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Arizona's Medicaid Options under the Affordable Care Act: Fiscal and Economic Consequences

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Executive Summary

The Grand Canyon Institute (GCI) evaluated the fiscal and economic circumstances of expanding Medicaid under the auspices of the Affordable Care Act of 2010 (ACA) versus continuing a freeze on coverage for single adults, but expanding coverage to all children under 133 percent of the Federal Poverty Line as required by the ACA, and also compared to fully funding the citizen-approved Proposition 204 "Healthy Arizona" Medicaid requirements while also expanding coverage to all children under 133 percent of the Federal Poverty Line as required in the ACA.

Option 1 continues the state's current Medicaid coverage policies, but does add in coverage of children 6 to 18 years-olds to 133 percent of the Federal Poverty Line (FPL) as required by the ACA.

Option 2 would place the state in compliance with Prop. 204 "Healthy Arizona" eligibility levels of 100 percent of the FPL as well as the broader coverage for children in Option 1.

Option 3 would mean full state compliance with the Medicaid eligibility requirements of 133 percent of the FPL.

Table 1

Added Coverage Medicaid Cost Summaries for FY2014 to FY2017			
	State Costs	Federal Funding	2017 Lives Covered
Option 1-not complying with Healthy Arizona (freeze on childless adults)	$855,559,239	$2,758,704,003	228,607
Option 2-Healthy Arizona Compliance (100% of FPL)	2,733,940,716	6,353,462,027	417,234
Option 3-Full Compliance with ACA (133% of FPL)	1,520,422,753	7,932,760,353	434,855

Table 1 illustrates that while Option 1 is the cheapest option for the state, it would mean dramatically less federal funding coming into the state and about 200,000 fewer people covered. In addition, Option 1 will create a gap population for childless adults under the poverty line who do not qualify for Medicaid, but do not earn enough income to receive subsidies in the exchanges. Option 3 costs the state $1.2 billion less than Option 2, provides about $1.6 billion more in federal funding and provides health coverage for about 17,000 more Arizonans in 2017 compared to Option 2.

The significant differences in Federal funding arises due to enhanced Federal matching funds that are available to the state by choosing Option 3, applied to childless adults below 100 percent of the FPL as well as covering all adults between 100 and 133 percent of the FPL. Option 2 would limit Arizona to its current 65.68 percent Federal funding except for many of the children covered up to 133 percent of the FPL.[1] The holds true for Option 1 as well.

However, the economic impacts are greater than what's implied in Table 1. GCI also conducted a multiplier analysis of how the added federal funds would impact Arizona's economy. The revenue structures of the ACA are the same in all three options, so the key difference economically is the added Federal dollars in Option 2 and Option 3. GCI used FY2015, the first year of full ACA implementation, however, so as to create estimates that were more attuned to long-term impacts, when estimating Option 3, rather than use the 100 percent federal funding for adults between 100 and 133 percent of the FPL, GCI reduced this to 90 percent with a 10 percent state match to align with how the ACA will be funded from 2020 onward. GCI found the output multiplier to be 1.85, meaning that for every new dollar in federal funding, the state's economy grows by $1.85. Likewise, for every job created by the initial inflow of Federal funds, the multiplier effect yielded nearly one additional job, giving a total of 1.97 jobs.

Table 2 illustrates that compared to current policy (Option 1), Option 3 will create 21,000 new jobs compared to 15,000 new jobs with Option 2, and the state's economy will grow by $2.8 billion instead of nearly $2 billion.

[1] Some healthcare interests believe that under Option 2 Arizona could still receive enhanced Federal funding beyond the regular Federal match for childless adults. However, the ACA originally called for states not complying with Medicaid coverage to lose all Federal funding. While the Supreme Court invalidated this portion of the ACA, and indicated states could not be penalized for not expanding Medicaid in compliance with the ACA, there's nothing in the law or ruling that suggests to GCI that states would be rewarded, i.e., receive a bonus, for not complying with the ACA. Hence, GCI believes it's prudent to presume the regular FMAP rate would apply to childless adults under Option 2. See American Public Health Association, National Health Law Program, "The Supreme Court's ACA Decision & its Implications for Medicaid," July 27, 2012, bullet point at bottom of page 10 that continues to page 11, http://www.apha.org/NR/rdonlyres/38837993-E528-4A49-8713-03AD6FEBE14A/0/APHAFinalAnalysisFINAL8112.pdf, accessed September 24, 2012.

Table 2

Economic Impact of Options 2 and 3 Compared to Option 1 (current policy)		
One Year Change	Option 2: Restore Childless Adults 100% FPL Medicaid	Option 3: Full ACA Implemented 133% FPL Medicaid
Added Jobs	**14,952**	**21,003**
Added Growth	**$1.976 Billion**	**$2.776 Billion**

*Children 6-18 through 133 percent of FPL covered in all cases

Figures 1 and 2 illustrate these effects as well. As the state's economic output in 2015 will be approximately $315 billion, choosing option 2 increases economic growth by 0.6 percent, while Option 3 enhances growth by 0.9 percent. Employment growth will reduce the state's unemployment rate under Option 2 by 0.5 percent and 0.7 percent under Option 3. Hence, Option 3 provides the most benefit to the state's economy.

