AHCCCS
Arizona Health Care Cost Containment System

Douglas A. Ducey, Governor
Thomas J. Betlach, Director

March 28, 2017

The Honorable Don Shooter
Chairman, Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Dear Representative Shooter:

Pursuant to a footnote in the General Appropriation Act, the Arizona Health Care Cost Containment System (AHCCCS) is required to report to the Joint Legislative Budget Committee (JLBC) by March 1 annually "on the preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes."

AHCCCS is Arizona's single state Medicaid agency; however, the Arizona Medicaid system includes state agency subcontractors including the Department of Economic Security and the Department of Child Safety. The preliminary estimates contained in this letter address the capitation rates for Contract Year Ending (CYE) 2018 (October 1, 2017 through September 30, 2018, unless otherwise noted) for the following programs:

- Acute Care
- Behavioral Health
- Children's Rehabilitative Services (CRS)
- Arizona Long Term Care System (ALTCS) Elderly and Physically Disabled (EPD)
- ALTCS DES/Division of Developmental Disabilities (DDD) (July 1, 2017 through June 30, 2018)
- DCS/Comprehensive Medical and Dental Program (CMDP) (July 1, 2017 through June 30, 2018)

This preliminary review of capitation rates for contract year ending (CYE) 2018 allows for the following:

- Funding utilization increases and unit cost trends
- Provider rate increases for select providers if access to care analysis merits such increases, and other provider rate considerations
- Continuation of mid-year provider rate changes
- Consideration of utilization increases for members with, or at risk of, Autism Spectrum Disorder
- Consideration of behavioral health utilization increases for children in foster care

This letter is designed to provide policymakers with information to inform funding-related discussions during the legislative session, given that capitation rate calculations will occur during the late-spring and early summer months. For FY 2018, both the Executive Budget Recommendation and the recommendation of the JLBC staff would permit AHCCCS to increase capitation rates up to 3.0%. Please note that Federal law does require that capitation rates be actuarially sound, meaning that all expected expenses must be covered by the rates. However AHCCCS does strive to meet the recommended limit on the capitation rates increase while staying compliant with this Federal regulation.

Over the past eight years, AHCCCS capitation rates have grown by 5.1% in total, at an average annual rate of 0.72%. Nationally, the average Medicaid per enrollee cost has increased by 15.5% in total, at an average annual rate of 2.1%, and is projected to grow at an average annual rate of 5.0% through 2025. In comparison, per capita national health expenditures for all payers during this same period increased by 28.2%, at an average annual rate of 3.6%, and are projected to grow at an average annual rate of 5.1% through 2025. Since FY 2008, General Fund support for Medicaid across all agencies has grown by only 11% while enrollment has increased by approximately 830,000 members since that time.

It is clear AHCCCS has employed a variety of levers to keep growth in program spending low and far below national figures. AHCCCS continues to develop initiatives such as integration, value-based purchasing and care coordination projects designed to reduce the overall growth in the cost of care for its members. However, there are cost pressures that moving forward will need to be recognized in order to assure ongoing access to care for AHCCCS members. Broadly, AHCCCS has concerns about its ability to assure access to care without some recognition of increasing provider costs.

The issues that are outlined below will all be incorporated into the rates for October 1, 2017.

Utilization and Unit Cost Trends

AHCCCS' actuaries have not had an opportunity to update the comprehensive review of historical utilization or unit cost trend data based on the most recent dates of service. System programming to extract recent data is in process and such a review shall commence this spring. The actuaries will ascertain how utilization and unit cost trends should impact capitation rates for CYE 2018 across all programs so that policy decisions can be finalized to develop the capitation rates in accordance with budgetary expectations. Please note that unit cost increases can occur for a variety of reasons, even when provider reimbursement levels are flat or decreasing. Unit cost trends increase when the mix of the services utilized by members shift to more costly services. Pharmacy costs also contribute to increasing trends as AHCCCS cannot influence pharmaceutical pricing. AHCCCS' actuaries have observed double-digit growth in the limited use of brand-name drug expenditures.

Provider Rates

Provider Rate Adjustments Due to Access to Care
The AHCCCS Administration and its contracted Managed Care Organizations (MCOs) are responsible for ensuring an adequate network of providers to secure members' access to needed care. AHCCCS has extensive tools in place to monitor network adequacy among various provider types. As part of this process, AHCCCS conducts yearly reviews of how rate reductions, and conversely rate increases, impact access to care. Past studies have been published on the AHCCCS website, are made available for public comment, and can be found at: https://www.azahcccs.gov/PlansProviders/RatesAndBilling/FFS/

The provider reimbursement rate review considers, among other things, factors such as the economy and market trends (including employment trends and wage pressures for providers), access and network adequacy, and potential opportunities for efficiencies. AHCCCS will complete this access to care analysis to inform its provider rate decisions for CYE 2018. The Centers for Medicare and Medicaid Services (CMS) will review AHCCCS' recommendations to determine whether the proposal meets federal access to care requirements.

