

ALASKA LEGISLATURE COMMITTEE FILES 2001-2002 8672

10520 SENATE HEALTH EDUCATION & SOCIAL SERVICES 365

IX. FISCAL IMPACT SUMMARY

This section includes a brief summary of the fiscal impact on the State of Alaska if a Medicaid-funded School-Based Health Services program were implemented. This summary was prepared by an independent consulting firm, Outcomes Plus. Calculations were made by Joseph Madden.

BUDGET METHODOLOGY

INTRODUCTION

The budgetary assumptions were based on data provided by different factions from the state of Alaska. This section will describe the process of how the provided data was implemented in the calculations of the budget.

The goal of this analysis was to assimilate a budget that was consistent throughout each step.

The Juneau School District supplied us with the most comprehensive data. We determined to predict their annual expenses (costs, and, therefore, the basis for reimbursement) for predicting the other school district's expenses.

There are significant differences between the Juneau district and some of the other districts, those differences will be addressed.

JUNEAU SCHOOL DISTRICT

The type of services and the number of students receiving billable services was found on form A1. Occupational therapy, speech therapy, physical therapy, vision services, psychological evaluations, basic mental health, counseling and access mental health were the services evaluated. Additional, nursing and health services were included as expenses.

The next step in the process was to determine the level of service delivered. Hours per month and number of interactions per year were based on assumed direct service levels of twice weekly at 20 minutes each plus indirect service of 20 minutes/week. The number of students engaging nursing services was based on the average assessment and plan coordination of one hour/month per student identified needing nursing services on their IEP. The level of health aide services was based on Juneau District's estimate of ten Medicaid-eligible students who required health care aids an average of four hours/month. Without thorough evaluation of how services are delivered, this estimate is also very conservative in frequency.

The hourly rate (\$70/hr, \$35/hr) was based on the contractor's experience with fees paid for these services in the State of Oregon and compared with salary schedules provided by Juneau School District. It was determined through the federal government pay differential for federal employees serving in Alaska that the differential between Oregon and Alaska rates were 25%, hence the additional expense. Psychological evaluation service costs were based on an assumed evaluation time of 8 hours per school year.

The costs were determined by multiplying # Students, Hrs/mos, Times/yr, AK 25% differential and that result is posted in the cost column. Health services expenses (3.5%) were determined from the actual medical evaluation expenditures of the Juneau School District.

Transportation expense was based on assumptions provided by average daily transports of six-miles one way twice weekly for the school year or 96/mi/mo. The costs were determined by multiplying # Students/Miles/mos, Times/yr, AK 25% differential and that result is posted in the cost column.

The total is \$1,357,872. The ratio of 24% billable was defined by assuming the actual percent of Medicaid-eligible children receiving a special education service through Oregon's billing program, resulting in a Medicaid eligible amount of \$352,889. The State of Alaska's reimbursement rate is 50%, therefore, Alaska's share of the cost is \$162,945.

SERRC SCHOOL DISTRICTS

SERRC is a provider that many of the school districts employ to deliver services to their students. Their level of service is significantly different than the Juneau School District. Therefore, it was necessary to group these districts together and compute the aggregate expenses. The districts included in this group are listed in Table 3, "SERRC School Districts."

There are two major assumptions with this group of districts:

1. The expense and hours per students were the same within all the school districts in this group.
2. The percentages of students receiving specific services are equal to the percentages that the Juneau students are receiving.

The hour per month figures were provided by SERRC information which assumes only one hour/month for each direct service provided by a billable service provider.

The next step was to determine the number of students receiving specific services within this group. The first step was to determine the percentage of Juneau students receiving specific services.

The total number of students in Juneau for fiscal year 1996 was 5,515. This figure was derived from the table of "Medicaid Eligible Students by School District, Age 5-20". It was determined by the Alaska Department of Education federal report that 13% of total students are special education students.

We know the number of Juneau students that received specific services from table A1. Therefore, we determined the ration of specific services by taking the actual count of students divided by the total number of special education students. Please refer to Table 2, "Service Coefficients".

The next step was to aggregate the total number of students in SERRC school district, 15,692 students. Then 13% of them, 2,040 students, are determined to be special education students. We took the ratio (e.g. 5% received OT) calculated in Table 2, and multiplied them by the 2,040 special education students to determine the number of students within the SERRC coverage that received the specific services.