Figure 1

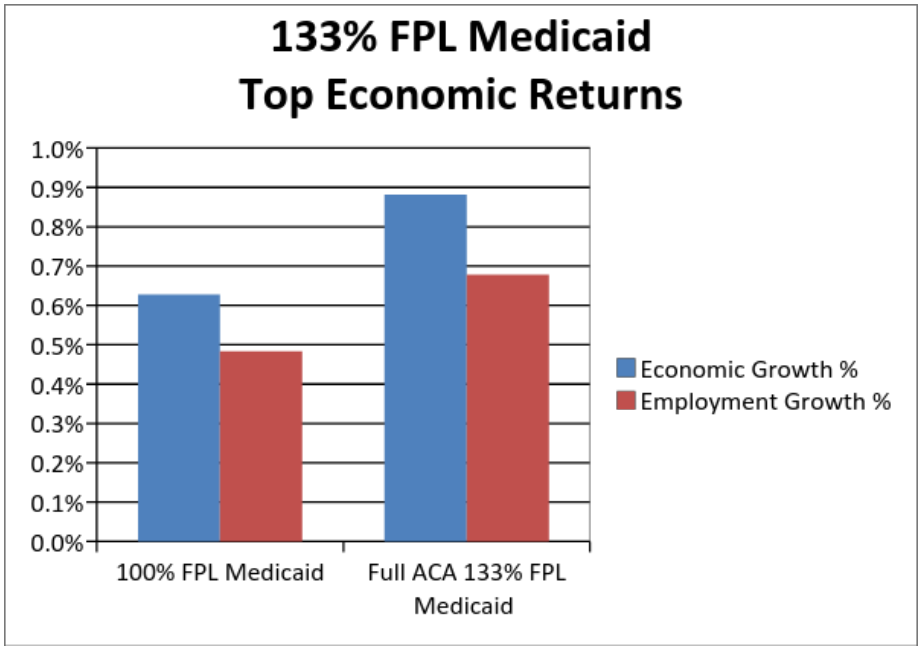
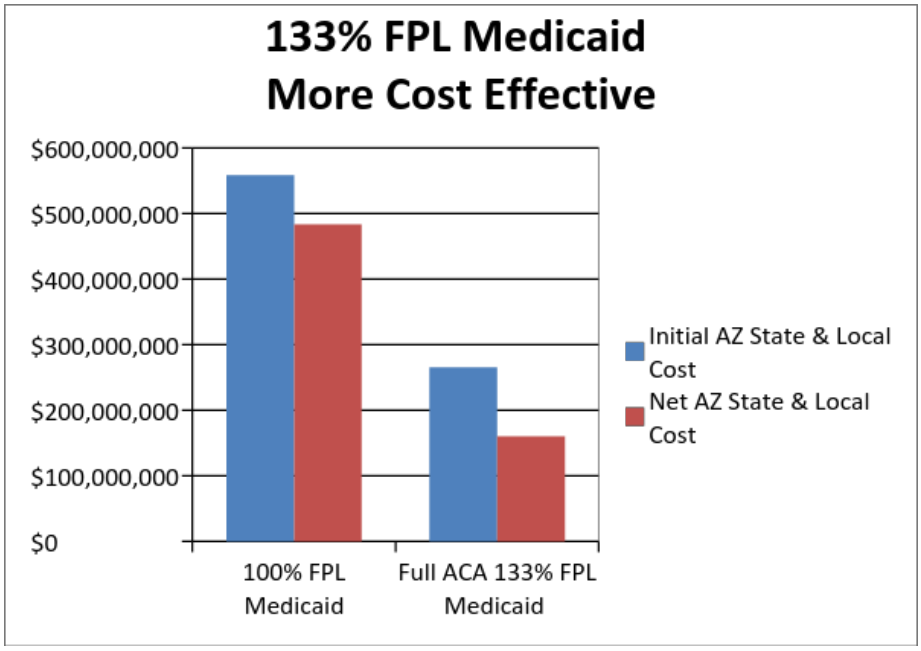


Figure 2 illustrates the cost to the state after taking into account the added tax revenues that economic growth generates. For these estimates, State and Local tax revenues are combined, so these are not net costs to the State's General Fund, but net costs to State and Local government. Here Option 2 costs close to half a billion in 2015, and Option 3, with the assumption that the state pays 10 percent of the added coverage , as a net cost of $160 million, one-third less. Thus choosing, Option 3 is also a wiser choice for the fiscal future of state and local governments compared to Option 2.

Analyzing these three scenarios, GCI finds that the most prudent pathway would be for the state to choose Option 3, full ACA Medicaid eligibility compliance. Option 1 does cost the state less, but comes at significant losses to the state's economic growth and employment picture, and also creates a gap population of single adults, ineligible for Medicaid and too poor to qualify for exchange subsidies.

Option 2 provides less coverage at greater cost to the state, while providing less economic growth and job creation than Option 3, making Option 3, the clear preferred pathway for Arizona.

Figure 2



Introduction

With the recent Supreme Court Decision in *National Federation of Independent Business v. Sebelius* (NFIB), states have been granted the choice of participating in the Medicaid eligibility expansion. The

Grand Canyon Institute compiled reports to develop an analysis of the economic and fiscal ramifications of different coverage levels for Arizona.

The policy analysis is based on the following statements of fact:

1. Prop. 204 "Healthy Arizona" passed by voters in 2000 extended Medicaid coverage in the state to everyone up to 100 percent of the federal poverty line (FPL). During the recent state budget crisis and due to ambiguity in the wording of Prop. 204, the state received approval from the federal government to freeze new enrollment for childless adults. However, the freeze was supposed to be temporary. Should the state fail to reinstate coverage as fiscal times improve, we can expect advocacy organizations to sue and likely prevail. Nonetheless, for our analysis we presume that not fully funding "Healthy Arizona" requirements is an option for the state. However, childless adults below 100 percent of the FPL would not be eligible for insurance coverage under the exchange, and would effectively become a gap population, not eligible for Medicaid or insurance under the exchange under this scenario. The state also froze enrollment in KidsCare, Arizona's Children's Health Insurance Program (CHIP). For purposes of this analysis, we focus only on those children eligible for KidsCare up to 133 percent of the FPL who under the ACA now will qualify for Medicaid, even if Arizona does not otherwise extend Medicaid coverage.
2. Arizonans between 100 and 133[2] percent of the FPL are not subject to the surcharge/tax for failing to have health insurance, and would be eligible to purchase insurance with a premium of two percent of their income at the "silver" level of the insurance exchange. If followed, due to Prop. 204, "Healthy Arizona," the state of Arizona does not have a coverage gap, if Medicaid eligibility is not fully expanded here[3]. However, if forced to purchase insurance in the exchange, we expect fewer to participate than if they qualified for Medicaid, since they would be responsible for paying a premium equal to two percent of their income plus modest cost-sharing in their use of health care.[4]

[2] 133 and 138 percent both appear in the literature, but refer to the same income threshold. The ACA changes and creates a consistent measure across states of what counts as income and then allows a 5 percent disregard for eligibility purposes. So a household with 138 percent of the FPL will be treated as if having an income equal to 133 percent of the FPL for purposes of qualifying for Medicaid. So 100 percent is also equivalent to 105 percent, if the state does not expand Medicaid. For consistency we use the lower numbers throughout. The full details of income changes are available at the Kaiser Commission on Medicaid and the Uninsured, Policy Brief, Explaining Health Reform , "The New Rules for Determining Income Under Medicaid in 2014", http://www.kff.org/healthreform/upload/8194.pdf, June 2011, accessed August 14, 2012.

[3] If Proposition 204 mandates are not funded for childless adults by calendar year 2014, this population group would become a gap population that is not eligible for Medicaid and not eligible for insurance subsidies through the insurance exchange.

[4] For those between 100 and 133 percent of the FPL, recipients would pay on up to six percent of the expected health care costs including premium and cost-sharing. See " Health Insurance Subsidies Available through Exchanges under the ACA," http://www.azgovernor.gov/hix/documents/Grants/Subsidies_OnePager.pdf, accessed, September 16, 2012.

