

HB

551-S

SENATE COMMITTEE REPORT

FURTHER

FINANCE

4/11/88

DATE TURNED INTO OFFICE \_\_\_\_\_

Mr. President:

\_\_\_\_\_ HESS \_\_\_\_\_ Committee considered \_\_\_\_\_ HB 551 \_\_\_\_\_

making fiscal year 1988 supplemental operating appropriations for the Medicaid program; efd

and recommended

replace with \_\_\_\_\_ CS \_\_\_\_\_ )  same title  
 or adopt \_\_\_\_\_ CS \_\_\_\_\_ )  new title

attached amendment(s) and

do pass

do not pass

no recommendation

individual recommendations

further referral to \_\_\_\_\_

letter of intent adopted \_\_\_\_\_

Committee  attached or  adopted fiscal note(s)

new  updated or  previous

zero  fiscal impact

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

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\_\_\_\_\_  
Chairman signature and recommendation

Committee Backup attached

*Senate HESS Waived*

# MEMORANDUM

# State of Alaska

TO: Karen Perdue, Deputy Commissioner  
Department of Health and  
Social Services

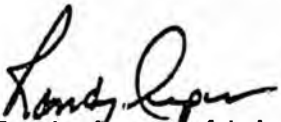
DATE: March 24, 1988

FILE NO.

TELEPHONE NO: 465-3355

THRU:

SUBJECT: FY88 Medicaid Balances

FROM:   
Randy Super, Administrative Officer  
Division of Medical Assistance

The following represents the FY88 Medicaid balances:

<u>Component</u>	<u>3/24 AKSAS</u>	<u>3/21 Checkwrite</u>	<u>Balance</u>
Medicaid Facility	\$2,986.4	\$1,309.1	\$1,677.3
Medicaid Non-Facility	\$2,574.4	\$ 648.8	<u>\$1,925.6</u>
			<u>\$3,602.9</u>

The average weekly checkwrite for Medicaid Facility and Medicaid Non-Facility are \$1,360.5 and \$692.7 respectively. Assuming those rates of expenditure, the Division of Medical Assistance will be able to meet the checkwrite of March 28 and approximately three quarters of the April 4 checkwrite:

Balance	\$3,602.9
Less 3/28 weekly	<u>\$2,053.2</u>
Subtotal	\$1,549.7
Less 4/4 weekly	<u>\$2,053.5</u>
Final Balance	(\$ 503.8)

A revised program transferring funds from another component would be necessary at that time to balance the books. The Division will have to suspend claims payments after the checkwrite of April 4 until such time as the supplemental funds request is available on AKSAS.

SENATE COMMITTEE REPORT

FURTHER

DATE TURNED INTO OFFICE 4/15/88

4/12/88  
Mr. President:

Finance Committee considered HB 551

making fiscal year 1988 supplemental operating appropriations for the Medicaid program; efd

and recommended

replace with \_\_\_\_\_ CS \_\_\_\_\_ )  same title  
 or adopt \_\_\_\_\_ CS \_\_\_\_\_ )  new title

attached amendment(s) and

do pass

do not pass

no recommendation

individual recommendations

further referral to \_\_\_\_\_

letter of intent adopted \_\_\_\_\_

Committee  attached or  adopted fiscal note(s)

new  updated or  previous  
 zero  fiscal impact

MEMBERS SIGNING DO PASS  
[Signature]  
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OTHER RECOMMENDATIONS  
\_\_\_\_\_  
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\_\_\_\_\_

[Signature]  
Chairman signature and recommendation

Funding Information  
General Fund \$ 8,345,000  
Other Funds 10,089,600  
\$18,434,600

1 IN THE HOUSE BY THE FINANCE COMMITTEE

2 HOUSE BILL NO. 551

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act making fiscal year 1988 supplemental operat-  
7 ing appropriations for the Medicaid program; and  
8 providing for an effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 \* Section 1. The sum of \$9,940,000 is appropriated to the Department of  
11 Health and Social Services, Medicaid nonfacility program, to pay for unmet  
12 program costs for the fiscal year ending June 30, 1988, from the following  
13 sources:

14	Federal Receipts	\$4,970,000
15	General Fund Match	4,970,000

16 \* Sec. 2. The sum of \$8,494,600 is appropriated to the Department of  
17 Health and Social Services, Medicaid facility program, to pay for unmet  
18 program costs for the fiscal year ending June 30, 1988, from the following  
19 sources:

20	Federal Receipts	\$5,119,600
21	General Fund Match	3,375,000

22 \* Sec. 3. The appropriations made by this Act lapse June 30, 1988.

