

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

ROBERT "BOB" BURNS
CHAIRMAN 2004
MARK ANDERSON
MARSHA ARZBERGER
TIMOTHY S. BEE
ROBERT CANNELL, M.D.
JACK W. HARPER
DEAN MARTIN
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PHOENIX, ARIZONA 85007

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<http://www.azleg.state.az.us/jlbc.htm>

HOUSE OF
REPRESENTATIVES

RUSSELL K. PEARCE
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ANDY BIGGS
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JOINT LEGISLATIVE BUDGET COMMITTEE

Thursday, June 5, 2003

8:30 a.m.

House Hearing Room 1

AGENDA

- Call to Order
- [Approval of Minutes of April 2, 2003.](#)
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION
- A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.
- B. Arizona Department of Administration - Review for Committee the Planned Contribution Strategy for State Employee Health Plans as required under A.R.S. § 38-658A.
- 1. [DEPARTMENT OF EDUCATION - Review Change to State Aid Based on Change in Assessed Valuation.](#)
- 2. [DEPARTMENT OF HEALTH SERVICES - Review of Behavioral Health Capitation Rate Changes.](#)
- 3. [DEPARTMENT OF ECONOMIC SECURITY - Review of Long Term Care Capitation Rate Changes.](#)
- 4. [AHCCCS - Review of Comprehensive Medical Dental Program \(CMDP\) Capitation Rate Changes.](#)
- 5. [GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING - Review of Changes to the Disproportionate Share Hospital Program.](#)
- 6. [ARIZONA COMMUNITY COLLEGES - Review of Workforce Development Plan Activities and Expenditures.](#)

The Chairman reserves the right to set the order of the agenda.

06/03/03

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

April 2, 2003

The Chairman called the meeting to order at 8:07 a.m., Wednesday, April 2, 2003, in House Hearing Room 1. The following were present:

Members:	Senator Burns, Vice-Chairman Senator Anderson Senator Bee Senator Cannell Senator Harper Senator Rios	Representative Pearce, Chairman Representative Biggs Representative Burton Cahill Representative Farnsworth Representative Gray Representative Huffman Representative Lopez
Absent:	Senator Arzberger Senator Martin	Representative Huppenthal
Staff:	Richard Stavneak, Director Kim Hohman Stefan Shepherd	Cheryl Kestner, Secretary Paul Shannon Steve Schimpp
Others:	Cynthia Odom Steve LaMar Frank Hinds William Bell Lynne Smith Robert Zumoff	Attorney General's Office Attorney General's Office State Risk Manager, ADOA Department of Economic Security, Acting Director Dept. of Administration/Dept. of Economic Security Chief Counsel, Consumer Protection, Attorney General's Office

ADOPTION OF COMMITTEE RULES

Mr. Richard Stavneak, JLBC Staff Director, stated that the Committee rules are the same rules that the Committee operated under during the last biennium.

Representative Pearce moved the adoption of the Committee rules and regulations. The motion carried

APPROVAL OF MINUTES

Representative Pearce moved that the Committee approve the minutes of December 19, 2002. The motion carried.

DEPARTMENT OF ECONOMIC SECURITY (DES) - Response to Subpoena of March 19, 2003 Regarding FY 2003 Expenditures.

Representative Pearce said this item was the acceptance of the DES materials as requested by the subpoena.

Mr. Stavneak, JLBC Staff, said that there was no formal action needed by the Committee, other than to accept the materials. He said that the Committee only needs to make note of the fact that the materials have been received under the subpoena.

Representative Pearce said that the Committee has a copy of the subpoena, the department has responded and the Committee will not take testimony at this time. The Committee will review the materials after review by counsel.

Representative Lopez said that according to the subpoena Mr. William Bell, Acting Director, DES, is supposed to testify before the Committee.

Representative Pearce said that the Committee would not be hearing from Mr. Bell today. He has responded by providing the records that were requested.

Representative Biggs said that this is what a subpoena usually says. It does not particularly mean that you take testimony.

Representative Pearce said the records would be reviewed and then proceed from there.

Representative Lopez asked what the process would be to make those records available to the Committee members.

Representative Pearce said that first counsel would review them to make sure they responded appropriately, then the Committee has the responsibility to review the records.

Representative Lopez said that she would like to make sure the integrity of the records are protected. She said that there is a process in place with regards to Child Protective Services records and would like to suggest that they use that process. She also asked when will the Committee be advised of what the process will be.

Representative Pearce said they will need to meet with counsel and review the materials and then will determine what the process will be.

Representative Lopez asked where the materials will be kept during this time period.

Mr. Stavneak said he will have custody of the materials.

EXECUTIVE SESSION

At 8:15 a.m. the Joint Legislative Budget Committee went into Executive Session.

Senator Burns moved that the Committee reconvene into open session. The motion carried.

At 8:40 a.m. the Committee reconvened into open session.

Senator Burns moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Coleman v. State The motion carried.

DEPARTMENT OF ECONOMIC SECURITY (DES) - Response to Subpoena of March 19, 2003 Regarding FY 2003 Expenditures - Further Discussion

Representative Lopez asked with regards to the DES item, what is counsel going to be consulting on.

Representative Pearce said they are working with JLBC Staff and Legislative Council on the materials with regards to the subpoena.

Representative Lopez said that it is the Committee and not Legislative Council who makes the decision about whether or not there has been an adequate response from DES so that we receive that information appropriately.

Representative Pearce said that counsel's participation is technical. They will look at what was asked for and determine if that is what was provided.

Representative Lopez said that she wanted to go back to the idea of using the method for the Committee to review those records that are used with the Joint Legislative Committee on Child and Family Services.

Representative Lopez moved and Representative Burton Cahill seconded, that the Committee use the procedure that is used by the Joint Legislative Committee on Child and Family Services.

Senator Burns made a substitute motion stating that the Committee proceed in the manner that the Chairman described, which is that Legislative Council attorneys review the information, and return with a recommendation.

Senator Burns said he was not familiar with the procedure Representative Lopez was describing.

Representative Lopez said that Representative Anderson is familiar with the process and asked Mr. Stavneak to review that process.

Senator Burns said that "to a point of order" a substitute motion was on the floor and asked if there was questions on the motion.

Representative Lopez said that her question was to get an explanation of the review process.

Representative Pearce said that there was a substitute motion on the floor and if the motion prevails then the answer is not necessary.

Representative Pearce moved the substitute motion. The motion carried.

Chairman Pearce announced that the meeting is recessed until Thursday, April 3, 2003 at 8:00 a.m. THE MEETING RECESSED AT 8:46 A.M.

Thursday, April 3, 2003

THE MEETING RECONVENED AT 8:12 A.M. ON APRIL 3, 2003. All members were present from the recessed meeting of April 2, 2003, with the addition of Senator Martin and Senator Rios.

JLBC STAFF - Review of Classroom Site Fund Per Pupil Calculation.

Mr. Steve Schimpp, JLBC Staff, referenced the chart in the JLBC Agenda book to explain the calculation for the Classroom Site Fund Per Pupil amount. JLBC Staff estimates that for FY 2004 the Classroom Site Fund (CSF) will be about \$230 per pupil. That will be about \$10 less than the current year. Last year we estimated that it would be about \$240 per pupil and that is what is being allocated. It turned out that about \$255 will be available in FY 2003, so about \$15 per pupil will carry forward to next year.

