BALLOT PROPOSITION # 204
Healthy Arizona

Publicity Pamphlet Fiscal Impact Summary - Revised 8/17/00

Proposition 204 allocates monies received from tobacco companies as part of a lawsuit settlement. The state is expected to receive between $92 million and $109 million annually through 2006. By 2025, the state is expected to have received $3.2 billion in total tobacco settlement revenues. Proposition 204 would use these monies to expand eligibility for the Arizona Health Care Cost Containment System (AHCCCS), which is the state's health care system for the poor.

A second ballot proposition, Healthy Children, Healthy Families (Proposition 200), also fully spends the tobacco settlement. If both initiatives pass, and Healthy Children, Healthy Families receives more votes than this initiative, this initiative would still go into effect. However, the entire projected state cost of the program would need to be paid from its general or other revenues.

	FISCAL YEAR				
	2001	**2002**	**2003**	**2004**	**2005**
STATE EXPENDITURES					
Tobacco Settlement Funds	$25,178,200	$103,827,300	$164,365,800	$96,175,200	$97,307,100
General Fund/Other State Funding Source Subsidy [1/2/]	0	0	0	110,584,900	134,139,400
Total State Expenditures	$25,178,200	$103,827,300	$164,365,800	$206,760,100	$231,446,500
General Fund Savings[3/]	(12,786,000)	(30,901,700)	(28,548,500)	(29,185,800)	(31,200,000)

1/ The General Fund subsidy will be required in FY 2003 if it is determined that previous appropriations for the Arizona State Hospital and Healthcare Group are continued beyond FY 2001.
2/ This reflects the cost to the state from the General Fund or another funding source if the federal government does not approve a waiver to provide matching funds for the entire AHCCCS expansion.
3/ The General Fund savings may be used to offset the cost of the program or may be allocated by the Legislature for other purposes.

FISCAL ANALYSIS

Description

Proposition 204 expands eligibility for the Arizona Health Care Cost Containment System (AHCCCS) for persons who are uninsured and have annual incomes less than 100% of the federal Poverty Level (FPL). The Proposition dedicates revenues from Arizona's settlement with tobacco companies as the funding source for the expansion of the AHCCCS program. The initiative also specifies that 6 programs enacted by Proposition 203 in 1996 be funded from the tobacco settlement monies.

Estimated Impact

The JLBC Staff estimates that Proposition 204 will have a state cost of $25.2 million in FY 2001 (for half-year funding), increasing to an annual cost of $231.4 million in FY 2005 when the program is fully phased-in. This assumes that the state will receive matching funds from the federal government for a portion of the population; however, federal matching funds for the entire program is contingent upon the approval of a federal waiver. Revenues from the tobacco settlement will be sufficient to cover the cost of the program through FY 2003. Beyond FY 2003, the state will need to supplement the cost of the program from the General Fund or another state funding source unless a federal waiver is approved (see Table 2). The

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Estimated Impact (Continued)

prospects of federal approval of a waiver are uncertain due to the cost of the proposal to the federal government. Without the federal waiver, the costs not covered by the tobacco settlement are projected to be approximately $134.1 million in FY 2005. This assumes that appropriations for the Arizona State Hospital and the Healthcare Group program are not continued after FY 2001. If it is determined that these appropriations would continue, the deficit will occur one year earlier, in FY 2003.

In addition, the JLBC Staff estimates project that the 6 public health programs enacted by Proposition 204 will not receive funding after FY 2003 because tobacco settlement funding will no longer be available. The Proposition includes language requiring the expansion of the AHCCCS program to be supplemented by other funding sources if tobacco settlement monies are not sufficient to cover the costs. The public health programs do not have the same requirement.

