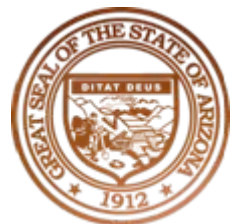


# Arizona Economy and Budget

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FY 2011 and FY 2012

February 8, 2012



# Overview

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- Economy
- Structural Deficit
- Reductions



# Population

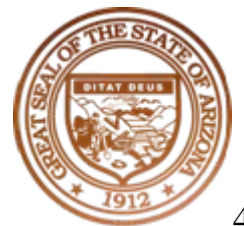
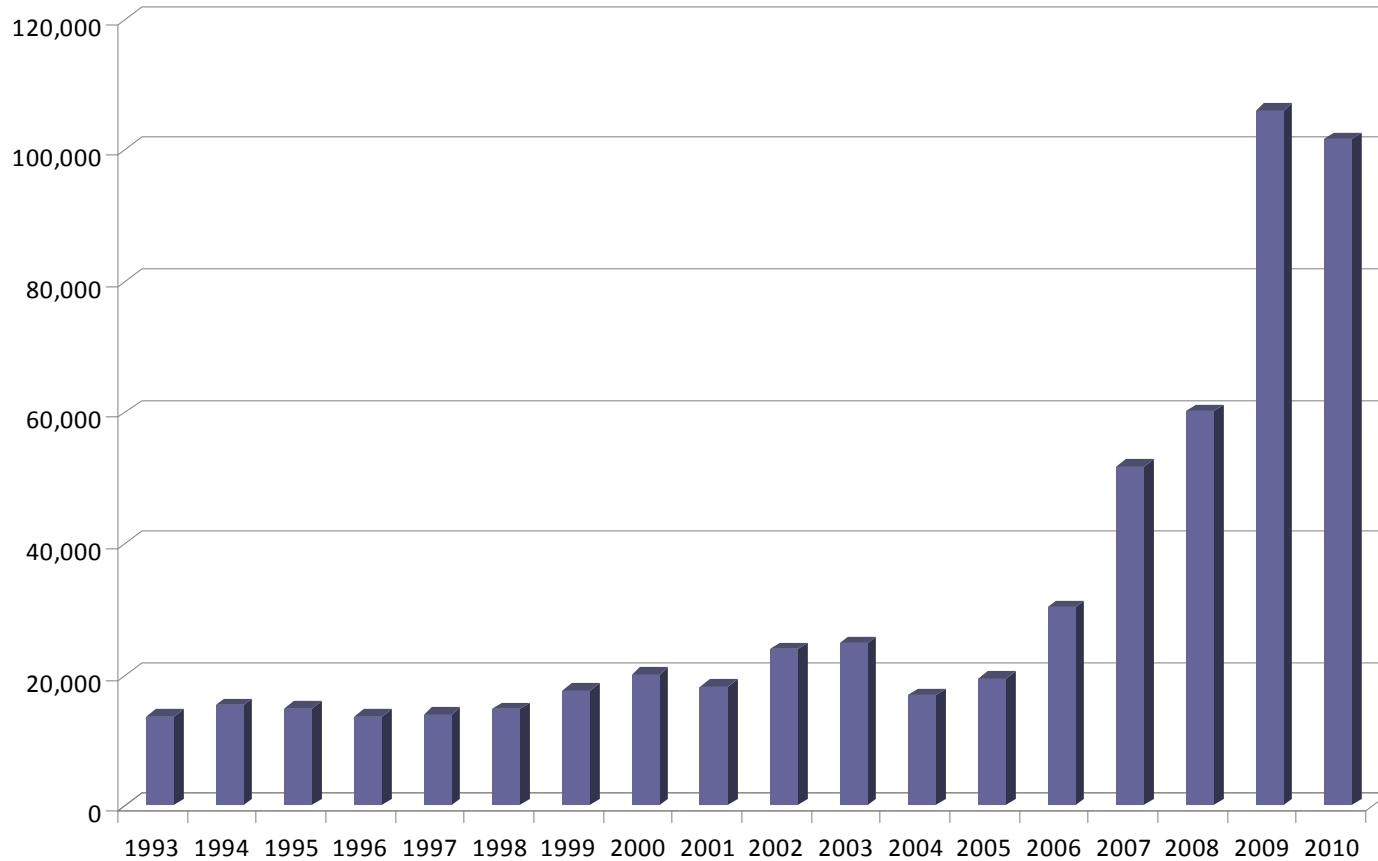
## Population Growth

	<u>2007</u>	<u>2009</u>	<u>2010</u>
U.S.	1.0%	0.9%	0.7%
Arizona	3.1%	-0.4%	0.2%
	195,000	-22,712	14,900