Representative Pearce asked if it was correct that the CSF receives all the money after the Proposition 301 allocations.

Mr. Schimpp replied that that was correct. Whatever remains after the allocations goes to the CSF.

Representative Pearce asked if 178 school days was voter protected. Mr. Schimpp said it was not but the \$48 million that was allocated to the number of school days is voter protected.

Representative Pearce said that by eliminating 3 school days it would give the CSF an extra \$49 million. The teachers would still be paid the same but it would save the expense of transportation, utilities and other additional costs. Mr. Schimpp said that was correct.

Senator Burns asked what the money in the CSF was used for. If they were to put another \$49 million into the Fund, would ongoing expenses be incurred? In the next year, if the Legislature took the \$49 million out, would they be taking money out

of continuing types of expenditures. Mr. Schimpp said that most of the money goes to teacher salaries. Districts have to use 20% for base salaries, and 40% for performance pay, for a total of 60% used for teacher salaries. The remaining can go to teacher salaries but is usually used to reduce class sizes.

Senator Burns stated that if this was put in place for continuing funding, such as hiring teachers, or giving raises, districts would still get the \$49 million, however, it would not show up in the CSF but as basic state aid payments.

Representative Biggs asked if the \$49 million put in the CSF would all be used for teacher's salaries, and is it exclusively used for that or up to district administrators. Mr. Schimpp said that the 60% is for teacher salaries but there is some discretion for the remaining 40%.

Representative Anderson asked if the money would be available for the increased payments that teachers will have to make to their pensions. Mr. Schimpp said statute allows CSF monies to be used for ERE costs.

Representative Anderson questioned whether reducing the school year by 3 days, thus saving \$49 million, would be an actual savings or put in a different fund to fund additional educational items.

Representative Pearce said that in this case because there have been some hits relevant to retirement, they thought it might help the school districts to eliminate those 3 school days and letting them have the money to offset some of the expenses. The state cannot afford the additional money right now and thought it was an opportunity to benefit the schools, give them more flexibility and the ability to use that money appropriately.

Senator Burns moved that the Committee give a favorable review as recommended by JLBC Staff to the proposed \$230 per pupil allocation from the Classroom Site Fund in FY 2004. The motion carried.

ATTORNEY GENERAL (AG) - Review of Allocation of Settlement Monies.

Ms. Kim Hohman, JLBC Staff, said that this item was a review of 2 consumer fraud settlements. The AG's office has received approximately \$300,000 from a settlement with Ford Motor Company and just under \$130,000 from a settlement with Pfizer, Inc. Pursuant to statute these monies are deposited into the Consumer Fraud Revolving Fund. The JLBC Staff recommends a favorable review.

Representative Biggs asked whether outside counsel had been hired for these cases, and how much Arizona was getting for the Ford Motor Co. settlement.

Mr. Robert A. Zumoff, Chief Counsel, Consumer Protection & Advocacy Section, Attorney General's Office, replied that no outside counsel had been hired. He said the total settlement for the first case was approximately \$51.5 million and \$30 million was going for public service announcements. The remainder of \$21 million was being divided among the participating states for costs and attorney's fees, of which Arizona gets \$300,000.

Representative Biggs asked what determined the ratio used for each state.

Mr. Zumoff said that he was not sure in this particular case. In this case, which was a multi-state case, there was an Executive Committee and a lot of give and take negotiations went on to reach a settlement.

Senator Burns moved that the Committee give a favorable review as recommended by the JLBC Staff of the allocation plan for the Consumer Fraud settlements with Ford Motor Company and Pfizer, Inc. The motion carried.

Without objection, the meeting adjourned at 8:25 a.m.

Respectfully submitted:

Cheryl Kestner, Secretary

Richard Stavneak, Director

Representative Russell Pearce, Chairman

NOTE: A full tape recording of this meeting is available at the JLBC Staff Office, 1716 West Adams.

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DATE: June 2, 2003

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Steve Schimpp, Assistant Director

SUBJECT: DEPARTMENT OF EDUCATION – REVIEW CHANGE TO STATE AID
BASED ON CHANGE IN ASSESSED VALUATION

Request

The Arizona Department of Education (ADE) requests a favorable review of its plan to provide \$163,700 in corrected state aid funding to the Fredonia-Moccasin Unified School District pursuant to A.R.S. § 15-915(B). This adjustment is due to changes in the district's assessed property value.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request, as it meets the requirements for revising Basic State Aid.

Analysis

A.R.S. § 15-915(B) requires ADE to adjust state aid for a school district in the current year if its governing board asks ADE to recalculate its state aid for a prior year due to a change in assessed valuation that occurred as the result of a successful valuation appeal in state tax court. Pursuant to this law, the Fredonia-Moccasin Unified School District has asked ADE to recalculate its state aid for FY 2001 through FY 2003 due to the recent reclassification of certain properties in the district retroactive to FY 2001. The reclassification will require the district to refund a portion of its Qualifying Tax Rate (QTR) collections for FY 2001 through FY 2003 to a local property owner, which under A.R.S. § 15-915(B) entitles it to receive "corrected" state aid.

(Continued)

This issue pertains to lodging and campground facilities that are located in the Glen Canyon National Recreation Area (GCNRA) near Page, Arizona. These facilities are on federal land that a private vendor (Aramark Sports and Entertainment, Inc.) leases from the federal government and pays property taxes on each year. Based on a February 2001 state court tax ruling for similar properties in the Havasu National Wildlife Refuge, Aramark appealed to the Coconino County Assessor to reclassify its facilities from property "Class 1" (commercial) to property "Class 9" (possessory interests) retroactive to FY 2001. This would reduce Aramark's annual property tax costs because "Class 1" properties are taxed at 25% of their full cash value (FCV) whereas "Class 9" properties are taxed at only 1% of their FCV.

Because of the similar nature of the Havasu and Aramark properties, the Coconino County Assessor reclassified the Aramark properties from "Class 1" to "Class 9" in October 2002 and made the change retroactive to FY 2001. This entitles Aramark to a refund of about \$163,700 in K-12 QTR taxes that it paid to Fredonia-Moccasin Unified for FY 2001 through FY 2003. Aramark's QTR levy for those years originally was computed based on "Class 1" valuations, but now is being based on valuations for "Class 9."

Given the legal requirements in A.R.S. § 15-915(B), the JLBC Staff recommends a favorable review for this issue.

RS/SS:jb
Attachment



State of Arizona
Department of Education

Tom Horne
Superintendent of
Public Instruction



Memo

To: Senator Robert "Bob" Burns", JLBC Chairman
From: Lyle Friesen, School Finance *LF*
CC: Richard Stavneak, Director, JLBC Staff
Vicki Salazar, Associate Superintendent Financial Services, ADE
John Livingston, Fredonia Moccasin Unified School District
Date: 4/8/2003
Re: Correction to State Aid pursuant to A.R.S. §15-915(B)

We are submitting this memorandum to you pursuant to A.R.S. §15-915(B), which provides that corrections to state aid based on a change in assessed valuation are subject to review of the JBLC.

