</u> <u>(Tier 2)</u> | <u>Adj FMAP</u> <u>(Tier 3)</u> |
|-------------|-------------|--------------|-----------------|-----------------------------------|-----------------------------------|------------------------------------|------------------------------------|
| 2008 | 66.20% | 6.20% | 72.40% | 2.61% | 3.53% | 75.01% | 75.93% |
| 2009 | 66.20% | 6.20% | 72.40% | 2.61% | 3.53% | 75.01% | 75.93% |
| 2010 | 66.20% | 6.20% | 72.40% | 2.61% | 3.53% | 75.01% | 75.93% |

**ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM
FEDERAL FMAP RELIEF ANALYSIS**

The Projected FMAP increases for Arizona would be:

| FFY | Current FMAP | Adj FMAP (Tier 2) | Adj FMAP (Tier 3) | Increase (Tier 2) | Increase (Tier 3) |
|------------------|---------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 2009 | 65.77% | 75.01% | 75.93% | 9.24% | 10.16% |
| 2010 | 65.75% | 75.01% | 75.93% | 9.26% | 10.18% |
| 2011 (1Q) | 65.75% | 75.01% | 75.93% | 9.26% | 10.18% |

The Estimated Savings using the AHCCCS December-08 Zero Inflation Rebase are shown on the following page.

Section (e) Scope of Application

This does not apply to Title XXI enhanced FMAP or Title XIX programs based on enhanced FMAP (Breast and Cervical) or to DSH payments.

Section (f) Ineligibility and Limitation:

States are ineligible for increased FMAP if eligibility standards, methodologies, or procedures are more restrictive than what was in effect 7/1/08.

States must comply with prompt payment requirements (quarterly reporting requirement)

Prompt payment requirements also apply to Hospitals and NF effective 6/1/09

States cannot deposit or credit any reserve or rainy day funds with revenue from increased FMAP

States can still adjust benefit packages and be eligible

Section (g) Political Subdivisions/Requirements

State is ineligible for FMAP increase if it requires political subdivisions (ie Counties) to pay a greater percentage of the non-federal share for quarters during the recession adjustment period than the percentage that would have been required by the State under such plan on September 2008 prior to the application of this section.

States are required to submit quarterly reports regarding how the additional federal funds were spent

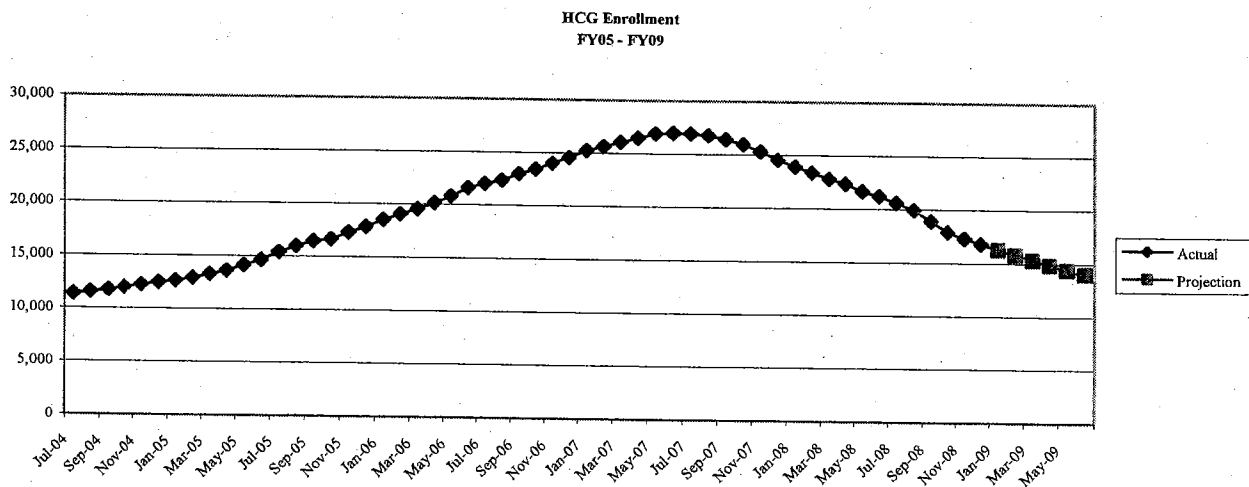
ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM HEALTHCARE GROUP OVERVIEW