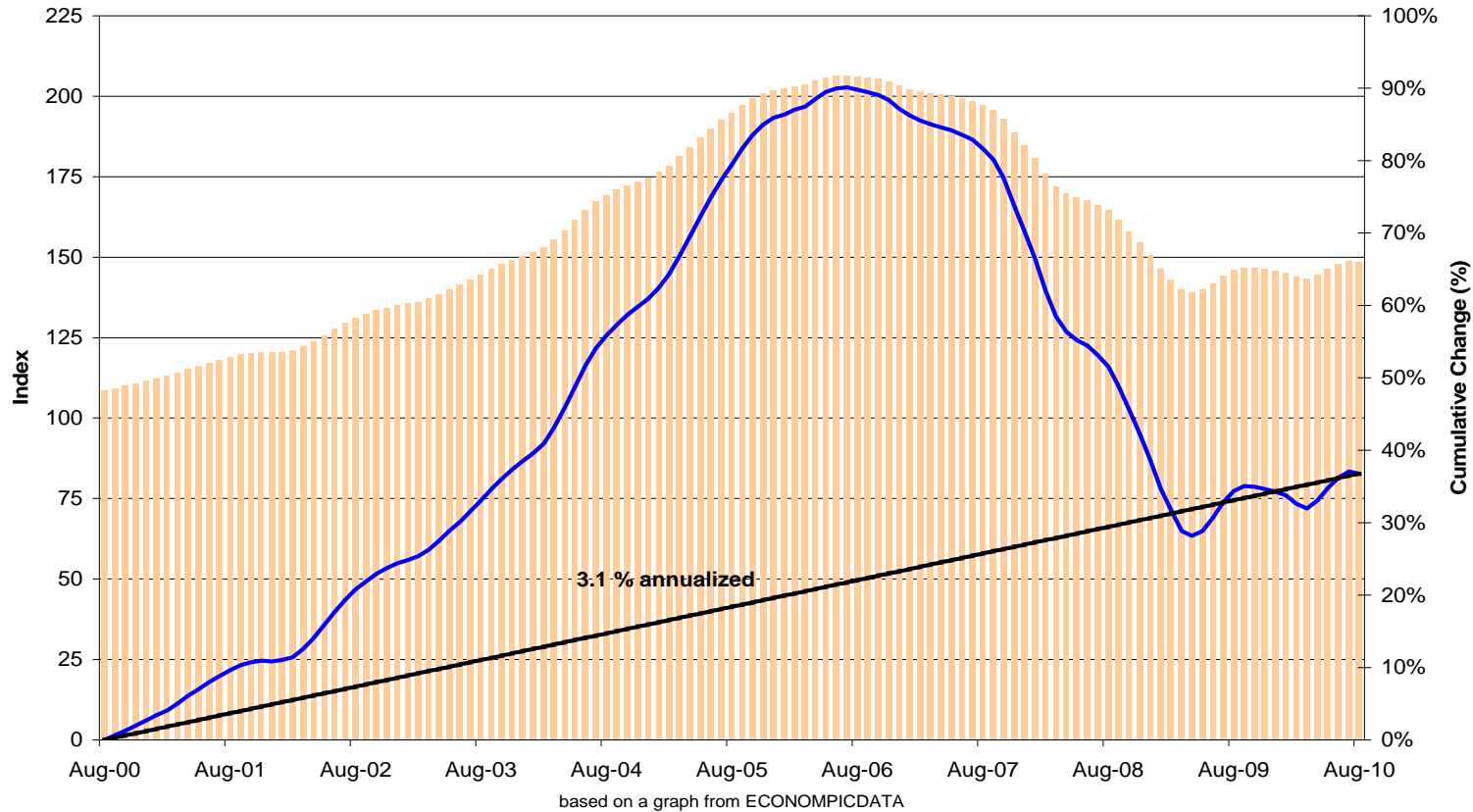
# Housing – Vacant Units

60,000 to 75,000 excess units in the system



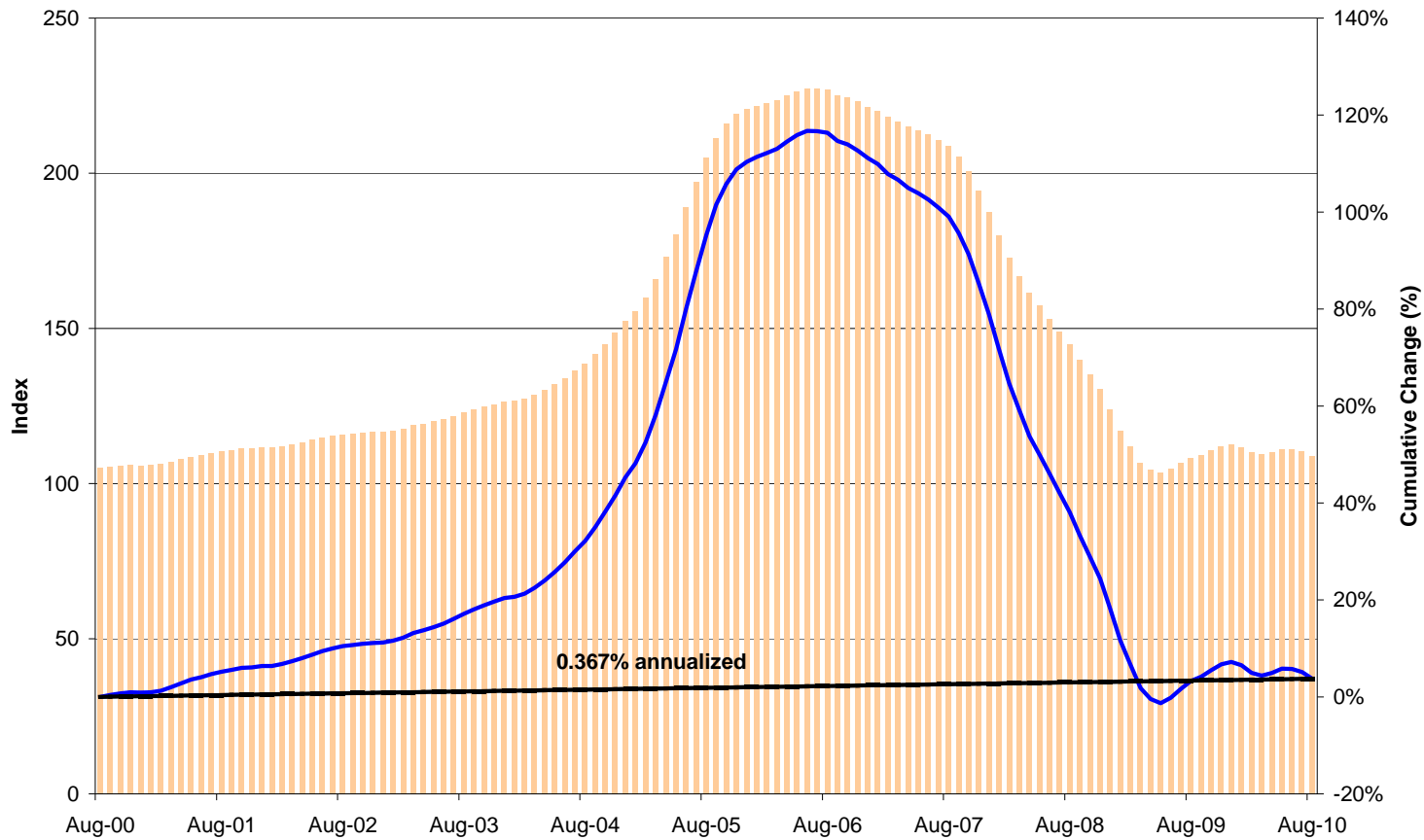
# Housing

Case Schiller 20 City Index  
Index vs. Change

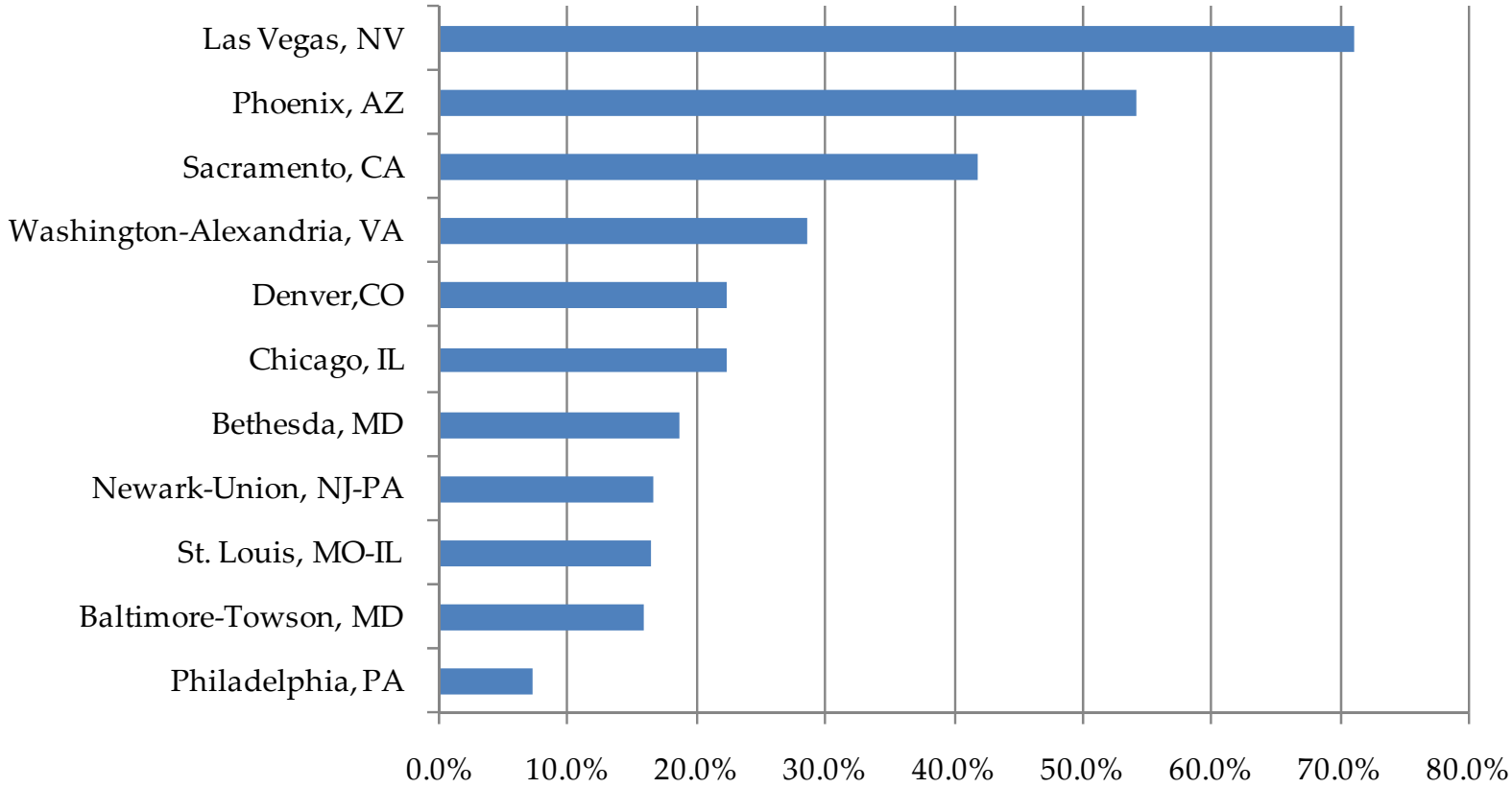


# Housing

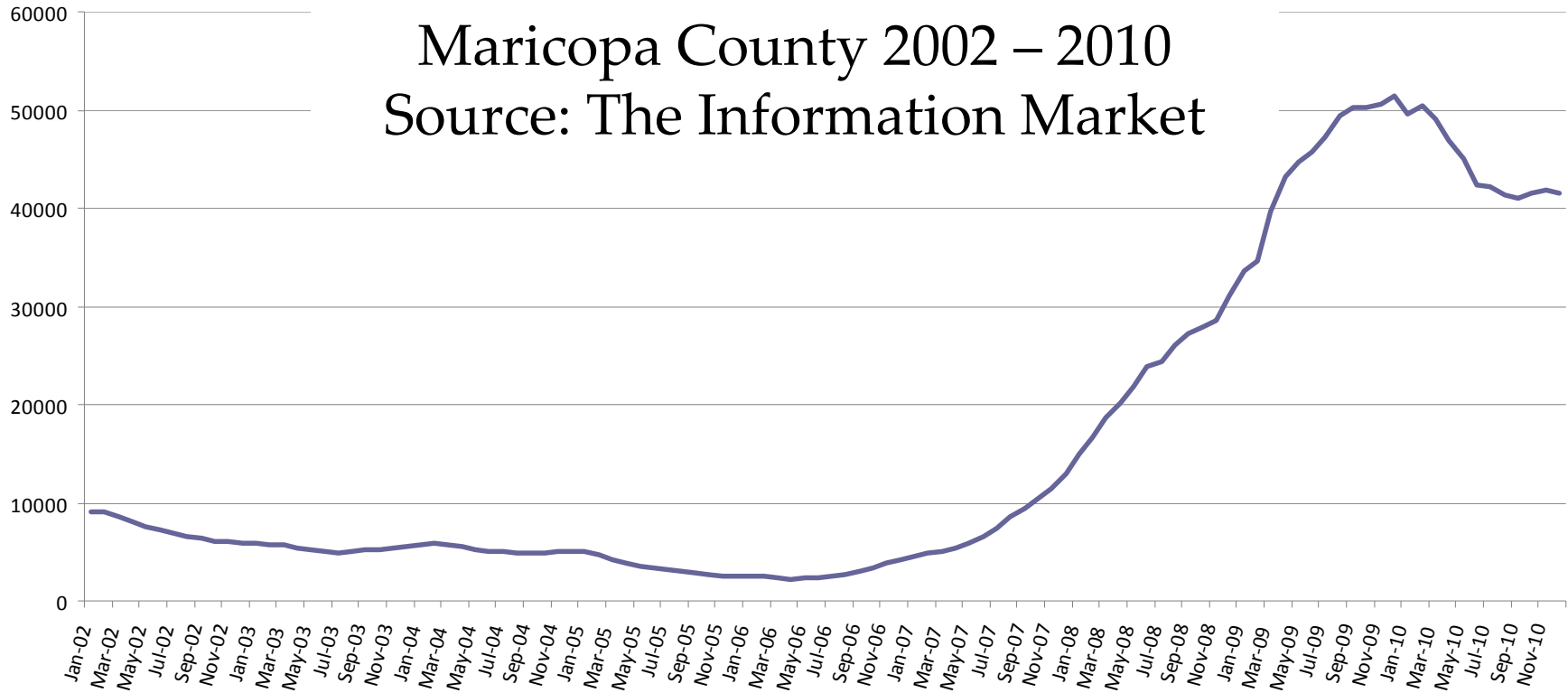
Case Schiller Phoenix Index  
Index vs. Change



# Housing – Negative Equity



# Housing - Foreclosures





# Commercial Construction

Commercial Construction Volume  
Peak to 2009



## Percent Decline

## Office

## Retail

## Industrial

U.S.

-15.4%

-51.4%

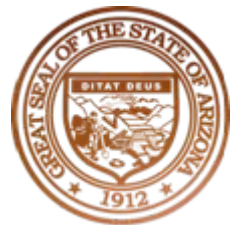
-57.5%

**Greater Phoenix**

**-63.3%**

**-60.3%**

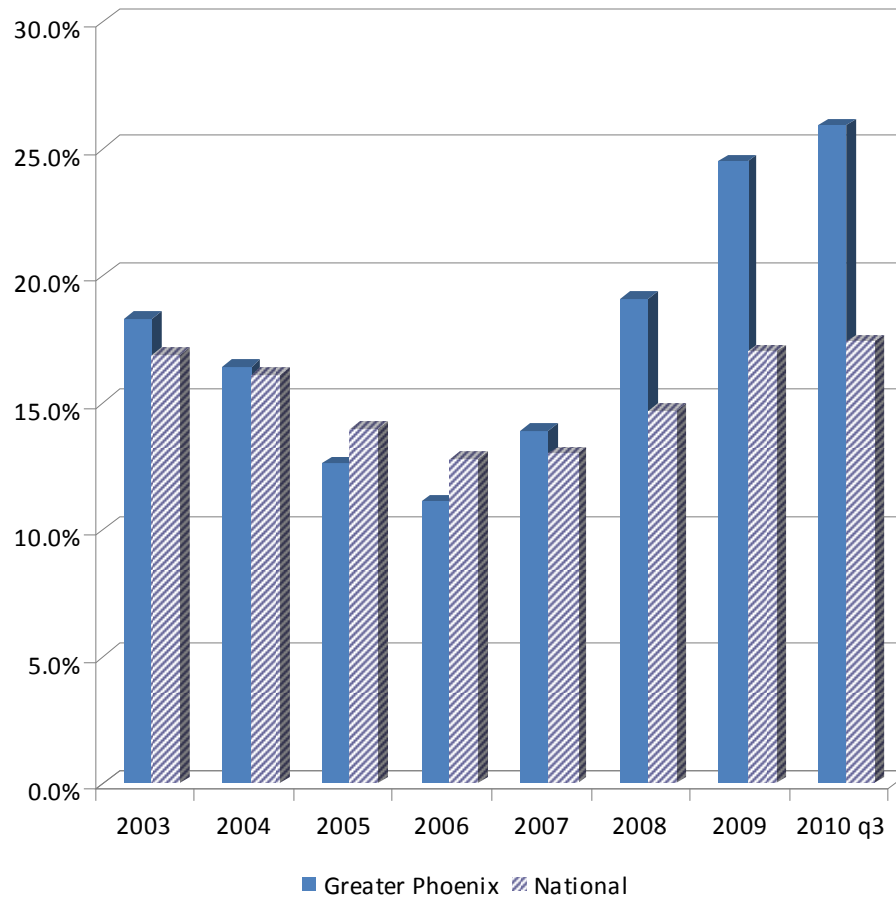
**-65.8%**



# Commercial Space

## Office Space Vacancy Rates U.S. versus Greater Phoenix

Source: CB Richard Ellis and Marcus & Millichap



Office of Governor Janice K. Brewer



# Commercial Space

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Currently no multi-tenant office space under construction (2010 q3)

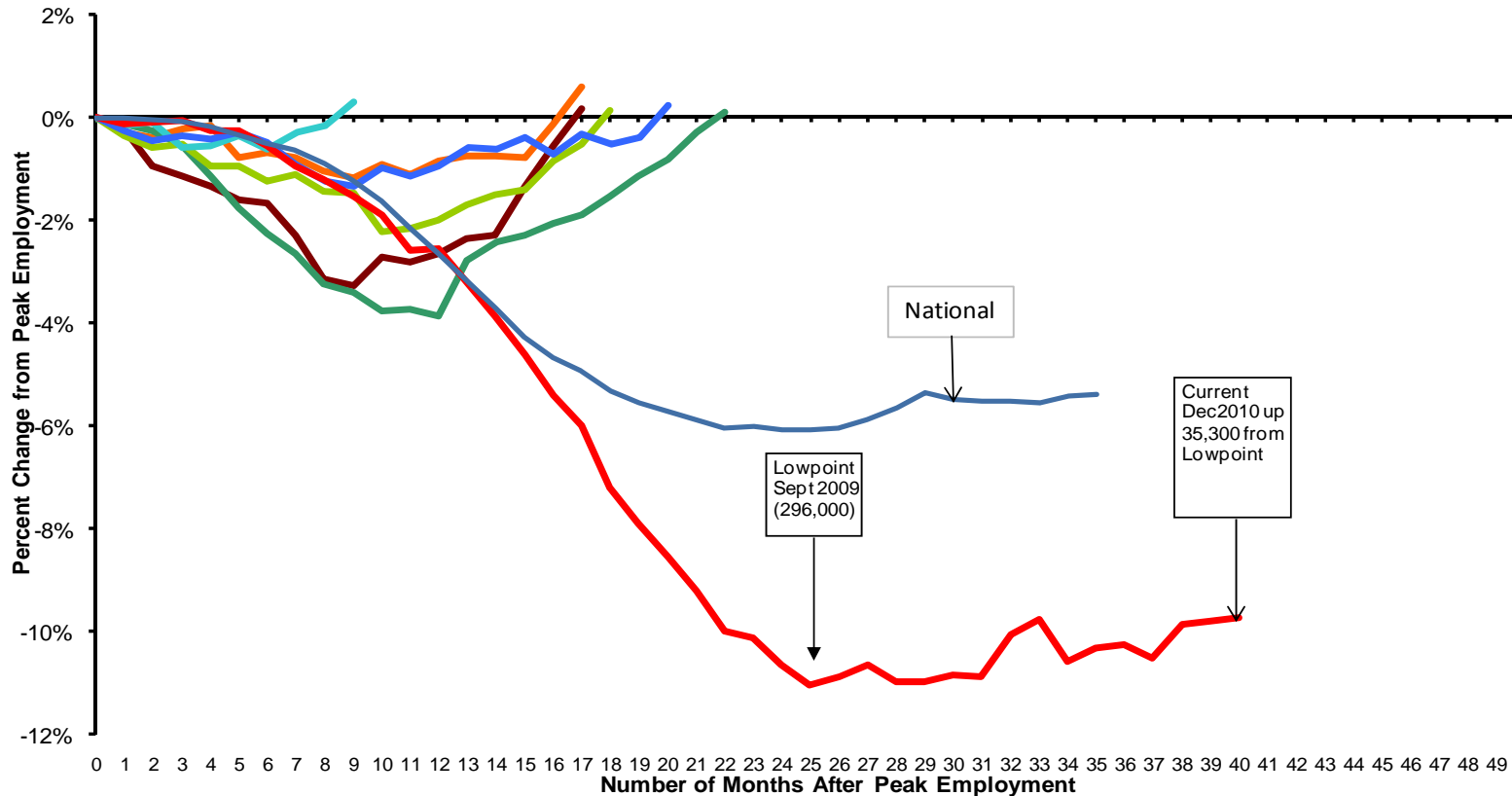
Back To Normal Vacancy?

