

**FY 2010 BUDGET REDUCTIONS - SUMMARY OF ISSUES
ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM**

GENERAL FUND

FY 2010 General Fund Budget 129,518,200

AGENCY REDUCTION TARGET - GENERAL FUND \$19,427,700

Priority	Issue Title¹	Reductions Amount
1	Elimination of KidsCare program	\$9,249,400
2	Elimination of KidsCare administration	\$660,400
3	35% Reduction to Private Disproportionate Share Hospital Payments	\$3,134,000
4	30% Reduction to Graduate Medical Education (against Pre-ARRA approp)	\$4,341,200
5	Additional AHCCCS Administrative Reductions (3% Annual Reduction)	\$872,800
6	Additional DES Administrative Reductions (3% Annual Reduction)	\$1,381,200
	Issue Total	\$19,639,000
	Fund Total as a Percentage of General Fund Reduction Target	101%

¹ Please complete the attached Description and Impact Statement for each issue.

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ALL NON-GENERAL FUNDS

FY 2010 All Non-General Funds Budget (less Federal Funds) **148,661,900**

AGENCY REDUCTION TARGET - ALL NON-GENERAL FUNDS (w/o Federal Funds) **\$22,299,300**

Fund	Reductions Amount	Percent Reductions
CHIP Fund	<u>\$37,403,800</u>	167.7%
Issue Total	<u>\$37,403,800</u>	

All Non-General Funds Total as a Percentage of Agency Non-GF Reduction Target **168%**

Note: The CHIP Fund (2410) is comprised of non-entitlement Title XXI federal funds and is an appropriated fund.

**FY 2010 BUDGET REDUCTIONS - SUMMARY OF ISSUES
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CHIP FUND

FY 2010 All Non-General Funds Budget (less Federal Funds) 148,661,900

AGENCY REDUCTION TARGET - ALL NON-GENERAL FUNDS (w/o Federal Funds) \$22,299,300

Priority	Issue Title¹	Reductions Amount
1	Elimination of KidsCare program	\$34,359,000
2	Elimination of KidsCare administration	\$3,044,800
	Issue Total	<u>\$37,403,800</u>

Fund Total as a Percentage of Non-General Fund Reduction Target 168%

¹ Please complete the attached Description and Impact Statement for each issue.

Note: The CHIP Fund (2410) is comprised of non-entitlement Title XXI federal funds and is an appropriated fund.

**STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS**

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Issue Title: Elimination of KidsCare Program

Issue Priority: 1

Reduction Amounts:

General Fund: \$9,249,400

CHIP Fund: \$34,359,000

Total: \$43,608,400

Issue Description and Statement of Effects

The KidsCare program (ARS Title 36, Chapter 29, Article 4) provides health insurance coverage to children in families with income between 100% and 200% of FPL. As of 10/1/09, there are 46,957 children enrolled in this program. This coverage is funded by the Arizona SCHIP allotment. This population is eligible for the enhanced SCHIP FMAP of 76.03% in FFY 2010. This program is not protected as part of the Maintenance of Effort requirements included in the federal stimulus legislation.

This program is funded using CHIP Federal allotments and General Fund for the State Match. Members pay a flat monthly premium depending on their FPL Level as shown below. The AHCCCS FY10 rebase projects over \$10 million in premium collections for the year.

Household Income	One Child	Two or More Children
0-149% FPL	\$10 per month	\$15 per month
150-175% FPL	\$40 per month	\$60 per month
176-200% FPL	\$50 per month	\$70 per month

According to Kaiser's statehealthfacts.org Arizona has the 5th highest rate of uninsured children in the nation (for 2008). If this program is eliminated, AHCCCS estimates that Arizona would move to the third highest rate in the nation and would have over 18% of children between 0-18 uninsured.

The Institute of Medicine notes that uninsured children are more likely to be hospitalized for preventable conditions and for missed diagnoses of serious or life-threatening conditions. These avoidable costs are shifted to hospitals and providers as uncompensated care, and to the public as a hidden tax through increased premiums.

A report by the Kaiser Family Foundation found that uninsured children go without health care, leading to less success in school and reduced cognitive development. Uninsured children are less likely to receive proper medical care for childhood illnesses such as sore throats, ear infections, asthma and dental issues which leads to lower school attendance. Studies in two states found children with access to health care or good health status have improved school attendance and school performance.

Note: The projected savings are based on a 12/31/09 elimination date and are calculated using the AHCCCS FY10 rebase with funding reserved for fee-for-service and reinsurance tails. The annual ongoing savings based on the FY10 appropriation would be \$133.4 million TF (\$29.4 million GF). The rebase was used to calculate the FY10 savings since the surplus against the appropriation has already been incorporated into the AHCCCS FY10 estimated programmatic shortfall.