With the assumed number of students receiving specific services, we then applied the same formula of multiplying #Students, Hrs/ mo, Times/yr, AK 25% diff and that result is posted in the cost column. Please refer to "Table 4, SERRC School Districts."

In this example, transportation expense is left out. There was not enough definitive information to generate a reasonable prediction. This is primarily due to Alaska's demographic and geographic structure. We believe that transportation expense is a significant factor.

Given the calculations and assumption, the total for the SERRC schools is \$1,433,245 with \$343,979 being Medicaid eligible. Alaska's share of the expense would be \$171,989.

AGGREGATE ALASKA SCHOOL DISTRICTS

The last group were the school districts remaining after the consideration of the SERRC schools and Juneau. This group represents nearly 83% of the students. The methodology implemented was the same as used in the SERRC calculations, with the exception that the amount of service, hours/month, was calculated at the Juneau rates. This is a significant assumption given the wide variation in district demographic and geographic characteristics.

We implemented the same percentage of specific services (e.g. 5% for OT). There are a total of 101,453 students in this group, with 13,189 students receiving special education, refer to Table 5, "Aggregate AK School Districts".

As with the SERRC group, transportation expenses were not included due to a lack of clearly defined parameters.

The total expense for this group was \$21,842,685, with \$5,242,244 Medicaid eligible. This left Alaska's share of this expense at \$2,621,122.

Implementation costs equal	\$471,750	All activities
Annual Operating expenses equal	\$862,600	Statewide

At full implementation:

Revenue Projections	\$2,621,122	
Less Operating Costs	- 862,600	
<hr/>		
PROJECTED ANNUAL TOTAL impact:	\$1,758,522	Anticipated federal revenue to the State of Alaska minus operating costs to generate the revenue

gible for Medicaid. The Task Force acknowledges the value of home and community-based long-term care services and recommends this legislation be introduced for further consideration. (Please see Appendix B, page 69, for further detail.) ❖

MEDICAID COVERAGE FOR ALZHEIMER'S PATIENTS



The Task Force requests the Departments of Administration and Health and Social Services review all options available to the state, including Medicaid, to support the long-term care needs of patients whose sole diagnosis is Alzheimer's Disease and Related Disorders.

"To be eligible for Alaska's Medicaid long-term care waiver programs, applicants must require skilled nursing services."

Alzheimer's Disease and Related Disorders (ADRD) refers to cognitive impairments that are progressive and degenerative in nature. As a result of these impairments, effected adults require supervision and cueing from other individuals in order to adequately and routinely perform activities of daily living and instrumental activities of daily living.³⁰ People whose sole diagnosis is Alzheimer's Disease and Related Disorders do not typically require daily supervision by medical professionals.

To be eligible for nursing home care and home and community-based services from Alaska's Medicaid program, applicants must be low-income and require skilled nursing or intermediate care. Persons whose sole diagnosis is ADRD typically do not meet the criteria for skilled nursing or intermediate care and consequently, the Alaska Medicaid program will not pay for nursing home placement or home and community-based services.

Alaska is only one of two states whose Medicaid eligibility standards for nursing home and home and community-based services require that the patient needs "professional-level medical supervision."³¹ This requirement, as determined by the Department of Health and Social Services, effectively eliminates eligible Medicaid ADRD-only patients from the state's major long-term care services.

Persons with ADRD may have great difficulty living without assistance.³² Currently for many people who suffer from ADRD, respite service for their families is the only long-term care service available.³³ The Task Force recognizes the desire for additional assistance for this particular group of Alaskans and understands that

the temporary relief provided to the family caregivers is not enough to adequately address the pressing long-term care needs of an ADRD individual.

However, modifying the Medicaid eligibility requirement for ADRD-only patients may have budget implications for the state.³⁴ Approximately 40 percent of the cost for qualified Medicaid patients is paid from the state's General Fund. Some states have reduced the budget impacts by requiring that all long-term care patients receive universal care plan counseling. (Please see recommendation 20) The effect of this requirement has been to place residents in the least restrictive long-term care setting, which often is also the lowest-cost setting. The effect has been to prolong the time that residents can pay for their own care, and therefore, reduce the potential cost to the Medicaid program.³⁵

"Persons with ADRD may have great difficulty living without assistance."