23 \* Sec. 4. This Act takes effect immediately under AS 01.10.070(c).

Jay Hogan, Associate Director  
Office of Management & Budget

465-3030

FY88 Supplemental  
Request

Myra M. Munson, Commissioner  
Department of Health and  
Social Services

The Department of Health and Social Services requests an FY88 Supplemental appropriation of \$18,434.6 to the Medical Assistance BRU:

	<u>GF</u>	<u>Federal</u>	<u>Total</u>
Medical Assistance			
Medicaid Facilities	3,375.0	5,119.6	8,494.6
Medicaid Non-Facility	4,970.0	4,970.0	9,940.0
	<u>8,345.0</u>	<u>10,089.6</u>	<u>18,434.6</u>

Based upon current expenditure patterns, the Department's projected level of FY88 payments for Medicaid services is \$18.4 million greater than the amount appropriated for the fiscal year. This projected shortfall results from the following inter-related factors: FY87 unmet need, FY88 new providers and increased cost and utilization.

	<u>FY87</u>	<u>New</u>	<u>Cost</u>	<u>Totals</u>
	<u>Unmet</u>	<u>Prov-</u>	<u>and</u>	
	<u>Need</u>	<u>iders</u>	<u>Util.</u>	
Medicaid Facilities	1,461.0	2,479.0	4,554.6	8,494.6
Medicaid Non-Facilities	2,089.7	-0-	7,850.3	9,940.0
	<u>3,550.7</u>	<u>2,479.0</u>	<u>12,404.9</u>	<u>18,434.6</u>

I. FY87 Unmet Need

\$3,550.7 of Medicaid payments, which would have been processed and paid from FY87, were delayed and paid from FY88. This results in a direct reduction of the FY88 available base. At the critical time when a supplemental could have been requested, the Department was unable to analyze facility payments information required to anticipate final year-end balances. During April, 1987 the state's fiscal intermediary attempted to process claims history for retroactive FY86 facility rate adjustments. This effort failed for several reasons resulting in inaccurate amounts paid to facilities.

Additionally, claims history was incorrectly written and the facility rate reference file was overwritten with incorrect data. It took the contractor six weeks to identify and begin correcting all of the problems caused by the failed effort.

Following correction of the processing problems in early June, the FY87 authorization was exhausted. Had the Department not made the payments from FY88, the payments would have been suspended at least 9 months awaiting supplemental legislative appropriation.

## II. FY88 New Providers

The Charter North Psychiatric facility opened in September, 1984. The opening of this facility and the providing of services for Medicaid recipients was never budgeted since Medicaid recipients were specifically not targeted in Charter North's certificate of need application. Subsequently, however, the department has seen a steady growth in the number of Medicaid recipients served by Charter North. The unbudgeted payments to Charter North in FY87 amounted to \$1.4 million and are expected to be \$1.7 million in FY88.

For FY88 the Division of Medical Assistance budgeted and the legislature appropriated \$461.5 for the Mary Conrad Center assuming the certificate of need rate of \$93 per day. The latest estimate of Mary Conrad's FY88 rate is \$250 per day. Assuming the same occupancy level as originally budgeted (4,962 days) and a January 1, 1988 opening date, the Division is projecting a FY88 shortfall of \$779.0.

4,962 days X \$250 per day	=	\$1,240.5
Less FY88 Appropriation	=	461.5
FY88 Projected Shortfall	=	\$ 779.0

## III. Cost and Utilization

The remaining \$12.4 million of supplemental need is attributable to cost and utilization factors. The Department is unable to precisely allocate costs between these factors. The attached chart demonstrates that a disparity exists between budgeted and actual amounts for price. However, the Department lacks the data to accurately allocate cost changes to shifts in recipient/provider utilization patterns.

The Medicaid Rate Commission indicates that the FY88 long term care expenditures have increased an average of 9.5%. This reflects increases for utilization and price, recipient shifts to more expensive facilities, and the payment by third parties of fewer of the recipients' costs. The Medicaid Rate Commission also indicates that expenditures have increased approximately 40% for Acute Care from FY86 to FY88. This results from increases in utilization of facility services, increases in price (facility costs), and shifts to in-state providers from out-of-state providers.

The Department requested, but did not receive, a conservative FY87 price increase of 3.7% based on the national consumer price index for all goods and services. However, according to the medical care services index of the federal Department of Labor's "Anchorage Consumer Price Index for All Urban Consumers", the actual rate of inflation for medical care services for that period was 15.7%.

