

**Department of Economic Security**  
**Long Term Care**

A.R.S. § 41-1954

JLBC Analyst: Russell Frandsen

	<b>FY 2005 Actual</b>	<b>FY 2006 Estimate</b>	<b>FY 2007 Approved</b>
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	1,445.4	1,469.4	1,615.0 <sup>1/</sup>
Personal Services	9,893,100	10,471,400	11,134,500
Employee Related Expenditures	3,078,400	3,306,000	3,584,100
Professional and Outside Services	960,300	1,174,600	1,174,600
Travel - In State	267,400	280,300	280,300
Other Operating Expenditures	13,203,100	13,739,000	14,494,200
Equipment	467,600	0	0
<b>OPERATING SUBTOTAL</b>	<b>27,869,900</b>	<b>28,971,300</b>	<b>30,667,700</b>
<b>SPECIAL LINE ITEMS</b>			
Case Management	25,451,300	32,179,800	35,708,900
Home and Community Based Services	382,929,800	461,167,600	511,692,200 <sup>2/</sup>
Institutional Services	12,483,200	16,585,200	18,654,300
Medical Services	78,824,900	87,787,700	90,437,100
Arizona Training Program at Coolidge	14,836,600	12,483,900	16,611,200
Medicare Clawback Payments	0	0	2,069,000
<b>PROGRAM TOTAL</b>	<b>542,395,700</b>	<b>639,175,500</b>	<b>705,840,400<sup>3/4/</sup></b>
<b>FUND SOURCES</b>			
General Fund	190,763,700	210,176,200	236,729,000
<b>SUBTOTAL - Appropriated Funds</b>	<b>190,763,700</b>	<b>210,176,200</b>	<b>236,729,000</b>
<u>Expenditure Authority Funds</u>			
Long Term Care System Fund (Federal Match)	351,632,000	428,999,300	469,111,400
<b>SUBTOTAL - Expenditure Authority Funds</b>	<b>351,632,000</b>	<b>428,999,300</b>	<b>469,111,400</b>
<b>SUBTOTAL - Appropriated/Expenditure Authority Funds</b>	<b>542,395,700</b>	<b>639,175,500</b>	<b>705,840,400</b>
<b>TOTAL - ALL SOURCES</b>	<b>542,395,700</b>	<b>639,175,500</b>	<b>705,840,400<sup>5/6/</sup></b>

- <sup>1/</sup> Includes 393.8 GF and 949.7 EA FTE Positions funded from Special Line Items in FY 2007.
- <sup>2/</sup> The amounts above include \$8,171,200 from the state General Fund and \$13,596,200 from matching federal expenditure authority to raise rates of community service providers and independent service agreement providers contracting with the Division of Developmental Disabilities to the equivalent of 99.69% of FY 2006 market rates for all services on the published rate schedule. It is the intent of the Legislature that the division request the Arizona Health Care Cost Containment System to approve a capitation rate increase retroactive to July 1, 2006 to make provider rate increases effective July 1, 2006. By July 1, 2006, the division shall obtain approval for a rate increase implementation proposal from the Arizona Health Care Cost Containment System. By August 1, 2006, the division shall submit the implementation plan for review by the Joint Legislative Budget Committee. The adjusted rates shall be implemented beginning with provider payments due for services performed in August 2006. Payment for retroactive reimbursement due for services provided in July 2006 shall be paid to providers no later than September 15, 2006. (General Appropriation Act footnote)
- <sup>3/</sup> The department shall report to the Joint Legislative Budget Committee by March 1 of each year on 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 not more than 3%. Before implementation of any changes in capitation rates for the Long Term Care program, the Department of Economic Security shall report its expenditure plan to the Joint Legislative Budget Committee for its review. Unless required for compliance with federal law, before the department implements any changes in policy affecting the amount, sufficiency, duration, and scope of health care services and who may provide services, the department 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 department shall submit the policy changes to the Joint Legislative Budget Committee for review. The department 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)
- <sup>4/</sup> General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Program.
- <sup>5/</sup> A.R.S. § 36-2953 establishes a Long Term Care System Fund. Subject to legislative appropriation, this fund consists of all AHCCCS monies, state appropriations and other grants used to finance long term care to developmentally disabled clients. The above chart displays the Total Expenditure Authority (EA) of the Long Term Care System Fund, but does not include costs expended in the Administration cost center from this fund.
- <sup>6/</sup> All monies in the Long Term Care System Fund unexpended and unencumbered at the end of FY 2007 revert to the state General Fund, subject to approval by the Arizona Health Care Cost Containment System. (General Appropriation Act footnote)

**COST CENTER DESCRIPTION** — The Long Term Care (LTC) Program provides services to individuals with mental retardation, cerebral palsy, autism, and epilepsy, who are eligible for the federal Title XIX Program. Title XIX is an entitlement program in which any individual meeting the financial and functional requirements must receive assistance. To qualify for federal funding, an individual must have an income below 300% of the Supplemental Security Income (SSI) eligibility limit, which is approximately 222% of the Federal Poverty Limit, and have certain functional needs. Clients not eligible for the federal program can receive services funded through the 100% state-funded Developmental Disabilities (DD) Program. Besides contracting for services, the program: a) operates the Arizona Training Program at Coolidge (ATP-C), and smaller state-operated group homes, and b) provides case management services to recipients.

