

Arizona Health Cost Care Containment System
Long-Term Care

A.R.S. § 36-2901

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| | FY 2005 Actual | FY 2006 Estimate | FY 2007 Approved |
|--|---------------------------|-----------------------------|---|
| SPECIAL LINE ITEMS | | | |
| ALTCS Lump Sum Appropriation | 851,838,300 | 999,447,400 | 1,060,536,000 |
| Medicare Clawback Payments | 0 | 0 | 19,475,200 |
| Dual Eligible Part D Copay Subsidy | 0 | 0 | 470,300 |
| Board of Nursing | 339,200 | 209,700 | 209,700 |
| PROGRAM TOTAL | 852,177,500 | 999,657,100 | 1,080,691,200^{1/2/3/4/} |
| FUND SOURCES | | | |
| General Fund | 71,614,900 | 107,156,600 | 135,580,700 ^{5/} |
| <u>Other Appropriated Funds</u> | | | |
| County Contribution Fund | 7,446,500 | 0 | 0 |
| SUBTOTAL - Other Appropriated Funds | 7,446,500 | 0 | 0 |
| SUBTOTAL - Appropriated Funds | 79,061,400 | 107,156,600 | 135,580,700 |
| <u>Expenditure Authority Funds</u> | | | |
| County Funds | 206,380,500 | 218,738,100 | 235,626,700 ^{6/} |
| Federal Title XIX Funds | 566,735,600 | 673,762,400 | 709,483,800 |
| SUBTOTAL - Expenditure Authority Funds | 773,116,100 | 892,500,500 | 945,110,500 |
| SUBTOTAL - Appropriated/Expenditure Authority Funds | 852,177,500 | 999,657,100 | 1,080,691,200 |
| TOTAL - ALL SOURCES | 852,177,500 | 999,657,100 | 1,080,691,200 |

COST CENTER DESCRIPTION — The Arizona Long Term Care System (ALTCS) provides federal Medicaid long term care services to persons meeting federally-prescribed income and resource standards and at risk of being institutionalized. The income limit is about 222% of the Federal Poverty Limit. The state and the counties share in the cost of ALTCS program growth pursuant to a formula based on utilization, net assessed property value growth, and reservation populations. The state funds the non-federal share of the administrative cost of ALTCS. The AHCCCS Administration conducts ALTCS eligibility and is also responsible for contracting with providers. As in the Acute Care program, providers receive a monthly capitation payment that covers the full range of ALTCS services, including acute medical services.

- 1/ Any Federal Funds that the Arizona Health Care Cost Containment System Administration passes through to the Department of Economic Security for use in long-term administration care for the developmentally disabled shall not count against the long-term care expenditure authority above. (General Appropriation Act footnote)
- 2/ General Appropriation Act funds are appropriated by Special Line Items by Program.
- 3/ Before making fee-for-service program or rate changes that pertain to hospital, nursing facility or home and community based services rates or for any of the other fee-for-service rate categories that have increases that, in the aggregate, are 2% above and \$1,500,000 from the state General Fund greater than budgeted medical inflation in FY 2007, the Arizona Health Care Cost Containment System Administration shall report its expenditure plan to the Joint Legislative Budget Committee for review. (General Appropriation Act footnote)
- 4/ The Arizona Health Care Cost Containment System shall report to the Joint Legislative Budget Committee by March 1 of each year on the preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum shall be no more than 3%. Before implementation of any changes in capitation rates, the Arizona Health Care Cost Containment System Administration shall report its expenditure plan to the Joint Legislative Budget Committee for review. Unless required for compliance with federal law, before the administration implements any changes in policy affecting the amount, sufficiency, duration, and scope of health care services and who may provide services, the administration shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal analysis demonstrates that these changes will result in additional state costs of \$500,000 or greater for a given fiscal year, the administration shall submit the policy changes to the Joint Legislative Budget Committee for review. The administration shall also report quarterly to the Joint Legislative Budget Committee itemizing all policy changes with fiscal impacts of less than \$500,000 in state costs. If statutory language is enacted to prohibit these policy changes, the portion of the footnote regarding Joint Legislative Budget Committee review of policy changes shall not apply. (General Appropriation Act footnote)
- 5/ Laws 2006, Chapter 365 appropriation of \$9,253,800.
- 6/ Pursuant to A.R.S. § 11-292B, the county portion of the FY 2007 nonfederal portion of the costs of providing long-term care system services is \$235,626,700. This amount is included in the Expenditure Authority fund source. (General Appropriation Act footnote, as modified by Laws 2006, Chapter 365)

| PERFORMANCE MEASURES | FY 2003 | FY 2004 | FY 2005 | FY 2007 |
|---|---------|---------|---------|----------|
| | Actual | Actual | Actual | Approved |
| <ul style="list-style-type: none"> % of members utilizing Home and Community Based Services (HCBS) Comments: In order to prevent premature institutionalization, AHCCCS encourages clients to utilize HCBS services as a cost effective alternative to long term care. | 54 | 60 | 62 | 67 |
| <ul style="list-style-type: none"> % of ALTCS eligibility accuracy as measured by quality control sample | 97 | 98 | 99 | 99 |