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**STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS**

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Issue Title: Elimination of KidsCare Administration

Issue Priority: 2

Reduction Amounts:

General Fund: \$660,400

CHIP Fund: \$3,044,800

Total: \$3,705,200

Issue Description and Statement of Effects

The administrative reduction associated with the elimination of the KidsCare program was calculated as follows:

Title XXI Admin	Full Year Approp	HIFA Parent	Insurance Sweep	Remaining Approp	50% Reduction	Projected Savings
General	1,764,100	160,300	283,000	1,320,800	660,400	660,400
CHIP Fund	5,648,000	508,500	-	5,139,500	2,094,700	3,044,800
Total Fund	7,412,100	668,800	283,000	6,460,300	2,755,100	3,705,200

As of 9/30/09, 118.9 filled FTE were either funded directly with Title XXI dollars or have a portion of their salary funded with Title XXI dollars based on cost allocation methodologies.

If the KidsCare program were eliminated, many of the direct Title XXI positions would be eliminated. However, the indirect funding would have to be absorbed by other administrative appropriations, thus requiring additional cuts for the remaining two AHCCCS administrative appropriations. For example, utilities expenditures for the 701 & 801 East Jefferson buildings are allocated to the KidsCare program based on the percentage of enrollment (about 3.5% for October). These utilities are fixed costs that will not go away if the KidsCare program is eliminated, therefore, the costs will have to be absorbed by the Operating Lump Sum and Proposition 204 administrative appropriations.

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Issue Title: 35% Reduction to Private Disproportionate Share Hospital Payments

Issue Priority: 3

Reduction Amounts:

General Fund: \$3,134,000

AHCCCS Fund: \$6,016,400

Total: \$9,150,400

Issue Description and Statement of Effects

The Disproportionate Share Hospital (DSH) payment program is designed to aid hospitals that serve a disproportionate number of low-income patients. The SFY10 appropriation includes \$26,147,700 Total Fund (\$8,954,300 General Fund) for the Private hospital pool. This option would reduce this pool by 35%, a reduction of \$9,150,400 Total Fund (\$3,134,000 General Fund).

In SFY09, 41 private hospitals qualified for DSH payments ranging from \$5,000 to \$4.4 million.

**STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS**

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Issue Title: 30% Reduction to Graduate Medical Education

Issue Priority: 4

Reduction Amounts:

General Fund: \$4,341,200

AHCCCS Fund: \$8,333,800

Total: \$12,675,000

Issue Description and Statement of Effects

The purpose of the Graduate Medical Education (GME) program is to provide teaching hospitals, which have graduate medical education programs, with additional funding in order to compensate for the high operating costs associated with the program. One of the major contributing factors to the increases in healthcare cost in recent years has been related to the shortage of qualified medical professionals in the state, particularly in rural areas. It is imperative to have a large pool of physicians and medical professionals in Arizona to provide quality healthcare services to its residents.

The SFY10 appropriation for GME is \$42,075,300 TF (\$14,470,700 GF). This option is a 30% reduction to the GME appropriation at the pre-ARRA base level. Since GME does qualify for the increased ARRA FMAP, this option would result in lost ARRA savings of \$1,290,300.

This option will adversely affect the finances of the teaching hospitals and thus will compromise the quality of graduate medical education in the state. Failure to adequately fund residency programs will result in an increase to the current physician shortfall throughout the state, but particularly in rural areas.

**STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS**

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Issue Title: 3% AHCCCS Administrative Reduction

Issue Priority: 5

Reduction Amounts:

General Fund: \$872,800
AHCCCS Fund: \$872,800

Total: \$1,745,600

Issue Description and Statement of Effects

The AHCCCS Administrative General Fund budget, not including administrative appropriations provided to other state agencies (primarily to the Arizona Department of Economic Security - see Issue Priority #6), includes the following appropriation lines:

	<u>GF</u>	<u>TF</u>
Operating Lump Sum	26,412,000	68,210,000
Title XXI	1,764,100	7,412,100
Proposition 204	2,576,200	7,300,300
Indian Advisory Council	104,900	222,000
Subtotal AHCCCS Admin	<u>30,857,200</u>	<u>83,144,400</u>

These four appropriation lines have already been reduced by nearly 16% from the FY08 original appropriation based on actions taken over the last two years. AHCCCS staff funded from these appropriations have decreased from 1,257 to 1,058 from January 2008 to September 2009, a decrease of 199 FTE or almost 16%. Additionally, square footage and rent costs have been reduced by over 50% and our vehicle fleet has been cut by almost 40%. Therefore, any additional reductions will require continued staffing reductions.

This reduction, combined with previous cuts including the HIFA Parent elimination and the elimination of KidsCare administration proposed above, would result in an overall General Fund reduction of \$8,431,900 or over 23% from the original FY08 appropriations. On a total fund basis, these reductions equate to \$21,316,200 in reduced administrative spending from the FY08 level.

The calculation of the 3% reduction removes the Title XXI appropriation since that would be eliminated under another option as shown on the following page. The

reduction amount is based on a full year appropriation, therefore, if implemented on 1/1/10, this would equate to a 6% reduction for SFY10.