- Office = 2014-2015
- Industrial = 2013-2015
- Retail = 2014-2015



# Employment

Arizona  
Job Loss Non-Farm Seasonally Adjusted



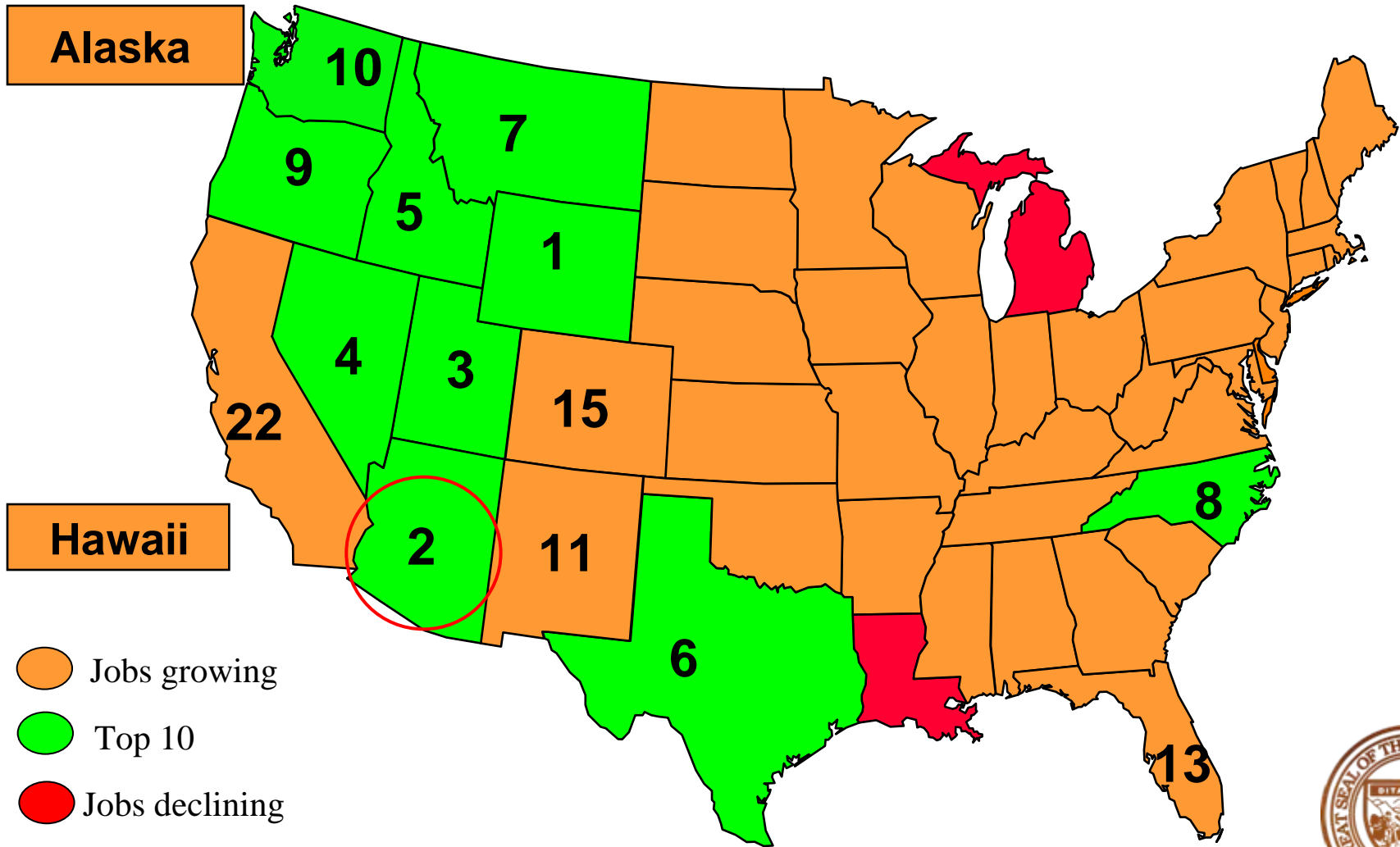
# Job Losses by Industry

## August 2007 (peak) to current

<b>Construction</b>	<b>-49.6%</b>
<b>Manufacturing</b>	<b>-18.9%</b>
<b>Information</b>	<b>-14.3%</b>
<b>Professional and Business</b>	<b>-12.0%</b>
<b>Other Services</b>	<b>-11.6%</b>
<b>Financial Activities</b>	<b>-11.1%</b>
<b>Transportation, Trade &amp; Utilities</b>	<b>-7.4%</b>
<b>Leisure &amp; Hospitality</b>	<b>-5.8%</b>
<b>Government</b>	<b>-4.2%</b>
<b>Natural Resources</b>	<b>-2.8%</b>
<b>Education &amp; Health</b>	<b>13.8%</b>

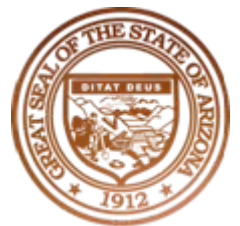


# Job Growth 2006

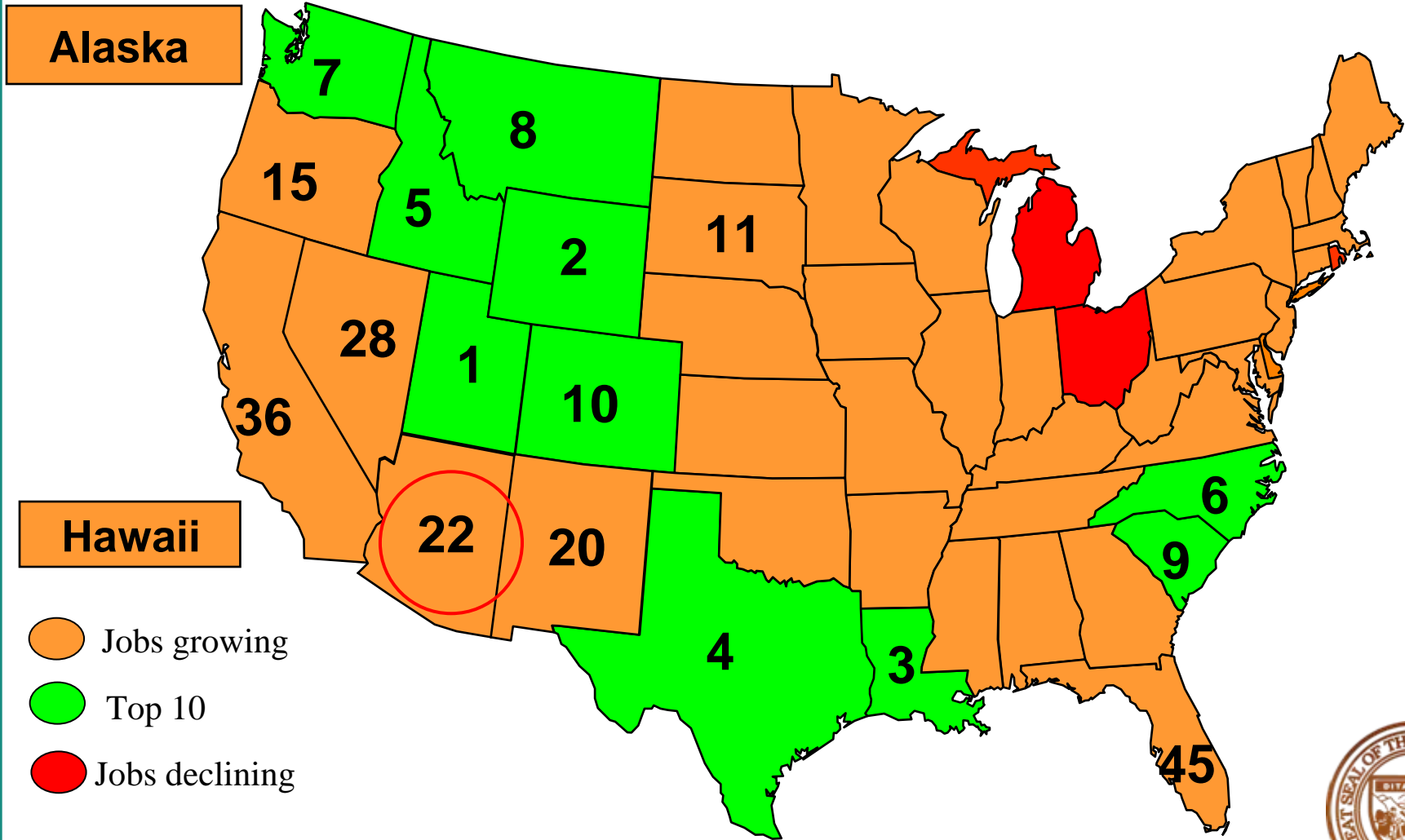


Source: US BLS

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# Job Growth 2007



Source: US BLS

Office of Governor Janice K. Brewer

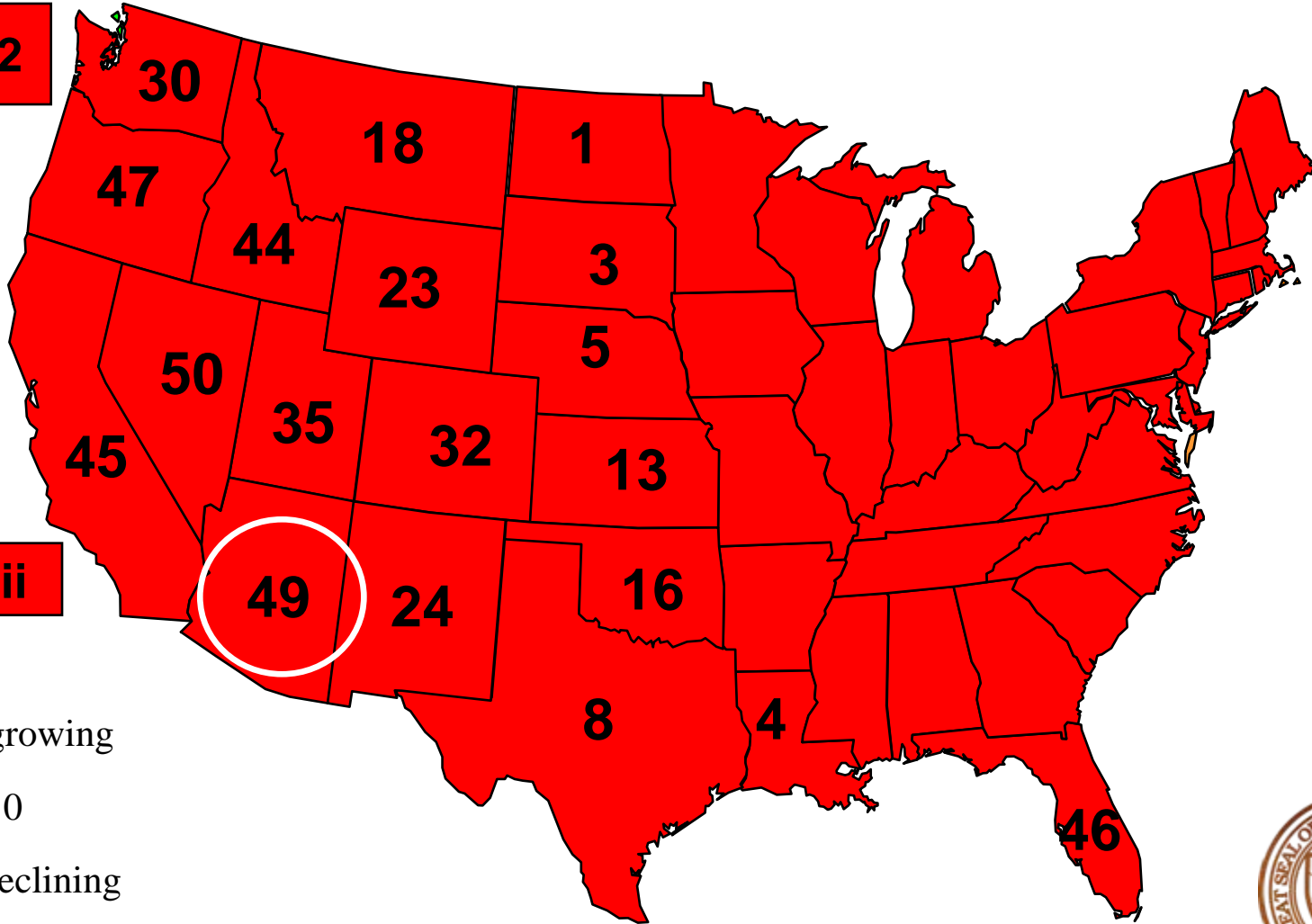






# Job Growth 2009

Alaska 2



Hawaii

- Jobs growing
- Top 10
- Jobs declining

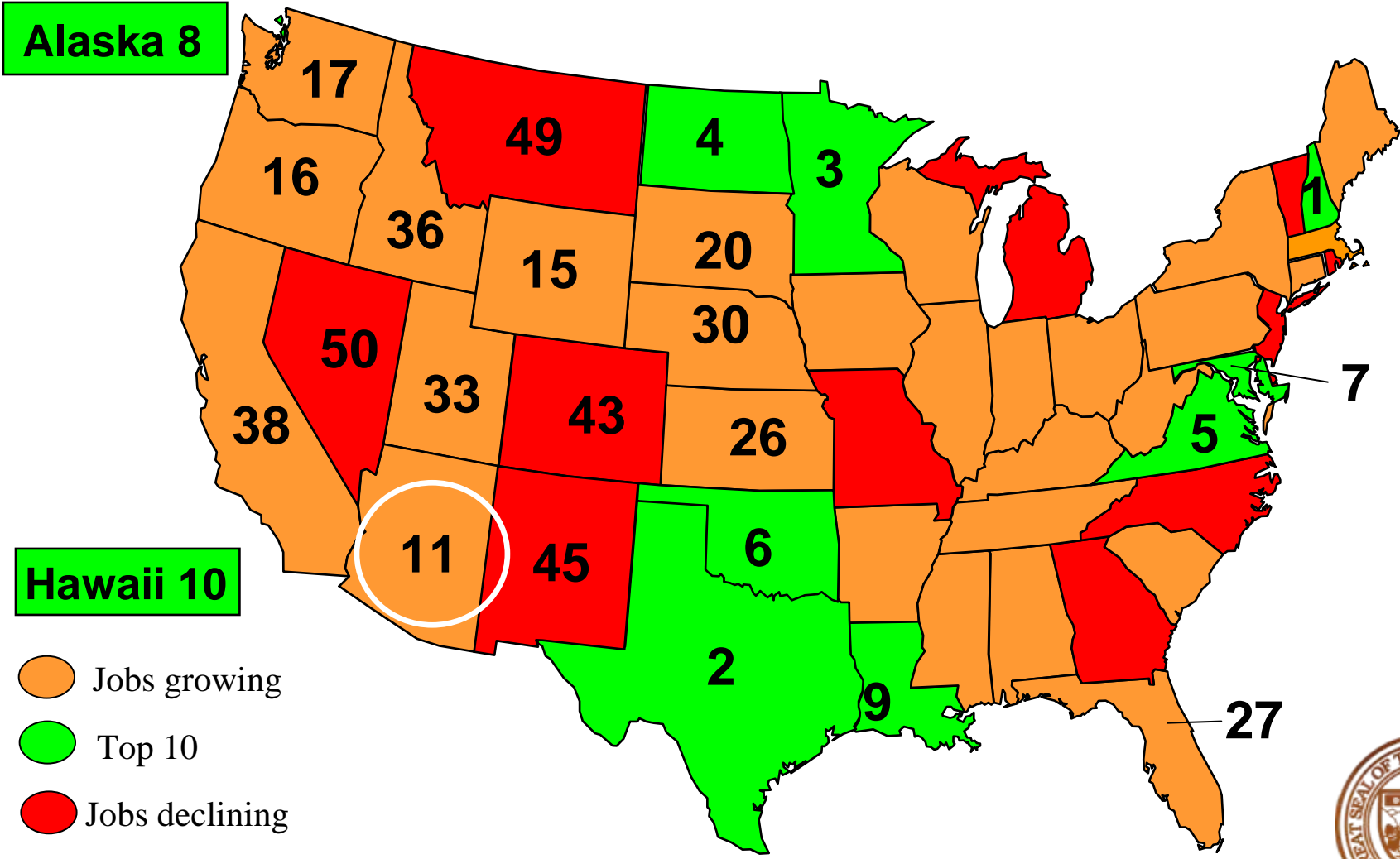
Source: US BLS

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# Job Growth Update: Arizona Ranked 11th