**PERFORMANCE MEASURES** — See Developmental Disabilities cost center.

**Overview**

The LTC cost center is funded from 2 sources: the General Fund (GF) and federal Title XIX capitation revenues received from the Arizona Health Care Cost Containment System (AHCCCS). The LTC appropriation includes the appropriation of GF monies and federal expenditure authority. The state is required to contribute about one-third of the cost of the Long Term Care program.

As the AHCCCS-authorized provider of DD services, the Department of Economic Security (DES) receives federal monies through prepaid monthly capitation payments based on rates for types of clients. The approved amount makes the following assumptions:

- Caseload growth: Growth is estimated at 6% from June 2006 to June 2007. This 6% growth rate represents a 15% reliance on the FY 2005 monthly caseload growth rate of 7.6% and an 85% reliance on the first 7 months of FY 2006 monthly caseload growth rate of 5.7%. The caseload growth will result in an average monthly caseload of 18,513 clients, including both regular and ventilator dependent clients.

- Capitation rate: The budget assumes 3% capitation rate growth in FY 2007 reflecting medical inflation and utilization adjustments. The 3% growth assumption is consistent with past trends. In January 2005, the capitation rates were increased by 3.2%. The budget assumes 1 modification to these rates: it holds the Administrative component flat at the FY 2006 rate. In its March 1 report, DES estimated 3.4% capitation rate growth for FY 2007. In addition, contracted providers will receive a 4.1% adjustment as discussed in the Home and Community Based Services line item.
- Federal Matching Assistance Percentage (FMAP): This rate will decline from 66.98% in Federal Fiscal Year (FFY) 2006 to 66.47% in FFY 2007, which means the state will have to contribute slightly more in state monies to generate \$1 in total funds.

Table 1 summarizes member years, capitation rates, and the state and federal share of funding for the LTC program. Table 2 on the following page summarizes the average monthly caseload estimates for the Special Line Items. Please note that all clients are eligible for Medical Services and Case Management as necessary, but not all clients access other services in any particular month.

<b>Capitation Category</b>	<b>Member Years</b>	<b>Monthly Capitation Rate</b>	<b>Title XIX Share</b>	<b>State GF Match</b>	<b>Total</b>
Enrolled	18,413	\$3,177.30	\$467,829,300	\$234,213,900	\$702,043,200
Ventilator Dependent	100	\$12,308.02	9,836,200	4,933,400	14,769,600
Total	18,513		477,665,500	239,147,300	716,812,800
Administration			(6,969,400)	(3,748,000)	(10,717,400)
FFS/Reinsurance			1,288,700	646,300	1,935,000
Cost Sharing			(2,873,400)	(1,441,200)	(4,314,600)
Clawback Payments			0	2,069,000	2,069,000
Dual Eligible Part D Copay Subsidy			0	55,600	55,600
<b>FY 2007 LTC Total</b>			<b>\$469,111,400</b>	<b>\$236,729,000</b>	<b>\$705,840,400</b>

**Table 2****FY 2007 Caseloads**

<u>Special Line Item</u>	<u>Clients</u>
Home and Community Based Services	15,656
Institutional Services	397
Arizona Training Program at Coolidge	145
Subtotal	16,198
Case Management /Medical Services only	2,315
<b>Total</b>	<b>18,513</b>

As of January 2006, the Division of Developmental Disabilities, both the LTC and the state-only portion, together serve 25,404 clients. These clients have the following primary disabilities:

**Table 3****Primary Disability of Clients Served**

<u>Disability</u>	<u>Number</u>	<u>Percentage</u>
Mental Retardation	10,793	43%
At Risk	8,496	34%
Cerebral Palsy	2,676	10%
Autism	2,039	8%
Epilepsy	1,400	5%

**Operating Budget**

The budget provides \$30,667,700 for the operating budget in FY 2007. This amount consists of:

General Fund	\$10,126,700
Long Term Care System Fund	20,541,000

These amounts include an increase of \$1,063,700 for statewide adjustments. This amount consists of:

General Fund	260,000
Long Term Care System Fund	803,700

*(Please see the Statewide Adjustments section at the end of this Appropriations Report for details.)*

In addition, the budget includes the following adjustment:

**Premium Tax Growth**

The budget also provides an increase of \$632,700 in FY 2007 for premium tax growth. This amount consists of:

General Fund	366,500
Long Term Care System Fund	266,200

This increase is based on the total amount of expected premium tax payments. The premium tax includes amounts associated with the pass-through of behavioral health monies to DHS. The tax is assessed on all net insurance premiums in the state. The state contracts with various health service organizations to carry out needed

services. Health care service organizations collect insurance premiums and are therefore subject to the tax.