Financial and Enrollment Summary

Revenues, Expenses and Changes in Net Assets (Deficit)
(amounts expressed in thousands)

| | Actual FY 05 | Actual FY 06 | Actual FY 07 | Actual FY 08 | Forecast* FY 09 |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|--------------------|
| Operating Income | 33,616 | 50,392 | 70,007 | 77,042 | 60,000 |
| Operating Expense | 38,460 | 56,625 | 90,708 | 76,825 | 58,300 |
| Net Operating Income (Loss) | (4,844) | (6,233) | (20,701) | 217 | 1,700 |
| Nonoperating Revenue | 159 | 501 | 652 | 453 | 290 |
| Income (Loss) Before Transfers | (4,685) | (5,732) | (20,049) | 670 | 1,990 |
| Transfers in | 3,700 | - | - | 7,250 | 2,800 |
| Change in Net Assets (Deficit) | (985) | (5,732) | (20,049) | 7,920 | 4,790 |

* Based on first 5 months of data



Recent Legislative and Program Changes

- HB2275 implemented
 - Enrollment freeze lifted, cap placed on enrollment (limited to 5% enrollment growth in number of businesses) and enrollment limited to groups of 2 to 50.
 - Groups of 1 grandfathered in
 - Bare period decreased from 6 months to 3 months.
 - Eliminated PPO/PPOS benefit plan in counties of greater than 500,000 (9-08)
 - Hospital default increased in counties less than 500,000 to 125% of AHCCCS rate
- Eliminated enrollment into \$500 deductible HMO plans 1/1/09. Transitioned members out of the \$500 deductible option into a \$1,000 deductible option as of midnight 12/31/08.
- Eliminated \$1,000 deductible option in PPOS effective 1/1/09. Transitioned members into a \$2,000 deductible option as of midnight 12/31/08.
- Eliminated additional benefit options, streamlined to 5 managed care benefit options and 4 PPOS benefit options.

Average Premium Increases

- FY06 = 14%; FY07 = 17%; FY08 = 17.6%

Outstanding Unfunded Liability

- HCG has approximately \$15.3 million in outstanding unfunded liability.

SCHIP Reauthorization 2009

Overview

- SCHIP, or KidsCare as it is known in Arizona, was created in 1998 for a ten year period, which was set to expire September 2008.
- Instead of a complete reauthorization of the program, Congress passed a temporary extension of SCHIP that expires April 1, 2009.
- Congress recently passed, and the President signed, a bill to reauthorize and expand the SCHIP program for four and a half years.
- The estimated \$32.8 billion cost will be funded through an increase in the federal cigarette tax of 62 cents per pack, up from 61 cents in previous versions.
- The increase is designed to assist states in covering 4.1 million previously uninsured children.

Funding

- For FFY 2009 Congress increased funding from \$5.04 Billion to \$9.2 Billion or 82%.
- Under current law Arizona receives an allocation of \$149.1 million in FFY 2009. Under the proposed reauthorization the Arizona allotment would increase to \$171.2 million or 15% .
- AHCCCS is currently estimating that in State Fiscal Year 2009 the program will spend approximately \$112.1 million.
- The imposition of an additional Tobacco Tax at the federal level will also result in a decrease in State Tobacco Taxes. Currently AHCCCS has \$137.7 million in Tobacco Tax funds allocated to support the program.

Key Elements of Reauthorization

- Provides financial incentives to states that enroll more uninsured children in SCHIP or Medicaid.
- Allows for coverage of pregnant women through the SCHIP program.
- Allows Arizona to continue coverage of parents enrolled in KidsCare at enhanced FMAP through 2011, but beginning FY2012 requires the state to meet certain benchmarks related to enrollment of children.
- Allows states to cover legal immigrant children and pregnant women under the five-year bar that were previously ineligible for SCHIP or Medicaid.