Special Line Items

ALTCS Lump Sum Appropriation

The budget provides \$1,060,536,000 for Arizona Long Term Care System (ALTCS) expenditures in FY 2007. This amount consists of:

| | FY 2007 |
|-------------------------------|----------------|
| General Fund | \$124,385,900 |
| County Contributions | 226,771,200 |
| Federal Expenditure Authority | 709,378,900 |

These amounts include the following adjustments:

Caseload and Capitation Rate Growth

The budget provides an increase of \$114,542,700 in FY 2007 for caseload and capitation rate growth. This amount consists of:

| | |
|---|------------|
| General Fund | 27,030,600 |
| County Contributions | 16,196,000 |
| Federal Title XIX Expenditure Authority | 71,316,100 |

AHCCCS ALTCS enrollment is estimated at 3.5%, or approximately 600 member years, from June 2006 to June 2007. The 3.5% growth rate compares to the FY 2006 year-to-date growth of 1.4% through April 2006, FY 2005 growth of 3.4%, and FY 2004 growth of 4.2%. The growth would result in approximately 26,000 member years being served in FY 2007.

Additionally, the budget provides capitation rate increases of approximately 7% above FY 2006. Other components of the ALTCS program, such as Fee-For-Service, Reinsurance, and Medicare Premiums programs, are expected to increase by 15% to 20%, which includes both inflation and population growth.

Pursuant to A.R.S. § 11-292, the state and the counties share in the growth of the ALTCS program, as defined by the following formula:

1. The growth is split 50% to the state, 50% to the counties.
2. The counties' portion is allocated among the counties based on their prior year (FY 2005) ALTCS utilization.

3. Each county's contribution is then limited to 90 cents per \$100 of net assessed property value. In FY 2007, this provision provides 5 counties with a total of \$4,336,700 relief.
4. In counties with an "on-reservation" population of at least 20%, the contribution is limited by an alternative formula specified in statute. In FY 2007, this provision provides 3 counties with a total of \$8,186,100 relief.
5. If any county would still pay more under the above provisions than under the previous statutory percentages, that county's contribution is limited by a further alternative formula specified in statute. In FY 2007, no counties qualify for this relief.
6. The state pays for county costs above the average statewide per capita (\$40.51 in FY 2007). In FY 2007, this provision provides 7 counties with a total of \$9,253,800 relief. *(Please see the Ch. 365 Long-term Care; County Adjustments Bill policy issue below for more information.)*

In FY 2007, provisions 2 through 6 of the ALTCS formula resulted in the state providing a total of \$21,776,600 relief to 12 counties.

The budget provides an adjustment to correct the FY 2006 base. As noted above, A.R.S. § 11-292C specifies that appropriated growth from the prior year is to be calculated from the prior year's appropriation and split 50/50 between state and the counties. The FY 2006 budget calculated appropriated growth from FY 2005 estimated total rather than the appropriated total. This resulted in an over-appropriation of the state portion of long term care growth.

These estimates also include additional General Fund monies and County Contributions (and reduced Federal Expenditure Authority) to reflect the lowering of the Federal Medical Assistance Percentage (FMAP), effective October 1, 2006. *(Please see Table 3 further below for contributions by county.)*

Two counties, Greenlee and Yavapai, have larger than average increases on a percentage basis from FY 2006. Greenlee's increase comes largely from an increase in their utilization from 0.07% in FY 2004 to 0.09% in FY 2005. Yavapai no longer qualifies for the alternative formula specified above under number 5 of the statutory growth

formula and is therefore assessed their full share of long term care costs.

Ch. 365 Long-term Care; County Adjustments Bill

Laws 2006, Chapter 365 provides an increase of \$9,253,800 from the General Fund in FY 2007 to reduce ALTCS payments for those counties with above average per capita expenditures. The bill takes effect September 30, 2006 and provides \$9,253,800 relief to 7 counties in FY 2007. These same counties are projected to receive relief under this new provision in future years.

Prescription Drug Savings

The budget provides a decrease of \$(53,454,100) in FY 2007 for savings from the federal Medicare prescription drug program. This amount consists of:

| | |
|---|--------------|
| General Fund | (9,696,500) |
| County Contributions | (8,162,900) |
| Federal Title XIX Expenditure Authority | (35,594,700) |

Effective January 1, 2006, the federal government will pay prescription drug costs for Medicare clients. The state previously had to pay the prescription drug costs with a state, county, and federal match. *(Please see the Medicare Clawback Payments section for more information.)*

Medicare Clawback Payments

The budget provides \$19,475,200 for a new line item, Medicare Clawback Payments, in FY 2007. This amount consists of:

| | |
|----------------------|------------|
| General Fund | 10,619,700 |
| County Contributions | 8,855,500 |

The line item will be used to make payments to Medicare, as required by the Medicare Modernization Act (MMA). As part of the MMA, AHCCCS will no longer be required to pay for prescriptions drug costs for members that are also eligible for Medicare. Instead, AHCCCS will be required to make "Clawback" payments to Medicare based on 90% of the estimated prescription drug cost of this population in FY 2007. *(Please see the AHCCCS Summary narrative for more details on the MMA and Clawback payment)*

The net impact from the \$19,475,200 Clawback payments and the \$(17,859,400) General Fund and County Fund prescription drug savings is \$1,615,800 in FY 2007.

