STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

ROBERT L. BURNS
CHAIRMAN 2006
MARSHA ARZBERGER
TIMOTHY S. BEE
ROBERT CANNELL
JORGE LUIS GARCIA
JACK W. HARPER
DEAN MARTIN
JIM WARING

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

http://www.azleg.gov/jlbc.htm

HOUSE OF REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2005
ANDY BIGGS
TOM BOONE
MEG BURTON CAHILL
PAMELA GORMAN
STEVE HUFFMAN
LINDA J. LOPEZ
STEPHEN TULLY

JOINT LEGISLATIVE BUDGET COMMITTEE
Tuesday, December 20, 2005
9:30 a.m.
House Hearing Room 4

MEETING NOTICE

- Call to Order

- Approval of Minutes of November 29, 2005.

- DIRECTOR'S REPORT (if necessary).

- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.

1. AHCCCS
   A. Review of Capitation Rate Changes for the Medicare Clawback Payment.
   B. Review of Comprehensive Medical and Dental Program Capitation Rate Changes.

2. DEPARTMENT OF ECONOMIC SECURITY
   A. Review of Long Term Care Capitation Rate Changes.
   B. Review of FY 2006 Expenditure Plan for Workforce Investment Act Monies.

The Chairman reserves the right to set the order of the agenda.
12/13/05

People with disabilities may request accommodations such as interpreters, alternative formats, or assistance with physical accessibility. Requests for accommodations must be made with 72 hours prior notice. If you require accommodations, please contact the JLBC Office at (602) 542-5491.

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

ROBERT L. BURNS
CHAIRMAN 2006
MARSHA ARZBERGER
TIMOTHY S. BEE
ROBERT CANNELL
JORGE LUIS GARCIA
JACK W. HARPER
DEAN MARTIN
JIM WARING

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

http://www.azleg.gov/jlbc.htm

HOUSE OF
REPRESENTATIVES

RUSSELL K. PEARCE
CHAIRMAN 2005
ANDY BIGGS
TOM BOONE
MEG BURTON CAHILL
PAMELA GORMAN
STEVE HUFFMAN
LINDA J. LOPEZ
STEPHEN TULLY

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

November 29, 2005

The Chairman called the meeting to order at 9:40 a.m., Tuesday, November 29, 2005, in House Hearing Room 4. The following were present:

Members:	Representative Pearce, Chairman	Senator Burns, Vice-Chairman
	Representative Biggs	Senator Cannell
	Representative Boone	Senator Garcia
	Representative Burton Cahill	Senator Harper
	Representative Huffman	Senator Martin
	Representative Tully	Senator Waring
Absent:	Representative Gorman	Senator Arzberger
	Representative Lopez	Senator Bee

APPROVAL OF MINUTES

Representative Pearce moved that the Committee approve the minutes of October 26, 2005. The motion carried.

DEPARTMENT OF PUBLIC SAFETY (DPS) – Quarterly Review of the Arizona Public Safety Communications Advisory Commission (PSCC).

Mr. Martin Lorenzo, JLBC Staff, said in the first quarter PSCC expenditures totaled $160,200 of nearly $4.3 million in available funding. Of the $4.3 million, $3 million is non-lapsing. Additionally, DPS hired 1 of 3 engineering positions bringing their total staff to 6 of 9 positions. A timeline developed by PSCC targets the establishment of a financing and development plan for the system by July 2008. With regard to their updated timeline, they have begun to draft operational policies and procedures as well as minimum equipment standards and guidelines for mobile radios. At the last JLBC meeting, the Committee requested further information regarding the Department of Emergency and Military Affairs (DEMA) short-term project and the extent of the PSCC's involvement. As a result, the PSCC has indicated that they are providing technical oversight and direction to DEMA on the short-term interoperability solution, which is expansion of the current Arizona emergency radio system. Current plans include the repair and expansion of the system. The system will expand by 35 sites and the PSCC and DEMA estimate deploying a pilot project in Coconino County in late 2005.

Representative Pearce noted that DPS is working with Homeland Security to get approximately $1.6 million to upgrade DPS' microwave communication system and towers and asked if that is a done deal.

Mr. Curt Knight, Department of Public Safety, said there was discussion of Homeland Security authorizing $1.6 million for DPS to use towards the beginning of the microwave replacement. He said that until recently they were not sure if they could use those monies to actually enter into a lease-purchase agreement. They thought they could use it for a one-time lump sum purchase, but it was designed to enter into a long-term issue that was about 14 years long as far as the funding issue to replace the microwave. DPS did receive a favorable review from the Attorney General's Office. They are now ready to issue an RFP or request for quotation to interested parties for a lease-purchase agreement. He did not have the exact timing of that at this time.

Representative Pearce expressed his concern as to how the Homeland Security money is expended. He wants to see it used for security and protection of dams, Palo Verde and facilities like that.

Senator Burns said that DEMA and DPS are working to achieve interoperability short-term and asked Mr. Knight to update them on how that is going.

Mr. Knight said that item was to revitalize or repair the original interagency radio system. It was deployed nearly 30 years ago as some of the early phases of addressing this problem, which was how do the Sheriff's office and DPS communicate. That system was never fully deployed, only in about 17 remote communication sites and was not part of the plan that was regularly used. It was recognized as still a plausible solution in the short-term. The 17 sites that were deployed need to be revitalized as well as an additional 30 sites across the state. The Division of Emergency Management has issued purchase orders for equipment for 33 of the 47 total sites. With the early purchases, a pilot project is being deployed in the Coconino area. Some exercises are expected in mid December 2005 to prove the concept of the technology and to exercise some of the policies and procedures that are being worked on.

Senator Burns asked how the short-term items can be phased into the long-term items.

Mr. Knight said that they will be able to work the 2 together. That was one of the reasons they thought the PSCC should back this short-term effort that DEMA was going forward with. They see it as a bridge into the future. They are still going to need some bridge between legacy systems and whatever the new system is. All the jurisdictions that will participate will be in a different funding cycle. Some will take longer to decide to participate in the long-term solution.

Senator Burns noted that Graham and Greenlee Counties are working on a joint interoperability system. He asked if there are other local areas working on these same things.

Mr. Knight said there are and in addition, there are several models, nationwide, on how a state would deploy an interoperable solution. Some would be where the state starts it up and encourages local jurisdictions to participate. Another model would be for local jurisdictions, that for a number of reasons are advanced from the state as far as providing a solution, would deploy these individual solutions but with some common standards. In the long run, maybe the state's job would be to fill in the blanks between those jurisdictions and provide the conductivity in what will be the microwave replacement solution. That would link these individual solutions together.

Representative Pearce asked if there is compensation for jurisdictions that get involved in the early stages and provide funding and then another jurisdiction comes in much later and is able to take advantage of what is in place and been paid for.

Mr. Knight said he did not have a good answer for that. They are aware of it and think that it is something where a government structure should be established.

Senator Burns said when they talk about local jurisdictions planning and putting together those systems, he thought the PSCC was put in place to develop a statewide program. Funding was in place for that effort based on a workload that covered the entire project. He asked if local jurisdictions are picking up some of that, does that mean that the funding will actually be less than was made available.

Mr. Knight said that the funding level that is in place is just essentially planning money and possibly a small pilot project. There have been several numbers quoted as far as what the total bill might be. The possibility exists that because some of the jurisdictions such as Yuma or Greenlee County have already deployed the system, the total cost might be lower. At this point, he does not believe they are overfunded.

Representative Huffman commented that he has worked with them over the past year in trying to figure this out. He said they are going to be introducing some legislation that deals with what he considers the state's responsibility and that is the microwave backbone. No matter what the local communities are doing they are going to have to have that linkage so all the entities can work with each other. It would be hard to get voters to vote for a bond issue for something that may extend outside their geographical boundaries. He feels the state should be involved and the legislation specifically instructs them to seek funding from Homeland Security and federal funding and then to return any monies that the state appropriates to offset what they get from the federal government. The Legislature needs to go forward on this and give them the authority for the lease-purchase agreement.

Senator Burns moved that the Committee give a favorable review as recommended by the JLBC Staff to approve the FY 2006 first quarter expenditures and progress for the statewide interoperability design project. The motion carried.

EXECUTIVE SESSION

A. Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.

Senator Burns moved that the Committee go into Executive Session. The motion carried.

At 10:00 a.m. the Joint Legislative Budget Committee went into Executive Session.

Senator Burns moved that the Committee reconvene into open session. The motion carried.

At 12:00 p.m. the Committee reconvened into open session.

Senator Burns moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Lyftogt v. State of Arizona. The motion failed by a roll call vote of 4-6-0-6 (Attachment A).

Senator Burns moved that the Committee approve the recommended settlement proposal by the Attorney General's Office in the case of Alexander v. State of Arizona. The motion failed by a roll call vote of 4-6-0-6 (Attachment A).