3. If Arizona expands Medicaid coverage to the standards of the Affordable Care Act (ACA), the federal government will pay nearly 100 percent of the cost of those newly eligible, and the federal government will cut the amount the state currently pays for Medicaid for childless adults nearly in half and replace it with added federal dollars. If Arizona does not expand Medicaid, then Arizona will not be eligible for the enhanced match for childless adults[5].
4. Tax changes from the Affordable Care Act will take effect regardless of whether Arizona expands Medicaid coverage. Hence, GCI treats new federal funds coming into the state as a net gain for Arizona in determining economic impacts when comparing outcomes between expanding Medicaid coverage eligibility or not doing so.
5. Because ACA was designed to expand insurance coverage, funds noted as Disproportionate Share Hospital Payments (DSH), which were designed to help compensate hospitals for caring for uncovered indigent populations, are cut substantially. These cuts take place regardless of whether Arizona chooses to expand Medicaid eligibility or not.

How Medicaid and KidsCare work financially in Arizona

Currently the Federal government picks up about 66 percent of the cost of the Medicaid eligible in Arizona. Hence, the state pays about one-third the cost of Medicaid and one-four of the cost of KidsCare.[6] Unlike Medicaid, KidsCare is a premium-based program, where parents based on income level pay a health insurance premium of up to $50 per month for a child, and no more than $70 per month for multiple children.[7] Premiums may not exceed five percent of family income.[8] The recent action by Hospitals to provide private funding for KidsCare II for children on the KidsCare waiting list between 100 and 175 percent of the FPL through December 31, 2013 acts as a KidsCare bridge to the implementation point of expanded Medicaid under the ACA. At the time of the KidsCare enrollment freeze, the state placedll children formerly on KidsCare who are eligible for Medicaid on Medicaid (AHCCCS) due to being in households less than 100 percents of the FPL.

When the ACA takes effect and Medicaid expands for children 6 to 18 years old, then those children on KidsCare or KidsCare II who now qualify for Medicaid will retain their enhanced KidsCare match as

[5] See footnote 1 for added details regarding coverage of childless adults under Option 2.

[6] For Federal percentage paid see Department of Health and Human Services, "Federal Medical Assistance Percentage or Federal Financial Participation in State Assistance Expenditures: FMAP," http://aspe.hhs.gov/health/fmap.htm, accessed August 12, 2012.

[7] Arizona KidsCare General Information, http://www.benefits.gov/benefits/benefit-details/1001, accessed August 12, 2012.

[8] Glasson, Lydia (2008), "Accessing Health Care Parent's Rights – KidsCare", William E. Morris Institute for Justice Arizona Legal Services Statewide Conference, May 30, http://morrisinstituteforjustice.org/OLD_SITE/docs/FINAL%20KidsCare%20Health%20Insurance%20PPt%205.21.08.pdf, accessed August 17, 2012.

they transfer. Children qualifying for Medicaid, not on KidsCare, will receive the traditional Federal Medical Assistance Percentage (FMAP).[9]

Source of Estimated AHCCCS Enrollments

For cost estimates GCI uses estimates developed by AHCCCS as of August 1, 2012 for fiscal years 2014 through 2017. AHCCCS assumes a 3 to 5.5 percent annual health care inflation and after a gradual enrollment period between January and July of 2014, that enrollment increases by 1.5 to 2.25 percent depending on the population. All of these growth assumptions seem reasonable. Health Care inflation has typically outpaced the general inflation index, and the Congressional Budget Office forecasts Medicaid enrollee inflation to be about 5 percent annually from 2014-2017.[10] Given that the rate of growth in AHCCCS should diminish as the economy gradually improves and presently population growth in the state has subsided, this range for expected enrollment growth once ACA phases in seems sensible.

Option 1: Not Complying with "Healthy Arizona": Enrollment freeze on childless adults, but expand child coverage as required by the ACA

Under this scenario, the state maintains its current practice of freezing coverage for childless adults. These are adults without children eighteen years or younger living with them. The state would receive its current FMAP payment, except for retaining a higher KidsCare FMAP for those children who would now qualify for Medicaid. The ACA makes all children up to 133 percent of the FPL, Medicaid eligible.

AHCCCS presumes that 70 percent of newly eligible individuals will enroll and that 50 percent of those currently eligible but not enrolled will enroll, the so-called "woodwork" effect. ACA is designed to create a one-stop shop, so those exploring insurance options will also be evaluated for Medicaid eligibility and income definitions will now be consistent across Federal programs and the Exchanges.

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[9] Department Of Health And Human Services, Centers for Medicare & Medicaid Services,
42 CFR Parts 431, 435, and 457 [CMS-2349-F] RIN 0938-AQ62,
"Medicaid Program; Eligibility Changes under the Affordable Care Act of 2010,"
http://www.healthreformgps.org/wp-content/uploads/Medicaid-eligibility-final-rule-REG-03-16-12.pdf, p. 166, accessed August 18, 2012.

[10] See Holahan, John and Stacey McMorrow (2012), "Medicare, Medicaid and the Deficit Debate: Timely Analysis of Immediate Health Policy Issues," Urban Institute, April,
http://www.healthreformgps.org/wp-content/uploads/412544-Medicare-Medicaid-and-the-Deficit-Debate.pdf, accessed August 14, 2012, p. 13 Appendix Table 2: Health Expenditure and Enrollment Projections, by Payer, 2011-2020.

Even though populations under 133 percent of the FPL are not financially sanctioned for not participating, they are more likely to enroll under these circumstances than they are presently. Hence, a "woodwork" effect is forecast regardless of whether or not Arizona chooses to expand Medicaid coverage.

Because under this scenario, Arizona is not expanding Medicaid to match the requirements of the ACA, the federal percentage paid is 66 percent for all populations, as it is under the current Medicaid program. The only exception would be children currently enrolled in KidsCare or KidsCare II who become eligible for Medicaid as Medicaid will expand children's eligibility through age 18, up from age 5 currently. Those children transferring to Medicaid from KidsCare or KidsCare II will received the enhanced KidsCare FMAP. Hence, the percentage Federal Share under the category "Mandatory Child Expansion" is in between the regular FMAP, 65.68 percent and the enhanced FMAP for the Children's Health Insurance Program of 76.10 percent.

Childless adults under the FPL under Option 1 would not be eligible for Medicaid, nor would they be in a group eligible for subsidies in the Exchange, and would become a gap population without coverage.