**Special Line Items****Case Management**

The budget provides \$35,708,900 and 712.5 FTE Positions for Case Management in FY 2007. This amount consists of:

General Fund	11,843,800
Long Term Care System Fund	23,865,100

These amounts include an increase of \$2,603,800 for statewide adjustments. This amount consists of:

General Fund	799,400
Long Term Care System Fund	1,804,400

The budget also includes the following changes:

**Caseload Growth**

The budget provides an increase of \$1,645,500 and 27 FTE Positions in FY 2007 for 19 case managers, 4 supervisors and 4 case manager assistants related to caseload growth. These amounts consist of:

General Fund	816,200
Long Term Care System Fund	829,300

Of the \$1,645,500 increase, the budget provides \$91,100 for rent and \$283,500 for one-time equipment. Case managers were added at a ratio of 35 cases for every new case manager.

In addition to providing case management services to an estimated 16,198 clients receiving direct services, this line item also provides case management services only to another 2,315 clients.

**Eliminate One-Time Equipment**

The budget provides a decrease of \$(467,700) in FY 2007 for elimination of one-time FY 2006 equipment. This amount consists of:

General Fund	(153,900)
Long Term Care System Fund	(313,800)

**Rent Funding Shift**

The budget provides a decrease of \$(252,500) from the General Fund in FY 2007 to shift rent funding from this division to the Administration Division. Rent payments for the department are paid out of the Administration Division. *(See Rent Funding Shift discussion in the Administration Division for further detail.)*

**Home and Community Based Services**

The budget provides \$511,692,200 and 99.2 FTE Positions for Home and Community Based Services in FY 2007. These amounts consist of:

General Fund	170,829,400
Long Term Care System Fund	340,862,800

These amounts include an increase of \$356,400 for statewide adjustments. This amount consists of:

General Fund	71,900
Long Term Care System Fund	284,500

The budget also includes the following changes:

**Caseload Growth**

The budget provides an increase of \$29,697,100 in FY 2007 for Long Term Care caseload growth. This amount consists of:

General Fund	11,582,500
Long Term Care System Fund	18,114,600

These amounts are based upon the estimated 6% caseload growth and 3% capitation rate growth for FY 2007.

**Provider Rate Increase**

The budget provides an increase of \$20,415,500 in FY 2007 for provider rate increases. This amount consists of:

General Fund	6,819,300
Long Term Care System Fund	13,596,200

This increase, along with a \$1,351,900 General Fund increase in the Developmental Disabilities cost center, will be used to increase provider rates on the published rate schedule to 99.69% of FY 2006 market rates. Under the published rate schedule, the division pays one price per hour or other unit of service for a particular service in a given region. The rates were originally set in 2001 and have been adjusted since. The increase for most services will be about 4.1%.

A footnote indicates the intent that the provider rate increase be effective for July 1, 2006 and requires the division to present its implementation plan to the Joint Legislative Budget Committee for its review by August 1, 2006. The footnote also sets deadlines for the division to distribute the increased reimbursement rates.

**Dual Eligible Part D Copay Subsidy**

The budget provides \$55,600 from General Fund in FY 2007 for Dual Eligible Part D Copay Subsidy. These monies 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. These monies will cover the costs of those copayments.

Home and Community Based Services Summary

Monies in this line item fund residential programs, day programs, and support services for clients in a broad range of settings, from those living independently at home to those living in group homes. Monies also fund staff in state-operated group homes, excluding the Arizona Training Program at Coolidge.

Of the \$511,692,200 in this line item, \$507,180,100 funds Home and Community Based Services to clients enrolled in the LTC program; the other \$4,512,100 funds program staff.