B. Annual Performance Review and Consideration of JLBC Staff Director Salary under Rule 7 and A.R.S. § 38-431.03.

Senator Burns moved that the Committee approve the recommended salary adjustment of $7,800 for the JLBC Staff Director. The motion carried.

Chairman Pearce adjourned the meeting at 12:07 p.m.

Respectfully submitted:

Cheryl Kestner, Secretary

Richard Stavneak, Director

Representative Russell Pearce, Chairman

NOTE: A full tape recording of this meeting is available at the JLBC Staff Office, 1716 West Adams.

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

http://www.azleg.gov/jlbc.htm

HOUSE OF
REPRESENTATIVES

DATE: December 13, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Carson Howell, Fiscal Analyst
Russell Frandsen, Fiscal Analyst

SUBJECT: AHCCCS – Review of Capitation Rate Changes for the Medicare Clawback Payment

Request

Pursuant to two footnotes in the General Appropriation Act, the Arizona Health Care Cost Containment system (AHCCCS) is required to report the Medicare Clawback expenditure plan and capitation rate changes to the Committee for review. The new Medicare Prescription Drug Program will allow the state to reduce its AHCCCS expenditures, resulting in lower capitation rates. The federal government, however, is recouping most of this savings through a “Clawback” payment.

Recommendation

JLBC Staff recommends a favorable review of AHCCCS capitation rate plan as it can be funded within the existing appropriation.

Additionally, the Committee has at least the following options for AHCCCS expenditure plan for Medicare Clawback payments and the distribution of prescription drug program savings between the state and counties. The state and counties share in the cost of the Arizona Long Term Care System (ALTCS).

1. A favorable review of AHCCCS expenditure plan proposal. Counties would receive 50% of savings from the reduced cap rates but pay approximately 67% of the Clawback cost. In returning the savings, AHCCCS believes this approach is consistent with A.R.S. § 11-292N, which requires any unused ALTCS budget authority to be distributed evenly between the state and counties at the end of each fiscal year. This option would have a net cost to the counties of $1.1 million, while the net savings to the state would be $(1.8) million. These state savings would be used to offset the current AHCCCS FY 2006 shortfall due to higher-than-expected inflation.

2. An unfavorable review of AHCCCS’ expenditure plan proposal, since it does not allocate both savings and Clawback payment proportionally. A proportional distribution of payments and savings would have net results of $(223,300) savings to the state and $(456,100) savings to the counties.

Analysis

On January 1, 2006, the federal Medicaid Modernization Act will be implemented. This program will provide prescription drug benefits for individuals who are eligible for both Title XIX Medicaid and Medicare. The prescription drugs for this "dual-eligible" population are currently provided through Title XIX Medicaid **-** at the expense of the state. (The counties also share in the cost of the Long Term Care program). Beginning January 1, 2006, those prescription drug costs will then be paid by the federal government.

The current capitation rates paid to AHCCCS health plans include the cost of providing prescription drug benefits to the dual-eligible population. Since these costs will be assumed by the federal government, AHCCCS is requesting a reduction in the capitation rates *(please see Table 1 below for additional information)*. Of the $(26) million savings for the 6 months of FY 2006, $(17.1) million is in acute care and $(8.9) million in ALTCS; however, the state and counties will not realize the entire $(26) million.

Since the federal government will be paying for the prescription drugs for dual-eligibles, the federal government is requiring that the state pay approximately 90% of the prescription drug savings back to the federal government. This "Clawback" amount is calculated by the federal government by reviewing actual state data of prescription drug costs in 2003. This amount is then trended forward to 2006 using the national average of prescription drug cost growth. Current Clawback payments are estimated at $19.6 million in FY 2006. Of the $19.6 million in payments, $11.4 million is in acute care and $8.2 million in ALTCS *(please see Table 1 below for additional information)*.

Table 1

Drug Program Savings & Clawback Payments

	Acute	ALTCS	Total
Program Savings	$17,145,400	$8,860,500	$26,005,900
Distribution of Savings:			
Clawback	11,376,600	8,181,100	19,557,700
Retained in Program	5,768,800	679,400	6,448,200
Total	**$17,145,400**	**$8,860,500**	**$26,005,900**

The Committee has at least 2 options in how to distribute the $8.9 million in savings between the state and counties in the ALTCS program *(see Table 2)*. Under both options, the Clawback payment will be distributed proportionately between the state and counties, based on each government's total share of ALTCS costs. The saving distribution options are:

(1) 50/50 split between the state and counties as per A.R.S. § 11-292N, resulting in a net cost to the counties and higher savings for the state. By following A.R.S. § 11-292N, distributing savings in a 50/50 split between the state and counties would result in a net cost to the counties of $1.1 million with state savings of $(1.7) million *(please see attachment 1, Table 1 for county by county information)*.

(2) Proportional savings based on each county's proportion of the FY 2006 ALTCS appropriation, resulting in savings to both the state and the counties. By dividing the savings proportionally between the state and counties, the state would receive approximately $(223,300) in savings with the counties receiving $(456,100) in savings *(please see attachment 1, Table 2 for county by county information)*.

Table 2
ALTCS Drug Program Savings Distribution Options

	(1) 50/50 Savings	(2) Proportional Savings
Clawback Payments	$8,181,100	$8,181,100
General Fund	2,688,200	2,688,200
County Funds	5,492,900	5,492,900
Capitation Rate Savings	$8,860,500	$8,860,500
General Fund	4,430,200	2,911,500
County Funds	4,430,300	5,949,000
Net Cost (Savings)	$ (679,400)	$(679,400)
General Fund	(1,742,000)	(223,300)
County Funds	1,062,600	(456,100)

The Clawback payment in either option would be the same, $2.7 million General Fund and $5.5 million County Funds. The difference is in the distribution of the savings from the reduced capitation rates. AHCCCS proposes to share the capitation reduction 50/50 between the state and the counties as per A.R.S. § 11-292N. This statutory provision states that any unused ALTCS monies at the end of the fiscal year be distributed evenly to the counties and the state. In this option $(8.9) million of capitation rate savings would be distributed $(4.4) million to each the state and the counties. The net impact would be an overall $(1.7) million General Fund savings and an additional cost to County Funds of $1.1 million.

Another option is to return capitation rate savings in proportion to overall costs. In the original FY 2006 appropriation, counties paid 67% of ALTCS costs with the state paying the remaining 33%. When the $(8.9) million of capitation rate savings is distributed proportionally, the net overall impact (Clawback and capitation rate reduction) is a county savings of $(223,300) while the state saves $(456,100) General Fund.

In addition, JLBC Staff is currently working on a revised FY 2006 ALTCS estimate due to higher than expected inflation. As part of that revision, the original FY 2006 appropriation appears to have overestimated the state contribution due to a calculation error. As a result, the FY 2006 ALTCS appropriation may need to be adjusted and either of these 2 options could be incorporated into the revised estimates.

AHCCCS' current expenditure plan is to make the Clawback payments with existing funds and retain the savings in their budget. Under option 1, the net savings of $(1.7) million will be used to help offset a FY 2006 deficit. In option 2, $(223,300) in savings would be available to use as an offset.

Acute Care

This population represents members who participate in AHCCCS' Title XIX or Title XXI (KidsCare) Acute Care programs.

At the September 1, 2005 JLBC meeting, the Committee approved an average 6.1% increase in capitation rates. Four groups' capitation rates are now further affected by the Medicare Prescription Drug Program: TANF adults, SSI w/ Medicare, Medical Expense Deduction (MED), and AHCCCS Care (AHC). The Clawback recalculation results in a 4.8% average reduction in the capitation rates for affected groups since prescription drug costs will now be shifted to the Medicare program. *(Please see Table 3 below for more detail.)*

Long Term Care (ALTCS)
ALTCS services are provided to the elderly and physically disabled in need of long-term care either in nursing care facilities or in home and community-based settings (HCBS).

At the September 1, 2005 JLBC meeting, the Committee approved a 14.3% increase in capitation rates. The Medicare Prescription Drug Program recalculation results in a 5.6% reduction in those capitation rates. *(Please see Table 3 below for more detail.)*

Table 3

Monthly Regular Capitation Rates

	Current Rates	**Proposed Rates**
Acute		
TANF < 1	$427.98	$427.98
TANF 1-13	104.76	104.76
TANF 14-44 FEMALE	187.02	185.72
TANF 14-44 MALE	128.89	127.25
TANF 45+	371.35	359.98
SSI W/ MEDICARE [1/]	307.66	185.68
SSI W/O MEDICARE	577.64	577.64
MED (Prop 204)	842.76	827.15
AHC (Prop 204)	426.73	425.67
ALTCS		
Non-Ventilator	$3,171.07	$2,993.94
Acute Only	839.33	665.67

1/ Approximately 54,000 Member Months will be moved from the SSI Without Medicare category to the SSI With Medicare category. This population shift is responsible for a $22.07 increase in the capitation rate for the SSI With Medicare category.

The savings are artificially high because FY 2006 will include 6 months of savings and only 5 months of payments. The state stops providing services on January 1, 2006 and the first payment to the federal government is not due until February 2006.