November 2010 v November 2009



# Overview

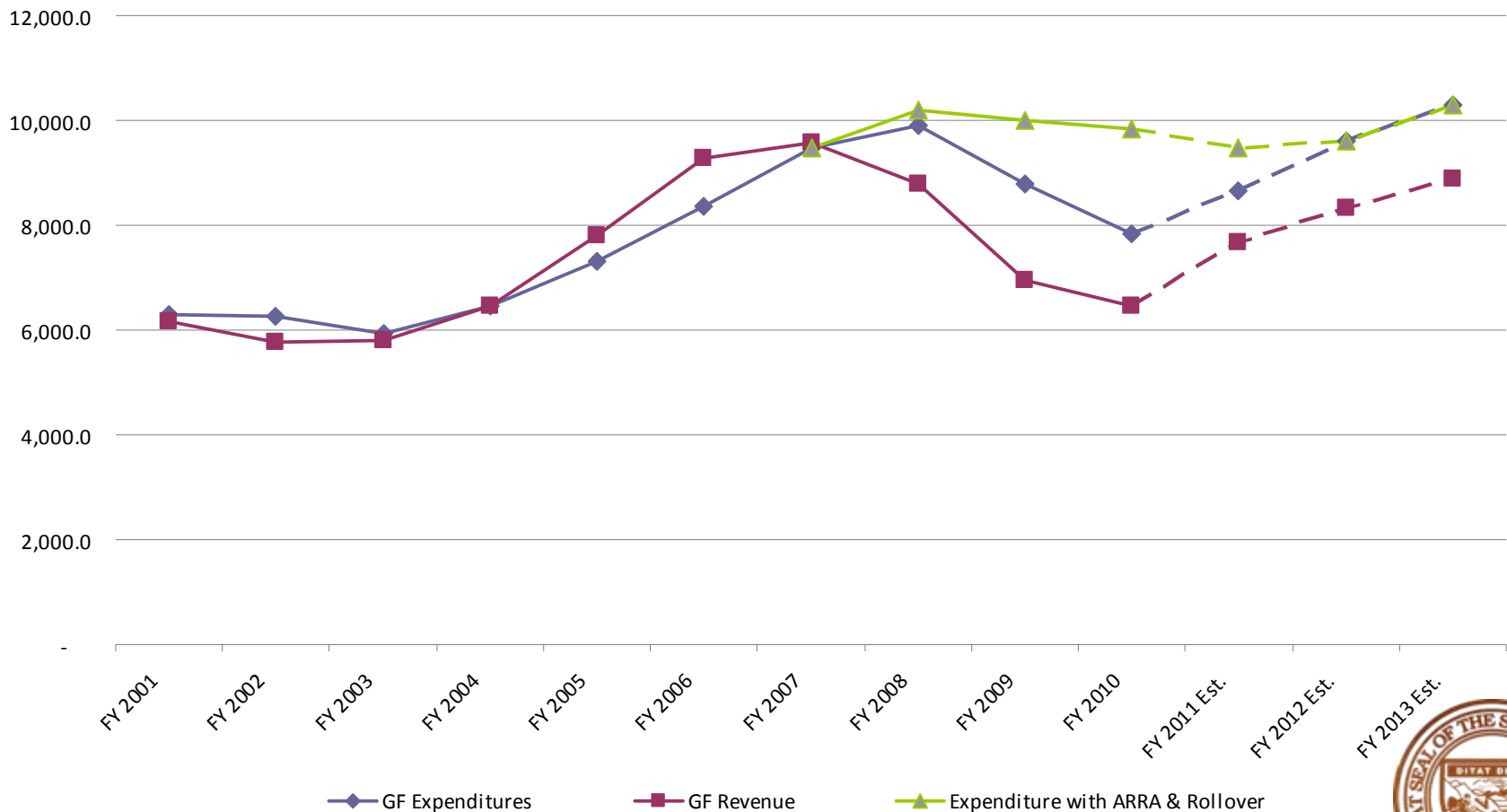
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- Economy
- **Structural Deficit**
- Reductions



# State Budget – Structural Deficit

General Fund Ongoing Expenditures and Revenues



# Revenue Losses

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Between FY 2007 and FY 2010

Individual income: -35.3%

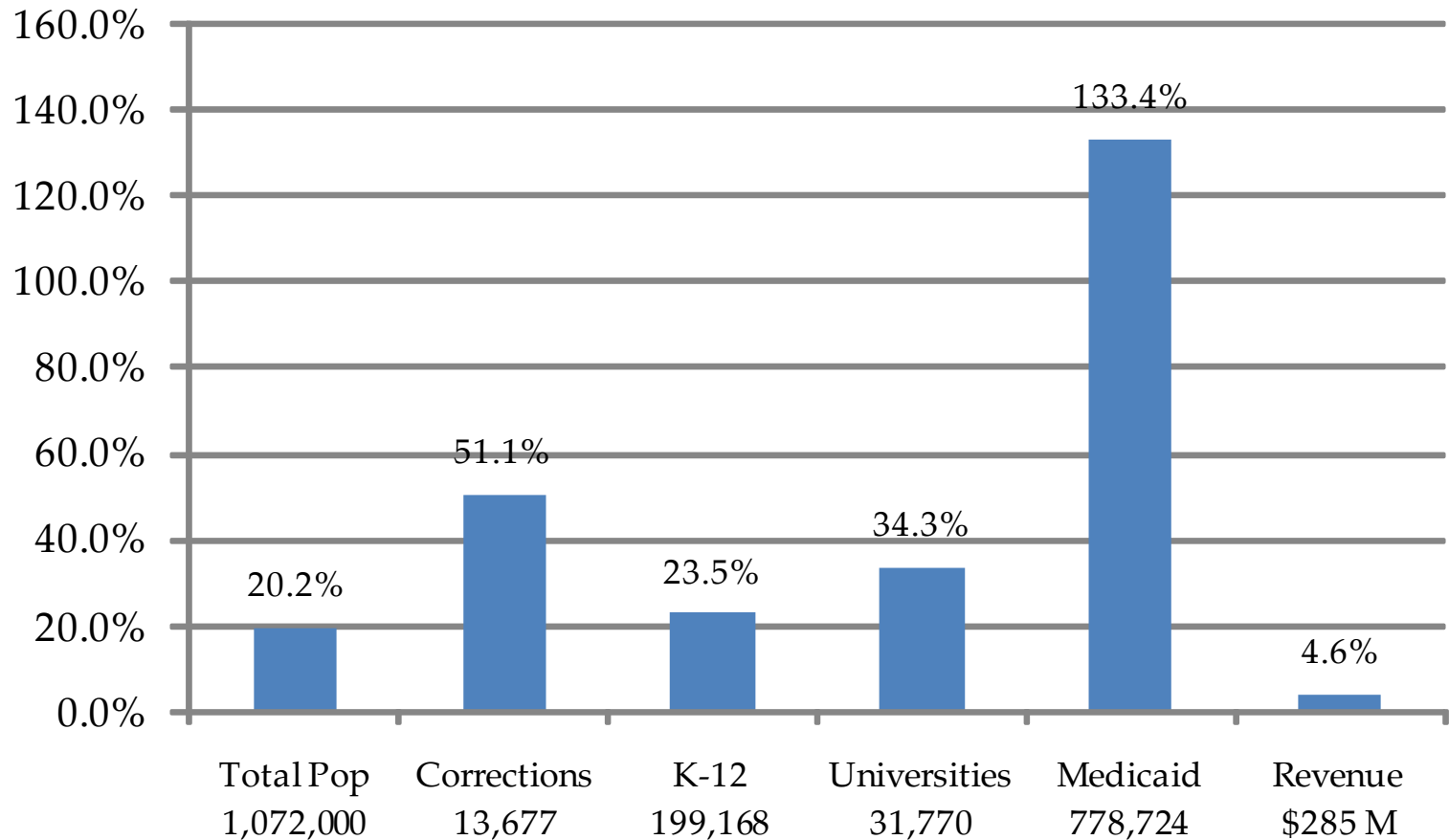
Corporate: -58.1%

Sales: -23.2%

Total Losses: -32.4%



# Enrollment Growth FY 2001 to FY 2010



# Major Budget Actions To Date

FY 2008 – FY 2011

Permanent Spending Reductions:	\$2.2 B
Federal Assistance:	\$2.7 B
Revenue Increases:	\$1.2 B
Fund Transfers:	\$1.8 B
Payment Deferrals:	\$1.6 B
Rainy Day Fund:	\$0.7 B
Debt:	\$2.2 B



# Debt

Arizona's Constitution does not authorize the issuance of general obligation bonds:

- Sale/Leaseback of state buildings: \$1 B
- Lottery bonds: \$450 M
- School Construction Recapture bonds: \$404 M

FY 2012 proposal

Day loan: \$330 M

Annual debt service requirement will grow 61% over the next three years.





# Other One-time Initiatives

Payment deferrals:		\$1,585 M
K-12:	\$1,200 M	
Universities:	\$200 M	
Medicaid:	\$185 M	
Federal stimulus:		\$2,700 M
Rainy day fund:		\$710 M
Other fund sweeps:		\$1,800 M



# Tax Increases

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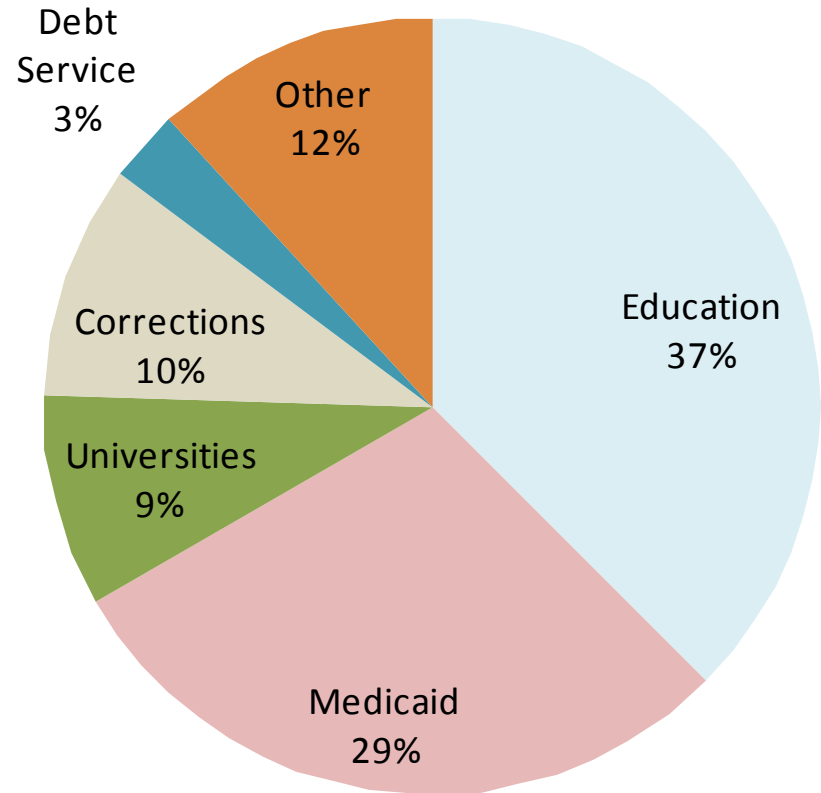
Arizona has raised taxes in excess of \$1 billion