KidsCare Fact Sheet

Background:

In 1997, Congress passed the State Children's Health Insurance Program (SCHIP), known as KidsCare in Arizona, as an optional block grant program¹. Shortly after, the Arizona Legislature enacted the KidsCare program. In 2003, KidsCare was extended to parents of children enrolled.

Enrollment as of 2/1/09:

- Children: 59,500
- Parents: 9,200

Premium Changes:

In response to budget reductions as part of the 2009 Legislative Special Session to address Arizona's significant budget shortfall, Arizona submitted a request to the Centers for Medicare and Medicaid Services to raise KidsCare premiums². It is anticipated that the new premium levels will generate \$5.6 m annualized (\$1.3 m GF). Previously, monthly premiums were applied as follows³:

| | 100%-150% FPL | | 151%-175% FPL | | 176%-200% FPL | |
|--|-------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Parent⁴ Premiums⁵ | 3% Net Household Income | | 4% Net Household Income | | 5% Net Household Income | |
| Family of 4 Premium: | \$53.01-\$79.50/ month | | \$106.00-\$123.68/ month | | \$154.60-\$176.70/ month | |
| Children Only | \$10 | \$15 more than one child | \$20 | \$30 more than one child | \$25 | \$35 more than one child |

* Failure to pay premiums will result in losing coverage in the KidsCare program.

As of May 1, 2009 and upon CMS approval, monthly premiums will be assessed as follows:

| | 100%-150% FPL | | 151%-175% FPL | | 176%-200% FPL | |
|-----------------------------|-------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Parent Premiums | 3% Net Household Income | | 5% Net Household Income | | 5% Net Household Income | |
| Family of 4 Premium: | \$53.01-\$79.50/ month | | \$132.50-\$154.60/ month | | \$154.60-\$176.70/ month | |
| Children Only | \$10 | \$15 more than one child | \$40 | \$60 more than one child | \$50 | \$70 more than one child |

* Failure to pay premiums will result in losing coverage in the KidsCare program.

Total KidsCare Program Budget:

The Programmatic Budget amounts below are based on proposed Premium increases described above:

- FY 2009: Total Funds = \$161,455,900
(General Fund \$35,165,500; Federal Fund \$112,131,600; Premiums \$14,158,800)

¹ KidsCare is not an entitlement program

² Premiums are based on a family's household size and monthly income before deductions

³ American Indian members are not subject to premiums

⁴ Parents are also subject to one-time enrollment fees ranging from \$15-25 depending on income

⁵ Premium amounts include children in the household

**ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM
PROPOSITION 204 GENERAL FUND COST VS. MNMI PROGRAM COST**

BACKGROUND

Prior to the passage of Proposition 204, Arizona had a 100% State Only (General Fund) program for Medically Needy/Medically Indigent (MNMI) members. The MNMI program included both an FPL (MI) based population and a spend-down (MN) population. Under the MN option, medical expenses could be used to reduce the applicant's total annual income, thus allowing an applicant to "spend-down" to below the income eligibility threshold of 40% FPL and become eligible for services.

According to the JLBC 2001 Appropriations Report, the projected member years for the MNMI population was just over 19,000 members. However, it should be noted that in the early 1980's, there were over 50,000 of these members. These were very expensive members as the majority came into the program after an extensive hospitalization. For the first nine months of SFY 2001 (these members were transferred to Proposition 204 effective April 2001), the cost to cover this population was \$151.2 million. On an annualized basis, the cost of this program was \$201.6 million, not including a mental health benefit.

GENERAL FUND COST FY 2002-2010

Assuming a very conservative medical inflation growth rate of 6% annually and a flat population growth rate, the estimated General Fund cost to provide healthcare for this population without federal assistance in FY2002 – FY2010 would have been \$2.5 Billion, as shown in the table below:

| Year | Population | GF Cost (Thousands) |
|-----------|------------|------------------------|
| FY2001 | 19,000 | 201,600 |
| Growth | 0.0% | 6.0% |
| FY2002 | 19,000 | 213,700 |
| FY2003 | 19,000 | 226,500 |
| FY2004 | 19,000 | 240,100 |
| FY2005 | 19,000 | 254,500 |
| FY2006 | 19,000 | 269,800 |
| FY2007 | 19,000 | 286,000 |
| FY2008 | 19,000 | 303,200 |
| FY2009 | 19,000 | 321,400 |
| FY2010 | 19,000 | 340,700 |
| FY02-FY10 | | 2,455,900 |