Future Trends
Every calendar year the federal government will apply two changes to the state's calculated Clawback payment. These changes represent one increase and one decrease. Every calendar year, the payment will be increased based on the national health expenditures averages. At the same time, the payment will be decreased by 1.67% each calendar year until 2015. The intent of the decrease is to provide a higher percentage of the savings to the state. The first Clawback payment is intended to capture 90% of the payment while the Clawback payments in 2015 are designed to capture 75% of the savings.

Because the federal government is using a national average to increase the state's payments, it is possible that the state may eventually end up paying the federal government more money than it saves. If Arizona's prescription costs increase at a rate lower than the national average, then the money owed in Clawback payments may eventually be larger than the savings. Because Arizona had the lowest per capita drug costs in the nation as calculated by the federal government for these Clawback payments, the state may be at greater risk for higher-than-average prescription cost increases.

RS/RF:ck
Attachments

Attachment 1

Option #1 – 50/50 State/County Savings

Table 1

Proportional Payments with 50/50 Savings

	Payments	Savings	Net Cost (Savings)
Apache	$ 13,200	$ 10,700	$ 2,500
Cochise	145,000	117,000	28,000
Coconino	39,700	32,000	7,700
Gila	76,400	61,700	14,700
Graham	24,200	19,500	4,700
Greenlee	3,200	2,600	600
La Paz	19,900	16,100	3,800
Maricopa	3,264,600	2,632,900	631,700
Mohave	184,000	148,400	35,600
Navajo	54,700	44,100	10,600
Pima	1,032,800	832,900	199,900
Pinal	243,000	196,000	47,000
Santa Cruz	52,700	42,500	10,200
Yavapai	187,400	151,200	36,200
Yuma	152,100	122,700	29,400
Total	**$5,492,900**	**$4,430,300**	**$1,062,600**
General Fund	2,688,200	4,430,200	(1,742,000)

Option #2 – Proportional County Savings

Table 2

Proportional Payments with Proportional Savings

	Payments	Savings	Net Cost (Savings)
Apache	$ 13,200	$ 14,300	$ (1,100)
Cochise	145,000	157,100	(12,100)
Coconino	39,700	42,900	(3,200)
Gila	76,400	82,800	(6,400)
Graham	24,200	26,200	(2,000)
Greenlee	3,200	3,400	(200)
La Paz	19,900	21,600	(1,700)
Maricopa	3,264,600	3,535,700	(271,100)
Mohave	184,000	199,300	(15,300)
Navajo	54,700	59,200	(4,500)
Pima	1,032,800	1,118,500	(85,700)
Pinal	243,000	263,200	(20,200)
Santa Cruz	52,700	57,100	(4,400)
Yavapai	187,400	203,000	(15,600)
Yuma	152,100	164,700	(12,600)
Total	**$5,492,900**	**$5,949,000**	**$(456,100)**
General Fund	2,688,200	2,911,500	(223,300)

Janet Napolitano, Governor
Anthony D. Rodgers, Director

AHCCCS

Our first care is your health care
ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

801 East Jefferson, Phoenix AZ 85034
PO Box 25520, Phoenix AZ 85002
phone 602 417 4000
www.ahcccs.state.az.us

RECEIVED
DEC 01 2005
JOINT BUDGET COMMITTEE

December 1, 2005

The Honorable Russell Pearce, Chairman
Joint Legislative Budget Committee
1700 West Washington Street
Phoenix, Arizona 85007

Dear Representative Pearce:

The Arizona Health Care Cost Containment System (AHCCCS) respectfully requests to be placed on the Joint Legislative Budget Committee's (JLBC) agenda for its next scheduled meeting. AHCCCS requests review of proposed rate changes to Acute Care and Long Term Care capitation rates, effective January 1, 2006, related to the Medicare Modernization Act (MMA) of 2003 and review of the Clawback expenditure plan. These reviews were required as part of the General Appropriations Act.

As required by the Federal Balanced Budget Act of 1997, Title XIX and Title XXI Managed Care Programs must have actuarially sound capitation rates. The following proposed rate adjustments are in the process of being reviewed by the Centers for Medicare and Medicaid Services (CMS) for a January 1, 2006 implementation.

Background

Part D Coverage for Medicare as prescribed by the MMA will transfer the majority of the cost of prescription drugs for dual eligible members, currently covered by Medicaid, to Medicare. The capitation rates for the affected risk groups have been adjusted by removing covered drug costs, as well as the related processing fees, for dual eligible members. In addition, capitation rate components for risk contingency and premium taxes were also adjusted. The state will have to pay a significant portion of the state match associated with these adjustments back to the federal government as part of the "Clawback" provisions of the MMA.

Clawback

A provision of the MMA requires the state to pay the federal government the state match associated with this benefit change. AHCCCS has been working with CMS to determine what the Clawback amount would be for Arizona. On October 15, 2005 the state was notified that the Clawback amount in calendar year 2006 will be $49.43 per dual eligible member per month.

For State Fiscal Year 2006 this equates to an estimated payment of $24.65 million. It is important to note that there will be only five payments required over the course of the fiscal year since the first payment is not due until February 2006.

As detailed in Table 1, Arizona had the lowest Clawback calculation in the United States. This is further evidence that the AHCCCS program has the lowest prescription drug costs of any Medicaid program.

Table II provides a summary that allocates the Clawback mandate to each respective program. The allocation was based on the percentage of costs each program was estimated to incur during Calendar Year 2003. This was the baseline used by CMS in determining the Clawback. These amounts are compared to the estimated state match savings that will result from the proposed capitation rates discussed in greater detail below. As is detailed in the schedule the overall amount of state match savings is $2.4 million based on the January 1, 2006 rate adjustments.

An additional complicating factor of the Clawback is that the Department of Health Services and Department of Economic Security are statutorily responsible for a portion of the Clawback amount since they provide Title XIX behavioral health and developmentally disabled services respectively. When factoring in this aspect, the savings in the AHCCCS state match is $5.8 million for acute care. The majority of these savings are generated as a result of the state making five Clawback payments while the capitation rates are adjusted over a six month period. One potential use of these funds would be to reduce the potential AHCCCS supplemental required in FY 2006.

Long Term Care Capitation Rates

Only the Non Ventilator and the Acute Only rates were affected by the MMA. As detailed in Table III the FY 2006 budgetary impact associated with the implementation of these new rates is a total fund decrease of $26.8 million ($8.86 million state match) or 5.6% below the current rates. This analysis compares the AHCCCS projected member months for FY 2006 compared with the cost of the old rates versus the new rates.

Acute Care Capitation Rates

All rates within the acute care program are impacted by MMA to varying degrees with the exception of certain TANF and SOBRA risk groups. The most significant rate impact is on the SSI w/ Medicare risk group which has a reduction of approximately 40%.

As detailed in Table III the budgetary impact associated with the implementation of the new rates in FY 2006 is a decrease of $51.9 million ($17.1 million state match) or approximately 4.8% across impacted rate cells. The attached analysis compares the cost of the old rates versus the new rates using projected member months for Fiscal Year 2006.

AHCCCS made an additional change to the Supplemental Security Income (SSI with) with Medicare and the Supplemental Security Income without Medicare (SSI without) rate cells. Currently, the SSI without rate cells include members that only have Part B coverage. In January 1, 2006 these Part B only members will be moved into the SSI with rate cells. The revision resulted in a budget neutral impact.

If you have any questions, please feel free to contact me at (602) 417-4483.

Sincerely,

Thomas Betlach
Deputy Director

c. Gary Yaquinto
Bret Cloninger
Richard Stavneak
John Malloy
Carson Howell
Russell Frandsen
Jim Cockerham
Windy Marks
Kathy Rodham
Shelli Silver
Pat Spencer
Jeff Tegen

Table 1

Clawback Estimates for Calendar Year 2006

(federal fiscal years; federal share as percent; dollars in thousands)