If Arizona does not expand Medicaid eligibility, then adults in households between 100 and 133 percent of the FPL who do not have employer insurance could purchase it through the exchange at a limit of 2 percent of income for the premium with additional cost-sharing. Based on research by Coughlin and Ku which examined programs in states that offered insurance to low income working families, a premium of 2 percent of income will engender a 50 percent participation rate among those uninsured, rather than a 70 percent participation rate, which would be expected for Medicaid participation with no premium.[11] For GCI's calculations, the amount of the exchange subsidy was estimated based on Congressional Budget Office research. In 2009, CBO estimated for an income of 125 percent of FPL, in 2016 the subsidy for the premium plus cost-sharing (the plans are designed to have the enrollee pay 30 percent of health costs on average and the subsidies reduce that) would be $6,000. In a 2012 CBO analysis, in 2022, they noted the typical subsidy for an adult participant between 100 and 138 percent of FPL would be about $9,333, comparing that to their average expected subsidy across for 2022, indicated that this low income subsidy would be 1.24 times greater than the average subsidy. Using that ratio for earlier years resulted in numbers that though slightly higher seemed consistent with the 2009 CBO analysis, and are used here.[12]

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[11] Ku, Leighton, and Teresa A.. Coughlin (1999/2000), "Sliding-Scale Premium Health Insurance Programs: Four States' Experiences." Inquiry, vol. 36, Winter, pp. 471-480. See especially Figure 1, p. 476.

[12] Congressional Budget Office (2009), "An Analysis of Health Insurance Premiums Under the Patient Protection and Affordable Care Act," TABLE 2. Analysis of Exchange Subsidies and Enrollee Payments in 2016 Under the Patient Protection and Affordable Care Act , November 30,http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/107xx/doc10781/11-30-premiums.pdfhttp://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/107xx/doc10781/11-30-premiums.pdf, accessed August 15, 2012. Congressional Budget Office (2012), "Estimates for the Insurance Coverage Provisions of the Affordable Care Act Updated for the Recent Supreme Court Decision," July 24, p. 16 and TABLE 3.

We assume all those enrolling in the exchanges in this income group did not have insurance. In 2010 the Census Bureau's Current Population Survey found only 3.6 percent of Arizonans with incomes less than 138 percent of the FPL in 2010 had private health coverage through private purchase, not through an employer, while 40 percent were uninsured.[13]

Option 1 Outcomes:

Cumulative Cost to the State General Fund 2014-2017: **855,559,239**
Cumulative Inflow of Federal Dollars 2014-2017: **2,758,704,003**
Additional Lives Covered & Enrolled by 2017: **228,607**

Table 3

Option 1: Not Complying with "Healthy Arizona": Enrollment freeze on single adults, but expands child coverage as required by the ACA

Woodwork from Federal Mandatory Categories (Children, SSI, Parents ≤100% FPL)

	FY 2014	FY 2015	FY 2016	FY 2017	TOTAL
State Match	70,454,567	209,287,822	225,144,176	237,030,874	741,917,439
Federal Share	134,832,633	400,525,178	430,870,324	453,618,526	1,419,846,661
Total	205,287,200	609,813,000	656,014,500	690,649,400	2,161,764,100
Lives Covered	98,667	133,838	136,859	139,840	

Mandatory Child Expansion (6-18 100-138% FPL)-under 6 already covered

State Match	9,846,500	36,865,800	33,574,700	33,354,800	113,641,800
Federal Share	23,621,300	80,323,000	91,300,400	97,351,700	292,596,400
Total	33,467,800	117,188,800	124,875,100	130,706,500	406,238,200
Lives Covered	33,823	43,349	44,042	44,716	

Estimate of the Effects of the Affordable Care Act on Health Insurance Coverage, Updated for Supreme Court Decision, http://cbo.gov/sites/default/files/cbofiles/attachments/43472-07-24-2012-CoverageEstimates.pdf, accessed August 15, 2012.

[13] State Health Access Data Assistance Center (SHADAC), "Health Insurance Coverage Estimates, CPS, 19-64 Years, <= 138% FPG, Arizona: Calendar Year 2010," http://www.shadac.org/datacenter/tables/tables/id/3cc897b4-df8d-4f38-a45a-583e752e8894.

Combined Mandatory Elements					
State Match	80,301,067	246,153,622	258,718,876	270,385,674	**855,559,239**
Federal Share	158,453,933	480,848,178	522,170,724	550,970,226	1,712,443,061
Total	238,755,000	727,001,800	780,889,600	821,355,900	2,568,002,300
	0	0	0	0	0
	FY 2014	FY 2015	FY 2016	FY 2017	TOTAL
Childless Adult Freeze Reinstated (<100% FPL)					
State Match	0	0	0	0	0
Federal Share	0	0	0	0	0
Total	0	0	0	0	0
Lives Covered	0	0	0	0	
Childless Adults Woodwork (<100% FPL)					
State Match	0	0	0	0	0
Federal Share	0	0	0	0	0
Total	0	0	0	0	0
Lives Covered	0	0	0	0	
Combined Prop. 204 Compliance					
State Match	0	0	0	0	0
Federal Share	0	0	0	0	0
Total	0	0	0	0	0
Total Impacts					
State Match	80,301,067	246,153,622	258,718,876	270,385,674	**855,559,239**
Federal Share	158,453,933	480,848,178	522,170,724	550,970,226	1,712,443,061
Total	238,755,000	727,001,800	780,889,600	821,355,900	2,568,002,300
	0	0	0	0	0
Lives Covered	132,490	177,187	180,901	184,556	
	FY 2014	FY 2015	FY 2016	FY 2017	TOTAL
Insurance Exchange Participants Adults (100-138% FPL)					
Avg. Federal Subsidy	6,600	6,670	6,810	6,990	
Enrollees	29,015	42,164	43,121	44,051	
Total Federal Share	191,499,000	281,235,786	293,652,064	307,919,486	1,074,306,336

Disproportionate Hospital Share Funding					
	-5%	-5%	-5%	-16%	
Federal Share	-4,523,451	-4,523,451	-4,523,451	-14,475,042	-28,045,393
Total Federal Dollars	345,429,482	757,560,514	811,299,337	844,414,670	**2,758,704,003**
Covered+Enrollees	161,505	219,351	224,022	228,607	

Based on Calculations by AHCCCS, August 1, 2012 Fiscal Year 2014 to Fiscal Year 2017 Cost Summary by Eligibility.[14] Disproportionate Hospital Share Funding follows same match as Medicaid. Total and estimated future reductions from JLBC and Kaiser Commission on Medicaid and Uninsured and Urban Institute.[15] Insurance Exchange calculations by author based on Congressional Budget Office estimates.

Option 2: Arizona meets "Healthy Arizona" requirements plus expanded child coverage as required by the ACA

Under this scenario GCI expects under Prop. 204 "Healthy Arizona" from 2000 that the state will reinstate coverage of childless adults by 2014. As with all government programs, not everyone eligible enrolls. AHCCCS presumes that 70 percent of newly eligible individuals will enroll and that 50 percent of those currently eligible but not enrolled will enroll, the so-called "woodwork" effect. ACA is designed to create a one-stop shop, so those exploring insurance options will also be evaluated for Medicaid eligibility and income definitions will now be consistent across Federal programs and the Exchanges. Populations under 133 percent of the FPL are not financially sanctioned for not participating, they are more likely to enroll under these circumstances than they are presently. Hence, a "woodwork" effect is forecast regardless of whether or not Arizona chooses to expand Medicaid.