The underfunding of price increases is again a factor in FY88. The Medicaid facilities component was appropriated a 2.5% price increase (\$1.3 million) while the Medicaid non-facilities component was not appropriated an increase. Based on the most current information, the Department is assuming that the rate of price increase will continue to be at least in the 13% to 15% range. It should be noted that the Department of Administration's consultant estimates approximately the same rate of increase. See copy of letter attached.

#### Projection Methodology

The Department has projected the FY88 formula need for the Medical Assistance program and used that projection as the base to which are added increases for price (inflation and new technology) and new eligibles (caseload growth in the Division of Public Assistance) for FY89.

The projection methodology for FY88 uses the average expenditure of the last four months of the prior fiscal year for each category of service. This methodology appears to be the most accurate reflection of what will occur in the projected period. The attached chart shows the actual expenditures for the last four months of FY87, including those FY87 claims which were carried forward to FY88 and the actual expenditures for the first six months of FY88. This methodology assumes the inflation rate of the last four months of FY87 will continue during FY88.

The attached chart reflects projections as of periods ending September 30, 1987, October 30, 1987 and December 31, 1987. As can be seen from the chart, the projections have small changes from period to period. The total difference for the Medicaid projection between the September and December periods is +\$1,373.7 or an increase of 1.4%. The most significant increase is in physicians' services, an increase of \$3,543.4 which reflects increased utilization and cost of those services.

#### Alternatives

Shortly after the first of the fiscal year the Department was able to analyze facility payments information and project FY88 expenditure levels. The Department was faced with the question of reducing optional Medicaid services and eligibles to the level projected to be supported by the available FY88

appropriation. This could have been implemented through the emergency regulation process. However, the elimination of optional services and eligibles would not have resulted in saving the full amount of the projected shortfall in the current year. There is normally a four to five month lag from date of service to claims payment when an average of 95% of the outstanding liability has cleared the payments system. These billing lags must be factored when achieving the full shortfall. Consequently, the reductions necessary to achieve the underfunding would require the elimination of all optional services and some mandatory Medicaid services which would jeopardize all Medicaid funding. Therefore, the Department chose the FY88 supplemental appropriation request route anticipating legislative approval. The attached table depicts the optional Medicaid services and eligible groups, the number of recipients served and the projected FY88 expenditure amount for each.

#### Management Initiatives to Contain Costs

The Department expects that some of the inflationary increases which would occur in FY89 will be mitigated by the new Medicaid Management Information System (MMIS). The cost containment strategy of profiling physician services at the 75th percentile will be correctly implemented in the MMIS. The implementation of all the program's policies in the new claims payment system will eliminate the honor system of providers not billing for non-covered services. Additionally, the Governor has included increments in the FY89 budget submission for physician and pharmacy surveillance and utilization review services as cost containment strategies. It is expected that all of these changes will serve to slow down the rate of increase in the Medicaid non-facility portion of the Medical Assistance program.

The Governor's Interim Health Care Commission was created by Administrative Order No. 100 in September of 1987. The Commission consists of 11 members, including the Commissioner of the Department of Health and Social Services; one member of the finance committee and one member of the health, education and social services committee of each house of the Legislature; and six members of the public knowledgeable about the provision of health care services in the state. Through a series of public meetings, the Commission will develop recommendations which it will publish and present to the Governor by March 1988. The recommendations will cover changes in laws, regulations, or policies which may be necessary to reduce the cost of health care and increase financial accessibility to health care services, with particular concern for Alaska's indigent population. The Commission's challenge will be to successfully reconcile the apparent conflict between limiting health care expenditures and expanding services. The Commission will explore new ways of providing essential services to needy Alaskans, while limiting the corresponding increase in health care costs.

DIVISION OF MEDICAL ASSISTANCE

BUDGET INCREASE FACTORS

	<u>Dept. Request</u>	<u>FY87 Authorized</u>	<u>FY87 Actual</u>	<u>National CPI</u>	<u>FY88 Dept. Request</u>	<u>Authorized</u>	<u>Projected</u>
<b>Medicaid Facility</b>							
Price	3.7%	0.0%	5.0%	15.7%	3.5%	2.5%	5.5%
Utilization	3.1%	3.1%	7.5%		0.0%	0.0%	6.5%
Eligibles	8.5%	8.5%	6.0%		6.3%	6.3%	6.0%
<b>Medicaid Non-Facility</b>							
Price	3.7%	0.0%	15.7%	15.7%	2.6%	0.0%	5.5%
Utilization	3.1%	3.1%	Unk.		0.0%	0.0%	6.5%
Eligibles	10.4%	10.4%	6.0%		6.3%	6.3%	6.0%

WILLIAM M.  
**MERCER-Meldinger-Hansen**  
PHARMACISTS

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January 28, 1988

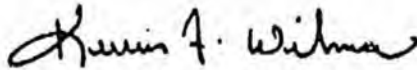
Ms. Kimberly Busch  
Director of Medical Assistance  
Department of Health & Social Services  
State of Alaska  
Pouch CR  
Juneau, Alaska 99811

Dear Ms. Busch:

During the remainder of 1988, we anticipate that overall medical costs will escalate nationally at a rate between 13 - 15%. This figure will, of course, vary geographically and with respect to individual medical cost components (i.e., physician charges, nursing home care etc.).