Proposition 204 results in General Fund savings of $(12.8) million in FY 2001 (for half-year funding), increasing to $(31.2) million in savings in FY 2005 when the program is fully phased-in. This is due to a shift of a portion of current AHCCCS costs to federal funds. These General Fund savings may be used to offset the cost of the program or may be allocated by the Legislature for other purposes. Table 1 shows more detail on the annual costs of the program and Table 2 shows tobacco settlement revenues and expenditures for the program.

Table 1

Estimated costs of Proposition 204

	FY 2001	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**
AHCCCS Expansion	$23,372,500	$117,241,700	$198,161,000	$279,310,100	$314,921,900
Public Health Programs	8,500,000	17,442,000	17,895,500	-0-	-0-
Total Cost	$31,872,500	$134,683,700	$216,056,500	$279,310,100	$314,921,900
Less: federal Funds	(6,694,300)	(30,856,400)	(51,690,700)	(72,550,000)	(83,475,500)
Net State Cost	$25,178,200	$103,827,300	$164,365,800	$206,760,100	$231,446,500
Fund Sources:					
Tobacco Settlement	$25,178,200	$103,827,300	$164,365,800	$ 96,175,200	$ 97,307,100
General Fund Subsidy 1/	-0-	-0-	-0-	110,584,900	134,139,400
General Fund Savings 2/	$(12,786,000)	$(30,901,700)	$(28,548,500)	$(29,185,800)	$(31,200,000)

1/ This reflects the cost to the state from the General Fund or another funding source if the federal government does not approve a waiver to provide matching funds for the entire AHCCCS expansion.
2/ The General Fund savings may be used to offset the cost of the program or may be allocated for other purposes.

** Columns may not total due to rounding*

Table 2

Tobacco Settlement Allocations for Proposition 204

	FY 2001	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**
Unexpended Amounts from Prior Years	$ 2,314,100	$ 66,958,300	$ 71,629,200	$ 0	$ 0
Annual Payments	89,822,400	108,498,200	109,789,900	96,175,200	97,307,100
Total Available	$92,136,500	$175,456,500	$181,419,100	$ 96,175,200	$ 97,307,100
Total Prop. 204 State Costs	$25,178,200	$103,827,300	$164,365,800	$206,760,100	$231,446,500
Tobacco Settlement Surplus/Deficit	$66,958,300	$71,629,200	$17,053,400	$(110,584,900)	$(134,139,400)

** Columns may not total due to rounding*

In addition to the Healthy Arizona Initiative, the Healthy Children, Healthy Families initiative (Proposition 200) fully allocates Arizona's share of the tobacco settlement. If both initiatives pass, and Healthy Children, Healthy Families receives more votes than Healthy Arizona, Healthy Children, Healthy Families will fully allocate the tobacco settlement. In that event, Healthy Arizona would still go into effect but the total state cost of the program, approximately $231 million in FY 2005, would need to be paid from another funding source, such as the General Fund.

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Analysis

As stated above, the Healthy Arizona Initiative has 2 main components: 1) the expansion of eligibility for the AHCCCS program to persons who are uninsured and have annual incomes less than 100% of FPL ($16,700 for a family of 4), and 2) allocation of tobacco settlement monies for 6 public health programs. The initiative replaces Proposition 203, which was enacted in 1996 and had these same 2 components. There are 2 main differences between Healthy Arizona and the 1996 Proposition. The 1996 Proposition required approval of a waiver by the Federal Health Care Financing Administration prior to implementing the AHCCCS expansion. The waiver would bring the new population into the federal Medicaid program, which would allow two-thirds of the cost of the program to be supported by federal funds. The waiver has not been approved, so the 1996 Proposition has not been implemented. The Healthy Arizona Initiative does not require a waiver. The other difference is that the Healthy Arizona initiative programs are funded by monies received from Arizona's settlement with tobacco companies, while the 1996 Proposition was conditioned upon the state Lottery funding formula. Lottery revenues have not been sufficient to fund any of the programs.

The JLBC Staff estimates for both the expansion of the AHCCCS program and the 6 public health programs are discussed below.