Because under this scenario, Arizona is not expanding Medicaid to match the requirements of the ACA, the federal percentage paid is 66 percent for all populations, as it is under the current Medicaid program. The only exception would be children currently enrolled in KidsCare or KidsCare II who become eligible for Medicaid as Medicaid will expand children's eligibility through age 18, up from age

[14] Arizona Health Care Cost Containment System, "Fiscal Year 2014 To Fiscal Year 2017 Medicaid Expansion Cost Analysis - Version Summary, August 1, 2012, http://www.azahcccs.gov/shared/Downloads/News/ACA_AHCCCS_CostSummary.pdf, accessed August 10, 2012. Note that Federal Match adjusted for Childless Adult figures to show regular FMAP.

[15] Joint Legislative Budget Committee (2012), "Program Summary Arizona Health Care Cost Containment System Payments to Hospitals," July 20, http://www.azleg.gov/jlbc/psaxspayhosp.pdf, accessed August 17, 2012. Bovbjerg, Randall R., Barbara A. Ormond, and Vicki Chen (2011), "State Budgets under Federal Health Reform: The Extent and Causes of Variations in Estimated Impacts," Kaiser Commission on Medicaid and the Uninsured and Urban Institute (February), p. 10 and see footnote 53 on p. 24, http://www.kff.org/healthreform/upload/8149_ES.pdf. accessed August 24, 2012.

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5 currently. Those children transferring to Medicaid from KidsCare or KidsCare II will received the enhanced KidsCare FMAP. Hence, the percentage Federal Share under the category "Mandatory Child Expansion" is in between the regular FMAP, 65.68 percent and the enhanced FMAP for the Children's Health Insurance Program of 76.10 percent.

As noted earlier, due to not fully complying with the Medicaid eligibility expansion, under Option 2, Arizona would not receive an enhanced FMAP for childless adults.

Option 2 Outcomes:

Cumulative Cost to the State General Fund 2014-2017: **2,733,940,716**
Cumulative Inflow of Federal Dollars 2014-2017: **6,353,462,027**
Additional Lives Covered & Enrolled by 2017: **417,234**

Table 4

Option 2: Arizona meets "Healthy Arizona" requirements plus expanded child coverage as required by the ACA

Woodwork from Federal Mandatory Categories (Children, SSI, Parents ≤100% FPL)

	FY 2014	FY 2015	FY 2016	FY 2017	TOTAL
State Match	70,454,567	209,287,822	225,144,176	237,030,874	741,917,439
Federal Share	134,832,633	400,525,178	430,870,324	453,618,526	1,419,846,661
Total	205,287,200	609,813,000	656,014,500	690,649,400	2,161,764,100
Lives Covered	98,667	133,838	136,859	139,840	

Mandatory Child Expansion (6-18 100-138% FPL)-under 6 already covered

State Match	9,846,500	36,865,800	33,574,700	33,354,800	113,641,800
Federal Share	23,621,300	80,323,000	91,300,400	97,351,700	292,596,400
Total	33,467,800	117,188,800	124,875,100	130,706,500	406,238,200
Lives Covered	33,823	43,349	44,042	44,716	

Combined Mandatory Elements

State Match	80,301,067	246,153,622	258,718,876	270,385,674	**855,559,239**
Federal Share	158,453,933	480,848,178	522,170,724	550,970,226	1,712,443,061
Total	238,755,000	727,001,800	780,889,600	821,355,900	2,568,002,300

	FY 2014	FY 2015	FY 2016	FY 2017	TOTAL

Childless Adult Freeze Reinstated (<100% FPL)					
	96,298,763				1,545,608,647
State Match		461,077,463	486,813,928	501,418,495	
	184,292,037				2,957,913,053
Federal Share		882,388,337	931,641,572	959,591,105	
	280,590,800	1,343,465,800	1,418,455,500	1,461,009,600	4,503,521,700
Total	0	0	0	0	0
Lives Covered	108,010	154,300	154,300	154,300	
Childless Adults Woodwork (<100% FPL)					
State Match	20,154,420	97,217,509	104,930,208	110,470,692	332,772,829
Federal Share	38,570,580	186,050,291	200,810,492	211,413,608	636,844,971
Total	58,725,000	283,267,800	305,740,700	321,884,300	969,617,800
Lives Covered	22,606	32,854	33,595	34,327	
Combined Prop. 204 Compliance					
	116,453,183				**1,878,381,476**
State Match		558,294,972	591,744,136	611,889,186	
	222,862,617	1,068,438,628	1,132,452,064	1,171,004,714	3,594,758,024
Federal Share					
	339,315,800	1,626,733,600	1,724,196,200	1,782,893,900	5,473,139,500
Total	0	0	0	0	0
Total Impacts					
	196,754,250				**2,733,940,716**
State Match		804,448,593	850,463,012	882,274,861	
	381,316,550	1,549,286,807	1,654,622,788	1,721,974,939	5,307,201,084
Federal Share					
	578,070,800	2,353,735,400	2,505,085,800	2,604,249,800	8,041,141,800
Total	0	0	0	0	0
Lives Covered	263,106	364,341	368,796	373,183	
	FY 2014	FY 2015	FY 2016	FY 2017	TOTAL
Insurance Exchange Participants Adults (100-138% FPL)					
Avg. Federal Subsidy	6,600	6,670	6,810	6,990	
Enrollees	29,015	42,164	43,121	44,051	
Total Federal Share	191,499,000	281,235,786	293,652,064	307,919,486	1,074,306,336
Disproportionate Hospital Share Funding					
	-5%	-5%	-5%	-16%	

Federal Share	-4,523,451	-4,523,451	-4,523,451	-14,475,042	-28,045,393
Total Federal Dollars	568,292,100	1,825,999,142	1,943,751,401	2,015,419,383	**6,353,462,027**
Covered+Enrollees	292,121	406,505	411,917	417,234	

Based on Calculations by AHCCCS, August 1, 2012 Fiscal Year 2014 to Fiscal Year 2017 Cost Summary by Eligibility. Disproportionate Hospital Share Funding follows same match as Medicaid. Total and estimated future reductions from JLBC and Kaiser Commission on Medicaid and Uninsured and Urban Institute.[16] Insurance Exchange calculations by author based on Congressional Budget Office estimates.