The Coconino County Assessor's office has corrected the assessed valuations for property located in the Fredonia Moccasin School District. These corrections affect tax years 2000, 2001, and 2002. Prior year corrections will be made for 2000 and 2001, with correction made for tax year 2002 during the current years state aid calculations.

For tax years 2000 and 2001, the correction to state aid for Fredonia Moccasin totals \$91,839.52. The correction to this year's state aid will be approximately \$71,821.22. We would like to include the \$91,839.52 in the May apportionment, with the correction for the current year being made prior to the final payment of state aid.

Please contact me at (602) 542-4351, or via e-mail at lfriesen@ade.az.gov, with questions.

Please see enclosed documents for details and calculations.

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DATE: June 2, 2003

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Fiscal Analyst

SUBJECT: DEPARTMENT OF HEALTH SERVICES – REVIEW OF BEHAVIORAL
HEALTH CAPITATION RATE CHANGES

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Health Services (DHS) must present its plan to the Committee for review prior to implementing any change in capitation rates for the Title XIX behavioral health programs. DHS is requesting an 8.7% change in the Developmental Disabilities (DD) Title XIX Behavioral Health rates. These rate changes will affect the Children's Behavioral Health (CBH) and Seriously Mentally Ill (SMI) Special Line Items. The federal government requires that capitation rates be actuarially sound.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of this request, assuming that the Department can absorb any additional costs if no new funding is approved. The capitation rate adjustment is projected to have a FY 2004 state General Fund cost of \$282,800. Funding for this capitation rate increase is not included in the House Engrossed version of the FY 2004 General Appropriation Act.

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound, capitation rates are not set by the Legislature. DHS contracts with an actuarial firm, which uses claims, encounter data, and projected enrollment to determine the actual costs of services and thereby recommends increases or decreases in the capitation rates. Once DHS requests a change in rates, the new rates must be approved by the Arizona Health Care Cost Containment System (AHCCCS).

DHS has received approval from AHCCCS to change the DD Title XIX Behavioral Health rate from \$57.46 to \$62.48 per member month, an increase of 8.74%. The effective date for these changes is October 1, 2002.

The increases were developed using historical claims and enrollment data for the general Title XIX Behavioral Health population, which were then adjusted for the demographics of the DD population. The assumptions used to develop these estimates include:

- Prescription drug cost increases ranging from 10% to 20%
- Other services cost increases ranging from 3% to 10%
- Increasing the administrative allocation to BHS from 8.3% to 10.3% (which yields a \$61,000 increase, of which \$20,000 is from the General Fund.)

DHS estimates that this rate increase translates into a \$230,000 General Fund (\$700,000 Total Funds) increase for FY 2003. This funding was included in the FY 2003 supplemental budget enacted under Laws 2003, 1st Special Session, Chapter 1. In general, the Legislature does not fund administrative cost increases that are included in capitation rates, because administrative costs are not funded as part of the Title XIX Special Line Items but as a separate component of the budget. However, the FY 2003 supplemental budget did include funding for the administrative increase.

Based on current JLBC Staff estimates for FY 2004, the rate increase (less the additional administrative costs) would generate \$282,800 in additional General Fund expenditures (\$863,600 Total Funds). This funding is not included in the House Engrossed budget proposal.

RS/BK:ck

**Arizona
Department of
Health Services**

Office of the Director

1740 W. Adams Street
Phoenix, Arizona 85007-2670
(602) 542-1025
(602) 542-1062 FAX

JANET NAPOLITANO, GOVERNOR
CATHERINE R. EDEN, DIRECTOR



March 14, 2003

The Honorable Russell Pearce
Chairman, Joint Legislative Budget Committee
1700 West Washington Street
Phoenix, Arizona 85007

Dear Representative Pearce:

Pursuant to a footnote in the General Appropriation Act, the Arizona Department of Health Services (ADHS) request placement on the next Joint Legislative Budget Committee's agenda to review proposed changes in Developmental Disabilities Title XIX Behavioral Health Services (BHS) capitation rates for FY 2003. The effective date for these changes is October 1, 2002.

The Federal government requires states to review their capitation rates annually to assure that the rates are sufficient to properly support the Title XIX program. As a result, the capitation rate for the behavioral health component is increasing from \$57.46 to \$62.48 per member month. The Arizona Health Care Cost Containment System (AHCCCS), along with Mercer Consulting, reviewed the medical trend data provided by ADHS/BHS and recommended adjusting the capitation rate based on the encounter data submitted, blending the rates for ventilator dependent and non-ventilator dependent members, and adjusting the administrative rate. AHCCCS estimates the Total Fund authority needed to implement these changes is \$700,000. The General Fund amount is \$230,000 (see attached memo), which is included in the compromise agreement between the Governor and the Legislature for FY 2003 supplemental funding.

If you need additional information, please contact my staff at 542-6386 in the Central Budget Office.

Sincerely,

A handwritten signature in cursive script that reads "Cathy Eden".

Catherine R. Eden
Director

CRE:pm
Attachment

The Honorable Russell Pearce

Page 2

cc: Senator Robert Burns, Vice Chairman
David Jankofsky, Director, Governor's Office of Strategic Planning and Budgeting
Bob Chapko, Budget Manager, Governor's Office of Strategic Planning and Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee
Beth Kohler, Fiscal Analyst, Joint Legislative Budget Committee
Leslie Schwalbe, Deputy Director, Department of Health Services
Danny Valenzuela, Deputy Director, Department of Health Services
Pat Mah, Director, Central Budget Office, Department of Health Services



ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM
MEMORANDUM

December 23, 2002

Ms. Kris Ward
Acting Director
Office of Strategic Planning and Budget
1700 West Washington, Suite 500
Phoenix, Arizona 85007

Dear Ms Ward:

AHCCCS, in conjunction with Mercer Government Human Resource Consulting (Mercer), has finished the annual review of the Division of Developmental Disabilities' (DDD) capitation rates. Based on that review, AHCCCS is recommending a capitation rate adjustment for DDD to ensure that the rates are actuarially sound as required by the Balance Budget Act of 1997. Although the total weighted adjustment to the rates is a 5.14% increase, the rates were adjusted individually:

Rate Component	CYE '02 Rate	CYE '03 Rate	% Change
Non-Ventilator Dependent (net of Behavioral Health)	\$2,439.00	\$2,560.40	4.98%
Ventilator Dependent (net of BH)	\$8,861.25	\$10,371.70	17.05%
Behavioral Health Component	\$57.30	\$62.48	9.00%
Total Weighted			5.14%

	<u>DDD</u>	<u>BHS</u>
Estimated SFY '03 Total Fund Impact	\$ 16,700,000	\$700,000
Estimated SFY '03 State Fund Impact	\$ 5,500,000	\$230,000

Increases to the non-ventilator dependent rate are primarily due to the provider rate increase that DDD implemented effective July 1, 2002. Also, the administration component was increased for HIPAA costs. The ventilator dependent rate was increased to better align it with DDD's financial experience, and to include the additional costs for provider rate increase and HIPAA compliance. The ventilator dependent capitation rate has not been adjusted the last two years.

The behavioral health component of DDD's capitation rate is transferred directly to the Department of Behavioral Health Services (BHS) by AHCCCSA. This component was increased based on medical trend data obtained from BHS.