<u>AHCCCS Expansion</u>

AHCCCS prepared a cost analysis of the 1996 Proposition for the waiver applications. The most recent analysis was prepared in January 1999. In developing the estimates, AHCCCS contracted for special analyses of census data to estimate the number of persons eligible for the new coverage and the number of persons who fall into federally eligible groups. These special "data runs" would be expensive to replicate and would not likely have changed substantially. As a result, at this time, the JLBC Staff cost estimate of the Healthy Arizona Initiative relies on the data and assumptions prepared by AHCCCS for the January 1999 estimate.

As mentioned above, AHCCCS has applied twice since 1996 for the waiver that would allow the new population to be covered by federal matching funds (the federal funds would cover about two-thirds of the total cost). The federal Health Care Financing Administration (HCFA) has not approved the requests and they are still pending. HCFA has not approved the waiver requests because the plans submitted have included caps or limits on the number of program enrollees. Even if the caps are removed from the waiver applications, HCFA has a published policy that it will only approve a waiver request if it does not result in increased federal costs. Since previous waiver requests have not been approved over the past 4 years and since the program would likely result in increased federal costs, the JLBC Staff estimate of Proposition 204 is displayed as if a waiver is not approved. This results in a large part of the cost being 100% state funded. If a waiver was approved, two-thirds of the cost would be paid by the federal government, which significantly reduces the state cost. With a waiver, tobacco settlement funding would likely be sufficient to cover the cost of the program.

The JLBC Staff estimate is based on the assumptions for enrollment and cost shown in the following bullets.

Enrollment

1) Current AHCCCS eligibility is set at 100% FPL or higher for all children aged 0 to 17 years (at the time the initiative would be enacted). Thus, the initiative impacts adults only.

2) As of January 1999, AHCCCS estimated there were 253,184 adults who are uninsured with annual incomes of less than 100% FPL (from the AHCCCS analysis of the 1996 Proposition).

3) A portion of the new population can be incorporated into the federal Medicaid program, which allows two-thirds of the cost to be borne by federal funds. Federal law allows states to add groups meeting specific criteria to the Medicaid program without a waiver. One group within the new Healthy Arizona population meets these criteria. The group is known as the "1931" or "categorical" population (1931 is a section of the Social Security Act) and is defined as parents or guardians of children who are already eligible for AHCCCS. Since federal law allows this population to be incorporated into Medicaid without a federal waiver, we have assumed that the state cost for this population can be offset by federal matching dollars. As discussed elsewhere, the state would still need to seek a waiver to obtain federal funding for the non-1931 population.

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Analysis (Continued)

4) A portion of the new population will actually be eligible for the current AHCCCS program (called the "woodwork effect"). The implementation of other AHCCCS programs (such as the Children's Health Insurance Program) has shown that some applicants for new programs are actually eligible for the current AHCCCS program.

5) For the final portion of the new population, referred to as the "non-categorical" population, a waiver would be required in order for the state to receive federal funds to offset the total cost of providing Medicaid coverage. Therefore, the JLBC Staff analysis assumes that the total cost associated with providing Medicaid coverage to the non-categorical population would be borne by the state.

6) Thus, there are 3 new groups covered by Healthy Arizona: the categorical 1931 population, those eligible for the current AHCCCS program ("woodwork effect"), and those who are not categorically eligible. Federal matching funds can be received for the first 2 groups; the third is 100% state funded. The AHCCCS analysis of the 1996 Proposition estimated that of the total population eligible (253,184), 41% or 102,540 would fall into a federally matched category. Of the federally matched group, AHCCCS further estimated that 25% (30,485) are eligible for the current AHCCCS program ("woodwork effect") and the remaining 75% (72,055) are the 1931 population. The estimates for each category (from the AHCCCS analysis of the 1996 Proposition) are shown in Table 3.