In addition to these standard reviews, CMS has recently implemented heightened scrutiny on rate changes, including establishing additional reporting requirements regarding fee-for-service (FFS) rate changes and the implications of those changes on access to care. These requirements include both a periodic monitoring report as well as a specific analysis each time rates are changed. The analysis is required for access to care for primary care services, specialist services, behavioral health services, obstetrics and home health. Arizona must consider the availability of Medicaid providers, utilization of Medicaid services and the extent to which Medicaid beneficiaries' healthcare needs are fully met and demonstrate that Medicaid beneficiaries have access to healthcare that is similar to that of the general population. In accordance with this new mandate regarding access to care reporting beginning in 2016, AHCCCS' first Monitoring Review Plan can be found on the AHCCCS website at https://www.azahcccs.gov/AHCCCS/PublicNotices/ under the Access Monitoring Review heading.

Below are specific areas of focus but ultimately the access to care analysis will further inform the need for rate changes.

Pressures on Home and Community Based Services (HCBS) Rates
Federal law and regulatory changes over the last several years have created compounding pressure on in-home care providers who are critical partners in AHCCCS' cost-saving HCBS model of care and for whom AHCCCS is the predominant source of revenue. These requirements include:

- the Affordable Care Act's 'large employer" health insurance coverage mandate for employers with at least 50 full-time employees (or equivalent full- and part-time workers) and their dependents
- the Department of Labor's (DOL) home care final rule which extends minimum wage and overtime protections to home care workers (for weekly hours exceeding 40)

- the DOL ruling that travel time between multiple clients during a workday is considered hours worked under the Fair Labor Standards Act and must be paid and counted toward the 40-hour work week

In addition to these federally-driven rate impacts, the passage of Proposition 206 has compounded previously-reported wage pressure and related challenges in recruiting HCBS providers. AHCCCS and DDD increased ALTCS provider rates effective January 1, 2017, to address increased labor costs associated with the Proposition. In addition to these increased labor costs, wage compression is an additional challenge to retaining direct care providers, particularly when considering that HCBS providers already had challenges attracting individuals to work in direct care, which is more demanding both from a training and day-to-day work basis than jobs that pay comparable salaries.

Funding may also be needed to address Proposition 414 passed in Flagstaff, Arizona, which mandates that effective July 1, 2017, minimum wage shall be $2 higher than the state's minimum wage. AHCCCS is currently researching access issues in this part of the state to determine if a regional adjustment to HCBS rates will be necessary. Additionally, effective January 1, 2018, the next increase to the minimum wage is required.

It is imperative that AHCCCS ensure continued availability of direct care services to offer members HCB services that meet the members' needs in the least restrictive and least costly settings.

Value Based Purchasing Differentiated Provider Rates
Value-Based Purchasing (VBP) is a cornerstone of AHCCCS' strategy to bend the upward trajectory of health care costs. AHCCCS continues to implement initiatives to leverage the managed care model toward value based health care systems where members' experience and population health are improved, per-capita health care cost is limited to the rate of general inflation through aligned incentives with managed care organization and provider partners, and there is a commitment to continuous quality improvement and learning. One such initiative which began in CYE 2017, and will be modified for CYE 2018, is increased payment rates for select AHCCCS-registered providers which meet established value based performance metrics requirements, including:

- Hospitals
- Nursing facilities
- Integrated Clinics
- Physicians, Physician Assistants, and Registered Nurse Practitioners

The purpose of the VBP differentiated payment is to distinguish providers which have committed to supporting designated actions that improve patients' care experience, improve members' health, and reduce cost of care growth. More information is available here: https://www.azahcccs.gov/AHCCCS/Downloads/PublicNotices/rates/ValueBasedPaymentPublicCommentProposal_011317.pdf.

Pediatric Hospital Funding
In 2012 CMS approved the Safety Net Care Pool (SNCP) program designed to help hospitals with managing the burden on uncompensated care costs. This was approved at a time when the State had frozen new enrollment for its childless adult category (0-100% FPL). Many hospitals across the State participated in the SNCP, and the program proved to be incredibly valuable as a bridge to 2014. The program ended on December 31, 2013, in anticipation of the State's restoration of childless adult coverage and addition of new coverage for adults 100-133% FPL. However, SNCP was extended on a short-term basis for Phoenix Children's Hospital (PCH), to address issues unique to this freestanding children's hospital that did not benefit from adult coverage restoration and expansion.

With the expiration of SNCP looming for PCH, AHCCCS has been exploring sustainable and appropriate options for increasing funds for the freestanding pediatric hospital. AHCCCS will continue to identify new or expanded funding opportunities to support these critical pediatric services for CYE 2018.

Continuation of Mid-Year Funding

Annualize the Provider Rate Adjustment for Minimum Wage
As described previously, AHCCCS adjusted provider rates to reflect the minimum wage increase effective January 1, 2017. Capitation rates will be amended for CYE 17 to include the additional funding needed by MCOs to pay these higher wages. When the CYE 17 cap rates are amended for this purpose, funding will only be provided for half the year for DDD, and three-quarters of the year for other AHCCCS programs. Annualizing the CYE 17 adjustment for minimum wage in the CYE 2018 capitation rates will require an estimated $38 million.