In addition to the budget concerns, the Division of Senior Services may not have the capacity to serve the additional clientele who may apply for home and community-based waiver services if ADRD is included as an eligible diagnosis.

Even though changing the Medicaid eligibility requirement to include ADRD-only patients raises serious concerns, 48 other states offer Medicaid programs to patients suffering from only Alzheimer's Disease. Alaska should too.

The Task Force requests the Department of Administration and the Department of Health and Social Services review all options available to the state, including Medicaid, to support the long-term care needs of patients whose sole diagnosis is Alzheimer's Disease and Related Disorders. Also, the Task Force requests that a preliminary report outlining the departments' findings be submitted to the President of the Senate and Speaker of the House by April 30, 1999. ❖

INCREASE MEDICARE ACCESS

RECOMMENDATION

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The Task Force requests the Department of Health and Social Services conduct a review of Medicare patients' access to medical services within the state and, if warranted, explore options to increase their access to health care.

The Task Force heard testimony regarding individuals covered by Medicare who were having difficulty accessing health care services. General concerns were ex-

OPTIONS FOR REACHING PEOPLE WITH DEMENTIA AND OTHER COGNITIVE IMPAIRMENTS

Option 1. Change nursing facility level of care regulations to include people with serious cognitive impairments. Because it uses the nursing facility level of care as an eligibility criterion, this allows the Medicaid Home and Community-Based Services waiver to serve people with dementia and other cognitive impairments.

Option 2. Add Medicaid Home and Community Care for Functionally Disabled Elderly Option – this option allows state to provide services to people age 65 and older who do not meet nursing home level of care, but do meet separate functional impairment criteria, as defined in federal law. It includes people with cognitive impairments such as dementia. It does not cover people who would only qualify for Medicaid using the more generous financial eligibility requirements for people who meet nursing home level of care.

	1. Expand Waiver	2. Add Option
Who is categorically eligible?	Any person who is disabled or age 65+ who meets NF level of care.	Individuals who are age 65+ who meet separate criteria for functional impairment.
Implementation	Requires regulation change, training of NF and HCB provider staff.	Requires statute change, implementing regulations, EIS and MMIS computer system changes, and training of HCB staff.
Financial Eligibility	\$1,536/month for an individual. Spouse's income not counted. \$2,000 countable resource limit. Spouse may retain up to \$84,120 in countable resources.	\$951/month for individual, \$1410/month for couples. \$2,000 countable resource limit. No spousal resource provision.
Service Package	All regular Medicaid services plus special HCB waiver services defined by state.	All regular Medicaid services plus special services defined by state (can be different from waiver).
Spending Restrictions	Average cost of people on waiver cannot exceed the average cost of serving people in institutions.	Average cost of people in option cannot exceed 50 percent of average cost of Medicare NF services.
Care Coordination	Assessment can be performed by private care coordinator who may be affiliated with a nursing home or HCB provider (except assisted living provider if client is in assisted living).	Assessment must be performed by public or nonprofit entity that is not affiliated with a nursing home or HCB provider.
Impact on Nursing Homes	People who meet expanded criteria are eligible for Medicaid coverage of nursing home.	No expansion of Medicaid nursing home coverage.

Option 1

Expanding Nursing Facility Level of Care Criteria

Percent Served on Waivers	66%
Percent Served in Nursing Homes	34%
Percent Already on Medicaid	68%

Per Person Costs:

Waivers

FY 02 Waiver Services	\$	14,616
FY 02 Other Services	\$	8,512

Nursing Facility

FY 02 Nursing Facility	\$	81,528
FY 02 Other Services	\$	2,936

Total Costs:

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>
Total Number of Recipients	75	150	200	250	300
Waiver Recipient Costs	\$ 429,159	\$ 1,716,634	\$ 2,288,846	\$ 2,861,057	\$ 3,433,268
Nursing Recipient Costs	\$ 1,051,463	\$ 4,205,853	\$ 5,607,803	\$ 7,009,754	\$ 8,411,705
Total	\$ 1,480,622	\$ 5,922,487	\$ 7,896,649	\$ 9,870,811	\$ 11,844,973
General Fund	\$ 631,041	\$ 2,524,164	\$ 3,365,552	\$ 4,206,940	\$ 5,048,328

Assumptions:

Approximately 100 people currently qualify for service, 50 people would be added each year. In the first year, 75 people would enter service for 1/2 year. The remaining 25 people would be added in the second year, along with the 50 additional people.