Ms. Kris Ward
Page 2 of 2

DDD and BHS are responsible for obtaining their respective state match for this increase and transferring it to AHCCCS prior to the payment of capitation. Therefore, you will be contacted by the two agencies regarding their state appropriation for these increases.

The capitation rate adjustments will be retroactively effective October 1, 2002 for the period October 1, 2002 through September 30, 2003. If you have any questions, please contact me at 602-417-4591.

Sincerely



Anne Winter
Reimbursement and Projects Administrator
Office of Managed Care

c: Phyllis Biedess
 Tom Betlach
 Kari Price
 Jim Cockerham
 Alan Schafer
 Andy Genualdi (DES/DDD)
 Ed Rapoport (DES/DDD)
 Derik Leavitt (OSPB)
 Leslie Schwalbe (ADHS/BHS)



Our first care is your health care
ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

701 East Jefferson, Phoenix AZ 85034
PO Box 25520, Phoenix AZ 85002
phone 602 417 4000
www.ahcccs.state.az.us

December 23, 2002

Leslie Schwalbe, Deputy Director
Arizona Department of Health Services
Division of Behavioral Health Services
2122 E. Highland, Suite 100
Phoenix, AZ 85016

Dear Ms. Schwalbe:

This letter is to inform you of the AHCCCS recommended capitation rate increase to the Division of Behavioral Health Services (BHS) for providing behavioral health services to Title XIX and Title XXI members enrolled with the Division of Developmental Disabilities (DDD). The adjustment is retroactive to October 1, 2002, and will be effective for the period October 1, 2002 through September 30, 2003 (CYE 2003).

In prior years, rates were developed separately for ventilator dependent and non-ventilator dependent members. It was recently discovered that since October 2001, AHCCCS has been paying the higher, non-ventilator rate for all members. This resulted in an overpayment to BHS of approximately \$25,100. This overpayment will be recouped in January 2003.

AHCCCS, along with actuarial consultants from Mercer Government Human Services Consulting, has reviewed the medical trend data provided by BHS, and is recommending the following changes:

- To simplify the payment process, AHCCCS will pay BHS a blended rate for both ventilator dependent and non-ventilator dependent members, effective October 1, 2002. The CYE 2003 rate was calculated by trending the 2002 rates forward based on trend data provided by BHS, then blending the rate based on the mixture of ventilator and non-ventilator members.
- The behavioral health administrative load was increased from 8.3% to 10.3%.
- In total, the blended rate increased 9%, from \$57.30 to \$62.48.

Please review your state match appropriation to determine if a supplementary request is necessary. BHS may be required to request participation on the JLBC agenda for review of this

increase. Please call me when you have been placed on the agenda. If you have questions, please call me at 602-417-4591.

Sincerely,

A handwritten signature in cursive script that reads "Anne Winter".

Anne Winter
Reimbursement & Projects Administrator
Office of Managed Care

C: Kari Price
Chris Coleman
Bonnie Marsh
Marina Whitmore

STATE OF ARIZONA

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DATE: June 3, 2003

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Stefan Shepherd, Principal Fiscal Analyst

SUBJECT: DEPARTMENT OF ECONOMIC SECURITY - REVIEW OF LONG TERM CARE
CAPITATION RATE CHANGES

Request

Pursuant to a footnote in the FY 2003 Supplemental Bill, the Department of Economic Security (DES) is presenting to the Committee its expenditure plan for the federal Title XIX Long Term Care (LTC) program as a result of an increase in capitation rates. The plan indicates that this year's capitation rate for most clients in DES' LTC program will increase 4.98% from last year's capitation rate. In addition, the capitation rate for the last quarter of the previous contract year (July 1 - September 30, 2002) will increase 3.94% above the old rate. The federal government requires that capitation rates be actuarially sound.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the request. The approved FY 2003 budget includes sufficient funds for the requested increase.

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound, capitation rates are not set by the Legislature. DES contracts with an actuarial firm, which uses claims, encounter data, and projected enrollment to determine the actual costs of services and thereby recommends increases or decreases in the capitation rates. Once DES requests a change in rates, the new rates must be approved by the Arizona Health Care Cost Containment System (AHCCCS).

DES provides services to developmentally-disabled (DD) clients eligible for the Arizona Long Term Care System (ALTCS). The Arizona Health Care Cost Containment System (AHCCCS) passes through federal funding to DES to provide ALTCS services to these DD clients. DES matches those federal funds with General Fund monies appropriated in its budget. DES receives money based on a capitation rate; that is, AHCCCS provides DES with a set amount of funds for each ALTCS client that DES serves. AHCCCS is required to set these capitation rates at actuarially sound levels.

(Continued)

Laws 2003, Chapter 1, 1st Special Session, which amended DES' FY 2003 appropriation, includes the following footnote:

“Before implementation of any changes in capitation rates for the Long Term Care program, the Department of Economic Security shall report its plan to the Joint Legislative Budget Committee for its review.”

In a November 27, 2002 letter to DES, AHCCCS recommended capitation rates for Federal Fiscal Year (FFY) 2003, which started on October 1, 2002. Additionally, on April 23, 2003, AHCCCS notified DES that it was retroactively increasing the capitation rate for the final quarter of FFY 2002, running from July 1 through September 30, 2002. The revised monthly rates are shown in the table below. Almost all clients served by DES in the LTC program are categorized as enrolled.

Category	Prior FFY 02 rate	Revised FFY 2002 rate	New FFY 2003 rate	% Change FFY03/FFY02
Enrolled (Non-Ventilator Dependent)	\$2,496.45	\$2,592.56	\$ 2,623.03	5.07%
Ventilator Dependent	\$8,888.36	\$8,888.36	\$10,403.36	17.04%

The increases in the Enrolled category are allocated as follows:

Category	Prior FFY 02 rate	Revised FFY 2002 rate	New FFY 2003 rate	% Change FFY03/FFY02
Aid to Individuals	\$1,774.21	\$1,861.64	\$1,883.11	6.14%
Acute Care Services	339.92	339.92	320.39	(5.74)%
Case Management Services	104.66	104.66	108.58	3.75%
Administration	184.16	191.42	210.48	14.29%
Risk/Profit	36.04	37.46	37.84	4.98%
Total - DES LTC	\$2,438.99	\$2,535.10	\$2,560.40	4.98%
Behavioral Health (DHS pass-through)	57.46	57.46	62.63	9.00%
Total Enrolled Rate	\$2,496.45	\$2,592.56	\$2,623.03	5.07%

As the table shows, DES' LTC program received an increase of approximately 5% in its portion of the capitation rate. (The Behavioral Health increase is addressed in another agenda item.) According to AHCCCS' November 21 letter, the 6.14% increase in the Aid to Individuals line item reflects SFY 2002 actual expenditures, new program costs (presumably the transfer of DD-related employment support services from the Division of Employment and Rehabilitation Services), the provider rate increase, and a utilization increase resulting from pent-up demand freed by the provider rate increase. The Acute Care line's (5.74)% decrease reflects actual capitation rates paid to providers. The Administration increase of 14.29% is mostly associated with complying with Health Insurance Portability and Accountability Act (HIPAA) requirements (i.e., new computer system). According to AHCCCS' April 23 letter, the 4.93% increase in the Aid to Individuals line item reflects the same methodology used to calculate the 6.14% increase for FFY 2003.