	Fee for Serv Enroll	Capitated Months	Per Capita Drug Cost	FMAP 2006	FMAP 2007	Per Capita State Share FY 2006	Per Capita State Share FY 2007	90% of State Share FY 2006	90% of State Share FY 2007	Estimated Clawback
Alabama	1,117,981	0	$223	69.51	68.85	$68	$70	$61	$63	$68,915
Alaska	113,295	0	324	50.16	51.07	161	159	145	143	16,389
Arizona	75,763	886,524	166	66.98	66.47	55	56	49	50	47,749
Arkansas	726,523	0	205	73.77	73.37	54	55	48	49	35,233
California	9,561,215	1,653,769	219	50.00	50.00	109	109	99	99	1,105,125
Colorado	504,270	74,806	282	50.00	50.00	141	141	127	127	73,525
Connecticut	819,928	0	347	50.00	50.00	174	174	156	156	128,073
Delaware	114,689	0	278	50.09	50.00	139	139	125	125	14,339
District of Colombia	183,953	3,503	207	70.00	70.00	62	62	56	56	10,503
Florida	3,696,058	276,499	303	58.89	58.76	125	125	112	112	445,473
Georgia	1,690,072	0	251	60.60	61.97	99	95	89	86	149,111
Hawaii	280,254	1,287	202	58.81	57.55	83	86	75	77	21,231
Idaho	199,012	0	312	69.91	70.36	94	93	85	83	16,766
Illinois	2,279,309	1,915	284	50.00	50.00	142	142	128	128	291,153
Indiana	1,144,952	1,603	292	62.98	62.61	108	109	97	98	112,001
Iowa	626,601	0	299	63.61	61.98	109	114	98	102	62,140
Kansas	468,428	634	296	60.41	60.25	117	118	105	106	49,493
Kentucky	1,011,223	148,658	281	69.26	69.58	86	85	78	77	89,899
Louisiana	1,159,418	0	278	69.79	69.69	84	84	76	76	87,632
Maine	523,631	0	248	62.90	63.27	92	91	83	82	43,192
Maryland	670,916	32,426	297	50.00	50.00	148	148	133	133	93,847
Massachusetts	2,181,614	22,582	232	50.00	50.00	116	116	105	105	230,559
Michigan	2,132,637	120,251	210	56.59	56.38	91	92	82	83	185,255
Minnesota	660,365	445,689	286	50.00	50.00	143	143	129	129	142,449
Mississippi	1,606,789	0	218	76.00	75.89	52	53	47	47	75,736
Missouri	1,612,297	0	350	61.93	61.60	133	134	120	121	193,834
Montana	166,484	0	284	70.54	69.11	84	88	75	79	12,696
Nebraska	368,963	0	297	59.68	57.93	120	125	108	112	40,135
Nevada	195,016	715	269	54.76	53.93	122	124	109	111	21,502
New Hampshire	206,769	0	330	50.00	50.00	165	165	148	148	30,672
New Jersey	1,499,723	89,878	355	50.00	50.00	177	177	160	160	253,732
New Mexico	361,519	5,789	198	71.15	71.93	57	56	51	50	18,741
New York	6,755,062	20,004	262	50.00	50.00	131	131	118	118	797,290
North Carolina	2,600,478	0	291	63.49	64.52	106	103	96	93	246,902
North Dakota	135,104	0	249	65.85	64.72	85	88	76	79	10,411
Ohio	2,158,260	11,139	353	59.88	59.66	142	142	127	128	276,647
Oklahoma	867,980	0	215	67.91	68.14	69	69	62	62	53,865
Oregon	326,644	292,517	290	61.57	61.07	111	113	100	101	62,216
Pennsylvania	1,442,389	1,581,862	306	55.05	54.39	138	140	124	126	375,627
Rhode Island	343,857	12,431	282	54.45	52.35	128	134	116	121	41,666
South Carolina	1,300,192	3,298	200	69.32	69.54	61	61	55	55	71,901
South Dakota	135,886	0	289	65.07	62.92	101	107	91	96	12,542
Tennessee	2,957,934	0	324	63.99	63.65	117	118	105	106	311,463
Texas	3,903,272	0	222	60.66	60.78	87	87	78	78	305,938
Utah	214,996	0	330	70.76	70.14	97	99	87	89	18,793
Vermont	170,625	0	271	58.49	58.93	112	111	101	100	17,215
Virginia	1,131,055	0	305	50.00	50.00	152	152	137	137	155,192
Washington	1,049,078	2,003	283	50.00	50.12	141	141	127	127	133,637
West Virginia	501,747	0	263	72.99	72.82	71	71	64	64	32,108
Wisconsin	1,235,709	50,667	295	57.65	57.47	125	126	113	113	144,897
Wyoming	64,025	0	312	54.23	52.91	143	147	129	132	8,291
Total	**65,253,960**	**5,740,449**								**$7,243,701**

Notes: Actual clawback amounts will be based on monthly participation; amounts provided here should be considered estimates only. Only 11 of the 12 2006 clawback payments will be made in 2006.

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM
CLAWBACK ANALYSIS COMPARISON
FISCAL YEAR 2006
Table II

Total Dual Eligibile Member Months (Jan - May*)	498,767
CMS Clawback PMPM	49.43
Total Estimated Clawback Payment	24,654,000

*Represents the fact that in FY 2006 the state is responsible for making only five payments.

	CLAWBACK PERCENTAGE	CLAWBACK PAYMENT	FY06 STATE MATCH SAVINGS	Difference
AHCCCS ACUTE	46.15%	$ 11,376,600	$ 17,145,400	$ 5,768,800
AHCCCS ALTCS	33.18%	$ 8,181,100	$ 8,860,500	$ 679,400
DES DDD	3.53%	$ 869,200	$ 1,059,400	$ 190,200
ADHS BHS (1)	17.15%	$ 4,227,100	$ -	$ (4,227,100)
	100.00%	$ 24,654,000	$ 27,065,300	$ 2,411,300

1. BHS adjustments were incorporated into 7-1-05 rate adjustments

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Budget Impact of FY 2006 Capitation Rate Increases

Table III

	Statewide Rates 10/1/2005 SFY06	1/1/2006 SFY06	FY06 Member Months 1/06 - 6/06	10/1/05 Rate with FY 06 MM	1/1/06 Rate with FY 06 MM	Change Inc. (Dec.)	Percent Impact
Title XIX TANF/SOBRA	$ 159.17	$ 158.32	3,949,332	628,615,200	625,258,300	(3,356,900)	-0.5%
Title XIX SSI w/ Medicare	$ 307.60	$ 185.62	387,803	119,288,200	71,984,000	(47,304,200)	-39.7%
Title XIX AHCCCS Care	$ 426.73	$ 425.67	728,775	310,990,300	310,217,800	(772,500)	-0.2%
Title XIX MED	$ 842.76	$ 827.15	31,440	26,496,300	26,005,500	(490,800)	-1.9%
Acute Subtotal	$ 212.93	$ 202.75	5,097,350	1,085,390,000	1,033,465,600	(51,924,400)	-4.8%
					Acute State Impact	(17,145,400)	
					Acute Federal Impact	(34,779,000)	
ALTCS (EPD, VD, Tribes)	$ 3,171.07	$ 2,993.94	151,491	480,390,100	453,556,400	(26,833,700)	-5.6%
ALTCS Subtotal	$ 3,171.07	$ 2,993.94	151,491	480,390,100	453,556,400	(26,833,700)	-5.6%
					ALTCS State Match Impact	(8,860,500)	
					ALTCS Federal Match Impact	(17,973,200)	
Total Budget Impact	$ 298.31	$ 283.30	5,248,842	1,565,780,100	1,487,022,000	(78,758,100)	-5.0%
					Total State Match Impact	(26,005,900)	
					Total Federal Impact	(52,752,200)	

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

http://www.azleg.gov/jlbc.htm

DATE: December 13, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Carson Howell, Fiscal Analyst

SUBJECT: Arizona Health Care Cost Containment System – Review of Comprehensive Medical and Dental Program (CMDP) Capitation Rate Changes

Request

Pursuant to a footnote in the General Appropriation Act, the Arizona Health Care Cost Containment System (AHCCCS) is required to report on changes to the Comprehensive Medical Dental Program (CMDP) capitation rates to the Committee for review. AHCCCS is recommending a 0.6% increase to the CMDP capitation rates effective January 1, 2006 until December 31, 2006.

Recommendation

The JLBC recommends a favorable review of the AHCCCS request. The proposed rates are based upon an actuarial study and represent an increase above the current rates of approximately 0.6%. The proposed rate increase adds approximately $35,200 General Fund ($106,500 Total Funds) to the cost of AHCCCS in FY 2006 and would lead to annualized General Fund costs of approximately $70,400 in FY 2007.

Analysis

Title XIX is a federal entitlement program and states are required to provide reimbursement rates in managed care programs that are actuarially sound. AHCCCS' actuaries use encounter data, financial information and projected enrollment to determine the actual cost of services, and thereby recommend increases or decreases in capitation rates. The Comprehensive Medical Dental Program (CMDP) provides acute care medical services to children in foster care and is administered by the Department of Economic Security.

There are 2 payment categories within CMDP – Prospective rates and Prior Period rates. The AHCCCS request includes no change to the Prospective rates (which represents the vast majority of the CMDP population) and a 20.7% increase to the Prior Period rates. The Prior Period population represents 2.7% of the entire CMDP population. Because the Prior Period population is so small, a 20.7% increase to this group's rate increases the overall CMDP rate by only 0.6%.

Prior Period Capitation (PPC) refers to the time between when someone applies for AHCCCS and the time that they are deemed eligible. During that time, the health plans are paid a higher rate. The overall budget impact of the PPC rate increase will depend on how much time is needed to determine eligibility. The current fiscal impact of these rates is based on the current average time it takes to determine eligibility.