# FY 2012 State Ongoing Expenditures

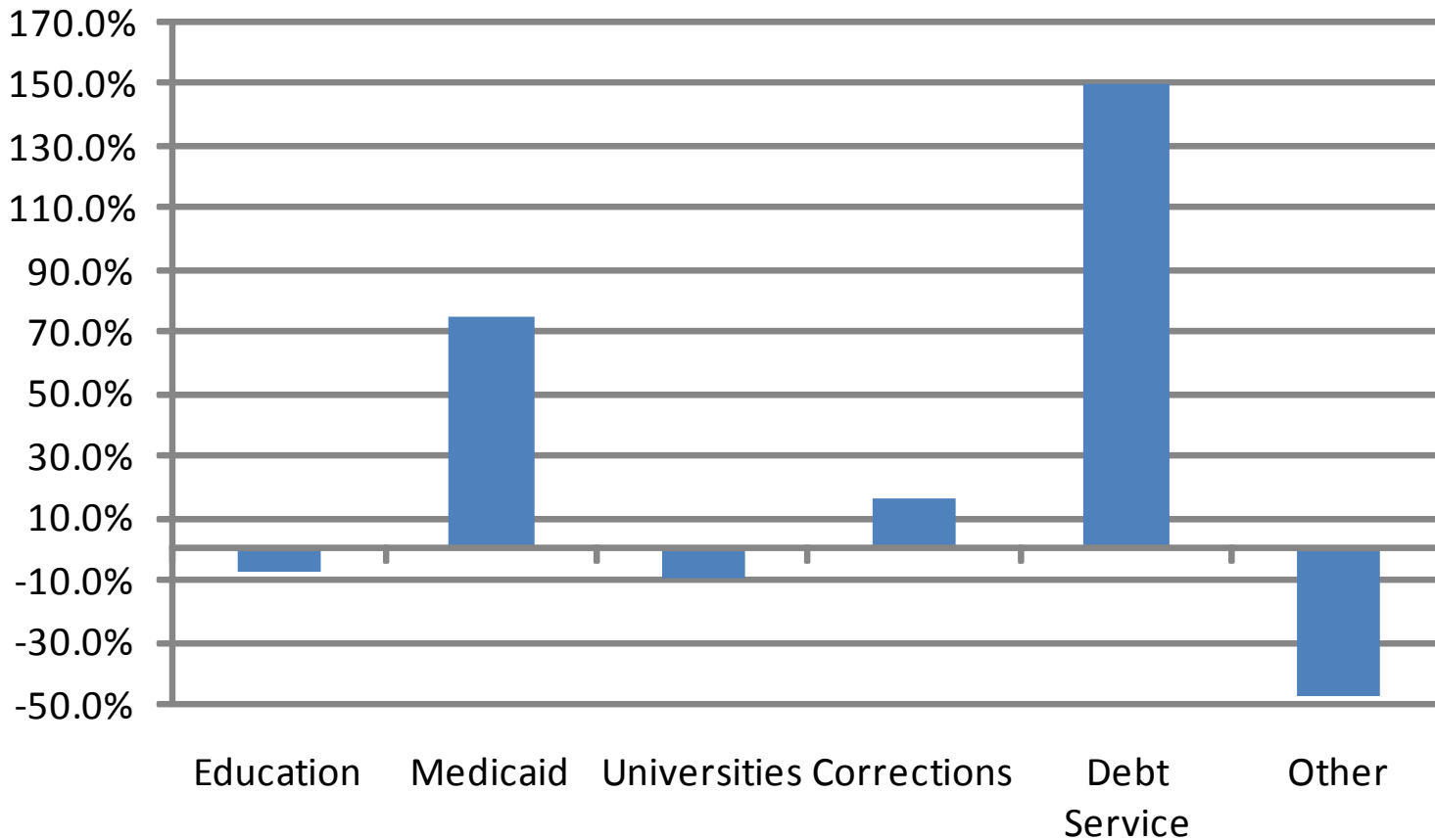
<u>Budget Unit</u>	<u>(Millions)</u>
Education (K-12)	\$ 3,620.3
Medicaid	2,802.9
Universities	855.6
Prisons	948.7
Debt Service	281.7
Other	1,141.0
<hr/>	
TOTAL	9,656.2

**Budget Shortfall**      **\$1,147.1**



# Expenditure Changes FY 2007-FY 2012\*

Total GF expenditures grew .6%



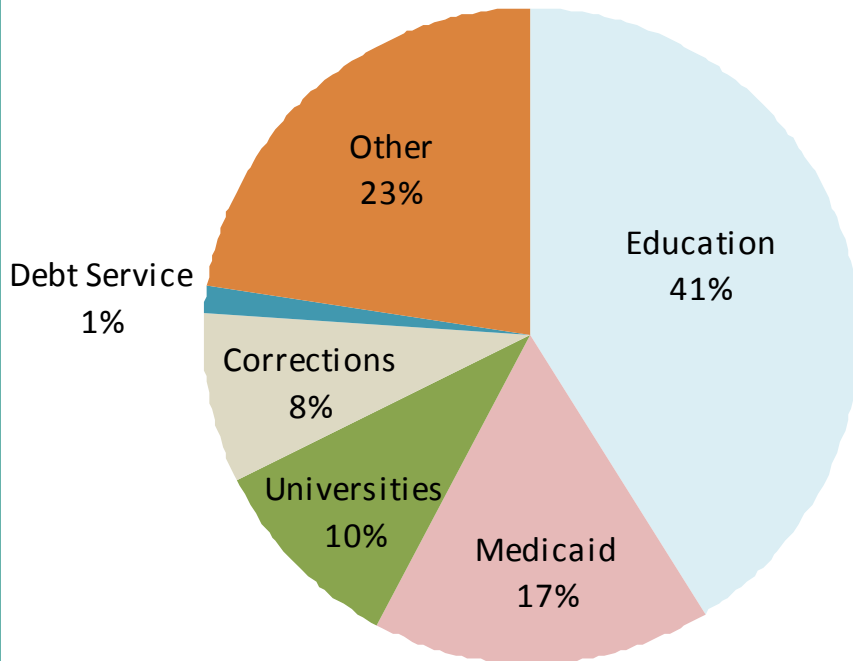
\*For FY 2012, projected baseline budget

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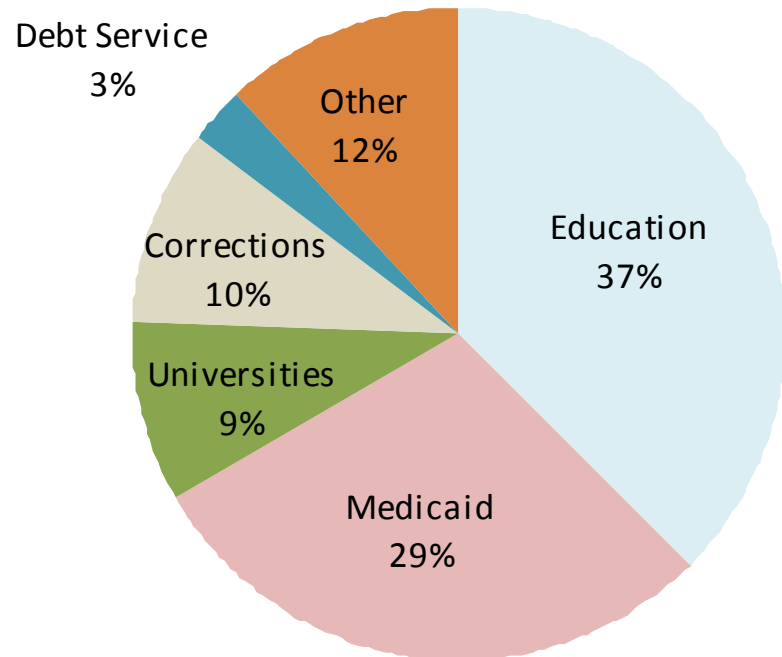


# FY 2007 vs. FY 2012\*

## FY 2007



## FY 2012



\*For FY 2012, projected baseline budget



# Overview

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- Economy
- Structural Deficit
- **Reductions**



# FY 2012 Reduction Plan

## Budget Reductions

Medicaid Reform	\$541.5
Universities	\$170.0
DES	\$91.0
Medicaid Provider Rate Reduction	\$89.0
K-12	\$83.7
Community Colleges	\$72.9
Convention Center Payment	\$15.0
Juvenile Corrections	\$7.2
Other	\$7.2
<b>Total</b>	<b>\$1,077.5</b>



# K-12 Education

- Arizona per pupil support is ranked 49<sup>th</sup> in the country
- Arizona ranks 10<sup>th</sup> in K-12 enrollment per capita
- Since FY 2008:
  - Reduced per pupil expenditures by 18 percent
    - Eliminated state support for full-day kindergarten
    - Reduced equipment funds by 77%
  - Eliminated building renewal support

## FY 2012 proposal - \$83.7 M cut

- Phase out teacher career ladder pay
- Reduce capital expenditures





# University Funding

---

Since FY 2008:

Reduced per student support by 25 percent

Average tuition increase: 53%

FY 2012 proposal - \$170 million cut

- 5 percent pay reduction
- Reduce per student support an additional 22 percent



# Community College Funding

Since FY 2008:

Reduced General Fund support 19.3%

FY 2012 proposal - \$72.9 M Cut

Reduce General Fund support by an additional  
52%



# Health and Welfare

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Since FY 2008:

- Reduced child care enrollees by 37 percent (18,000 children)
- Reduced the number of families on cash assistance by 48 percent (19,000 families)
- Reduced state benefits for the SMI population
- Provided no inflation for health care providers for the last three years – no capitation growth for the last two



# Health and Welfare (*cont.*)

- Implementing a 5 percent reduction in provider rates on April 1, 2011, combined with other reductions provider rates in general down 10 percent
- Eliminated most non federally mandated Medicaid services
- Reduced number of children in KidsCare by 22,900

FY 2012 proposal - \$91 M cut

Reducing support for Arizona's human services agency (Department of Economic Security) an additional 12 percent



# Public Safety

Since FY 2008:

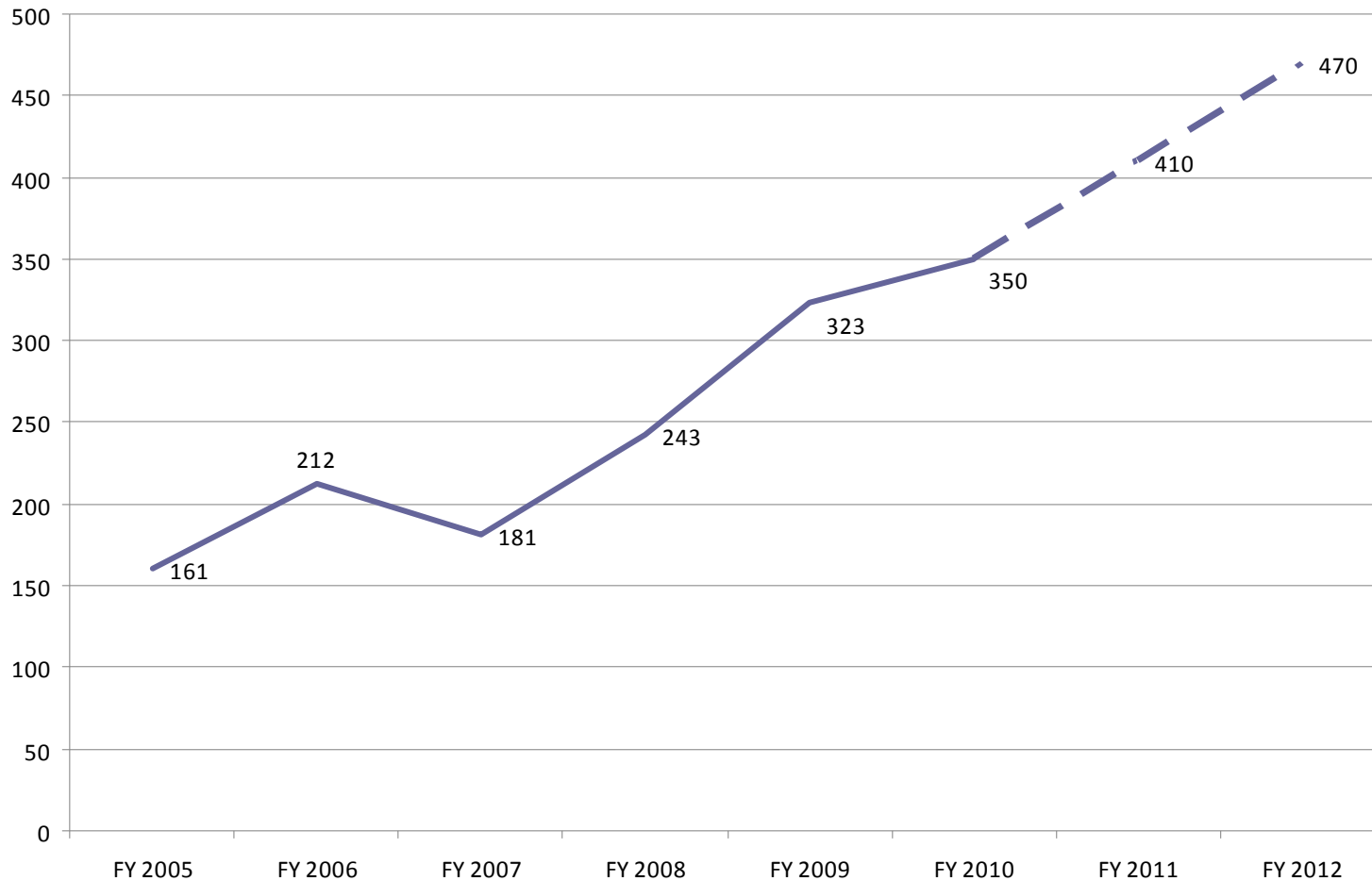
- Shifted support for Highway Patrol from General Fund to transportation funds
- Eliminated more than 236 administrative positions
- Current Corrections bed deficit over 3,000 inmates (about 8 percent) – peaked at 5,486 inmates
- Due to bed deficit, limited savings in correctional reform

FY 2012 Proposal

\$8 million increase to address Correctional Officer safety concerns



# Prisoner Assaults on COs



# Personnel

Last pay increase was July 1, 2007 (3%)

Since that time

Employee pay cut of	2.75%
---------------------	-------

Mandatory furlough days equivalent to	2.25%
---------------------------------------	-------

Increase in retirement contribution	5.49%
-------------------------------------	-------

Average health premium increase	54.2%
---------------------------------	-------

Headcount reduction through RIF and freeze	12.9%
--	-------

Total GF personal services costs are down	18.9%
---	-------



# General Government

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Eliminated or reduced General Fund support for:

- Tourism
- Parks
- Environmental Quality
- Arts
- Water Resources
- Mines and Minerals





# Other Issues

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## Unemployment Trust Fund

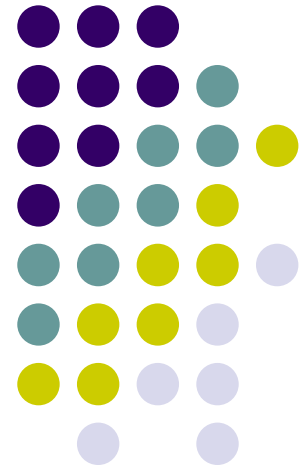
CY 2010 balance: **-\$241.5 M**

Suspended Statutory Formulas: \$587 M



# AHCCCS Update

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# Arizona Health Care Cost Containment System (AHCCCS) Summary