We hope that this information will be of assistance to you.

Most sincerely,



Kevin F. Wilma  
Consultant

KFW/jf

cc: Robert Stahlaker

TABLE OF MEDICAID PRIORITIES - AS 47.07.035

(Lowest to Highest)

Service	Recipients	FY88 Annual Amount
1. Chiropractic	600	410.0
2. Adult Dental	2,032	571.2
3. Emergency Hospital Services	-0-	-0-
4. Speech, Hearing & Language Disorders	298	113.0
5. Optometrists Services & Eyeglasses	4,543	984.0
6. Occupational Therapy	36	53.4
7. Prosthetic Devices	198	679.8
8. Medical Supplies & Equipment	330	
9. Clinic Services Includes Mental Health Clinics	1,384	3,979.2
10. Physical Therapy	224	255.4
11. Personal Care	96	526.8
12. Non-Institutional Long Term Care	-0-	-0-
13. Inpatient Psychiatric Services	69	5,570.5
14. Intermediate Care for the Mentally Retarded	116	10,566.1
15. Intermediate Care Services	400	17,108.6
16. Individuals Under 21 Not Eligible for AFDC	1,500	1,785.0
17. Skilled Nursing Services for Individuals under 21	14	786.3
18. Aged, Blind and Disabled Individuals	2,766	19,824.8
19. Individuals in a Hospital, Skilled or Intermediate Care Under 300% SSI level	49	2,800.2
20. Individuals Under 21 Under Supervision of the Department	500	595.0

13 Includes Alaska Psychiatric Institute

14 Includes Harborview Developmental Center

16-20 Are Eligibility Groups. The costs shown are included in the above optional services as well as the mandatory Medicaid services.

