

# Arizona Health Care Cost Containment System

## Long Term Care

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DESCRIPTION	FY 2005 ACTUAL	FY 2006 ESTIMATE	FY 2007 JLBC
<b>SPECIAL LINE ITEMS</b>			
ALTCS Lump Sum Appropriation	851,838,300	999,447,400	1,118,062,200
Medicare Clawback Payments	0	0	22,222,000
Board of Nursing	339,200	209,700	209,700
<b>PROGRAM TOTAL</b>	<b>852,177,500</b>	<b>999,657,100</b>	<b>1,140,493,900</b>

<b>FUND SOURCES</b>			
General Fund	71,614,900	107,156,600	135,690,400
<u>Other Appropriated Funds</u>			
County Contribution Fund	7,446,500	0	0
Medical Services Stabilization Fund	0	0	0
SUBTOTAL - Other Appropriated Funds	7,446,500	0	0
<b>SUBTOTAL - Appropriated Funds</b>	<b>79,061,400</b>	<b>107,156,600</b>	<b>135,690,400</b>
<u>Expenditure Authority Funds</u>			
County Funds	206,380,500	218,738,100	252,046,600
Federal Title XIX Funds	566,735,600	673,762,400	752,756,900
Third Party Collections	0	0	0
SUBTOTAL - Expenditure Authority Funds	773,116,100	892,500,500	1,004,803,500
<b>SUBTOTAL - Appropriated/Expenditure Authority Funds</b>	<b>852,177,500</b>	<b>999,657,100</b>	<b>1,140,493,900</b>
Other Non-Appropriated Funds	0	0	0
Federal Funds	0	0	0
<b>TOTAL - ALL SOURCES</b>	<b>852,177,500</b>	<b>999,657,100</b>	<b>1,140,493,900</b>

### CHANGE IN FUNDING SUMMARY

	FY 2006 to FY 2007 JLBC	
	\$ Change	% Change
General Fund	28,533,800	26.6%
Other Appropriated Funds	0	0.0%
Expenditure Authority Funds	112,303,000	12.6%
Total Appropriated/Expenditure Authority Funds	140,836,800	14.1%
Total - All Sources	140,836,800	14.1%

**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 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.

PERFORMANCE MEASURES	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2007 JLBC
• % of members utilizing Home and Community Based Services (HCBS)	54	60	62	67
Comments: In order to prevent premature institutionalization, AHCCCS encourages clients to utilize HCBS services as a cost effective alternative to long term care.				
• % of ALTCS eligibility accuracy as measured by quality control sample	97	98	99	99

**RECOMMENDED CHANGES FROM FY 2006**

**Special Line Items**

**ALTCS Lump Sum Appropriation**

The JLBC recommends \$1,118,062,200 for Arizona Long Term Care System (ALTCS) expenditures in FY 2007. This amount consists of:

	<b>FY 2007</b>
General Fund	\$124,474,600
County Contributions	240,935,600
Federal Expenditure Authority	752,652,000

These amounts include the following adjustments:

<b>Caseload and Capitation</b>	<b>GF 26,765,500</b>
<b>Rate Growth</b>	<b>EA 147,789,400</b>

The JLBC recommends an increase of \$174,554,900 in FY 2007 for caseload and capitation rate growth. This amount consists of:

General Fund	26,765,500
County Contributions	31,540,200
Federal Title XIX Expenditure Authority	116,249,200

JLBC Staff estimates that AHCCCS ALTCS enrollment will increase by approximately 5%, or approximately 1,300 member years, from June 2006 to June 2007. The 5% growth rate provides a cushion for higher growth above FY 2005 growth of 3.4% and FY 2004 growth of 4.2%. This would result in approximately 27,000 member years being served in FY 2007. (The FY 2006 budget originally estimated 26,800 total member years for FY 2006 with 1,400 new member years, but FY 2005 member years came in much lower than anticipated.)