Table 1 details the net impact for the state and each county of the Prescription Drug Savings and Medicare Clawback Payments.

Dual Eligible Part D Copay Subsidy

The budget provides \$470,300 from the General Fund in FY 2007 for a new line item entitled Dual Eligible Part D Copay Subsidy.

The line item will be used to pay the prescription drug copayments of low income individuals qualifying for both Medicare and Medicaid, known as "dual eligibles." Prior to the federal government taking over prescription drug costs from the state for dual eligibles on January 1, 2006, these individuals did not pay for their prescriptions. As part of the benefit, however, recipients make copayments for prescription drugs ranging from \$1 to \$5, depending on the class of the drug as well as the recipient's income. This line item will cover the costs of those copayments.

Board of Nursing

The budget provides \$209,700 for the Board of Nursing in FY 2007. This amount consists of:

| | |
|-------------------------------|---------|
| General Fund | 104,800 |
| Federal Expenditure Authority | 104,900 |

These amounts are unchanged from FY 2006.

This Special Line Item reflects amounts to be passed through to the Board of Nursing for the cost of administering the Nurse Aid Training program.

| Table 1 | ALTCS Net MMA Impact | | Net Cost/ (Savings) |
|---------------------|----------------------|-------------------|------------------------|
| | (Savings) | Clawback | |
| Apache | (19,600) | 21,400 | 1,800 |
| Cochise | 0 | 0 | 0 |
| Coconino | (58,900) | 64,300 | 5,400 |
| Gila | (125,900) | 137,300 | 11,400 |
| Graham | 0 | 0 | 0 |
| Greenlee | (8,100) | 8,800 | 700 |
| La Paz | (28,600) | 31,200 | 2,600 |
| Maricopa | (5,098,900) | 5,560,100 | 461,200 |
| Mohave | (275,000) | 299,900 | 24,900 |
| Navajo | (81,300) | 88,600 | 7,300 |
| Pima | (1,510,900) | 1,647,600 | 136,700 |
| Pinal | (309,200) | 309,200 | 0 |
| Santa Cruz | (78,500) | 85,700 | 7,200 |
| Yavapai | (368,800) | 402,200 | 33,400 |
| Yuma | (199,200) | 199,200 | 0 |
| Total | (8,162,900) | 8,855,500 | 692,600 |
| General Fund | (9,696,500) | 10,619,700 | 923,200 |

Circuit breakers limit the expenses of some counties and create a \$0 net impact for some counties.

Additional Legislation

Ch. 365 Long-term Care; County Adjustments Bill

Laws 2006, Chapter 365 provides a \$9,253,800 reduction in ALTCS payments for those counties with above average per capita expenditures. *(For more information please see the Ch. 365 Long-term Care; County Adjustments Bill*

policy issue further above for more information.) Table 2 details the savings by county under this bill.

| Table 2 | |
|---|-----------------------|
| Long-term Care; County Adjustments | |
| | <u>FY 2007</u> |
| Cochise | (482,900) |
| Gila | (977,500) |
| Mohave | (336,500) |
| Pima | (4,531,900) |
| Pinal | (952,500) |
| Santa Cruz | (383,000) |
| Yavapai | <u>(1,589,500)</u> |
| Total | (9,253,800) |

Ch. 331 Health and Welfare Budget Reconciliation Bill

Laws 2006, Chapter 331, adds statutory language to clarify that the ALTCS cost sharing arrangement between the state and counties includes the federally-mandated Clawback payments.

Other Issues

Table 3 details the individual county contribution amounts for FY 2007, as calculated according to the statutory growth formula, Chapter 365, the Medicare Clawback Payments, and prescription drug plan savings.

| Table 3 | |
|--------------------------------------|-----------------------|
| Budgeted County Contributions | |
| | <u>FY 2007</u> |
| Apache | 575,600 |
| Cochise | 5,499,700 |
| Coconino | 1,727,000 |
| Gila | 2,531,400 |
| Graham | 959,300 |
| Greenlee | 215,200 |
| La Paz | 811,200 |
| Maricopa | 145,459,800 |
| Mohave | 7,729,400 |
| Navajo | 2,381,000 |
| Pima | 40,304,200 |
| Pinal | 10,309,600 |
| Santa Cruz | 1,912,400 |
| Yavapai | 8,838,500 |
| Yuma | <u>6,372,400</u> |
| Total | 235,626,700 |