The original SFY 2003 budget assumed DES would receive an average SFY 2003 capitation rate of \$2,557.46. The recommended capitation rate for SFY 2003 will average about \$2,554. Laws 2003, Chapter 1, 1st Special Session added \$9,190,900 (including \$3,062,400 General Fund) to DES' original budget. This amount is intended to address any caseload growth above the original estimates and to cover any DES expenditures above the capitation rate revenue. As a result, JLBC Staff believes the capitation rate increase is within the current budget.

JLBC Staff recommends that the Committee give a favorable review to the attached report.

RS/SSH:jb
Attachment



ARIZONA DEPARTMENT OF ECONOMIC SECURITY

1717 W. Jefferson - P.O. Box 6123 - Phoenix, AZ 85005

Janet Napolitano
Governor

William Bell
Acting Director

MAY 15 2003

Mr. Richard Stavneak
Director
Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007



Dear Mr. Stavneak:

I have received your letter of May 12, 2003 requesting a copy of our Division of Developmental Disabilities (DDD) rate capitation analysis. Per your instruction, I have requested that the Arizona Health Care Cost Containment System (AHCCCS) provide the full actuarial analysis used to support the capitation rate adjustment. I have enclosed a copy of the letter dated April 30, 2003 and a copy of the attachments on the DDD rate capitation analysis. I apologize for any inconvenience.

If you have any questions, please contact me at (602) 542-5678.

Sincerely,

William Bell
Acting Director

Attachments

Cc: The Honorable Russell Pearce, Chairman, House Appropriations Committee
The Honorable Robert Burns, Chairman, Senate Appropriations Committee
David Jankofsky, Director, Governor's Office of Strategic Planning and Budget
Kristine Ward, Deputy Director, Governor's Office of Strategic Planning and Budget
✓Stefan Shepherd, Analyst, Joint Legislative Budget Committee
Derik Leavitt, Analyst, Governor's Office of Strategic Planning and Budget



ARIZONA DEPARTMENT OF ECONOMIC SECURITY
1717 W. Jefferson - P.O. Box 6123 - Phoenix, AZ 85005

Janet Napolitano
Governor

William Bell
Acting Director

APR 30 2003

The Honorable Russell Pearce, Chairman
Joint Legislative Budget Committee
1700 West Washington
State Capitol - House Wing
Phoenix, Arizona 85007

Dear Representative Pearce:

Pursuant to the footnote in Laws 2002, Chapter 327, the Arizona Department of Economic Security (DES) requests to be placed on the meeting agenda for the next Joint Legislative Budget Committee meeting. The purpose of the request is to review the proposed changes for the State Fiscal Year 2003 capitation rates for the Long-Term Care Program for the Division of Developmental Disabilities (DDD).

For the time period of July 1, 2002 through September 30, 2002, the capitation rate for the regular clients is increased from \$2,439.00 to \$2,535.09. Additionally, from October 1, 2002, through June 30, 2003, the capitation rate for the regular clients is increased from \$2,535.09 to \$2,560.40. The monthly capitation rate for ventilator-dependent clients increased from \$8,861.25 to \$10,371.70. The new federal fiscal year 2003 proposed DDD rates of \$2,560.40 and \$10,371.70 reflect an increase of 4.98% for the regular rate and 17.05% for the ventilator-dependent rate. These rates exclude the behavioral health component, which DES passes through to the Arizona Department of Health Services, Division of Behavioral Health Services.

The above rate changes are the result of reviews by the AHCCCS consulting actuary, William M. Mercer, and are based upon actual encounter data provided by DES. The analysis for each component of the new rates is attached.

Please contact Lynne Smith, Acting Assistant Director, Division of Business and Finance, at (602) 542-7166 if you have any questions.

Sincerely,

William Bell
Acting Director

Attachments

C.

Senator Robert Burns, Chairman, Appropriations

David Jankofsky, Director, Governor's Office of Strategic Planning and Budgeting

Richard Stavneak, Director, Joint Legislative Budget Committee

Kristine Ward, Deputy Director, Governor's Office of Strategic Planning and Budgeting

Stefan Shepherd, Analyst, Joint Legislative Budget Committee

Derik Leavitt, Analyst, Governor's Office of Strategic Planning and Budgeting



AHCCCS

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ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Janet Napolitano, Governor

Phyllis Biedess, Director

801 East Jefferson, Phoenix AZ 85034

PO Box 25520, Phoenix AZ 85002

phone 602 417 4000

www.ahcccs.state.az.us

April 23, 2003

Mr. Ed Rapoport
Business Manager
DES/DDD
1789 West Jefferson, Site Code 791A
Phoenix, AZ 85007

Dear Mr. Rapoport:

AHCCCS, in conjunction with actuaries from Mercer Government Human Services Consulting, has completed a retroactive capitation rate adjustment for the period July 1, 2002 through September 30, 2002. The increase will provide additional funds to DES/DDD to cover the cost of provider rate increases that became effective July 1, 2002.

The adjustment will be a 5.33% increase to the HCBS component of the DDD full long term care non-ventilator capitation rate. The increase was calculated using the same methodology that was used to arrive at the 5.33% increase that was applied to the HCBS component for the CYE 2003 rate. The 5.33% is comprised of an estimated 4.83% unit cost increase, with an additional .5% for pent up demand.

Based on non-ventilator member months for the quarter ending 9/30/2002, the rate increase will provide DDD with approximately \$4 million in additional funds. Please see the attached sheet for details.

If you have any questions or comments, please contact me at (602) 417-4591.

Sincerely,

Anne Winter
Reimbursement and Projects Administrator
Office of Managed Care

Enclosure

C: Kari Price
Ric Zaharia
Tom Betlach
Marina Whitmore
Chris Coleman



ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM
Committed to Excellence in Health Care

November 27, 2002

Mr. Ed Rapoport
Business Operations Manager
DES/DDD
1789 West Jefferson, Site Code 791A
Phoenix, Arizona 85007

Dear Mr. Rapoport:

This letter is to notify the Division of Developmental Disabilities (DDD) of its capitation rate adjustment for CYE 2003. AHCCCS, along with actuarial consultants from William M. Mercer, Inc., has reviewed the financial and encounter data submitted by DES/DDD and is recommending the following changes:

Non-Ventilator Dependent Rate

- The rate for institutional services decreased 23.33% from \$134.00 to \$102.74, based on DES/DDD's FFY03 rate proposal. The decrease is based on per member per month (PMPM) cost estimates from historical incurred claims data.
- The home and community based services component increased 8.54% from \$1,640.21 to \$1,780.37. This increase is based on PMPM calculations from the 2002 audited financial statements, and the inclusion of new program costs. The HCBS rate component also includes a substantial increase for DDD's provider rate increases implemented in SFY '02, as well as an increase in utilization for pent-up demand.
- Acute care services decreased 5.74% from \$339.92 to \$320.39, based on DDD's FFY 03 rate proposal. The rate is based on the actual capitation rates paid to DDD's acute care providers, combined with estimated reinsurance payouts.
- Case management increased 3.75% from \$104.66 to \$108.58. This increase was determined by using the ALTCS Case Management Model. The model was updated to include actual DDD salaries and employee related expenses, and was adjusted to reflect DDD's caseload ratios.
- Total Administration load increased from 8.3% to 9.1%. The bulk of the increase is due to additional costs associated with implementing HIPAA compliance measures.