RS/CH:ym
Attachment

AHCCCS

Our first care is your health care
ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM

Janet Napolitano, Governor
Anthony D. Rodgers, Director

801 East Jefferson, Phoenix AZ 85034
PO Box 25520, Phoenix AZ 85002
phone 602 417 4000
www.ahcccs.state.az.us

November 10, 2005

The Honorable Russell K Pearce, Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Dear Representative Pearce:

The Arizona Health Care Cost Containment System (AHCCCS) respectfully requests to be placed on the agenda for the next Joint Legislative Budget Committee meeting for the purpose of reviewing increases to the Comprehensive Medical Dental Program (CMDP) rates for the period January 1, 2006 through December 31, 2006. This review is required in the footnotes to the General Appropriation Act.

As required by the Federal Balanced Budget Act of 1997, Title XIX and Title XXI Managed Care Programs must have actuarially sound capitation rates. The following proposed rate adjustments are in the process of being reviewed by the Centers for Medicare and Medicaid Services.

CMDP Capitation Rates

AHCCCS has conducted a review of cost and utilization data for CMDP, the program contained within the Department of Economic Security (DES) that provides acute care medical services to children in foster care. Children enrolled in CMDP population are a high acuity population with unique health care needs.

Based on cost and utilization trends as well as audited financial statement information, AHCCCS is recommending a 0.6% overall increase to CMDP's capitation rates for the period January 1, 2006 through December 31, 2006. As detailed in the table below, the budgetary impact associated with the rate adjustment is an increase in total dollars of approximately $212,900.

Rate Cell	Annualized Member Months Based on Proj Enrollment	CY 05 Rate	CY 06 Rate	Estimated CY 05 Capitation	Estimated CY 06 Capitation
Prospective	131,860	$ 258.38	$ 258.38	$ 34,069,987	$ 34,069,987
PPC	3,674	$ 280.25	$ 338.21	$ 1,029,622	$ 1,242,564
Total				$ 35,099,609	$ 35,312,551
Total impact on CY estimated 05 capitation					$ 212,942
Percentage impact on CY estimated 05 capitation					0.6%

CMDP experienced a growth in enrollment in 2005. The growth in enrollment during 2005 allowed CMDP a larger prospective base over which to spread the medical and administrative expenses of the program. As a result, the rate for the Prospective category remained constant. The Prior Period Coverage (PPC) rate increased by 20.7% as the PPC category continues to show losses.

Please feel free to contact me at (602) 417-4625 if you have any questions.

Sincerely,

Kari Price

Kari Price
Assistant Director
Division of Health Care Management

c. Anthony Rodgers, Director, AHCCCS
Tom Betlach, Deputy Director, AHCCCS
Richard Stavneak, Director, Joint Legislative Budget Committee Staff
Jim Cockerham, Assistant Director, Division of Business and Finance, AHCCCS
Tim Sweeney, Joint Legislative Budget Committee Staff
Kris Ward, Governor's Office of Strategic Planning and Budgeting
Kathy Rodham, Finance Manager, DHCM

Comprehensive Medical and Dental Program (CMDP)
Actuarial Memorandum

I. Purpose:

The purpose of this actuarial memorandum is to demonstrate that the capitation rates were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

This memorandum presents a discussion of the adjustment to the capitation rates effective from January 1, 2006 through December 31, 2006.

II. Base Period Experience:

Since CMDP has a relatively small membership base, multiple years and sources of data were used to increase the statistical credibility. The base year experience includes 2004 fiscal year (FY04) audited financial statement, 2005 fiscal year (FY05) financial statements and contract year 2004 (CY04) encounter data, for both Prospective and Prior Period Coverage (PPC) CMDP members. The analysis was based on cost per member per month (PMPM) by service category.

In situations where it is reasonable to assume that the encounter data was missing, the missing encounter data was imputed based on audited financial data. The one missing encounter data point was miscellaneous medical costs. In addition, the outliers in quarterly claim PMPM were adjusted prior to the application of the regression analysis in projecting the trend rates. No adjustment was made other than the ones already described.

CMDP has a relatively small membership base and the members are located statewide. Ideally, the experience should be analyzed by the different rate cells, which are comprised of members with similar risk characteristics; however, segregating the CMDP population into different rate cells would lead to a statistical credibility problem. Therefore, Arizona Health Care Cost Containment System (AHCCCS) believes that having only two rate cells, Prospective and Prior Period Coverage (PPC), is more actuarially sound than creating more rate cells.

The experience only includes CMDP Medicaid eligible expenses for CMDP Medicaid eligible individuals. In addition, the experience includes reinsurance amounts. PPC rates are reconciled to a maximum of 2% gain or loss. There are no other incentives or risk sharing arrangements.

In general, the base period claim PMPMs are trended to the midpoint of the effective period or July 1, 2006. The next step involves adjusting for program changes, reinsurance offset and third party liability. In the final step, the projected administrative expenses and premium tax are then added to the projected claim PMPMs to obtain the capitation rates. Each step is described in the sections below.

III. Projected Trend Rates

The trend analysis includes financial statement experience from the quarter ending March 2001 through quarter ending June 2005. The claim PMPM outliers (more than one and a half standard deviations from the mean) were adjusted to be one and a half standard deviations from the mean. AHCCCS then applies the statistical method of linear regression to the logarithm of the claim PMPM to obtain the projected trend rates by service category. These trend rates were then compared with trend rates from sources such as Center of Medicaid (CMS) National Health Expenditures Report and AHCCCS Acute Care trend rates. The final trend rates were selected primarily based on the regression analysis described above, with some considerations given to the other sources. The trend rates used in projecting the claim costs are as follows.

Table I: Prospective and PPC Average Annual Trend Rate

Service Category	Average Annual Trend	
	Prospective	PPC
Hospital Inpatient	15.0%	20.0%
Physician	10.7%	20.0%
Emergency Services	8.0%	N/A
Pharmacy	17.9%	N/A
Lab, X-ray, & med image	5.2%	N/A
Outpatient Facility	12.7%	N/A
Durable Med Equip	4.8%	N/A
Dental	5.3%	N/A
Transportation	10.0%	N/A
NF, Home HC	15.0%	N/A
Physical Therapy	0.0%	N/A
Miscellaneous Med Exp	2.8%	4.9%

IV. Projected Gross Claim PMPM

The claim PMPMs were trended to the midpoint of the effective period, which is July 1, 2006. The PMPMs were trended for thirty, eighteen, and twenty seven months for FY04, FY05 and CY04, respectively. The trended PMPMs were then weighted to obtain the projected gross claim PMPM. For the Prospective analysis, the weights given to each trended PMPM are as follows: 15% weight on the trended FY04, 35% weight on the trended FY05 and 50% weight on the trended CY04. For the PPC analysis, the weights given to each trended PMPM are as follows: 22.5% weight on the trended FY04, 52.5% weight on the trended FY05 and 25% weight on the trended CY04.

V. Program Changes

There were two program changes that impact the projected gross claim PMPM. The first program change is a change in the outpatient reimbursement methodology. Based on chapter 279 laws 2004, effective July 1, 2005, AHCCCS changed the hospital outpatient and emergency room reimbursement methodology in order to help control costs and to allow for a better prediction of trends. AHCCCS developed a new prospective outpatient hospital payment methodology based on a procedure code level fee schedule that is derived from Medicare's Outpatient Hospital Prospective Payment System (OPPS). The goal of the new methodology is to control the unit cost inflation. AHCCCS hired EP&P to determine the CY06 impact to hospitals and CMDP for the change in outpatient reimbursement from a cost to charge ratio to a set fee schedule. The adjustment made to the 2006 rates accounts for a full year of this change in methodology. The impact of this program change was built into the trend rates for outpatient hospital and emergency services.

The second program change is an increase in the emergency service transportation rates. Significant rate increases took effect May 1, 2005 for emergency transportation companies. These increases were not under CMDP's control but were based on existing statue. These increases had been granted by the Arizona Department of Health Services (ADHS) to compensate for Medicare's decrease to emergency transportation rates. AHCCCS pays 80% of the established ADHS rate. The partial contract year rate increase was included in the 2005 rates. The full year impact is included in 2006 rates. This change has been estimated to increase the total claim costs by approximately 0.3%.

VI. Projected Net Claim PMPM

The projected gross claim PMPMs were adjusted for the program changes, reinsurance offset, and third party liability to obtain the net claim PMPM. There is a small amount of reinsurance offset for PPC and there is no third party liability for PPC. For Prospective, the estimated reinsurance offset is $7.97 PMPM and third party liability is $0.21. For PPC, the estimated reinsurance offset is $0.01 PMPM. The projected net claim PMPMs are as follows:

Table II: Projected Net Claim PMPM

Service Category	Projected CY 06 Claim Cost PMPM	
	Prospective	PPC
Hospital Inpatient	$ 43.09	$ 139.95
Physician	$ 58.97	$ 98.45
Emergency Services	$ 8.27	$ -
Pharmacy	$ 44.57	$ -
Lab, X-ray, & med image	$ 6.82	$ -
Outpatient Facility	$ 21.58	$ -
Durable Med Equip	$ 4.22	$ -
Dental	$ 35.45	$ -
Transportation	$ 4.22	$ -
NF, Home HC	$ 1.08	$ -
Physical Therapy	$ 0.12	$ -
Miscellaneous Med Exp	$ 2.84	$ 62.89
Total	$ 231.22	$ 301.29
Less Reinsurance	$ (7.97)	$ (0.01)
Less TPL	$ (0.21)	$ -
Net Claim Cost	$ 223.04	$ 301.28

VII. Administrative Expenses

The FY05 administrative expenses from the FY05 audited financial statement were analyzed and projected to CY06. The administrative PMPMs are as follows.