Table 3	**Eligible Population**
Categorical (40.5%):	
- 1931 population	72,055
- Woodwork	30,485
Non-Categorical (59.5%)	150,644
Total	**253,184**

7) Of the number eligible in the 3 groups above, only a percentage will actually enroll in the program (called the "presentation rate"). Enrollment in the program will likely phase-in over a period of 1 to 5 years. The JLBC Staff estimates the program phases over 4 years with the following final presentation rates in the 5th year:

- Categorical – 50% in FY 2005 and thereafter;
- Non-Categorical – 40% in FY 2005 and thereafter; and
- Woodwork – 10% in FY 2005 and thereafter.

8) The JLBC Staff estimate assumes population growth of 2.5% per year for the newly eligible population.

9) Using the above assumptions, the JLBC Staff estimates enrollment as shown in Table 4.

Table 4

Healthy Arizona Enrollment Estimates

	FY 2001 1/	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**
Newly Eligible – Categorical	7,205	17,329	27,727	37,431	41,350
Newly Eligible – Woodwork	610	1,466	2,346	2,933	3,049
Newly Eligible – Non-Categorical	12,052	28,984	46,374	62,605	66,513
Total Enrollment	19,867	47,779	76,447	102,969	110,912

1/ Assumes effective date of January 1, 2001.

These estimates do not include a projection of the impact of the Proposition on the number of uninsured individuals. Increasing the eligibility for AHCCCS may result in some employers dropping coverage for their employees if their employees could get coverage through Healthy Arizona. This concern was also raised regarding the new Children's Health Insurance Program (CHIP) and as a result, the federal law creating CHIP has specific provisions to prevent "dumping". It is not clear that Healthy Arizona will result in employers dropping insurance coverage, but if it does, the result would be an increase in the enrollment estimates shown above and thus, an increase in the cost of the program.

10) As of January 1999, there were 20,235 individuals in the current Medically Needy/Medically Indigent program (which is part of AHCCCS but is 100% state funded). Of this amount, 16,188 (80%) had incomes less than 100% FPL. Of those

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Analysis (Continued)

less than 100% FPL, 4,856 were categorically eligible and 11,332 were not categorically eligible (from the AHCCCS analysis of the 1996 Proposition). The inclusion of the 1931 population in the federally matched program allows the state to convert the 4,856 categorically eligible MNMIs to the federal program, resulting in state General Fund savings for two-thirds of the cost for these individuals. This General Fund savings is reflected in Table 1. The remaining 11,332 will continue to be 100% state funded. The 4,856 "converted" MNMIs are not reflected in Table 3 since they are already in the AHCCCS system.

Per Person Costs

11) Since this is a new population, it is difficult to estimate the cost of services. We have assumed that the 1931 categorical population is similar to the Temporary Assistance to Needy Families (TANF) population because, by definition, both groups consist of parents with children less than age 18. As such, we estimate that both groups primarily consist of young adults between the ages of 18 and 40 (96% of TANF is between age 14 and 44) who are typically fairly healthy. Thus, in order to estimate the cost of the 1931 population, the JLBC Staff calculated a weighted average of the rates AHCCCS pays for its current TANF adult population. The weighted average rate is $158.62 per member per month. This rate is less than the cost of single adult coverage for state employees of approximately $200 per member per month. However, we would expect the state employee population to be somewhat older than this population on average and to have higher utilization of services, making them more expensive. The JLBC Staff estimate assumes the same cost for the non-categorical population.

12) The woodwork portion of the newly eligible population reflects individuals who apply for coverage when the expanded Healthy Arizona eligibility is implemented, but are actually eligible under current AHCCCS eligibility requirements. Thus, the JLBC Staff estimate assumes the cost of the woodwork population is the same as the current overall AHCCCS adult population. The weighted average for all adult rates is $209.74 per member per month.