The total increase in DDD's capitation rate (net of behavioral health services) is 4.98%.

Ventilator Dependent Rate

- The rate for ventilator dependent members increased 17.05% from \$8,861.26 to \$10,371.70. The increase is based on PMPM calculations from the 2002 audited financial statements, and also includes an increase due to DDD's provider rate increases.

The estimated SFY 03 impact to funding is an increase of \$16,650,000. Please review your state match appropriation to determine if a supplementary request is necessary. DDD is required to request participation on the JLBC agenda for review of this increase.

AHCCCS would like to make this increase retroactive to October 1, 2002. Please call me when you have been placed on the JLBC agenda. If you have questions, please call me at 602-417-4591.

Sincerely,

Anne Winter

Anne Winter
Financial Manager
Office of Managed Care

c: Kari Price
Jack Wagner
Alan Schafer
Chris Coleman
Andy Genualdi
Rick Zaharia
Marina Whitmore

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: June 3, 2003

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Timothy Sweeney, Fiscal Analyst

SUBJECT: ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM – REVIEW OF
CAPITATION RATES

Request

Pursuant to a General Appropriation Act footnote, the Arizona Health Care Cost Containment System (AHCCCS) is required to report federal Title XIX Acute Care capitation rate changes to the Committee for its review prior to implementation. AHCCCS is recommending a 23.8% increase to the CMDP capitation rates, retroactive to October 1, 2002. The federal government requires that capitation rates be actuarially sound.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review to the capitation rate changes in the Comprehensive Medical and Dental Program (CMDP). The approved FY 2003 budget includes sufficient funds for the requested increases.

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound, capitation rates are not set by the Legislature. AHCCCS contracts with an actuarial firm, which uses claims, encounter data, and projected enrollment to determine the actual costs of services and thereby recommends increases or

(Continued)

decreases in the capitation rates. The CMDP program is administered by the Department of Economic Security (DES); CMDP provides medical and dental services to children in foster care. AHCCCS estimates that this increase will have a state match cost of \$634,600 (with \$1,303,100 in corresponding federal matching monies). This increase will help to prevent potential supplemental needs in the state-only side of the program, which is appropriated in the DES budget.

The capitation rate increase is in large part fueled by the correction of an error in the allocation of pharmacy expenses, dating back to September 2002. Approximately \$100,000 per month had been allocated to the state-only side of the program, rather than the Medicaid portion of the program, which receives federal matching monies. Additionally, increases in the AHCCCS fee schedules for inpatient hospital services that were not included for FY 2003 are also driving up the CMDP capitation rate. Finally, the rate increase reflects increased administrative costs due to the continued implementation of the Health Insurance Portability and Accountability Act (HIPAA).

RS/TS:ck



Our first care is your health care
ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Janet Napolitano, Governor
Phyllis Biedess, Director

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PO Box 25520, Phoenix AZ 85002
phone 602 417 4000
www.ahcccs.state.az.us

May 2, 2003

The Honorable Russell K Pearce, Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007



Dear Representative Pearce:

The Arizona Health Care Cost Containment System (AHCCCS) respectfully requests to be placed on the agenda for the next Joint Legislative Budget Committee meeting for the purpose of reviewing increases to the Comprehensive Medical Dental Program (CMDP) rates for the period October 1, 2002 through September 30, 2003. This review is required in the footnotes to the General Appropriation Act.

CMDP rate increase

Before implementation of any changes in capitation rates the Arizona Health Care Cost Containment System Administration shall report its plan to the Joint Legislative Budget Committee for review and this includes any capitation rates used for the Proposition 204 populations.

AHCCCS with its consulting actuaries, Milliman USA, has conducted a review of cost and utilization data for CMDP, the program contained within the Department of Economic Security (DES), that provides acute care medical services to children in foster care. Children enrolled in CMDP population are a high acuity population with unique health care needs.

Based on cost and utilization trends, AHCCCS is recommending a 23.8% increase to CMDP's capitation rates for the period October 1, 2002 through September 30, 2003. This increase will provide federal funding that will offset CMDP's annual losses that are currently funded solely through the general fund.

Budget Impact due to rate increases by funding source

	<u>SFY '03</u>
Federal Funds	\$ 1,303,128
State Funds	\$ 634,609
Total Funds	<u>\$ 1,937,737</u>

There were several contributing factors to the rate increase. First, CMDP realized that it was inappropriately booking a portion of the pharmacy expense for Title XIX members to its state funded only population's expenses. Therefore, until May of 2002, CMDP's Title XIX pharmacy expenditures were materially understated in their financial statements that have been used to develop capitation rates. Those expenditures, approximately \$1,200,000, have been included in the proposed capitation rate for CYE '03. That adjustment alone was a 13.5% increase to medical expenditures.

Second, the rates were trended for pharmacy cost increases and the AHCCCS tier per diem rate increases for 2003. CMDP is required to pay our tier per diem rates. Because the AHCCCS fee for service rate schedule was frozen in 2003, no cost increases for those services were included. The trend increase was approximately 5%.

Finally, the administrative load was increased from 20% to 22.6% to help offset increased expenditures due to HIPAA implementation. All of these increases are necessary for actuarially sound rates. Attached is the letter from Milliman USA that attests to the actuarial soundness of the new capitation rates, a requirement of the Balance Budget Act of 1997.

The rate increase will be addressed in more detail at the Joint Legislative Budget Committee. Please feel free to contact me at (602) 417-4625 if you have any questions.

Sincerely,

Kari Price by aw

Kari Price
Assistant Deputy Director
Office of Managed Care

- c. Phyllis Biedess, Director, AHCCCS
- Tom Betlach, Deputy Director, AHCCCS
- ✓ Richard Stavneak, Director, Joint Legislative Budget Committee Staff
- Jim Cockerham, Assistant Director, Division of Business and Finance, AHCCCS
- Lynn Dunton, Assistant Director, OPAC
- Tim Sweeney, Joint Legislative Budget Committee Staff
- Derik Leavitt, Governor's Office of Strategic Planning and Budgeting
- Kris Ward, Governor's Office of Strategic Planning and Budgeting
- Anne Winter, Reimbursement and Projects Administrator, Office of Managed Care



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April 29, 2003

Ms. Phyllis Biedess
Director
Arizona Health Care Cost Containment System
701 East Jefferson Street
Phoenix, Arizona 85034



RE: CMDP Rates for Contract Year 2003 – Revised Analysis

Dear Phyllis:

We were retained by the Arizona Health Care Cost Containment System (AHCCCS) to determine Contract Year 2003 capitation rates for the Comprehensive Medical and Dental Program (CMDP), to be paid to the Department of Economic Security. The purpose of this letter is to document our analysis and summarize the results of our study. This letter revises the results presented in our letter of April 28, 2003.