Additionally, the JLBC recommendation includes 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 FY 2005 ALTCS utilization.
3. Each county's contribution is then limited to 90 cents per \$100 of net assessed property value.
4. In counties with an "on-reservation" population of at least 20%, the contribution is limited by an alternative formula specified in statute.
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.

The recommendation makes 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.

<b>Prescription Drug Savings</b>	<b>GF (9,342,700)</b>
	<b>EA (46,597,400)</b>

The JLBC recommends a decrease of \$(55,940,100) in FY 2007 for savings from the federal prescription drug program. This amount consists of:

General Fund	(9,342,700)
County Contributions	(9,342,700)
Federal Title XIX Expenditure Authority	(37,254,700)

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 JLBC recommends \$22,222,000 for a new line item, Medicare Clawback Payments, in FY 2007. This amount consists of:

General Fund	11,111,000
County Contributions	11,111,000

This amount would fund the following adjustments:

<b>New Payments</b>	<b>GF 11,111,000</b>
	<b>EA 11,111,000</b>

The JLBC recommends an increase of \$22,222,000 in FY 2007 for new Clawback Payments. This amount consists of:

General Fund	11,111,000
County Contributions	11,111,000

The budget provides for the creation of a new Special Line Item titled Medicare Clawback Payments that 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 \$22,222,000 Clawback payments and the \$(18,685,400) General Fund and County Fund prescription drug savings is \$3,536,600 in FY 2007. This amount consists of a cost of:

General Fund	1,768,300
County Contributions	1,768,300

Table 1 details the individual county contribution amounts recommended by the JLBC for FY 2007, as calculated according to the statutory growth formula and the Medicare Clawback Payments and prescription drug plan savings.

<b>Table 1</b>	
<b>Budgeted County Contributions</b>	
	<u><b>FY 2007</b></u>
Apache	594,300
Cochise	5,982,600
Coconino	1,783,000
Gila	3,529,100
Graham	959,300
Greenlee	222,900
La Paz	838,400
Maricopa	150,313,300
Mohave	8,327,700
Navajo	2,458,400
Pima	46,274,300
Pinal	11,262,100
Santa Cruz	2,349,800
Yavapai	10,779,000
Yuma	<u>6,372,400</u>
<b>Total</b>	<b>252,046,600</b>

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.

**Board of Nursing**

The JLBC recommends \$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.

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**JLBC RECOMMENDED FORMAT** — Special Line Items by Program

**JLBC RECOMMENDED FOOTNOTES**

*Standard Footnotes*

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.

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.

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 increases for the following fiscal year. 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 JLBC REVIEW OF POLICY CHANGES SHALL NOT APPLY.

Pursuant to A.R.S. § 11-292B the county portion of the FY 2007 non-federal portion of the costs of providing long term care system services is \$252,046,600. This amount is included in the Expenditure Authority fund source.

*Deletion of Prior Year Footnotes*

The JLBC recommends deleting the footnote detailing the transfer of federal program savings and Medicare Clawback payments.

**JLBC RECOMMENDED STATUTORY CHANGES**

The JLBC recommends setting the FY 2007 county Long Term Care contribution at 252,046,600 as follows:

Apache	594,300
Cochise	5,982,600
Coconino	1,783,000
Gila	3,529,100
Graham	959,300
Greenlee	222,900
La Paz	838,400
Maricopa	150,313,300
Mohave	8,327,700
Navajo	2,458,400
Pima	46,274,300
Pinal	11,262,100
Santa Cruz	2,349,800
Yavapai	10,779,000
Yuma	6,372,400

In order to correct the past appropriations miscalculation for FY 2006, language is needed to ensure a proper 50/50 County Fund/General Fund distribution for FY 2007.

The JLBC recommends amending statute to limit annual capitation rate adjustments made by the department to include only utilization and inflation, unless previously approved by the Legislature. Any programmatic changes or other policy decisions that might otherwise affect capitation payments would be approved by the full Legislature.

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**SUMMARY OF FUNDS - SEE AGENCY SUMMARY**

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