13) AHCCCS costs are divided between regular rates (discussed above) and "prior period coverage" rates. The prior period rates cover the first few weeks of coverage until the individual is assigned to a health plan. Since many AHCCCS enrollees enroll when they become ill, these first few weeks of coverage tend to be more expensive than regular capitation rates. Again, we assume that the new population is similar to the AHCCCS population and calculated a weighted average of the AHCCCS prior period rates. The estimated prior period rate for all 3 new populations is $200.03 per member per month. In the AHCCCS budget, approximately 10.2% of monthly enrollment is covered by prior period rates, with the remainder covered by regular rates.

14) The JLBC Staff estimate assumes that medical inflation will increase costs by 4.7% each year. This reflects the average medical inflation projected by WEFA, a national economic forecasting firm, over the next 5 years.

15) Categorical populations are funded by state and federal matching funds. The federal matching rate is called the Federal Matching Assistance Percentage (FMAP) and is set at 65.77% as of October 1, 2000.

16) Based on the percentage split in the AHCCCS budget of 10.2%, the enrollment estimates from Table 2 were divided between regular enrollment and prior period coverage. The monthly enrollment estimates were then multiplied by the estimated regular and prior period rates. As mentioned above, a portion of MNMIs that are currently 100% state funded would now receive federal matching funds. The shift of two-thirds of the cost of this population to federal funds provides state savings that may partly offset the increased costs.

17) The new populations will also result in increased costs for Fee-For-Service and Reinsurance. Fee-for-Service provides payment for services not covered by the per member per month rate for special populations, such as Native Americans, and for emergency services to illegal immigrants, which is required by federal law. Reinsurance provides a separate additional payment to health plans to cover the costs of especially high cost cases. The increased income threshold will increase the number of people served in these programs as well. The JLBC Staff estimates include projections for Fee-For-Service and Reinsurance based on average costs for these programs in the AHCCCS budget.

18) As mentioned above, a portion of the MNMI population, which is currently 100% state funded, would become eligible for two-thirds federal matching funds under the initiative. This results in General Fund savings. Proposition 204 does

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Analysis (Continued)

not address these savings. The Legislature will ultimately decide how the savings will be allocated. As a result, we have not directly assumed that the savings will be used to offset the cost to the tobacco settlement as they may be allocated for other purposes.

19) The JLBC Staff estimates of the cost of expanding the AHCCCS program are shown in Table 5 below. As mentioned above, the cost of Proposition 204 will exceed the amount available by FY 2004 unless a federal waiver is approved (see Table 2). Thus, beginning in FY 2004 the program will need to be subsidized by the General Fund or another state funding source. This assumes that previous tobacco settlement appropriations for the Arizona State Hospital and Healthcare Group are not continued after FY 2001. If it is determined that these appropriations would continue, the deficit will occur one year earlier, in FY 2003.

Table 5

Healthy Arizona AHCCCS Expansion – State Costs

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Categorical[1/]	$ 2,409,600	$12,135,100	$ 20,328,700	$ 28,733,600	$ 33,233,700
Woodwork[1/]	261,400	1,316,400	2,205,300	2,886,200	3,141,200
Non-Categorical	11,774,100	59,295,000	99,330,900	140,399,300	156,173,800
Fee-For-Service	1,970,200	12,971,600	21,730,100	30,681,300	34,352,300
Reinsurance	262,900	667,200	2,875,300	4,059,800	4,545,500
Total New Costs	$ 16,678,200	$86,385,300	$146,470,300	$206,760,100	$231,446,500
Fund Sources:					
Tobacco Settlement	$ 16,678,200	$86,385,300	$146,470,300	$ 96,175,200	$ 97,307,100
General Fund Subsidy[2/]	-0-	-0-	-0-	110,584,900	134,139,400
General Fund Savings[3/]	$(12,786,000)	$(30,901,700)	$(28,548,500)	$(29,185,800)	$(31,200,000)

1/ Reflects state match only.
2/ This reflects the cost to the state from the General Fund or another funding source if the federal government does not approve a waiver to provide matching funds for the entire AHCCCS expansion.
3/ General Fund savings may be used to offset the state cost or may be reallocated for other purposes.