	APPROVED	AUTHORIZED	REQUEST	PROPOSED	
<b>MEDICAID</b>					
<b>MEDICAID HOSPITALS</b>					
800	Inpatient Hospital	21,679.9	24,007.9	(4,329.0)	24,559.6
805	Outpatient Hospital	3,573.5	4,441.8	(1,109.3)	4,619.8
807	Outpatient Surgical Centers	85.5	223.2	(143.7)	364.4
	<b>TOTAL M. HOSPITALS</b>	<b>25,337.9</b>	<b>30,519.3</b>	<b>(5,581.0)</b>	<b>29,543.8</b>
<b>MEDICAID PHYSICIAN SERVICES</b>					
815	Physician Services	10,271.5	15,636.6	(5,365.1)	18,249.8
816	Rural Health Clinics	38.8	112.2	(73.4)	158.0
	<b>TOTAL M. PHYSICIAN SERVICES</b>	<b>10,310.3</b>	<b>15,748.8</b>	<b>(5,438.5)</b>	<b>18,407.8</b>
<b>MEDICAID OTHER</b>					
820	Other Services	717.9	98.1	619.8	54.8
821	Speech Language Therapy	40.8	100.8	(60.0)	89.4
822	Mental Health Clinics	1,180.8	3,180.0	(1,999.2)	3,382.2
824	Home Health Care	43.0	120.6	(77.6)	141.6
825	Transportation	1,496.7	2,268.0	(771.3)	2,480.4
826	Glasses Non-EPSDT	524.5	820.8	(296.3)	843.0
827	Family Planning	177.7	122.1	55.6	119.4
828	Laboratory & Xray	157.4	127.5	29.9	40.2
830	Hysterectomy	85.2	888.6	(803.4)	605.8
831	Abortion	12.4	4.5	7.9	3.0
832	Sterilization	90.0	934.5	(844.5)	945.8
835	Physical Therapy	104.2	192.3	(88.1)	224.4
836	Occupational Therapy	51.2	55.8	(4.6)	50.4
837	Pros. Devices-Medical Equip	538.7	477.0	61.7	569.8
838	Part B Buy-In	430.1	803.4	(373.3)	699.4
840	Adult Dental	957.4	140.1	817.3	238.4
841	Personal Care	1,594.0	526.8	1,067.2	520.4
842	Chiropractic	184.0	302.7	(118.7)	427.4
	<b>TOTAL M. OTHER SERVICES</b>	<b>8,386.0</b>	<b>11,163.6</b>	<b>(2,777.6)</b>	<b>11,435.8</b>
<b>MEDICAID EPSDT</b>					
846	Laboratory & X-Ray			0.0	0.0
850	Other Services			0.0	0.0
851	EPSDT RSA	1,885.6	1,885.6	(.0)	1,885.6
852	EPSDT Dental Care	1,923.1	3,780.0	(1,856.9)	3,381.0
854	EPSDT Physician	38.6	64.2	(25.6)	68.0
855	EPSDT Glasses		0.0	0.0	0.0
857	Therapy		0.0	0.0	0.0
858	Pros. Devices-Medical Equip		0.0	0.0	0.0
859	EPSDT Transportation	423.6	264.9	158.7	231.0
	<b>TOTAL M. EPSDT</b>	<b>4,270.8</b>	<b>5,994.7</b>	<b>(1,723.9)</b>	<b>5,565.6</b>
<b>MEDICAID NURSING HOMES</b>					
870	Nursing Home Skilled	2,806.2	5,361.3	(2,555.1)	3,411.2
871	Nursing Home Intermediate	21,774.4	19,446.0	2,328.4	21,197.8
872	Nursing Home Hope ICF MR	3,881.6	4,824.0	(942.4)	4,369.6
875	Nursing Home Interim Payment				0.0
	<b>TOTAL M. NURSING HOMES</b>	<b>28,462.3</b>	<b>29,631.3</b>	<b>(1,169.0)</b>	<b>28,978.6</b>
<b>MEDICAID INDIAN HEALTH SERVICE</b>					
880	IHS Clinic	85.0	313.7	(228.7)	313.7
881	IHS Inpatient	754.9	3,487.2	(2,732.3)	3,487.2
882	IHS Outpatient	2,371.4	1,155.1	1,216.3	1,155.1
	<b>TOTAL M. IHS</b>	<b>3,211.4</b>	<b>4,956.0</b>	<b>(1,744.6)</b>	<b>4,956.0</b>
<b>TOTAL ALL MEDICAID SERVICES</b>					
		<b>79,978.7</b>	<b>98,413.3</b>	<b>(18,434.6)</b>	<b>98,887.6</b>
<b>GENERAL RELIEF MEDICAL</b>					
<b>GRM HOSPITAL</b>					
900	Inpatient Hospital	4,746.8	3,235.8	1,511.0	2,722.2
905	Outpatient Hospital	106.3	149.4	(43.1)	20.2
	<b>TOTAL GRM HOSPITAL</b>	<b>4,853.1</b>	<b>3,385.2</b>	<b>1,467.9</b>	<b>2,742.4</b>
930	<b>GRM PHYSICIANS SERVICES</b>	<b>797.6</b>	<b>870.0</b>	<b>(72.4)</b>	<b>639.2</b>
<b>GRM OTHER SERVICES</b>					
939	GRM Other Services			0.0	0.0
940	Pharmaceuticals XIX	2,338.6	3,374.7	(1,036.1)	3,365.4
941	Pharmaceuticals GRM	165.0	118.5	46.5	88.0
942	Transportation	97.8	71.1	26.7	102.2
943	Dental Care XIX			0.0	48.6
944	Dental Care GRM			0.0	31.0
945	Other Services			0.0	0.0
946	Glasses & Hearing Aids			0.0	1.2
947	Pros Device-Medical Equipment			0.0	0.0
948	Therapy			0.0	0.0
950	Independent Labs			0.0	6.2
951	Nursing Home Care	146.4	458.4	(312.0)	221.8
955	Family Planning	29.8	1.2	28.6	0.2
956	Abortion XIX	91.7	366.3	(274.6)	392.0
957	Sterilization (ALL OTHER)		0.0	0.0	0.6
958	Abortion GRM	30.0	36.9	(6.9)	30.0
	<b>TOTAL GRM OTHER SERVICES</b>	<b>2,899.3</b>	<b>4,427.1</b>	<b>(1,527.8)</b>	<b>4,287.2</b>
	<b>TOTAL ALL GRM SERVICES</b>	<b>8,550.0</b>	<b>8,682.3</b>	<b>(132.3)</b>	<b>7,668.8</b>
<b>ALASKA LONGEVITY BONUS H.M.</b>					
		<b>1,143.0</b>	<b>1,143.0</b>	<b>0.0</b>	<b>1,143.0</b>
<b>TOTAL MEDICAL ASSISTANCE</b>					
		<b>89,671.7</b>	<b>108,238.6</b>	<b>(18,566.9)</b>	<b>107,699.4</b>