Option 3: Arizona expands Medicaid eligibility in compliance with the ACA

If Arizona expands Medicaid eligibility, then due to Proposition 204 which greatly expanded Medicaid coverage in the state, the state is in a special category, so as not to be penalized for having a more generous Medicaid program than many other states. Arizona would receive an enhanced Federal share funding for childless adults under 100 percent of the FPL. Instead of paying two-thirds the cost the Federal Government would pay in excess of four-fifths of the cost working toward 90 percent of the cost[17]. The exact cost percentages covered by the Federal government are listed below:

2014 82.84%
2015 86.27%
2016 89.70%
2017 89.14%
2018 91.17%
2019 93.0%
2020+ 90%

In addition, the coverage of all individuals between 100 and 138 percent of the FPL would be 100 percent initially, eventually decreasing in 2020 to 90 percent[18].

2014 100%
2015 100%
2016 100%

[16] See footnotes 14 and 15 for more details.

[17] Holahan, John and Irene Headen (2010), Medicaid Coverage and Health spending under Health Reform: National and State-by-State Results for Adults at or Below 133% FPL, " Henry J. Kaiser Family Foundation with Urban Institute, May, Box 2: Medicaid Match Rates for Coverage in Health Reform Summary, p.9 http://www.kff.org/healthreform/upload/Medicaid-Coverage-and-Spending-in-Health-Reform-National-and-State-By-State-Results-for-Adults-at-or-Below-133-FPL.pdf, accessed Aug. 24, 2012.

[18] Holahan and Headen, p. 9.

2017 95%
2018 94%
2019 93%
2020+ 90%

The result is that even though the state covers more people in its Medicaid program, additional state funding for health care is cut about 40 percent compared to Option 2 and the inflow of Federal dollars rises by about 25 percent over Option 2.

Option 3 Outcomes:

Cumulative Cost to the State General Fund 2014-2017: **1,520,422,753**
Cumulative Inflow of Federal Dollars 2014-2017: **7,932,760,353**
Additional Lives Covered & Enrolled by 2017: **434,855**

Table 5

Option 3: Arizona expands Medicaid eligibility in compliance with the ACA

Woodwork from Federal Mandatory Categories (Children, SSI, Parents ≤100% FPL)

	FY 2014	FY 2015	FY 2016	FY 2017	TOTAL
State Match	70,454,567	209,287,822	225,144,176	237,030,874	741,917,439
Federal Share	134,832,633	400,525,178	430,870,324	453,618,526	1,419,846,661
Total	205,287,200	609,813,000	656,014,500	690,649,400	2,161,764,100
Lives Covered	98,667	133,838	136,859	139,840	

Mandatory Child Expansion (6-18 100-138% FPL)-under 6 already covered

State Match	9,846,500	36,865,800	33,574,700	33,354,800	113,641,800
Federal Share	23,621,300	80,323,000	91,300,400	97,351,700	292,596,400
Total	33,467,800	117,188,800	124,875,100	130,706,500	406,238,200
Lives Covered	33,823	43,349	44,042	44,716	

Combined Mandatory Elements

State Match	80,301,067	246,153,622	258,718,876	270,385,674	**855,559,239**
Federal Share	158,453,933	480,848,178	522,170,724	550,970,226	1,712,443,061
Total	238,755,000	727,001,800	780,889,600	821,355,900	2,568,002,300

	FY 2014	FY 2015	FY 2016	FY 2017	TOTAL

Childless Adult Freeze Reinstated (<100% FPL)					
State Match	48,149,381	184,430,985	146,044,178	158,724,083	537,348,628
Federal Share	232,441,419	1,159,034,815	1,272,411,322	1,302,285,517	3,966,173,072
Total	280,590,800	1,343,465,800	1,418,455,500	1,461,009,600	4,503,521,700
Lives Covered	108,010	154,300	154,300	154,300	
Childless Adults Woodwork (<100% FPL)					
State Match	10,077,210	38,887,004	31,479,062	34,969,510	115,412,786
Federal Share	48,647,790	244,380,796	274,261,638	286,914,790	854,205,014
Total	58,725,000	283,267,800	305,740,700	321,884,300	969,617,800
Lives Covered	22,606	32,854	33,595	34,327	
Combined Prop. 204 Compliance					
State Match	58,226,591	223,317,989	177,523,241	193,693,593	**652,761,414**
Federal Share	281,089,209	1,403,415,611	1,546,672,959	1,589,200,307	4,820,378,086
Total	339,315,800	1,626,733,600	1,724,196,200	1,782,893,900	5,473,139,500
	FY 2014	FY 2015	FY 2016	FY 2017	TOTAL
Adult Parent Expansion (100-138% FPL)					
State Match	0	0	0	7,709,900	7,709,900
Federal Share	55,567,500	268,027,400	289,280,800	296,850,100	909,725,800
Total	55,567,500	268,027,400	289,280,800	304,560,000	917,435,700
Lives Covered	28,435	41,322	42,259	43,171	
Childless Adult Expansion (100-138% FPL)					
State Match	0	0	0	4,392,200	4,392,200
Federal Share	31,656,300	152,692,400	164,799,600	169,110,500	518,258,800
Total	31,656,300	152,692,400	164,799,600	173,502,700	522,651,000
Lives Covered	12,186	17,708	18,110	18,501	
Combined ACA Expanded Adult (childless and parents)					
State Match	0	0	0	12,102,100	**12,102,100**
Federal Share	87,223,800	420,719,800	454,080,400	465,960,600	1,427,984,600
Total	87,223,800	420,719,800	454,080,400	478,062,700	1,440,086,700

TOTAL					
	138,527,65				**1,520,422,75**
State Match	8	469,471,610	436,242,117	476,181,367	**3**
	526,766,94	2,304,983,59	2,522,924,08	2,606,131,13	**7,960,805,74**
Federal Share	2	0	3	3	**7**
	665,294,60	2,774,455,20	2,959,166,20	3,082,312,50	9,481,228,50
Total	0	0	0	0	0
Lives Covered	303,727	423,371	429,165	434,855	
Disproportionate Hospital Share Funding					
	-5%	-5%	-5%	-16%	
Federal Share	-4,523,451	-4,523,451	-4,523,451	-14,475,042	-28,045,393
Total Federal	522,243,49	2,300,460,13	2,518,400,63	2,591,656,09	**7,932,760,35**
Dollars	1	9	2	1	**3**
Covered+Enrollees	303,727	423,371	429,165	434,855	

Based on Calculations by AHCCCS, August 1, 2012 Fiscal Year 2014 to Fiscal Year 2017 Cost Summary by Eligibility. Disproportionate Hospital Share Funding follows same match as Medicaid. Total and estimated future reductions from JLBC and Kaiser Commission on Medicaid and Uninsured and Urban Institute.[19]

Comparing the Economic Impacts of Option 2 and Option 3 Relative to Option 1

GCI takes the first year of full implementation of the ACA, Fiscal Year 2015, to estimate economic impacts of Option 2 and Option 3 relative to Option 1.