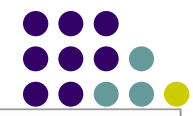


- AHCCCS model has been documented to provide higher quality coverage at lower cost
- AHCCCS has had to administer significant reductions in response to ongoing fiscal crisis
- Arizona has implemented or is pursuing all suggestions from Secretary to Governors
- Waiver proposal promotes the objectives of Title XIX by maintaining core program for members and providers
- Waiver proposal is term limited until January 1, 2014

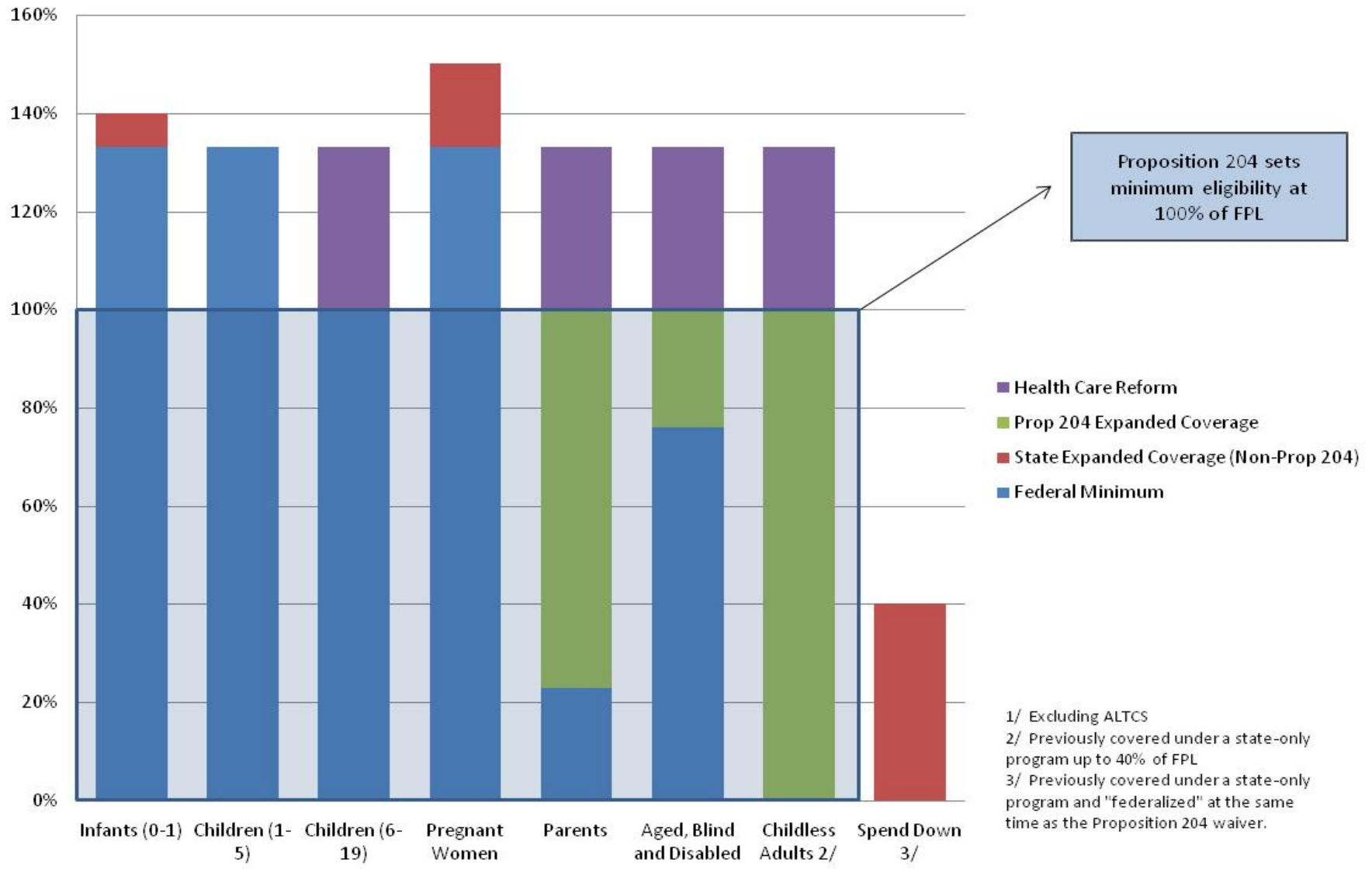
# AHCCCS Milestones



- 1965 – Congress enacts Medicaid
- 1982 - Arizona was the last state to join Medicaid –
  - Created Arizona Health Care Cost Containment System (AHCCCS)
  - Established Mandatory Managed Care through 1115 waiver
- 2000 Voters approve Proposition 204 providing coverage up to 100% of the federal poverty limit
- 2010 – Federal Health Care Reform is enacted



# Arizona Medicaid Income Eligibility<sup>1</sup>



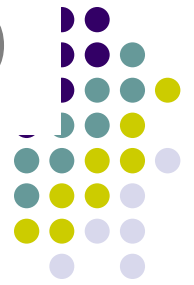
- Health Care Reform
- Prop 204 Expanded Coverage
- State Expanded Coverage (Non-Prop 204)
- Federal Minimum

Proposition 204 sets minimum eligibility at 100% of FPL

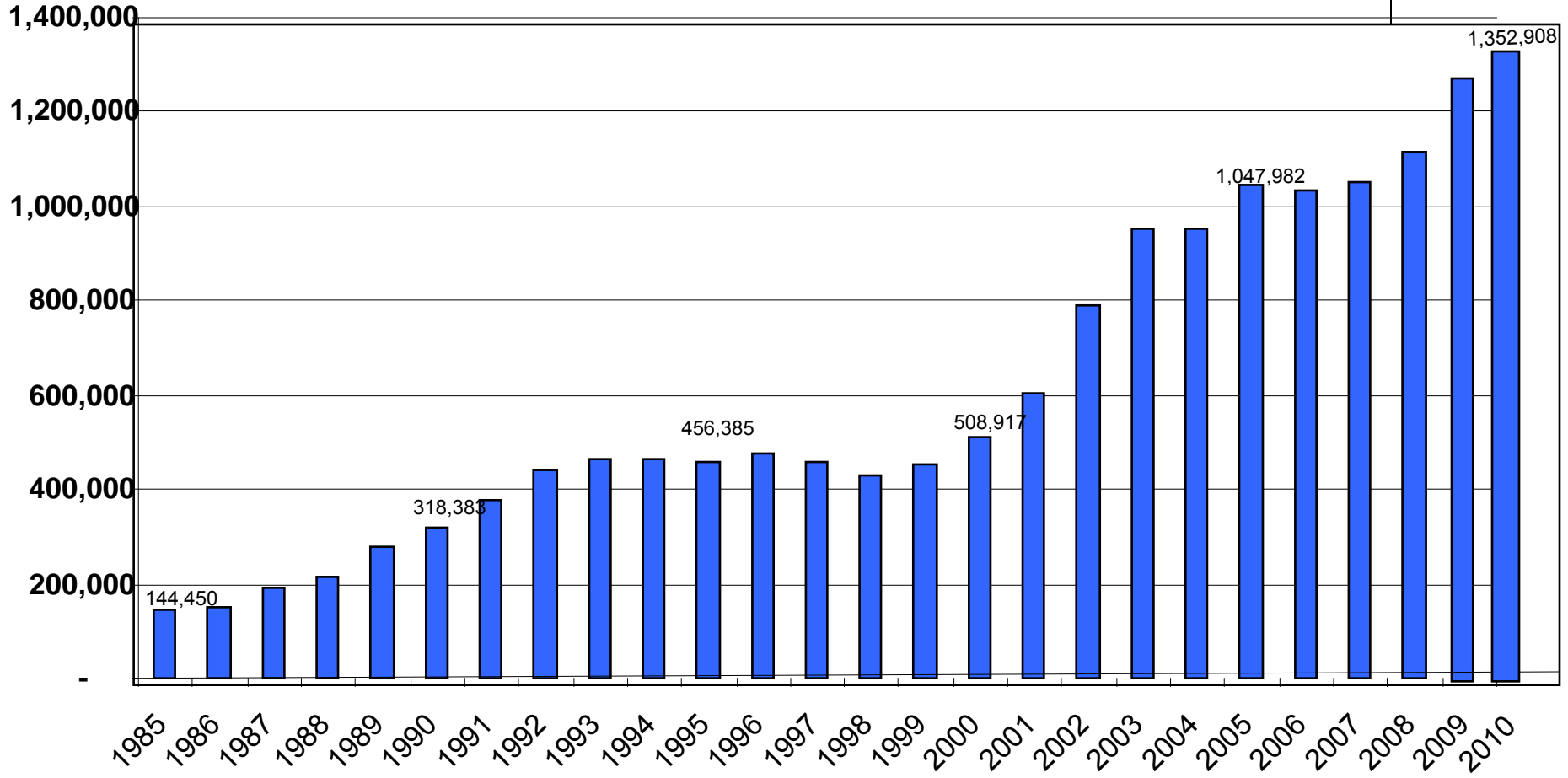
1/ Excluding ALTCS  
2/ Previously covered under a state-only program up to 40% of FPL  
3/ Previously covered under a state-only program and "federalized" at the same time as the Proposition 204 waiver.



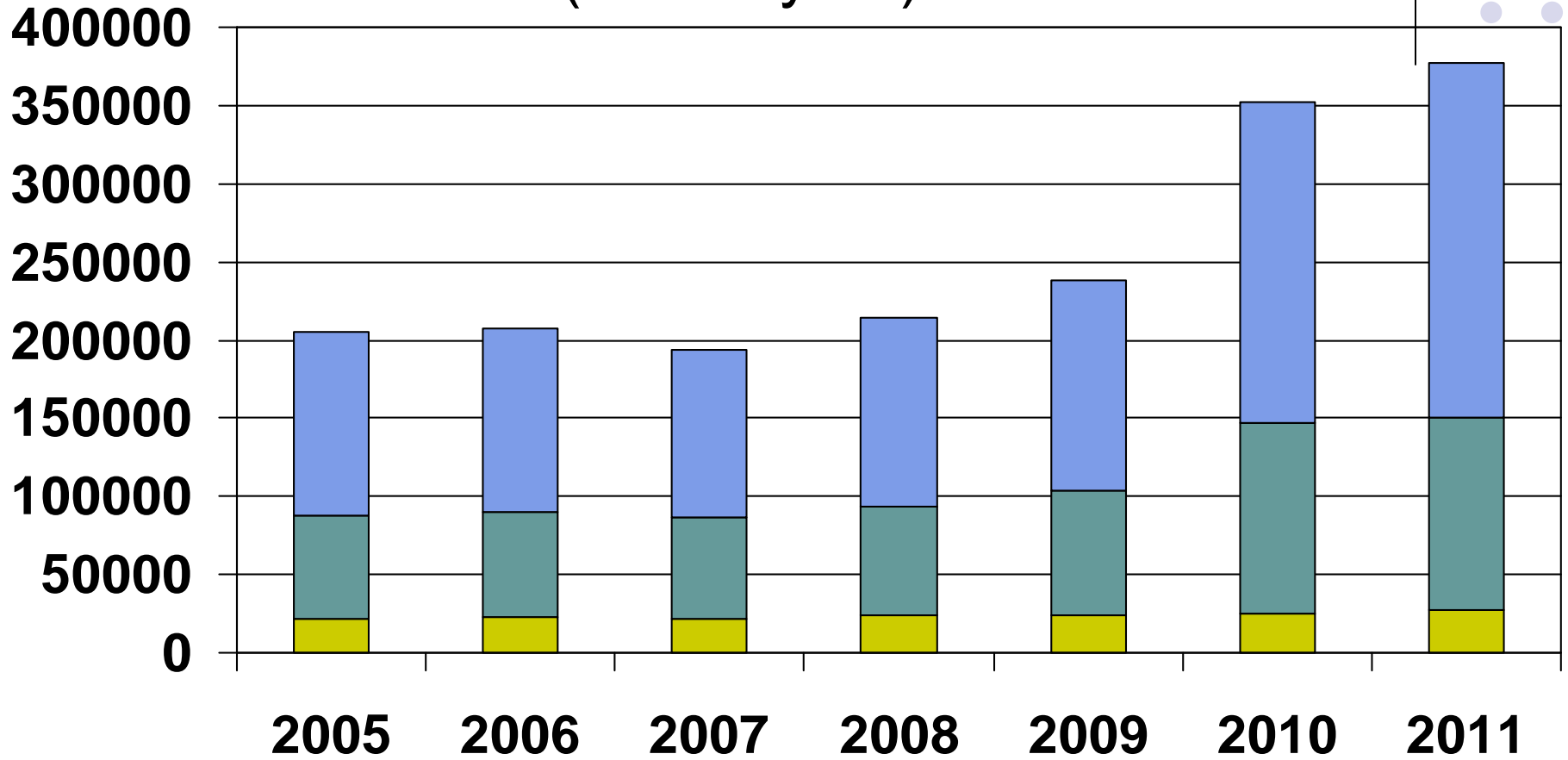
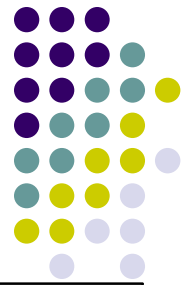
# AHCCCS Population as of July 1, 2010