	GF	TF
Operating Lump Sum	26,412,000	68,210,000
Title XXI	1,764,100	7,412,100
Proposition 204	2,576,200	7,300,300
Indian Advisory Council	104,900	222,000
Subtotal AHCCCS Admin	30,857,200	83,144,400
Less Title XXI	(1,764,100)	(7,412,100)
AHCCCS Admin no Title XXI	29,093,100	75,732,300
3% Reduction	872,800	1,745,600

Based on the AHCCCS average salary, ERE, and funding mix, this reduction would ultimately impact approximately 39 FTE to achieve this additional 3% GF reduction.

The impacts of this reduction in workforce would be felt across the entire agency and would impact agency operations as follows:

- Almost 40% of the AHCCCS filled FTE work in eligibility functions; therefore, these functions would be impacted. This will result in eligibility determination backlogs. These backlogs will have a direct impact on members as frail and elderly citizens will not receive medical care they require due to longer processing times. Additionally, cost controls will diminish as potentially ineligible members remain on the program longer than they otherwise would due to redetermination backlogs. AHCCCS could be subject to Federal sanctions for untimely eligibility determinations.
- Cutbacks to the eligibility quality control area may result in fewer cases being reviewed or inaccuracies, which would allow ineligible persons to continue receiving services.
- Within the Communications Center, not maintaining an appropriate staff will result in a higher rate of call abandonment. In a worst case scenario, if providers cannot verify eligibility, a member may be denied critical services.
- Up until this point AHCCCS has been able to maintain funding for program integrity functions but with continued reductions fraud prevention staff are likely to be impacted resulting in fewer cases investigated.
- Health plan oversight will be diminished, resulting in the potential failure of many of the key cost saving programs that have made AHCCCS successful including: Chronic disease prevention, improving clinical outcomes for specific disease states, performance monitoring, and outcome measurement. Oversight

staff are also critical in ensuring all AHCCCS contractors are meeting requirements to members and providers and the State.

- IT programming and maintenance will suffer resulting in more system downtime. AHCCCS has been effective in reducing costs through technology and initiatives like the AHCCCS Virtual Office Initiative and web-based provider verifications. Reductions to IT infrastructure may result in the loss of these efficiencies.
- Other areas that may be impacted included financial reviews and oversight, legal support, contracting and facilities.
- Overall agency response to external requests will be delayed and subject to higher rates of error.

The following Agency performance measures would likely suffer as a result of these staff reductions:

- 1) Percent of applications processed on time
- 2) Percent of financial redeterminations processed on time
- 3) Percent of ALTCS eligibility accuracy as measured by quality control sample
- 4) Member file integrity: Percent of timely reconciliation of AHCCCS data with other governmental data bases
- 5) ALTCS eligibility case error
- 6) Cost avoidance from Predetermination Quality Control program
- 7) Training hours per employee
- 8) Percent of benefit of the cost of audits and investigations of reports of fraud and abuse
- 9) Percent of timely submissions of "Waiver and Special Terms and Conditions" document, reports, and State Plan Amendments to CMS
- 10) Percent of inquires responded to within three days regarding client service issues
- 11) Percent of time the PMMIS is available to our users
- 12) Percent of enrollees filing a grievance
- 13) Percent of acute and ALTCS health plan operational and financial audit reviews completed on time
- 14) Percent of financial viability issues detected prior to an impact on contract
- 15) Percent of members utilizing home and community based services

One area that may not be immediately reduced is claims processing impacting approximately 80 FTE. The American Recovery and Reinvestment Act of 2009 included a provision requiring states to meet prompt provider payment standards in order to continue to receive a portion of the increased FMAP.

**STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS**

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Issue Title: 3% DES Administrative Reduction

Issue Priority: 6

Reduction Amounts:

General Fund: \$1,381,200
AHCCCS Fund: \$1,381,200

Total: \$2,762,400

Issue Description and Statement of Effects

The DES Administrative Pass-Through General Fund budget includes the following appropriation lines:

	GF	TF
Eligibility	26,467,600	55,906,200
Prop 204 Eligibility	19,425,600	41,314,600
Title XIX Pass-Through	147,700	352,500
Subtotal DES Administration	46,040,900	97,573,300
3% Reduction	1,381,200	2,762,400

Any additional reductions will likely require the elimination of filled FTE. This additional 3% annual reduction equates to approximately 55 FTE based on the DES average salary, ERE, and funding mix.

The reduction amount is based on a full year appropriation, therefore, if implemented on 1/1/10, this would equate to a 6% reduction for SFY10.

Over 99% of the DES Pass-Through funding within the AHCCCS budget relates to eligibility determinations for the majority of the Title XIX Acute Base and Proposition 204 Expansion populations. Therefore, these reductions in staff will result in eligibility determination backlogs. These backlogs will have a direct impact on members, as citizens will not receive medical care they require due to longer processing times. Cost controls will diminish as potentially ineligible members remain on the program longer than they otherwise would due to redetermination backlogs. Additionally, prior period capitation timeframes would lengthen resulting in higher prior period cost. AHCCCS could be subject to Federal sanctions for untimely eligibility determinations.