Regardless of whether the state expands Medicaid eligibility or not, simply by complying with Prop. 204, the state will receive a significant inflow of federal funds beyond what it is currently receiving. GCI uses the current policy Option 1 as the base, and then compares the impact of the added federal funding in Option 2 and Option 3, and how that might impact economic growth and job creation. Because 2015 is still part of the fiscal phase in of the ACA, GCI adjusted Option 3 to the full phase-in Federal inflow, when the state will need to pick up 10 percent of the cost of newly eligible adults between 100 and 133 percent of the FPL. That way the estimates can be more generally applied, not just for FY2015.

Base Line Option 1: Federal Inflow of Funds $757,560,514

Option 2: Federal Inflow of Funds $1,825,999,142

[19] See footnotes 14 and 15 for more details.

Option 3: Federal Inflow of Funds $2,300,460,139

Option 3: Federal Inflow of Funds (adjusted) $2,258,388,159

To estimate the economic impact of the three options, GCI used IMPLAN software with a series of Input-Output economic equations for Arizona designed to simulate the way different sectors of the economy interact with each other to create jobs, economic growth as well as tax revenues. Direct effects are the results of the initial expenditures noted above. Part of those direct effects go to wages and part goes to non-wage costs. The multiplier effect throughout Arizona of the non-wage costs, IMPLAN calls the indirect effect, and the multiplier effect due to subsequent spending of employees is the induced effect.

Based on data from Centers for Medicare & Medicaid Services, Arizona has a largely HMO-based system, with 86 percent of Medicaid funds paid through that means, 13.2 percent paid to hospitals and 0.4 percent to private physicians and 0.4 percent to nursing facilities.[20] Thus, direct effects were broken into these sectors accordingly.

The IMPLAN economic growth multiplier is 1.85 and the jobs multiplier is 1.97 for Arizona, meaning for every added dollar in federal funding, the state's economy grows by $1.85, and for every job created by direct spending, total employment in the state grows by 1.97 jobs.

Option 2:

Cost to State and Local Governments Beyond Option 1: $558,294,971
Net Cost after including growth-generated Government Revenues: $483,313,763[21]
Increase in State Economic Growth: +0.6 percent[22]

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[20] Centers for Medicare & Medicaid Services, Medicaid and Medicare Statistical Supplement 2010 Edition, Table 13.26 "Medicaid Payments, by Type of Service and Area of Residence: Fiscal Year 2009," http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/MedicareMedicaidStatSupp/2010.html, accessed September 10, 2012.

[21] These are State and Local revenues, so these revenues accrue to a broader area than the State General Fund, so should be used as a means of considering net cost in the context of all state and local government activities. The difference compared to Option 1 may be smaller, as the Urban Institute expects that broader coverage will also reduce uncompensated care costs, partially borne by government, that are not part of DSH funds. Note-due to HB2001 (50th Legislature, Second Special Session), a number of business tax changes are being implemented. The Corporate income tax reduction for FY2015 will be 10 percent less than it is now, so from the IMPLAN results, GCI reduced the corporate income tax amounts by 10 percent. See HB2001 "Arizona Commerce Authority; Business Incentives" Bill Summary, http://www.azleg.gov//FormatDocument.asp?inDoc=/legtext/50leg/2s/summary/h.hb2001_02-16-11_astransmittedtogovernor.doc.htm&Session_ID=105, accessed September 22, 2012.

[22] The Bureau of Economic Analysis reports the State GDP for 2011 in 2005 dollars as $227 billion. The GDP deflator for 2011 was 114, which yields the $258 billion in 2011 dollars. A five percent growth rate over four years yields $315 billion. U.S. Department of Commerce, Bureau of Economic Analysis, 2012, "Widespread Economic Growth Across

Increase in State Employment Rate (decrease in Unemployment): +0.5 percent[23]

Table 6

Option 2: Economic Impacts					
Impact Type	**Employment**	**Labor Income**	**Value Added**	**Output**	**State & Local Tax Generated**
Direct Effect	7,570.7	$490,882,100	$596,629,864	$1,068,438,628	$23,609,009
Indirect Effect	2,927.0	$140,527,987	$230,935,725	$366,605,057	$16,834,926
Induced Effect	4,454.3	$187,092,380	$340,874,930	$541,301,356	$34,537,273
Total Effect	14,952.1	$818,502,466	$1,168,440,519	$1,976,345,041	$74,981,208

Option 3

Cost to State and Local Governments Beyond Option 1: $223,317,988
Net Cost after including growth-generated Government Revenues: $115,039,915

Table 7

Option 3: Economic Impacts					
Impact Type	**Employment**	**Labor Income**	**Value Added**	**Output**	**State & Local Tax Generated**

States In 2011," June 5, http://www.bea.gov/newsreleases/regional/gdp_state/gsp_newsrelease.htm, St. Louis Federal Reserve Bank, Gross Domestic Product Seasonally Adjusted, http://research.stlouisfed.org/fred2/data/GDPDEF.txt, accessed August 17, 2012.

[23] The Bureau of Labor Statistics for July 2012 estimated the Arizona Labor Force at 3,005,601 people. Assuming a one percent annual growth rate, then by July 2015 (end of Fiscal Year 2015), the Labor Force will equal 3,096,674. The calculated employment growth figures were taken as a percent of this number to calculate employment rate growth, which is the inverse of the unemployment rate. So an increase of 0.5 percent, means the unemployment rate would be expected to 0.5 percent under Option 2 compared to the baseline of Option 1. See Bureau of Labor Statistics, Economy at a Glance: Arizona, http://www.bls.gov/eag/eag.az.htm, click on back data for precise numbers. Accessed September 22, 2012.

	Direct Effect	10,932.7	$708,867,864	$861,574,984	$1,542,899,626	$34,093,049
	Indirect Effect	4,226.8	$202,932,178	$333,487,235	$529,403,178	$24,310,802
	Induced Effect	6,432.4	$270,174,397	$492,247,087	$781,676,773	$49,874,222
	Total Effect	21,591.9	$1,181,974,439	$1,687,309,306	$2,853,979,577	$108,278,073

Option 3 (90% Federal Funding Scenario for expanded populations)

Because GCI wants a representative annual impact, rather than strictly FY2015, GCI reduced the federal inflow. In FY 2015, the federal government will take on 100 percent of the costs of added adult Medicaid coverage between 100 and 133 percent of the FPL. However, by 2020, this coverage will fall to 90 percent of the cost. So for purposes of determining the economic benefit of Options 3 more generally, GCI assumed that Arizona had to pick up 10 percent of the cost of covering these expanded populations.