1985 – 2010

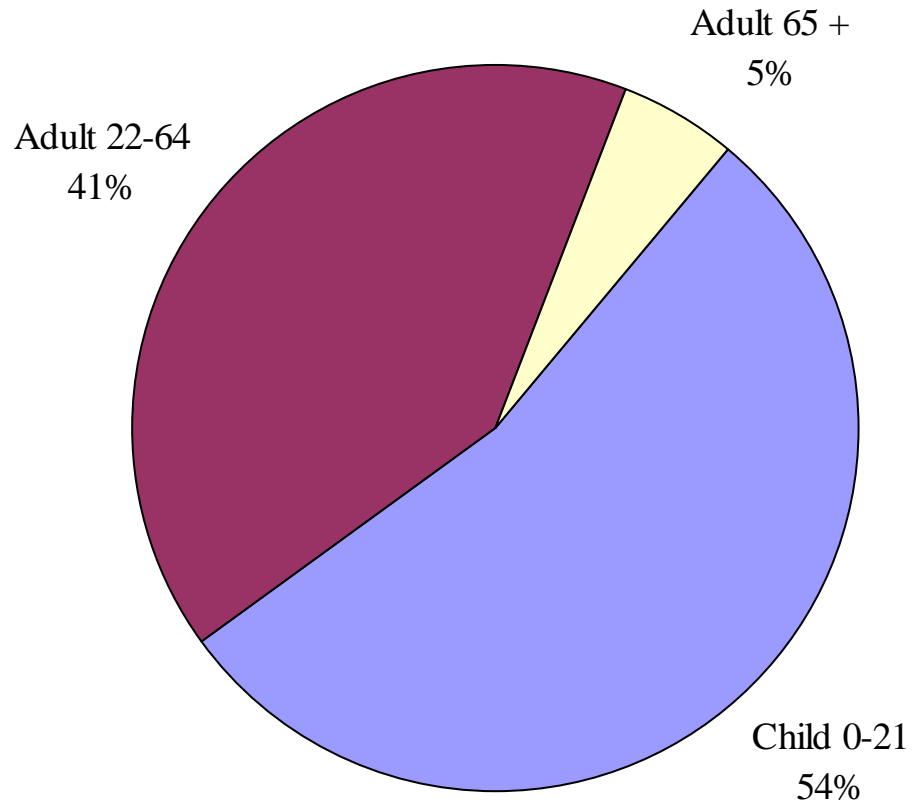


# Prop 204 Expansion Population (January 1<sup>st</sup>)

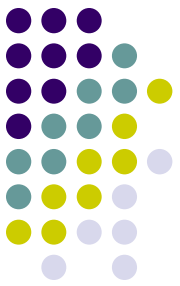


**SS I** **Parents** **Childless Adults**

# AHCCCS Total Population







# Arizona/AHCCCS Overview

- 6.5 million people in state - 14<sup>th</sup> largest
- 80% of Population in Maricopa (Phoenix) and Pima (Tucson) counties
- Arizona 6<sup>th</sup> largest State in size
- All members enrolled in mandatory managed care except American Indians and Federal Emergency Services
- AHCCCS contracts with 10 plans for Acute – geographically based
- AHCCCS contracts with 9 Long Term Care plans – geographically based
- AHCCCS contracts with Department of Health Service for Behavioral Health carve-out – In turn contract out with 4 entities – geographically based

# American Indians in AZ & AHCCCS



## Arizona Residents

- Arizona population: 6,343,952
- 285,183 AI Arizona residents

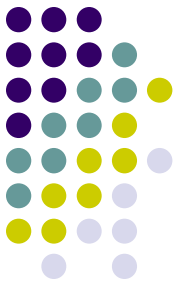
## AHCCCS Members

- AHCCCS members: 1,344,173
- 140,442 AI AHCCCS members

Arizona has 22 different tribes located throughout the State

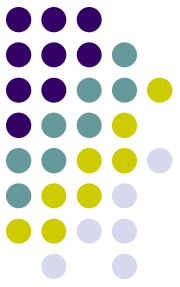
State conducted 12 consultations in 2010 – 2 on tribal lands

# AHCCCS Model for Medicaid Managed Care



- Member choice & Competitive Plans
  - 6 plan options in Phoenix metro (Maricopa)
  - 5 plan options in Pima County
  - 3 Long Term Care plan options (Maricopa)
  - Acute care choice statewide
- Cost Containment –
  - Overall lowest cost – *Kaiser*
  - Overall lowest pharmacy PMPM – *Part D Implementation – Lewin Report*
  - Gold Standard for Managed Care Purchasing – *Rockefeller Institute*
  - Arizona employs “best practice” for date of death records – *HHS OIG*

# AHCCCS Model for Medicaid Managed Care



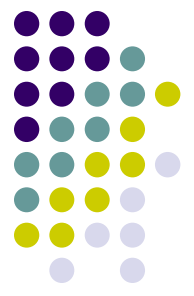
- Quality Measures – 17 of 25 quality measures are above HEDIS Medicaid Mean
- Member Satisfaction – less than 3% of members change plans annually
- Provider Participation – remains high with little change even after rate reductions
- Plan Oversight – 2 plans with membership caps in past 18 months – transparent actions on WEB – System CYE 2009 profitability <2%

# Arizona Model and Health Care Reform

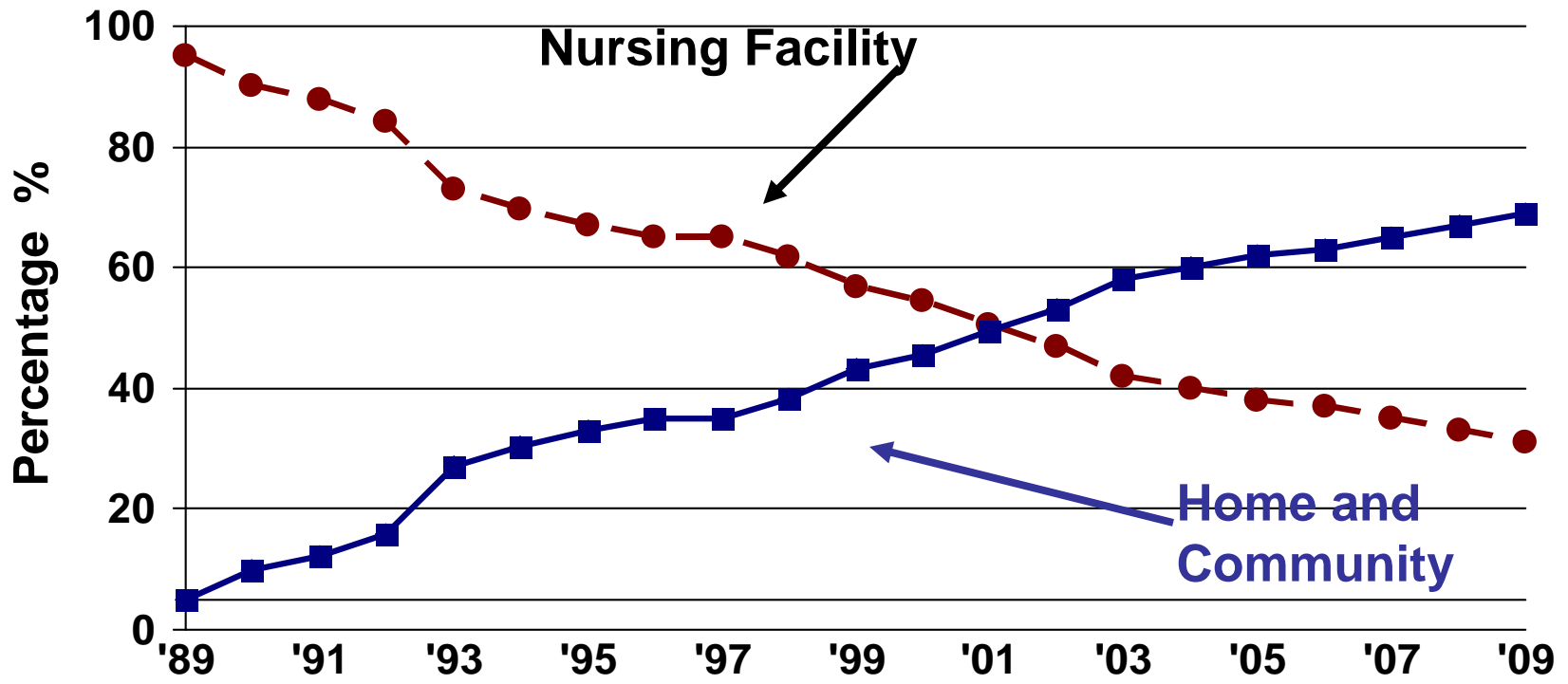


- Population Expansion – Childless adults – Only limited number of states cover this population to 100%
- Appropriate Payment to ensure access – Professionals 95% of Medicare – outpatient at Medicare
- Emphasize home and community services
  - Over 70% EPD – over 98% DD
- Dual Eligible Population – National leader – Members in managed care - one third members aligned in SNP – application submitted for CMMI contract
- Streamlined Eligibility – Web based Application – 30-40% of applications submitted using Health E – Arizona – Great community response

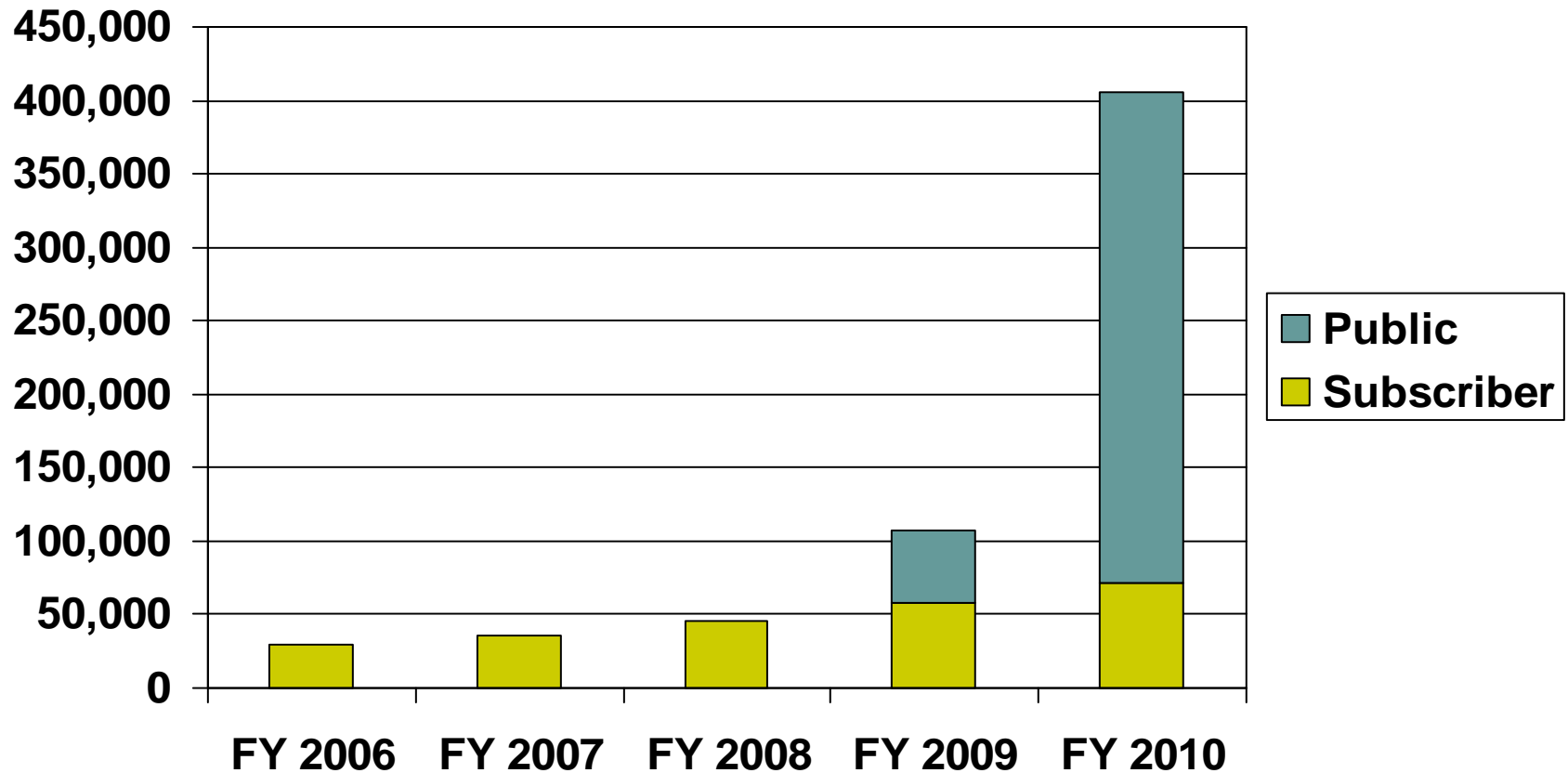
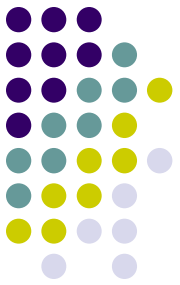
# Effective Use of Home and Community Based Care