PROPOSITION 204 FUND SOURCES

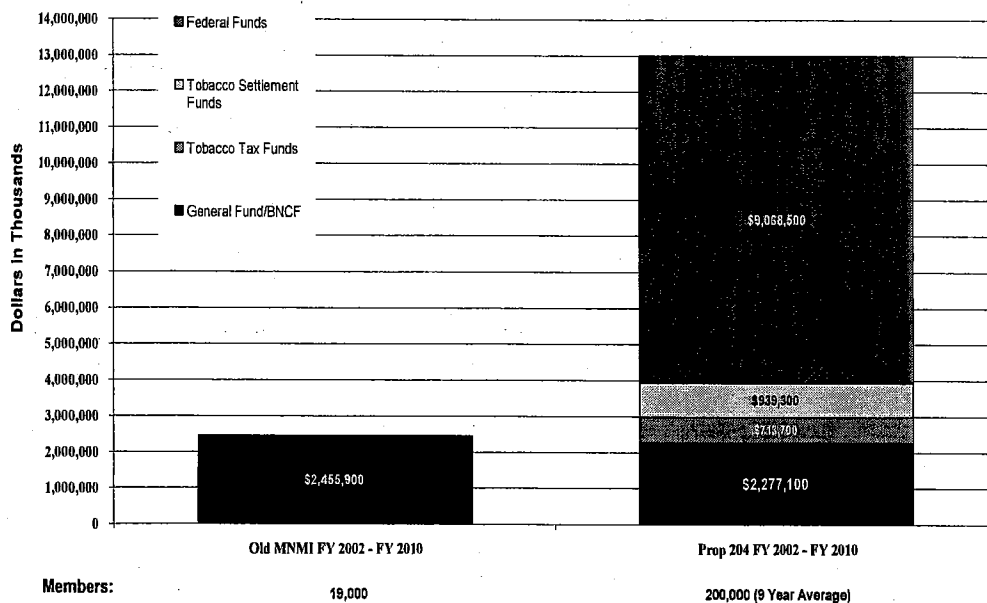
With the passage of Proposition 204, eligibility for all Arizona citizens was expanded to include those whose income is up to 100% FPL in all the traditional Medicaid populations. AHCCCS requested and received a waiver from the Center for Medicare and Medicaid Services (CMS) to federalize this state-only population. Proposition 204 has since been funded with a combination of State General Fund, Arizona Tobacco Litigation Settlement Funds, Tobacco Tax and Health Care Fund (Medically Needy Account), Proposition 303 Tobacco Funds (including the AHCCCS Emergency Health

Services Account and the Proposition 204 Protection Accounts), and Federal Funds. The annual fund sources are shown in the table below. The Proposition 204 population now includes over 264,000 members as of January 1, 2009.

| (Dollars in Thousands) | | | | | | |
|------------------------|--|--------------|-------------|---------|-----------|------------|
| Year | Enrollment (as of January for each year) | | | | | Total |
| | | General Fund | Tobacco Tax | ATLS | Federal | |
| FY2002 | 102,068 | 134,900 | - | 133,400 | 386,800 | 655,100 |
| FY2003 | 164,401 | 91,300 | 54,900 | 109,100 | 607,400 | 862,700 |
| FY2004 | 200,315 | 114,900 | 93,600 | 91,800 | 807,700 | 1,108,000 |
| FY2005 | 226,703 | 195,000 | 101,300 | 90,300 | 939,300 | 1,325,900 |
| FY2006 | 230,710 | 247,000 | 103,900 | 86,400 | 978,600 | 1,415,900 |
| FY2007 | 218,337 | 252,600 | 105,900 | 86,300 | 958,000 | 1,402,800 |
| FY2008 | 241,449 | 300,300 | 101,500 | 114,000 | 1,107,200 | 1,623,000 |
| FY2009 Est. | 264,260 | 461,000 | 76,300 | 114,000 | 1,567,100 | 2,218,400 |
| FY2010 Est. | 275,757 | 480,100 | 76,300 | 114,000 | 1,716,400 | 2,386,800 |
| FY02-FY10 | | 2,277,100 | 713,700 | 939,300 | 9,068,500 | 12,998,600 |