Cost to State and Local Governments Beyond Option 1: $265,389,968
Net Cost after including growth-generated Government Revenues: $160,064,436
Increase in State Economic Growth: +0.9 percent
Increase in State Employment Rate (decrease in Unemployment): +0.7 percent

Table 8

	Adjusted Option 3 (90% Federal Funding Scenario for expanded populations)					
	Impact Type	**Employment**	**Labor Income**	**Value Added**	**Output**	**State & Local Tax Generated**
	Direct Effect	10,634.6	$689,538,366	$838,081,449	$1,500,827,645	$33,163,395
	Indirect Effect	4,111.6	$197,398,598	$324,393,663	$514,967,346	$23,647,893
	Induced Effect	6,257.0	$262,807,248	$478,824,432	$760,361,913	$48,514,244
	Total Effect	21,003.1	$1,149,744,212	$1,641,299,544	$2,776,156,904	$105,325,532

Conclusion: Option 3 holds the most promise for Arizona

Table 9 (reproduced from Table 2) illustrates that compared to current policy (Option 1), Option 3 will create 21,000 new jobs compared to 15,000 new jobs with Option 2, and the state's economy will grow by $2.8 billion instead of nearly $2 billion.

Table 9

Economic Impact of Options 2 and 3 Compared to Option 1 (current policy)		
One Year Change	Option 2: Restore Childless Adults 100% FPL Medicaid	Option 3: Full ACA Implemented 133% FPL Medicaid
Added Jobs	**14,952**	**21,003**
Added Growth	**$1.976 Billion**	**$2.776 Billion**

*Children 6-18 through 133 percent of FPL covered in all cases

Figures 1 and 2 illustrate these effects as well. As the state's economic output in 2015 will be approximately $315 billion, choosing option 2 increases economic growth by 0.6 percent, while Option 3 enhances growth by 0.9 percent. Employment growth will reduce the state's unemployment rate under Option 2 by 0.5 percent and 0.7 percent under Option 3. Hence, in terms of economic returns, Option 3 provides the most benefit to the state's economy.

Figure 2 illustrates the cost to the state after taking into account the added tax revenues that economic growth generates. For these estimates, State and Local tax revenues are combined, so these are not net costs to the State's General Fund, but net costs to State and Local government. Here Option 2 costs close to half a billion in 2015, and Option 3, with the assumption that the state pays 10 percent of the added coverage has a net cost of $160 million, one-third less. Thus choosing, Option 3 is also a wiser choice for the fiscal future of state and local governments compared to Option 2.

Analyzing these three scenarios, GCI finds that the most prudent choice for Arizona is Option 3, full ACA Medicaid eligibility compliance. Option 1 does cost the state less, but comes at significant losses to the state's economic growth and employment picture, and also creates a gap population of childless adults, ineligible for Medicaid and too poor to qualify for exchange subsidies.

Option 2 provides less coverage at greater cost to the state, while providing less economic growth and job creation than Option 3, making Option 3, the clear preferred pathway for Arizona.

Figure 1

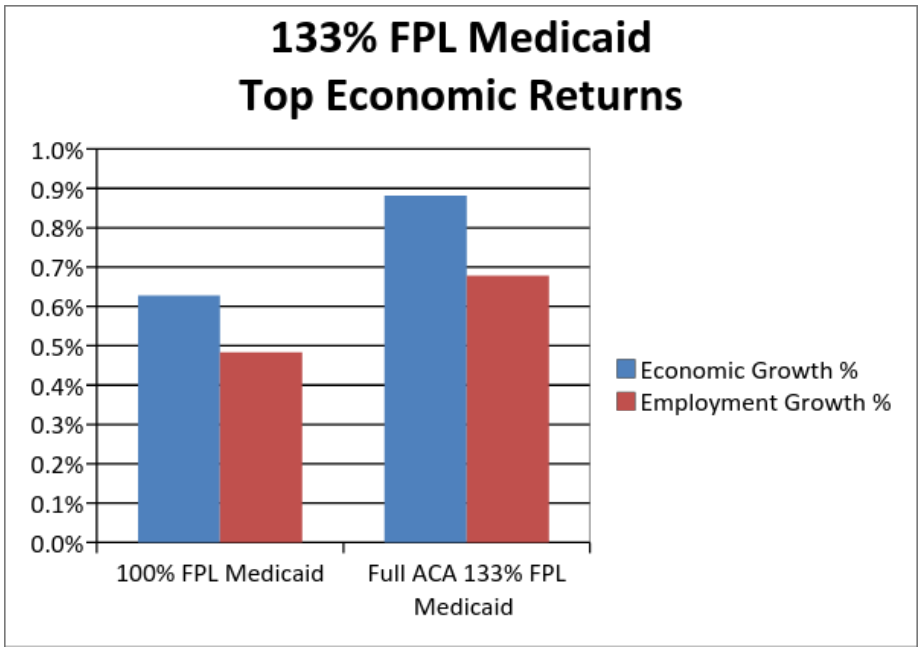
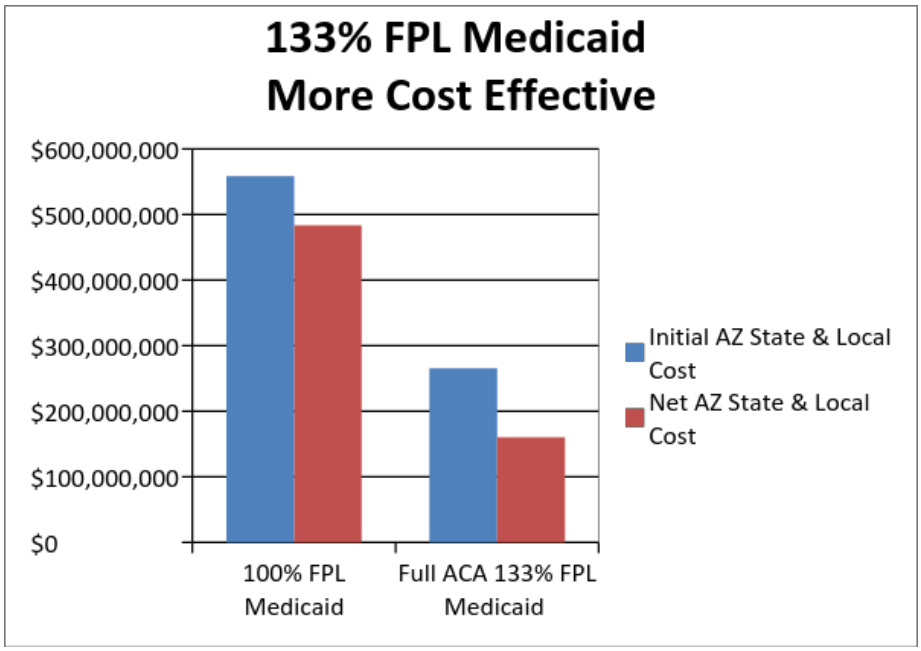


Figure 2



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