Table III: Administrative Expenses

Rate Cell	CY 06	% of Capitation
Prospective	$ 30.17	11.68%
PPC	$ 30.17	8.92%

VIII. Proposed Capitation Rates and Their Impacts

The proposed capitation rates equal the sum of the projected net claim PMPM (in Section VI) and the projected administrative expenses PMPM (in section VII), divided by one minus the two percent premium tax. The following table shows the current and proposed capitation rates and the budget impact from CY05 to CY06.

Table IV: Proposed Capitation Rates and Budget Impact

Rate Cell	Annualized Member Months Based on Proj Enrollment	CY 05 Rate	CY 06 Rate	Estimated CY 05 Capitation	Estimated CY 06 Capitation
Prospective	131,860	$ 258.38	$ 258.38	$ 34,069,987	$ 34,069,987
PPC	3,674	$ 280.25	$ 338.21	$ 1,029,622	$ 1,242,564
Total				$ 35,099,609	$ 35,312,551
Total impact on CY estimated 05 capitation					$ 212,942
Percentage impact on CY estimated 05 capitation					0.6%

IX. CMS Rate Setting Checklist

1. Overview of rate setting methodology

AA.1.1: Actuarial certification

Please refer to Section X.

AA.1.2: Projection of expenditure

Please refer to Section VIII.

AA.1.3: Procurement, prior approval and rate setting

This is a sole source contracting method, between AHCCCS and CMDP.

AA.1.5: Risk contract

There is no risk sharing between AHCCCS and CMDP, in addition to the reinsurance contract. CMDP is responsible for all losses, except reinsurance.

AA.1.6: Limit on payment to other providers

AHCCCS makes no additional payment to the providers, except for DSH, GME, and Critical Access Hospitals. GME is paid in accordance with state plan. DSH and Critical care are paid in accordance with operational protocol. None of the additional payments to the providers was included in the capitation calculation.

AA.1.7: Rate modification

Please refer to Section V.

2. Base Year Utilization and Cost Data

AA.2.0: Base year utilization and cost data

Please refer to Section II.

AA.2.1: Medicaid eligibles under the contract

There are no dual eligibles.

AA.2.2: Spenddown

Not applicable, not covered under this contract.

AA.2.3: State plan services only

The contract between AHCCCS and CMDP specifies that CMDP may cover additional services. However, the costs of these services are not to be included in the data provided to the actuaries for rate-setting purposes.

AA.2.4: Services that can be covered by a capitated entity out of contract savings.

Same as AA.2.3

3. Adjustments to the Base Year Data

AA.3.0 Adjustments to base year data

Please refer to Section II.

AA.3.1 Benefit differences

There are no changes to the covered benefits. Therefore, no adjustment was made.

AA.3.2 Administrative cost allowance calculation

Please refer to Section VII.

AA.3.3 Special populations' adjustment

It is anticipated that the risk characteristics of this population will not change materially from the base period to the effective period of the capitation rates. Therefore, no adjustment was made.

AA.3.4 Eligibility Adjustments

No adjustment was made.

AA.3.5 DSH Payments

No DSH payment was included in the capitation development

AA.3.6 Third party Liability (TPL)

Please refer to Section VI.

AA.3.7 Copayments, coinsurance and deductible in the capitated rates

Not applicable, member cost sharing is not required.

AA.3.8 Graduate Medical Education (GME)

The experience excludes any payment for GME.

AA.3.9 FQHC and RHC reimbursement

The experience excludes any additional payment that FQHC may receive from the State.

AA.3.10 Medical cost/ trend inflation

Please refer to Section III.

AA.3.11 Utilization adjustment

Other than trend, no specific adjustment was made to utilization. Furthermore, the experience was not broken down into utilization rate and cost per unit.

AA.3.12 Utilization and cost assumptions

Not applicable, since actual experience was used.

AA.3.13 Post-eligibility treatment of income (PETI)

Not applicable, not required to consider PETI.

AA.3.14 Incomplete data adjustment.

The CY04 encounter is fully complete, and therefore no completion factors were used. The audited financial statements may include outstanding claim liabilities, which were audited and believed to be reasonable by CMDP auditors.

4. Establish Rate Category Groupings

AA.4.0: Establish rate category groupings

Please refer to Section II.

AA.4.1: Age

Please refer to Section II.

AA.4.2: Gender

Please refer to Section II.

AA.4.2: Locality/region

Please refer to Section II.

AA.4.2: Eligibility category

Please refer to Section II.

5. Data Smoothing, Special Populations and Catastrophic Claims

AA.5.0: Data smoothing

Please refer to Section II.

AA.5.1: Special populations and assessment of the data for distortions

Financial data displayed abnormally high trend for Nursing Facility and was capped.

AA.5.2: Cost-neutral data smoothing adjustments

Please refer to Section VI.

AA.5.3: Risk-adjustment

There is no other risk adjustment, except for PPC reconciliation.

6. Stop Loss, Reinsurance, or Risk-Sharing arrangements

AA.6.1: Commercial reinsurance

There is no commercial reinsurance.

AA.6.1: Simple stop loss program

Please refer to Section VI.

AA.6.1: Risk corridor program

There is no risk sharing between AHCCCS and CMDP, except the stop loss program and PPC reconciliation. CMDP assumes all other risks.

7. Incentive Arrangements

There is no incentive arrangement between AHCCCS and CMDP.

X. Actuarial Certification of the Capitation Rates:

I, Windy J. Marks, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board.

The rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The rates were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The rates may not be appropriate for any other purpose. The documentation has been included with this certification. The actuarially sound capitation rates that are associated with this certification are effective for the twelve month period beginning January 1, 2006.

The actuarially sound capitation rates are a projection of future events. It may be expected that actual experience will vary from the values in the rates.

In developing the actuarially sound capitation rates, I have relied upon data and information provided by CMDP and AHCCCS internal database. I have accepted the data without audit and have relied upon the CMDP auditors and other AHCCCS employees for the accuracy of the data.

This actuarial certification has been based on the actuarial methods, considerations, and analyses promulgated from time to time through the Actuarial Standards of Practice by the Actuarial Standards Board.

Windy J. Marks 11/10/05

Windy J. Marks Date

Fellow of the Society of Actuaries
Member, American Academy of Actuaries

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

HOUSE OF REPRESENTATIVES

PHONE (602) 926-5491

FAX (602) 926-5416

http://www.azleg.gov/jlbc.htm

DATE: December 12, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Russell Frandsen, Fiscal Analyst

SUBJECT: Department of Economic Security – Review of Long Term Care Capitation Rate Changes

Request

Pursuant to a FY 2006 General Appropriation Act footnote, the Department of Economic Security (DES) is presenting its expenditure plan for proposed capitation rate adjustments in the federal Title XIX Long Term Care (LTC) program. Capitation rates are a fixed amount paid for every person in the Developmentally Disabled Long Term Care Program. The proposed capitation adjustments are related to legislatively-approved provider rate increases and the implementation of the Medicare Prescription Drug program.

Summary

The JLBC Staff recommends a favorable review of the request. The proposed rates can be funded from the existing DES budget.

Analysis

Since Title XIX is a federal entitlement program and states are required to provide reimbursement rates that are actuarially sound, capitation rates are not set by the Legislature. DES contracts with an actuarial firm, which uses claims, encounter data, and projected enrollment to determine the actual costs of services and, thereby, recommends increases or decreases in the capitation rates. Once DES requests a change in rates, the new rates must be approved by the Arizona Health Care Cost Containment System (AHCCCS).

The proposed rates reflect 2 primary adjustments:

1. A $13.6 million annual increase in provider rates ($6 million General Fund and $7.6 million Federal Funds) approved by the Legislature effective July 1, 2005 for the FY 2006 budget. At its September 1st meeting, the Committee favorably reviewed DES' proposed distribution of these monies. The department is now proposing corresponding adjustments in the capitation rates to reflect these changes.

(Continued)

2. A $1.1 million GF reduction in Acute Care capitation rates to reflect implementation of the new Medicare Prescription Drug program on January 1, 2006. Under this program, certain prescription drug costs will now be covered by the Medicare program rather than the Title XIX Medicaid program. *(See Agenda Item 1 for more information on this subject).* The federal government will re-coup $870,000 of this savings in the form of a "Clawback" payment.

The revised per member per month (PMPM) rates are shown below. Almost all clients served by DES in the LTC program are categorized as enrolled.