** Columns may not total due to rounding*

20) The JLBC Staff estimate does not address funding for Behavioral Health Services. The increased income threshold may increase costs for behavioral health services as well.

21) The JLBC Staff estimate does not address increased administration costs for AHCCCS. The cost to start-up the program, including outreach to enroll new members and actuarial services to develop new payment rates, could be significant in the first few years of the program.

Other Healthy Arizona Programs

The initiative also specifies that 6 public health programs originally established by the 1996 Proposition be funded from tobacco settlement monies. The programs include $5 million for Healthy Families, $4 million for the Arizona Area Health Education System, $3 million for Teenage Pregnancy Prevention, $2 million for Disease Control Research, and $1 million for the Women, Infants, and Children Food program (see Table 6). These programs total $17 million per year or $8.5 million for half of the year in FY 2001. The initiative further specifies that these amounts be adjusted annually for inflation. The JLBC Staff estimates assume annual inflation of 2.6%. The public health programs do not require that another funding source supplement the costs if tobacco settlement monies are insufficient to cover the costs. Thus, the JLBC Staff estimates assume that the programs do not continue after FY 2003 when tobacco settlement revenues are depleted due to the costs of the AHCCCS expansion. If they do continue, they will need to be funded from the General Fund or another state funding source.

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Analysis (Continued)

Table 6

Healthy Arizona Public Health Programs – State Costs

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Healthy Families	$2,500,000	$ 5,130,000	$ 5,263,400	$-0-	$-0-
AZ Health Education System	2,000,000	4,104,000	4,210,700	-0-	-0-
Teenage Pregnancy Prevention	1,500,000	3,078,000	3,158,000	-0-	-0-
Disease Control Research	1,000,000	2,052,000	2,105,400	-0-	-0-
Health Start	1,000,000	2,052,000	2,105,400	-0-	-0-
Women, Infants, and Children (WIC) Food Program	500,000	1,026,000	1,052,700	-0-	-0-
Net Tobacco Settlement Costs	**$8,500,000**	**$17,442,000**	**$17,895,500**	**$-0-**	**$-0-**

** Columns may not total due to rounding*

<u>Total Costs</u>

22) The Healthy Arizona Initiative dedicates monies received from the state's settlement with tobacco companies as the funding source for the additional costs of the initiative. The state's estimated tobacco settlement payments range from $89.8 million in FY 2000 to $109.8 million in FY 2003. These projections reflect JLBC Staff estimates of the payments after the inflation, volume, and previously settled states adjustments have been applied as required by the settlement agreement.

    If revenue from the tobacco settlement is not sufficient to support the cost of the program, the initiative requires the additional costs for the AHCCCS expansion to be supplemented from other funding sources, including the General Fund. The JLBC Staff estimates when the AHCCCS expansion is fully phased-in in FY 2004, the revenues from the tobacco settlement will not be sufficient to support the costs of the program unless a federal waiver is approved. The excess costs would need to be paid by the General Fund or another revenue source. Table 2 shows the supporting detail for these estimates.

Local Government Impact

Proposition 204 will result in a small amount of projected savings for counties which currently have a "maintenance of effort" requirement. These counties had a higher eligibility level than the AHCCCS program before AHCCCS was implemented. State law required these counties to continue to provide the higher eligibility after AHCCCS was enacted using county funds. Proposition 204 raises AHCCCS eligibility, which will reduce these counties' maintenance of effort costs. In FY 1999, total county maintenance of effort costs were approximately $1.7 million.

08/17/00

A.R.S. § 19-123 requires the Joint Legislative Budget Committee Staff to prepare fiscal impact estimates for ballot initiative measures. This estimate was prepared by Jennifer Vermeer (602-542-5491).