Data Reliance

In performing this analysis, we have relied on data and other information provided to us by AHCCCS. This includes the historical claim lag detail and membership information and audited financial statements. We have reviewed the data for reasonableness but have not audited or verified this data. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

Variability of Results

We have selected the assumptions and methodology presented here based on industry experience and on discussions with AHCCCS management. We believe these assumptions and methodologies in their totality are reasonable. However, a user of this report should note that (1) future experience will invariably be different from experience and (2) other knowledgeable individuals could have a different opinion about what the most appropriate assumptions and methodologies are. Ultimately, a user of this report must become familiar and comfortable with the key assumptions utilized.

Ms. Phyllis Biedess
Arizona Health Care Cost Containment System
RE: CMDP Rates for Contract Year 2003 – Revised Analysis
April 29, 2003 :
Page 2

Limitations on Distribution

This report has been prepared for the internal use of and is only to be relied upon by the AHCCCS. No portion of this report may be provided to any other party without Milliman's prior written consent. In the event such consent is given, the report must be provided in its entirety.

It is our understanding that AHCCCS intends to provide this report to the Centers for Medicare & Medicaid Services (CMS). Consent to do so is hereby granted. The report must be provided in its entirety.

General Approach

In our analysis we have analyzed claims history and other information for the CMDP population, looking at the Prospective and Prior Period Coverage groups separately. Our approach is to calculate the necessary rate increase for the 2003 contract year (the period October 1, 2002 through September 30, 2003) based on historical experience data, anticipated claim cost trends, and anticipated administrative costs for the plan. Using this information we have calculated the anticipated revenue required for 2003.

Key Assumptions

The following key assumptions underlie our analysis.

Base Claims Cost Level. Historical claims costs levels, as shown in the CMDP audited financial statements, have been erratic and exhibit very high recent trends. As such, both CMDP and AHCCCS management have concerns about the quality and reliability of the claims cost data shown in the financials. While AHCCCS and CMDP are working diligently to resolve these issues, we decided (and AHCCCS and CMDP agreed) that we should not rely upon the claims costs data for the Prospective population. (Actual claims experience was used for the PPC calculations, however).

Therefore, we have used an alternative method to estimate claims, as an interim proxy until the data issues can be resolved. The proxy is to estimate Contract Year 2002 claims to be equal to Contract Year 2002 capitation payments, less a 20% allowance for administrative costs, plus an adjustment for historical underreporting of prescription drug claims.

Ms. Phyllis Biedess

Arizona Health Care Cost Containment System

RE: CMDP Rates for Contract Year 2003 – Revised Analysis

April 29, 2003

Page 3

Adjustment for Historical Underreporting of Prescription Drug Claims. Prescription drug claims for CMDP Title XIX (Medicaid-eligible) recipients have been historically underreported in CMDP's financial statements. The issue involves the allocation of drug costs between CMDP AHCCCS eligibles and non-AHCCCS eligibles. Because these costs were used to calculate the CYE 2002 capitation rates, the interim proxy method to estimate claims (described above) is understated by this amount. We have estimated this amount to be \$1,200,000 in CYE 2002. (This adjustment applies to the Prospective population only).

Trends. We have assumed a composite trend rate of 5.2% for CYE 2003. This trend assumption is based on our estimates of future utilization levels and AHCCCS reimbursement levels (cost per unit of service).

Administrative Costs. We have continued to make an allowance of 20% of claims for the CMDP plan, less an adjustment for trend, plus an adjustment to reflect extraordinary HIPAA compliance costs. While 20% is a higher-than-normal administrative allowance (when compared with other AHCCCS plans), it is appropriate given the relatively small size of the CMDP plan and the special circumstances of its insured population.

The adjustment for trend reflects the fact that medical claim costs are increasing at a rate significantly higher than the general inflation rate. The adjustment is \$5.09 PMPM, which sets the administrative load equal to 20% of the **2002** (not 2003) claim cost level.

The additional adjustment for HIPAA is intended to reflect CMDP's estimate of an additional \$630,000 (or \$9.20 PMPM) in administrative expense associated with HIPAA compliance in CYE 2003. (This adjustment has been applied to the Prospective population only).

Summary of Results

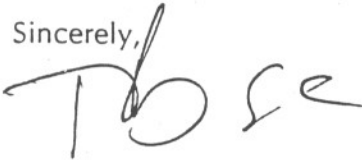
Based on the methodology outlined above, we calculate a necessary rate increase of 24.2% for the Prospective population and 14.0% for the Prior Period Coverage group.

Ms. Phyllis Biedess
Arizona Health Care Cost Containment System
RE: CMDP Rates for Contract Year 2003 – Revised Analysis
April 29, 2003
Page 4

Actuarial Certification

A Statement of Actuarial Opinion is attached to this letter.

Sincerely,

A handwritten signature in black ink, appearing to read 'T D Snook', with a stylized flourish at the end.

Thomas D. Snook, F.S.A., M.A.A.A.
Principal & Consulting Actuary

TDS/pc

cc: Anne Winter

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: June 2, 2003

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Beth Kohler, Fiscal Analyst

SUBJECT: GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING –
REVIEW OF CHANGES TO THE DISPROPORTIONATE SHARE HOSPITAL
PROGRAM

Request

Pursuant to a footnote in the General Appropriation Act, any changes to the distribution of disproportionate share hospital (DSH) spending as determined by the Governor are subject to review by the Committee. The Governor's Office of Strategic Planning and Budgeting (OSPB) has requested that the Committee review a revised plan to reduce FY 2003 DSH spending by \$(23,062,400) in the Arizona Health Care Cost Containment System (AHCCCS). In addition to the reduction in DSH payments, county withholdings of transaction privilege tax (TPT) distributions will be reduced by a corresponding amount, from \$120,826,200 to \$97,763,800.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of this request. These changes are necessary to keep the state's DSH program consistent with federal policy. The revised plan will result in decreased expenditures of \$(23,062,400), including \$(8,474,400) from the General Fund and \$(14,588,000) in Federal Funds. The new plan will not reduce any county hospital payments, as these particular monies were all ultimately returned to the state. Private hospitals will have their payments reduced from \$26 million to \$25 million as a technical adjustment.

TPT distributions to Maricopa and Pima counties are withheld to recoup some of the DSH payments made to counties. These withholdings are deposited into the General Fund. The Treasurer will reduce county withholdings (and state General Fund revenue) by a corresponding amount, \$(23,062,400). Therefore, including both the reduced General Fund expenditures \$(8,474,400) and the reduced withholdings \$(23,062,400), the net impact to the General Fund is \$(14,588,000).

We have already reported on this lost General Fund revenue in our Monthly Fiscal Highlights. Without this change, the state General Fund revenue is \$39.4 million above forecast through the end of April. With this change, the revenue surplus will decline by \$23.1 million, from \$39.4 million to \$16.3 million.

Analysis

The federal DSH program provides supplementary payments to hospitals that serve a disproportionate number of low-income patients. For these payments, state monies are matched with federal monies at approximately a \$2 to \$1 rate. Payments are made in the AHCCCS budget to private and county hospitals, as well as the Arizona State Hospital.

The federal government has established limits on the total DSH payments hospitals can receive. States have a limited amount of discretion in these calculations. During the original FY 2003 budget development, OSPB and AHCCCS had assumed the state would be able to move to a slightly different system of calculating these payments, which would have allowed for additional payments to county hospitals. Therefore, the General Appropriation Act included authorized expenditures of \$179,651,100 (including \$59,797,200 from the General Fund and \$119,893,900 in Federal Funds). Of this amount, \$125,179,900 was for county hospitals (specifically, Maricopa Medical Center and Kino Community Hospital).