Table 4 indicates how estimated caseloads are expected to be allocated among HCBS settings:

<b>Table 4</b>	
<b>FY 2007 Caseloads</b>	
<u>HCBS Setting</u>	<u>Clients</u>
At Home With Family	11,388
Adult Developmental Foster Home	613
Group Home	3,310
Child Developmental Foster Home	293
Independent Living	7
State-Operated Group Home	45
<b>Total</b>	<b>15,656</b>

**Institutional Services**

The budget provides \$18,654,300 and 77.7 FTE Positions for Institutional Services in FY 2007. This amount consists of:

General Fund	6,184,700
Long Term Care System Fund	12,469,600

These amounts include an increase of \$274,100 for statewide adjustments. This amount consists of:

General Fund	53,900
Long Term Care System Fund	220,200

**Caseload Growth**

The budget also provides an increase of \$1,795,000 in FY 2007 for Long Term Care caseload growth. This amount consists of:

General Fund	696,000
Long Term Care System Fund	1,099,000

These amounts are based upon the estimated 6% caseload growth and 3% capitation rate growth for FY 2007.

Monies in this line item fund residential and day programs to clients with more severe developmental disabilities. These clients reside in Intermediate Care Facilities for the Mentally Retarded (ICF/MRs) or other nursing facilities, both privately- and state-operated, excluding the Arizona Training Program at Coolidge. The budget is estimated to serve 397 clients.

Of the \$18,654,300 in this line item, \$15,118,500 funds Institutional Services to clients enrolled in the LTC program; the other \$3,535,800 funds program staff.

**Medical Services**

The budget provides \$90,437,100 and 36.7 FTE Positions for Medical Services in FY 2007. This amount consists of:

General Fund	30,180,700
Long Term Care System Fund	60,256,400

These amounts include an increase of \$144,200 for statewide adjustments. This amount consists of:

General Fund	25,900
Long Term Care System Fund	118,300

The budget also includes the following adjustments:

**Caseload Growth**

The budget provides an increase of \$9,377,000 in FY 2007 for Long Term Care caseload growth. This amount consists of:

General Fund	4,223,700
Long Term Care System Fund	5,153,300

These amounts are based upon the estimated 6% caseload growth and 3% capitation rate growth for FY 2007.

**Prescription Drug Savings**

The budget provides a decrease of \$(6,871,800) in FY 2007 for savings from the federal prescription drug program. This amount consists of:

General Fund	(2,295,500)
Long Term Care System Fund	(4,576,300)

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

Of the \$90,437,100 in this line item, \$88,238,000 funds Acute Care services to clients enrolled in the LTC program; the other \$2,199,100 funds the staff of the division's Managed Care unit.

**Arizona Training Program at Coolidge**

The budget provides \$16,611,200 and 417.4 FTE Positions for the Arizona Training Program at Coolidge (ATP-C) in FY 2007. This amount consists of:

General Fund	5,494,700
Long Term Care System Fund	11,116,500

These amounts include an increase of \$1,482,500 for statewide adjustments. This amount consists of:

General Fund	450,000
Long Term Care System Fund	1,032,500

**Long Term Care Transfer**

The budget provides an increase of \$2,644,800 and 118.6 FTE Positions in FY 2007 for a transfer to the Long Term Care program from the Developmental Disabilities program. These amounts consist of:

General Fund	964,800
Long Term Care System Fund	1,680,000

An equivalent amount of total funds are also approved for reduction in the DD ATP-C line item; however, more state funds will be used as matching funds to draw down additional Federal Funds. The net result is a General Fund savings of \$830,200. *(Please see the Developmental Disabilities Cost Center narrative for more information on this fund transfer.)*

Monies in this line item fund an entire range of services for DD clients residing at the ATP-C campus, either in ICF/MRs or state-operated group homes (SOGHs). The approved amount does not include costs associated with case management, certain occupancy-related costs, other indirect administration, and Stipends and Allowances.

The approved amount is budgeted to provide a total of 145 member years of service in FY 2007, 116 in ICF/MRs and 29 in SOGHs. The approximate blended cost per DD budgeted client at ATP-C (excluding these other costs) will be \$118,400 in FY 2007. The actual ATP-C population has been below budgeted levels, as shown in Table 5.

Table 5	
ATP-C Client Population	
FY 2005	138
FY 2006 (est.)*	133
FY 2007 (est.)*	128
* For the last 6 years average annual population decline has been 4.8.	

**Medicare Clawback Payments**

The budget provides \$2,069,000 from the General Fund for a new line item, Medicare Clawback Payments, in FY 2007. The line item will be used to make payments to

Medicare, as required by the Medicare Modernization Act (MMA). As part of the MMA, DES will no longer be required to pay for prescriptions drug costs for members that are also eligible for Medicare. Instead, DES 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.)*

<b><i>Additional Legislation</i></b>
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***Ch. 331 Health and Welfare Budget Reconciliation Bill***

Laws 2006, Chapter 331, adds statutory language that limits capitation rate adjustments to utilization of existing services and inflation unless those changes are approved by the Legislature or specifically required by federal law or court mandate.