Category	**Original 1/1/05-6/30/06 Rate**	**New 1/1/06-6/30/06 Rate**	**% Change**
Enrolled (Non-Ventilator Dependent)	$ 2,947.49	$ 2,973.54	0.9%
Ventilator Dependent	$11,893.28	$11,949.53	0.5%

The increases in the Enrolled category are allocated as follows:

Category	**Original 1/1/05-6/30/06 Rate**	**New 1/1/06-6/30/06 Rate**	**% Change**
Aid to Individuals	$2,144.25	$2,198.56	2.53%
Acute Care Services	355.34	326.17	-8.21%
Case Management Services	127.13	127.13	0.00%
Administration	220.10	220.10	0.00%
Risk/Profit	42.70	43.09	0.91%
Share of Cost	-2.88	-2.88	N/A
Premium Tax	60.85	61.37	0.85%
Total - DES LTC	**$2,947.49**	**$2,973.54**	**0.88%**
Behavioral Health (DHS pass-through)	95.03	95.03	0.00%
Total Enrolled Rate	**$3,042.52**	**$3,068.57**	**0.86%**

The increases in the Aid to Individuals reflect the approved provider rate increases. The Acute Care services change represents the Medicare Prescription Drug Program shift. Risk/Profit is a risk contingency amount equal to 1.6 % of the Aid to Individuals, Acute Care, and Case Management line items. The Share of Cost category reflects AHCCCS' decision to adjust the capitation rate for cost recovery on LTC costs. There are no new program adjustments in the proposed new capitation rates.

RS/RF:ck
Attachment

ARIZONA DEPARTMENT OF ECONOMIC SECURITY
1717 W. Jefferson – Phoenix, AZ 85007

Janet Napolitano
Governor

David A. Berns
Director

DEC 07 2005

RECEIVED
DEC 07 2005
JOINT BUDGET COMMITTEE

The Honorable Robert Burns, Chairman
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington
Phoenix, Arizona 85007

Dear Senator Burns:

The General Appropriation Act for the fiscal year 2006 budget includes the following footnote: "The amounts above include $6,000,000 from the state General Fund and $7,556,800 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 97.61% of market rates for all services on the published rate schedule. It is the intent of the Legislature that the division requests the Arizona Health Care Cost Containment System to approve a capitation rate increase retroactive to July 1, 2005 to make provider rate increases effective July 1, 2005. By July 1, 2005 the division shall have obtained approval for a rate increase implementation proposal from the Arizona Health Care Cost Containment System. By August 1, 2005, the division shall have submitted its implementation plan to the Joint Legislative Budget Committee for its review. The adjusted rates shall be implemented beginning with provider payments due for services performed in August 2005. Payment for retroactive reimbursement due for services provided in July 2005 shall be paid to providers no later than September 15, 2005." The department has complied with the dates as provided in the statute. However, there have been further changes in the capitation rate which again require review by the Joint Legislative Budget Committee. Spreadsheets detailing the new rates are attached.

Pursuant to this requirement, the Arizona Department of Economic Security requests to be placed on the agenda for the next Joint Legislative Budget Committee (JLBC) meeting. The purpose of this request is to review the DDD capitation rate increase approved by Arizona Health Care Cost Containment System to cover the provider rate increase and the subsequent decrease in the capitation rate for the Phased-down State contribution ("clawback") required by Part D of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA).

Please contact Scott Carson, Acting Financial Services Administrator, at (602) 542-3786 if you have any questions.

Sincerely,

David A. Berns

David A. Berns
Director

C:
The Honorable Russell K. Pearce, Vice-Chairman, Joint Legislative Budget Committee
Richard Stavneak, Director, Joint Legislative Budget Committee
Clark Partridge, State Comptroller, Arizona Department of Administration
Gary Yaquinto, Director, Governor's Office of Strategic Planning and Budgeting

State of Arizona

Modeled Non-Ventilator Dependent
Capitation Rate Development
Contract Period 01/01/2005 - 06/30/2006

Draft and Confidential
For Discussion Purposes Only

Arizona Health Care Cost Containment System (AHCCCS)

Department of Economic Security / Department of Developmental Disabilities
Updated Rates for Provider rate increase effective July 1, 2005 through June 30, 2006.
Non-Ventilator Dependent

	YR XXIII Rate PMPM	Provider Fee Increase Percentage	Updated Rate For Provider Fee Increase Year XXIII Rate PMPM	Annualized Percentage Difference from Current Rate
Aid To Individual Services				
Institutional Services	$ 115.44		$ 115.44	0.00%
Home and Community Based Services	$ 2,028.81	2.68%	$ 2,083.12	2.68%
Total Aid to Individual PMPM *(Institutional + HCBS)*	**$ 2,144.25**		**$ 2,198.56**	**2.53%**
Acute Care Services				
Total Acute Care Services	**$ 355.34**		**$ 355.34**	**0.00%**
Case Management Services	**$ 127.13**		**$ 127.13**	0.00%
Administration	**$ 220.10**		**$ 220.10**	0.00%
Risk / Contingency	**$ 42.70**		**$ 43.52**	**1.92%**
Share of Cost	**$ (2.88)**		**$ (2.88)**	0.00%
Total DES/DDD Non-Ventilator Rate	**$ 2,886.64**		**$ 2,941.77**	**1.91%**
Total Behavioral Health Rate	**$ 95.03**		**$ 95.03**	**0.00%**
Premium Tax	$ 60.85		$ 61.98	1.86%
Grand Total Non-Ventilator and Behavioral Health Rate	**$ 3,042.52**		**$ 3,098.78**	**1.85%**
Grand Total DES/DDD Non-Ventilator Rate	**$ 2,947.49**		**$ 3,003.75**	**1.91%**
Grand Total Behavioral Health Rate	**$ 95.03**		**$ 95.03**	**0.00%**

Arizona Health Care Cost Containment System (AHCCCS)

Department of Economic Security / Department of Developmental Disabilities
Updated Rates for MMA Part D effective January 1, 2006 through June 30, 2006.
Non-Ventilator Dependent

	YR XXIII Rate PMPM	MMA Decrease	Updated for MMA Part D: Year XXIII Rate PMPM	Effective Percentage Difference from Current Rate
Aid To Individual Services				
Institutional Services	$ 115.44		$ 115.44	0.00%
Home and Community Based Services	$ 2,083.12		$ 2,083.12	0.00%
Total Aid to Individual PMPM *(Institutional + HCBS)*	**$ 2,198.56**		**$ 2,198.56**	**0.00%**
Acute Care Services				
Total Acute Care Services	**$ 355.34**	-8.21%	**$ 326.17**	**-8.21%**
Case Management Services	**$ 127.13**		**$ 127.13**	0.00%
Administration	**$ 220.10**		**$ 220.10**	0.00%
Risk / Contingency	**$ 43.52**		**$ 43.09**	**-0.99%**
Share of Cost	**$ (2.88)**		**$ (2.88)**	0.00%
Total DES/DDD Non-Ventilator Rate	**$ 2,941.77**		**$ 2,912.17**	**-1.01%**
Total Behavioral Health Rate	**$ 95.03**		**$ 95.03**	**0.00%**
Premium Tax	$ 61.98		$ 61.37	-0.98%
Grand Total Non-Ventilator and Behavioral Health Rate	**$ 3,098.78**		**$ 3,068.57**	**-0.98%**
Grand Total DES/DDD Non-Ventilator Rate	**$ 3,003.75**		**$ 2,973.54**	**-1.01%**
Grand Total Behavioral Health Rate	**$ 95.03**		**$ 95.03**	**0.00%**

State of Arizona

Modeled Non-Ventilator Dependent
Capitation Rate Development
Contract Period 01/01/2005 - 06/30/2006

Draft and Confidential
For Discussion Purposes Only

Arizona Health Care Cost Containment System (AHCCCS)
Department of Economic Security / Department of Developmental Disabilities
Updated Rates for Provider rate increase effective July 1, 2005 through June 30, 2006.
Ventilator Dependent

	YR XXIII Rate PMPM	Provider Fee Increase Percentage	Updated Rate For Provider Fee Increase Year XXIII Rate PMPM	Annualized Percentage Difference from Current Rate
'entilator Dependent Health Care Services				
Ventilator Dependent Services	$ 11,481.31	0.47%	$ 11,535.62	0.47%
otal Ventilator Services PMPM	$ 11,481.31		$ 11,535.62	0.47%
isk / Contingency	$ 172.22		$ 173.03	0.47%
hare of Cost	$ (0.02)		$ (0.02)	0.00%
otal DES/DDD Ventilator Rate	$ 11,653.51		$ 11,708.63	[illegible]
otal Behavioral Health Rate	$ 95.03		$ 95.03	0.00%
Premium Tax (2%)	$ 239.77		$ 240.89	0.47%
rand Total Ventilator and Behavioral Health Rate	$ 11,988.31		$ 12,044.56	0.47%
rand Total DES/DDD Ventilator Rate	$ 11,893.28		$ 11,949.53	0.47%
rand Total Behavioral Health Rate	$ 95.03		$ 95.03	0.00%

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

http://www.azleg.gov/jlbc.htm

HOUSE OF REPRESENTATIVES

DATE: December 13, 2005

TO: Representative Russell Pearce, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director

FROM: Eric Jorgensen, Fiscal Analyst

SUBJECT: Department of Economic Security – Review of FY 2006 Expenditure Plan for Workforce Investment Act Monies

Request

Pursuant to a footnote in the General Appropriation Act, the Department of Economic Security (DES) is submitting an expenditure plan for $77,000 of the discretionary portion of federal Workforce Investment Act (WIA) monies received by the state for FY 2006. Unlike most Federal Funds, the WIA monies are subject to legislative appropriation due to federal requirements. The Committee previously approved $2.3 million of FY 2006 WIA expenditures in July 2005. DES has indicated that it will present an expenditure plan for remaining WIA monies at a later JLBC meeting.