Annualize the Inpatient Hospital High Acuity Pediatric Adjustor
The AHCCCS All Patient Refined Diagnosis Related Group (APR-DRG) payment system for inpatient hospital care includes several policy adjustors. One such adjustor applies a factor of 1.25 to the reimbursement amount that would otherwise apply for "claims for members under age 19," so long as the claim is not subject to one of the other policy adjustors.

Beginning January 1, 2016, AHCCCS implemented a new payment adjustor associated with high-acuity pediatric cases. This payment modification provided for an adjustment factor of 1.60 in place of the original pediatric policy adjustor for claims which are determined to have higher acuity (identified by specific APR-DRG Severity of Illness codes). Effective January 1, 2017, AHCCCS increased the high acuity pediatric adjustment factor to 1.945. Funding for the January 1, 2017 adjustment was included in the CYE 17 capitation rates for three-quarters of the year; the CYE 2018 rates will include the full-year impact.

Committee Recommendations for Specific Populations

Members With, or At Risk of, Autism Spectrum Disorder
In April 2015 the Governor's Office established the statewide ASD Advisory Committee representing a broad range of stakeholders to address and provide recommendations to strengthen services for the treatment of Autism Spectrum Disorder (ASD). In February 2016 the

ASD Advisory Committee finalized its recommendations to respond to the needs of AHCCCS members with or at risk for ASD. The recommendations include both systems-level changes that will take time to implement as well as short-term activities that could more quickly enhance an understanding of the current system by the full range of stakeholders and improve health care for AHCCCS members with ASD. Those short-term solutions cover a myriad of issues including, but not limited to, expansion of contracted providers; addition of behavioral health service codes; provision of education to members, families, providers and other stakeholders; and increased access to specified providers. AHCCCS' actuaries will continue to monitor future utilization and cost trends to determine if adjustments are warranted due to this increased focus on members with or at risk of ASD.

Children in Foster Care

Children involved with the foster care system have unique health care needs often characterized by significant risk of experiencing behavioral health conditions and concomitant chronic medical issues. Senate Bill 1375 (2013 Legislative Session) required AHCCCS, in collaboration with DCS and ADHS, to determine the most efficient and effective way to deliver services to children in foster care, and to examine specific issues related to the provision of behavioral health services to those children and their adoptive parents. A report published in October 2015 summarizes the recommendations of the state agency collaborative, including the need to institute continued improvement efforts through the existing delivery system structure through September 30, 2019, followed by the implementation of an integrated CMDP contracted network model beginning October 1, 2019. Those short-term solutions cover a myriad of issues including, but not limited to, extending Medicaid enrollment for children exiting foster care; utilizing the Child and Family Team model to fidelity; increased monitoring regarding timeframes for behavioral health screening and evaluation; and training to foster caregivers. AHCCCS' actuaries will continue to monitor future utilization and cost trends to determine if adjustments are warranted due to these short-term initiatives to improve access to behavioral health services for children in foster care.

Substance Abuse Services

On February 23, 2016, Governor Doug Ducey established the Arizona Substance Abuse Task Force to focus on "addressing and reversing the growing epidemic of drug abuse and addiction in Arizona communities by finding the best treatments and reducing barriers to care." The Governor identified a need to focus on prevention and treatment activities as a key component of addressing the needs of individuals with substance use disorder. In October 2016 the Task Force finalized over one hundred recommendations to improve the system of care for substance use disorders, including increasing access to treatment services[1]. AHCCCS' actuaries will have to determine if adjustments are warranted due to the implementation of AHCCCS-related recommendations.

[1] This Report can be found at
http://substanceabuse.az.gov/sites/default/files/files/substance_abuse_task_force_final_0.pdf

Other Changes

Health Insurer Fee
Under the Affordable Care Act, beginning on January 1, 2014, health insurers including Medicaid health plans are required to pay a health insurer assessment due by September 30 each year. Assessments are based on each insurer's market share of the previous year's revenue as calculated by the US Treasury Department, and increase each year. Certain exceptions apply. AHCCCS intends to update capitation rates annually on a retroactive basis after the Treasury Department notifies each entity of its Health Insurer Fee payable – such notification will occur after the capitation rates for the new contract year are already established. For this reason, AHCCCS will not include these assessment payments in the annual cap rates until later in the calendar year. The Consolidated Appropriations Act of 2016, Division Q, Title II, § 201, suspends collection of the Health Insurer Fee for the payment that would be due in 2017 (to be reimbursed in SFY 2018). Under current law, the fee will return for 2018 (to be reimbursed in SFY 2019).

The actuarial analysis for the rate adjustments will continue throughout the spring, and will be based on the most up-to-date encounter data and contractor financial statements available. Mandated or court-ordered program changes that occur prior to July 1, 2017 or October 1, 2017 may result in changes to these estimates.

Please direct any questions regarding this letter to Shelli Silver at shelli.silver@azahcccs.gov or (602) 417-4647.

Sincerely,

Thomas J. Betlach
Director

cc: The Honorable Debbie Lesko, Arizona State Senate
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