The federal government has not yet approved the new plan. As a result, OSPB has revised the FY 2003 DSH spending estimate to reflect the current method of calculating the distributions. The revised estimate includes a reduction of \$(23,062,400) in Total Fund spending (\$8,474,400 General Fund, \$14,588,000 Federal Funds). Table 1 displays the original DSH spending plan and the revised estimates:

Table 1	Original FY 2003 DSH Spending	Revised FY 2003 DSH Spending
Arizona State Hospital	\$ 28,474,900	\$ 28,474,900
Private Hospitals	25,996,300	24,959,600
Maricopa	105,963,100	83,939,100
Kino	19,216,800	19,215,100
Total	\$179,651,100	\$156,588,700
General Fund	\$ 59,797,200	\$ 51,282,900
Federal Funds	\$119,893,900	\$105,305,800

The reduction in payments to private hospitals is a technical adjustment necessary to recoup overpayments that the hospitals received in FY 2002. A \$1 million payment intended for county hospitals was accidentally paid to private hospitals in FY 2002. To adjust for this error, FY 2003 payments to private hospitals will be reduced by \$1 million and county payments will be increased by a corresponding amount.

A portion of the DSH distribution to county hospitals is recouped through withholding of county TPT distributions, which are then deposited into the General Fund. This amount was originally estimated to be \$120,826,200. Laws 2002, Chapter 329 allows the Governor, in consultation with the chairpersons of the House and Senate Appropriations Committees, to direct the Treasurer to adjust the withholding levels to accommodate changes in federal policies that reduce DSH payments to county hospitals below those specified in the General Appropriation Act. Because DSH payments will be less than originally anticipated, the Governor will direct the Treasurer to reduce withholdings by \$23,062,400 to \$97,763,800.

Table 2 displays the change in county withholdings.

Table 2	<u>Original FY 2003</u>	<u>Revised FY 2003</u>	<u>Difference</u>
Total GF DSH Payments	\$ 59,797,200	\$ 51,282,900	\$(8,474,400)
GF Revenue			
Maricopa County Withholding	\$101,760,800	\$ 78,829,300	
Pima County Withholding	19,065,400	18,934,500	
Arizona State Hospital			
Revertment ^{1/}	<u>28,474,900</u>	<u>28,474,900</u>	
Total GF Revenue	\$149,301,100	\$126,238,700	\$(23,062,400)
Net GF Impact			\$(14,588,000)
^{1/} The State Hospital receives \$28,474,900 in DSH payments. The hospital then reverts a corresponding amount to the General Fund.			

In conjunction with the lower General Fund DSH payments, the net impact to the General Fund of this change is \$(14,588,000).

RS/BK:ck



Janet Napolitano
Governor

GOVERNOR'S OFFICE OF
STRATEGIC PLANNING AND BUDGETING

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David Jankofsky
Director

April 14, 2003

The Honorable Russell Pearce, Chairman
Joint Legislative Budget Committee
Arizona House of Representatives
Phoenix, Arizona 85007

The Honorable Bob Burns, Chairman
Joint Legislative Budget Committee
Arizona Senate
Phoenix, Arizona 85007

Dear Chairmen Pearce and Burns:

Under the terms specified in Laws 2002, Chapter 327, Section 6 and Laws 2002, Chapter 329, Section 22 (D.), please consider this as our request to be placed on the next available agenda of the Joint Legislative Budget Committee to discuss recent changes in federal policy regarding the Disproportionate Share Hospital program for Fiscal Year 2003. As a result of these changes, it will be necessary to augment both payments and withholdings from the levels assumed in the Fiscal Year 2003 General Appropriations Act.

Thank you for your consideration of this request. Should there be any questions regarding this issue, please contact me at 542-5381.

Sincerely,


David Jankofsky
Director

cc: Richard Stavneak, JLBC Staff
Phyllis Biedess, AHCCCS

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: June 2, 2003

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Jake Corey, Fiscal Analyst

SUBJECT: ARIZONA COMMUNITY COLLEGES – REVIEW OF WORKFORCE
DEVELOPMENT PLAN ACTIVITIES AND EXPENDITURES

Request

Pursuant to A.R.S. § 15-1472, the community college districts are required to annually submit a report of their previous year's workforce development plan activities and expenditures to the Committee for review.

Recommendation

The JLBC Staff recommends that the Committee give a favorable review of the report.

Due to the number of reports received, JLBC Staff plans to work in the future with the Arizona Community College Association to develop a standardized reporting format.

Analysis

A.R.S. § 15-1472 requires each community college district to establish a workforce development account. Monies in the account are derived from Proposition 301 sales tax revenues and shall be used for workforce development and job training, including expenditures for: 1) partnerships with businesses and educational institutions; 2) additional faculty; 3) technology and equipment; 4) student services for new and expanded job opportunities; and 5) property and new construction, remodeling, or repair of facilities.

The table below presents total FY 2002 workforce development revenues and expenditures and a brief description of key expenditures by district. Total revenues in FY 2002 were \$8,968,700 and total expenditures in the same year were \$6,803,600. The table does not include \$1 million in revenues

(Continued)

received by the Navajo County Community College District to provide matching capital funds for the Snowflake campus pursuant to A.R.S. § 15-1463. In addition, the table does not include revenues or expenditures for Dine College or Tohono O'odham Community College. Both of these colleges received workforce development monies in FY 2002, but A.R.S. § 15-1472 only requires community college *districts* to report expenditures. Revenue figures are as reported on the State Treasurer's Web site.

District	FY 2002 Revenues	FY 2002 Expenditures	Key Expenditures (Over \$100 K)
Cochise	\$ 452,000	\$ 353,400	On-line campus faculty – \$140 K Interactive television system – \$174 K
Coconino	318,000	318,000	Remodel career technical education center – \$185 K
Graham	427,900	438,400	Interactive television technology connectivity – \$257 K Computer lab upgrades – \$170 K
Maricopa	4,230,200	2,446,100	New faculty positions – \$1.7 M Rapid response projects – \$286 K Capital – \$213 K Labor market survey; Partial funding of National Director for Teacher Education position – \$136 K
Mohave	362,800	367,300	Remodel classroom facilities – \$109 K
Navajo	372,400	373,400	Salary and ERE – \$256 K
Pima	1,486,700	1,345,900	Veterinary technician program – \$296 K Electronics and optics program – \$105 K New faculty positions in occupational programs – \$753 K
Pinal	443,500	379,000	Create Dean of Workforce and Economic Development position; Establish three Workforce Development offices – \$233 K
Yavapai	409,700	409,700	Additional technology faculty – \$141 K
Yuma/La Paz	465,500	372,400	Technology equipment; Create technology support services technician position – \$209 K
TOTAL	\$8,968,700	\$6,803,600	

Since there is no standard reporting format, it is difficult to categorize and determine precise expenditures for each allowable expenditure category. In addition, some of the categories overlap. As stated earlier, JLBC Staff will work with the Arizona Community College Association to develop a standardized reporting format that allows for a more comparative analysis.

RS/JC:ss