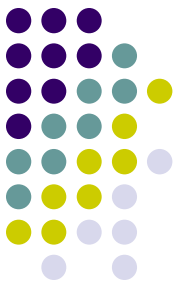


## ALTCS Trend in HCBS Utilization



# Health E-Arizona Applications



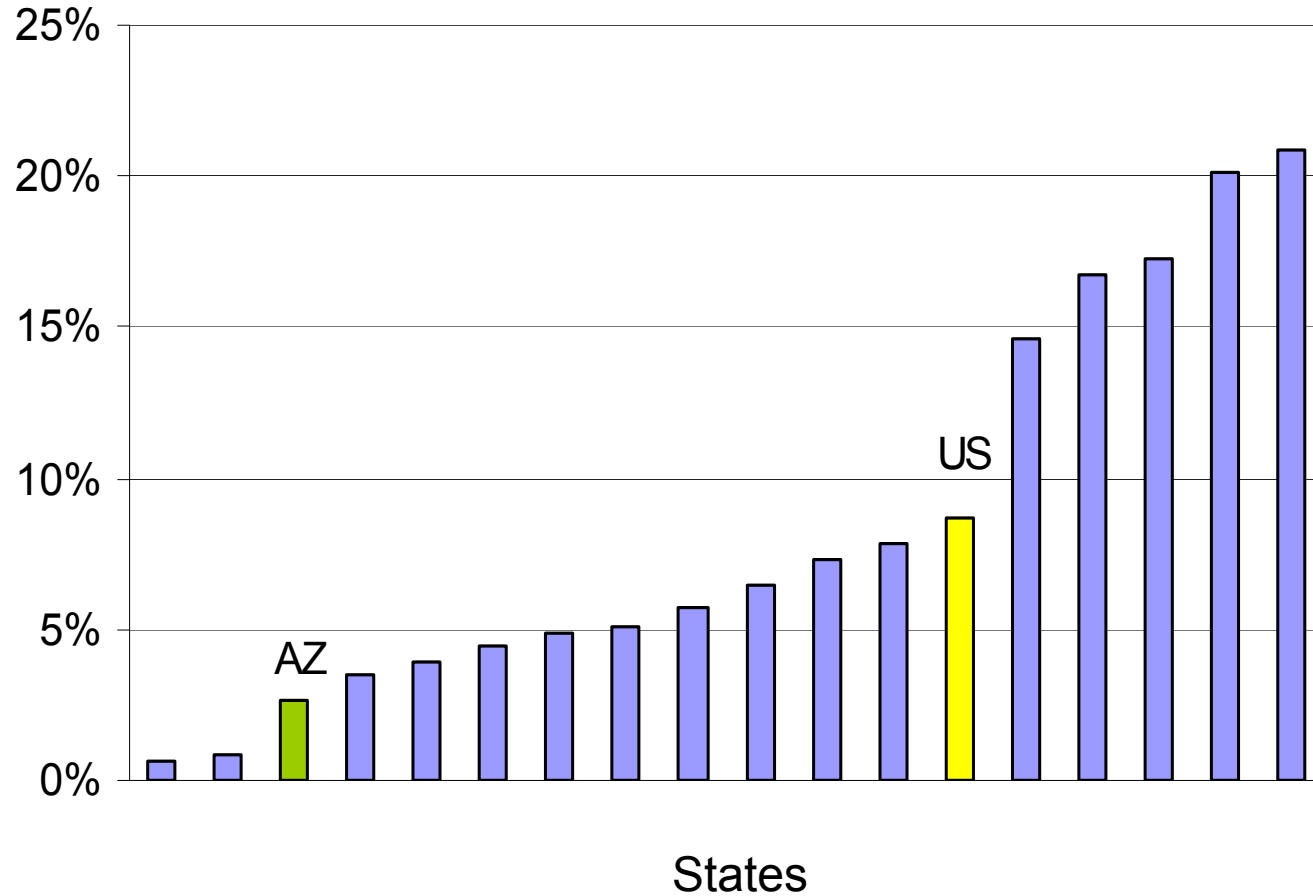
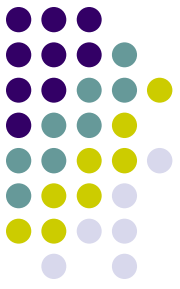


# AHCCCS Program Integrity

- Agency created central Office of Inspector General
- IG received Medicaid Integrity Inst. Distinguished Service Award
- Even with 30% reduction in agency staff, resources dedicated to program integrity have increased
- Signed contract with Data analytics vendor
- Had 3rd lowest error rate of 17 states in national study (PERM)
- Conducted two significant date of death comparisons with minimal findings
- Developed and distributed 3 training modules to staff – plans – members and providers
- Applied for OMB Program Integrity Funding Grant
- Program Integrity Results – FY 2010
  - Cases investigated – AHCCCS – 1183
  - Total Convictions – 14
  - Total OIG Fraud Avoidance and Recoveries - \$34.7 m
  - Total Prepayment Coordination of Benefits - \$1,376.4 million



# Arizona 2008 PERM results





# AHCCCS Budget

- 3 Options for Policy Makers when dealing with AHCCCS budget reductions
  - Eligibility – Limit - Health Care Reform
  - Payment Rates – Limit–Network & Access to Care
  - Benefits – several optional services eliminated 10-1-10 –
- Each has limitations but to date all have been utilized

# AHCCCS Budget changes to Date



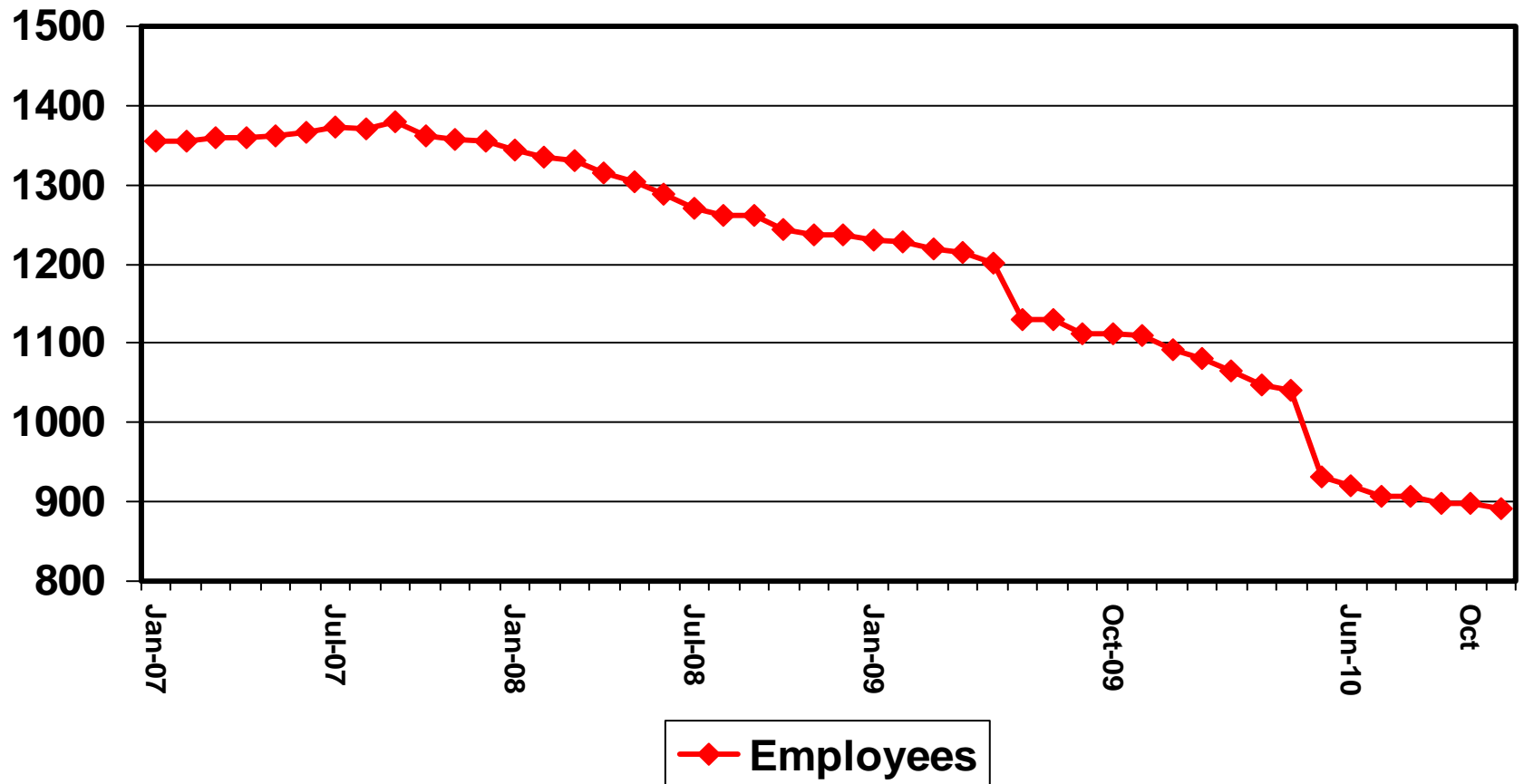
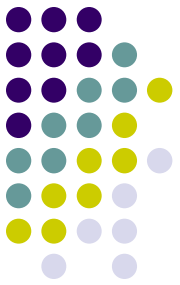
- AHCCCS Program is \$874 million less in FY 2011 as a result of policy changes (total fund)
  - \$413 million in provider rate reductions
  - \$241 m in institutional rate freezes
  - \$121 m in eligibility reductions (KidsCare & KC parents)
  - \$39 m in benefit changes
  - \$29.5 m in admin reductions
  - \$28 m in increased member cost sharing
- Additional 5% reduction scheduled 4-1-11 \$300 m

# AHCCCS Budget Cont.



- Difficult decisions have been made with the elimination of most optional services – very few left – pharmacy and HCBS
- Approval of sales tax helped program avoid additional 10% rate reduction
- Establishing annual Inpatient limit for adults on Oct 1, 2011
- Cost Sharing has been maximized at federal limits for acute

# AHCCCS Staffing Levels



# Secretary Sebelius Checklist



- Benefits
  - Eliminate Optional Benefits – Done
  - Limit Benefits – Done – IP 10-1-11
  - Cost Sharing – Done – beyond federal limits through waiver – still awaiting final SPA approval (13 months)
- Manage Care
  - Integrate Acute and Long Term Care – Done
  - Emphasize HCBS – Done
  - Primary Care/Medical Home – Done
  - ACA – 90% Health Home – Community 1<sup>st</sup> Choice Option - Ready

# Secretary Sebelius Checklist



- Pharmacy
  - Reduce Spend – Done - # 1 in Country
- Program Integrity
  - Ongoing – Analytics – Increased resources – PERM results – OIG recognition – date of death – Grant request OMB
- Duals Eligible Members
  - National Leader with aligned managed care model and applied for CMMI contract authority

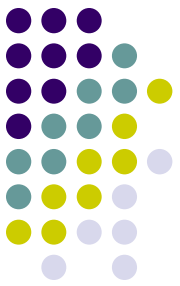
Executive Budget makes painful reductions throughout State Government but still \$500 million short in FY 2012– Now What??

# 1115 Waiver Proposal



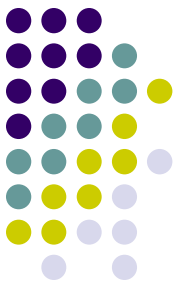
- In 2000, voters expanded Medicaid coverage to all residents at or below 100 percent of the federal poverty limit – Proposition 204
- FY 2012 General Fund support for the expansion population is estimated to be \$810 million
- The Executive recommends limiting Prop. 204 costs to dedicated tobacco settlement and tobacco tax revenues
- Would be time limited until January 1, 2014





# 1115 Waiver Proposal

- Arizona requests a waiver from the Maintenance of eligibility requirements
  - Eliminating coverage for childless adults and medical expense deduction category (250,000)
  - Capping TANF parents at a level that can be sustained (30,000 parents lose coverage – approx 90,000 maintain)
  - Continuing coverage for 30,000 Aged, Blind and Disabled
- The State is requesting a waiver from the Transitional Medical Assistance requirements for those categorically eligible that would lose coverage
- FY 2012 General Fund savings are estimated at \$541.5 million (\$1.1 billion in federal match)
- FY 2013 proposal would generate almost \$1.0 billion GF savings



# 1115 Waiver Proposal

Section 1115 Waiver – Promoting the objectives of Title XIX - focus on maintaining “core” Medicaid Program

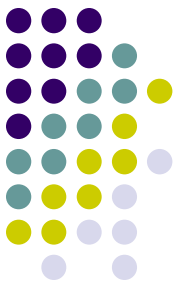
- Preserve core provider network – cannot keep reducing provider rates – >25% additional reduction in FY 2012 to generate same dollars as waiver proposal
- Allows Arizona to Preserve coverage for traditional Medicaid groups – children – elderly - disabled
- Preserve remaining benefits
- Preserve core plan and administrative infrastructure
- Maintain federal/state partnership and flexibility that are core principles of Medicaid program
- Establishes Eligibility levels similar to other states

# Mitigation Proposal



The Executive recommends two steps to mitigate the impact of the change in eligibility:

- Create a \$151.0 million uncompensated care pool (\$50.0 million GF, \$101.0 million matching funds)
- Allocated to Arizona healthcare providers for uncompensated care. (hospitals – clinics – emergency transportation)
- Funds will be available to reimburse healthcare providers for continuing care for the most seriously ill.
- Majority would be allocated to hospitals but other providers could qualify



# Mitigation Proposal

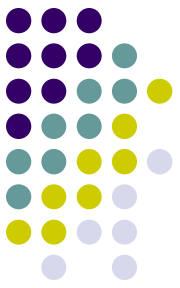
## Seriously Mentally Ill

- Provide \$10.3 million state only to DHS to fund prescription drug coverage
- 5,200 SMIs are in childless adult category
- Agency working with DHS and expects to reclassify >80% of SMIs into different category.

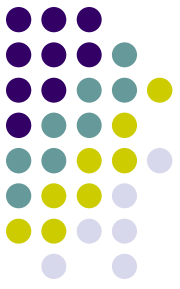
## Children

- Currently 11,000 kids in adult category due to family unit budgeting
- Looking at a SPA change to have kids made eligible for SOBRA category

# Proposition 204 Language



- Ballot language stated
  - “A ‘yes’ vote shall have the effect of providing funding for ...increasing healthcare coverage eligibility...using tobacco litigation settlement money”
  - “A ‘no’ vote shall have the effect of not requiring appropriation of tobacco settlement money to support these programs.
- The ballot language also directed that the Tobacco Settlement monies shall be “supplemented, as necessary, by any other *available* sources and federal monies”
- Legislature has authority based on no available sources and case law is supportive of this position
- Ultimately State Supreme Court would decide if litigated



# Provider Tax Status

- Hospitals have been discussing provider tax for 2+ years
- 1% of revenues equals approximately \$100m
- Proposal would be for \$300 m tax
- Would want \$100 m for rate increases
- Requires two-thirds vote from legislature
- Proposal currently insufficient
- Still significant details to work through
- Proposal is for 1 year Assessment

# Summary



- AHCCCS model has been documented to provide higher quality coverage at lower cost
- AHCCCS has had to administer significant reductions in response to fiscal crisis
- Arizona has implemented or is pursuing all suggestions from Secretary to Governors
- Waiver proposal promotes the objectives of Title XIX by maintaining core program for members and providers
- Waiver proposal is term limited until January 1, 2014