PROPOSITION 204 SAVINGS

By leveraging federal funds and tobacco funding, Arizona has been able to cover twelve times as many people as were covered under the former MNMI program. Additionally, the Proposition 204 program includes a mental health benefit, which was not included under the old MNMI program. The General Fund cost over the past seven years has been \$178.8 million less than what the cost would have been to cover the original population of 19,000. A graphical presentation of this savings is shown below.



NOTE: Pre-Prop 204 MNMI costs were grown by maintaining constant population and a 6% medical inflation factor.

NOTE: Expenditures are based on 13th month for each year and do not include the impact of administrative adjustments or administrative costs for either category.

**ARIZONA HEALTHCARE COST CONTAINMENT SYSTEM
ENROLLMENT TRENDS**

| Enrollment/MM | June-05 Actual | June-06 Actual | June-07 Actual | June-08 Actual | June-09 AHCCCS | June-09 JLBC | June-10 AHCCCS | June-10 JLBC |
|----------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-------------------------|---------------------------|-------------------------|
| Title XIX: | | | | | | | | |
| Acute Care | 948,608 | 926,202 | 928,115 | 988,776 | 1,104,540 | 1,092,128 | 1,151,259 | 1,187,696 |
| Long Term Care - EPD | 24,149 | 24,187 | 24,399 | 25,350 | 26,442 | 24,272 | 27,515 | 25,291 |
| Subtotal Title XIX | 972,757 | 950,389 | 952,514 | 1,014,126 | 1,130,982 | 1,116,400 | 1,178,774 | 1,212,987 |
| Title XXI | | | | | | | | |
| KidsCare - Children | 50,753 | 59,250 | 64,453 | 65,837 | 65,421 | 67,794 | 69,019 | 70,425 |
| KidsCare - Parents | 13,187 | 14,870 | 14,094 | 10,187 | 10,090 | 8,703 | 10,645 | 8,758 |
| Subtotal Title XXI | 63,940 | 74,120 | 78,547 | 76,024 | 75,510 | 76,497 | 79,663 | 79,183 |
| Total AHCCCS | 1,036,697 | 1,024,509 | 1,031,061 | 1,090,150 | 1,206,492 | 1,192,897 | 1,258,437 | 1,292,170 |

Year-over-Year Percent Growth

| | | | | | | | | |
|----------------------|----------|--------------|-------------|-------------|--------------|-------------|-------------|-------------|
| Title XIX: | | | | | | | | |
| Acute Care | - | -2.4% | 0.2% | 6.5% | 11.7% | 10.5% | 4.2% | 8.8% |
| Long Term Care - EPD | - | 0.2% | 0.9% | 3.9% | 4.3% | -4.3% | 4.1% | 4.2% |
| Subtotal Title XIX | - | -2.3% | 0.2% | 6.5% | 11.5% | 10.1% | 4.2% | 8.7% |
| Title XXI | | | | | | | | |
| KidsCare - Children | - | 16.7% | 8.8% | 2.1% | -0.6% | 3.0% | 5.5% | 3.9% |
| KidsCare - Parents | - | 12.8% | -5.2% | -27.7% | -1.0% | -14.6% | 5.5% | 0.6% |
| Subtotal Title XXI | - | 15.9% | 6.0% | -3.2% | -0.7% | 0.6% | 5.5% | 3.5% |
| Total AHCCCS | - | -1.2% | 0.6% | 5.7% | 10.7% | 9.4% | 4.3% | 8.3% |

Data Sources:

- 1) 2005-2008 Actuals from AHCCCS Enrollment Reports. Does not include DD, HCG, or QI and SLMB Medicare Cost Sharing programs.
- 2) AHCCCS June-09 and June-10 estimates are member month and FFS enrollment projections based primarily on AHCCCS December Rebase.
- 3) JLBC June-09 and June-10 estimates are member month and FFS enrollment projections from Table 1 (Pg 47) of JLBC FY10 Baseline.