Recommendation

The JLBC Staff recommends a favorable review of DES' expenditure plan with the provision that DES and the Department of Commerce provide performance measures for the new program to the Committee by March 1, 2005. The program activities and expenditure levels being sought seem reasonable and represent functions typically funded by WIA dollars.

The JLBC Staff also recommends that DES in conjunction with the Department of Commerce provide a written explanation for their failure to provide performance measure information as requested for FY 2005 expenditures.

Analysis

The DES Workforce Development Administration is the state's grant recipient for federal WIA funds from the U.S. Department of Labor. Monies in this grant require legislative appropriation under federal law. For FY 2006, the Legislature appropriated $3,614,000 from the WIA grant for discretionary WIA activities, contingent on Committee review. In July 2005, the Committee favorably reviewed an expenditure plan for $2,307,000, with the understanding that expenditure plans for the remaining monies would be presented at a future date. DES is now presenting the expenditure plan for an additional $77,000. After this expenditure, the amount remaining for review is $1,230,000.

DES's submission is a recommendation from the Governor's Council on Workforce Policy (GCWP) to provide $77,000 to the Pima Council on Aging (PCOA) for the Mature Worker Connection (MWC) program. This program is a job placement service for job seekers age 50 and older in Pima County. While the program is open to all age 50+ job seekers, it specifically targets women, minorities and low income seniors. The PCOA is also partnering with local one-stop in Pima County to provide a database and computer system that provides information on jobs, applicants and employers specific to the age 50+ job seekers. The database is intended to eventually interface with the Virtual One-Stop (VOS) system. The PCOA is considering the placement of representatives for the MWC program in the local one-stops.

Table 1 shows this requested expenditure as well as expenditures already approved in FY 2005 and FY 2006.

Table 1

Governor's Council Recommendation of 15% Set-Aside

Programs to be Reviewed	**Agency**	**FY 2005**	**FY 2006**	**Net Change**
Mature Worker Connection		$ -	$ 77,000	$ 77,000
Subtotal: Plan to be Reviewed		**$ -**	**$ 77,000**	**$ 77,000**
Programs Favorably Reviewed by Committee				
Jobs for Arizona Graduates		$184,900	$ -	$(184,900)
Training for LWIAs	LWIA	170,000	-	(170,000)
Local Labor Market Information	ADOC	180,000	-	(180,000)
Early Childhood Educators Scholarships	ADE	433,000	-	(433,000)
High Tech Education	ADOC	250,000	-	(250,000)
Master Teacher	ADE	450,000	-	(450,000)
Postsecondary Preparedness	GOV	150,000	-	(150,000)
Youth Programs	LWIA	301,000	-	(301,000)
Women's Programs	GOV	450,000	-	(450,000)
Eligible Training Provider List	ADE	127,000	127,000	-
Incentive Funds for LWIAs	LWIA	500,000	350,000	(150,000)
Technical Assistance	LWIA	250,000	250,000	-
System Building	LWIA	300,000	300,000	-
High Concentration of Youth Activities		200,000	150,000	(50,000)
Virtual One Stop	DES	325,000	300,000	(25,000)
Evaluation	GOV	125,000	100,000	(25,000)
Apprenticeship	ADOC	70,000	130,000	60,000
ADOC/State Council	ADOC	600,000	600,000	-
Subtotal: Plan Already Reviewed		**$5,065,900** [1/]	**$2,307,000**	**$(2,758,900)**
Unallocated Appropriation		**$ -**	**$1,230,000**	**$1,230,000**
TOTAL 15% SET-ASIDE		**$3,266,600**	**$3,614,000**	**$ 347,400**

1/ Includes $974,900 in prior year funding not expended in FY 2004

Legend

ADE	Department of Education	LWIA	Local Workforce Investment Areas
GOV	Governor's Office	ADOC	Department of Commerce
DES	Department of Economic Security	CC	Community Colleges

In FY 2005, the Committee favorably reviewed nearly $1.4 million of WIA grant monies for new programs with the condition that the department provide the Committee with performance measures for these new programs. At the June 28, 2005 meeting, the Committee reviewed the last of these programs and asked that the performance measures be submitted by September 1. To date, the department has failed to submit any of the requested performance measures. This failure appears to be, at least in part, a result of the lack of coordination between DES and the Department of Commerce, which staffs the GCWP and makes recommendations on how to spend the WIA grant monies.

RS/EJ:ck

ARIZONA DEPARTMENT OF ECONOMIC SECURITY

Janet Napolitano
Governor

1717 West Jefferson - P.O. Box 6123 - Phoenix, AZ 85005

David A. Berns
Director

The Honorable Robert L. Burns, Chairman
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington
Phoenix, Arizona 85007

Dear Senator Burns:

The Arizona Department of Economic Security (DES) requests to be placed on the agenda at the upcoming, December 20, 2005, Joint Legislative Budget Committee Meeting for the review of federal Workforce Investment Act (WIA) projects funded with WIA discretionary monies pursuant to Laws 2004, 2nd Regular Session, Chapter 275, which includes the following footnote:

> "Monies appropriated to the workforce investment act – discretionary special line item may not be expended until a proposed expenditure plan has been reviewed by the joint legislative budget committee."

The Governor's Council on Workforce Policy (GCWP) met on October 4, 2005 and identified $77,000 in Set-Aside funds to go to the Pima Area on Aging for a Mature Worker Connection program to be funded in FY 2006 from the $3,614,000 of appropriated WIA discretionary funding. Please see Attachment 1 for description of the program.

The GCWP anticipates identifying additional projects to be funded from the remaining WIA appropriated discretionary expenditures at a future meeting. DES will then forward the GCWP recommendations to the Joint Legislative Budget Committee (JLBC) for review prior to expenditure of these remaining funds.

If you have any questions, please contact me at (602) 542-5678.

Sincerely,

David A. Berns
Director

DB:SC:mlh

C:
The Honorable Russell K. Pearce, Vice Chairman, Joint Legislative Budget Committee
Richard Stavneak, Director, Joint Legislative Budget Committee
Clark Partridge, State Comptroller, Arizona Department of Administration
David Yaquinto, Director, Governor's Office of Strategic Planning and Budgeting

WIA ACTIVITIES
Recommended by the Governor's Council on Workforce Policy
October 4, 2005

Pima Area on Aging for a Mature Worker Connection program:

The Mature Worker Connection (MWC) will be a job placement service for all job seekers in Pima County age fifty and older. Job seekers will be placed in a variety of positions from entry-level service and maintenance jobs to professional and administrative positions.

Although it will serve all applicants, the program will place special emphasis on serving women, ethnic minorities, lower income seniors and conducting outreach in retirement communities, faith communities and other areas where mature workers reside. The program directly supports a number of the priorities in the Governor's Aging 2020 plan.

The Pima Council on Aging (PCOA) is interfacing with Pima County's One-Stops by forming a coalition with other Title V providers in the County. PCOA has designed, documented and tested a database and computer system providing information on applicants, employers and jobs that can be modified to interface with VOS. This program will compliment the work being done by the One-Stop Centers by providing specialized services for mature job seekers that can be transferable to other centers once developed and documented. Furthermore, the PCOA is looking at having a representative from MWC located at the One-Stop Centers.

There are approximately 300,000 seniors ages fifty and older in Pima County. Increasing numbers of these seniors are seeking paid employment because of the past economic downturn, loss of pension benefits, increasing healthcare costs and fear of outliving their retirement savings. Others feel a basic need to work, contribute and feel productive.

Pima County and the State of Arizona have established specialized job placement services for disadvantaged youth, persons with disabilities, and other groups that have encountered employment barriers. Seniors in Pima County with poverty level incomes qualify for specialized employment assistance. The remaining 97 percent of the senior population, including many at low income levels, have no place to go for specialized employment assistance, services where their unique situation is understood and dealt with. MWC will provide the friendly atmosphere, personal support, advocacy, individual case management, job seeking skills training and follow through with employers that will enable senior job seekers to overcome barriers and find meaningful employment.