Option 2

Add Medicaid Home and Community Care for Functionally Disabled Elderly Option

Percent of Target Population Served 68%

Per Person Costs:

FY 02 Service Cost \$ 14,616

Total Costs:

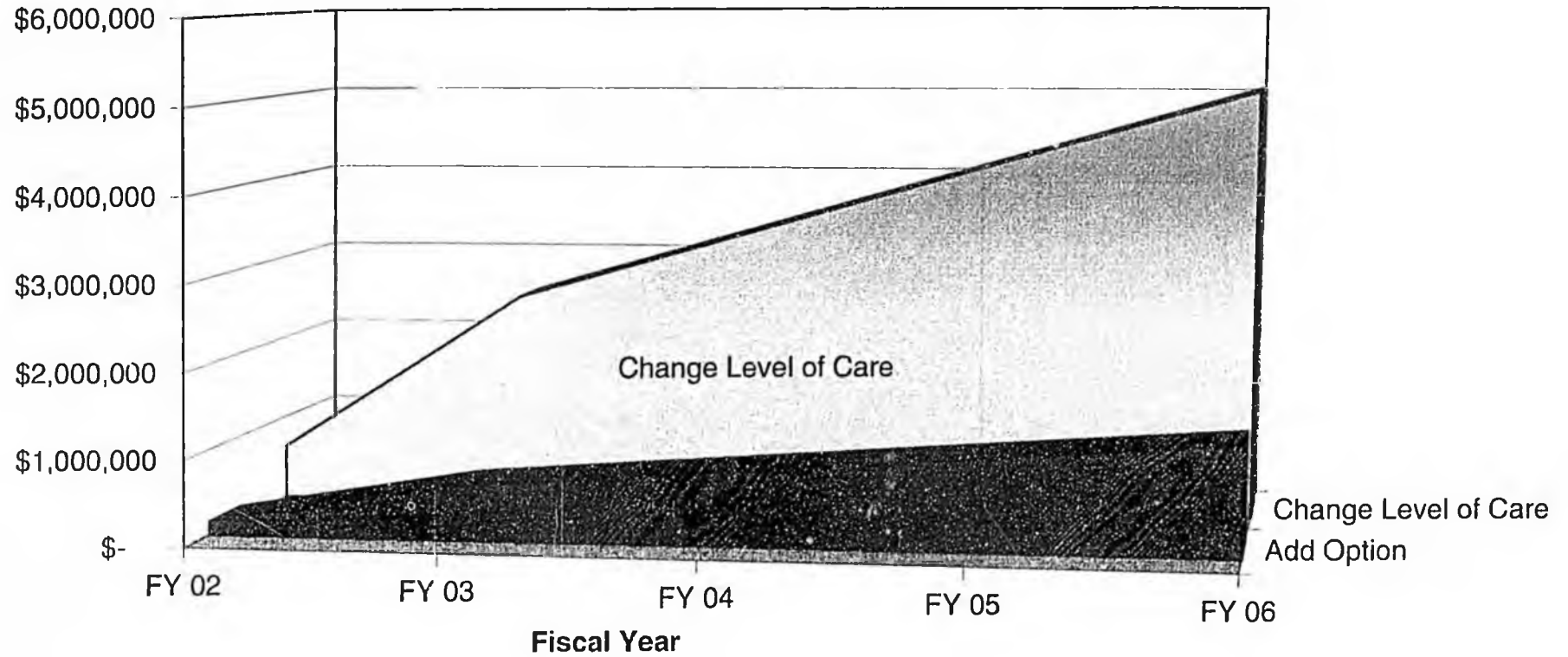
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Assumptions:

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32 percent of the target population would not be served by the option because they failed to meet Medicaid financial eligibility criteria for people who do not meet institutional level of care.

General Fund Costs of Options



■ Add Option □ Change Level of Care

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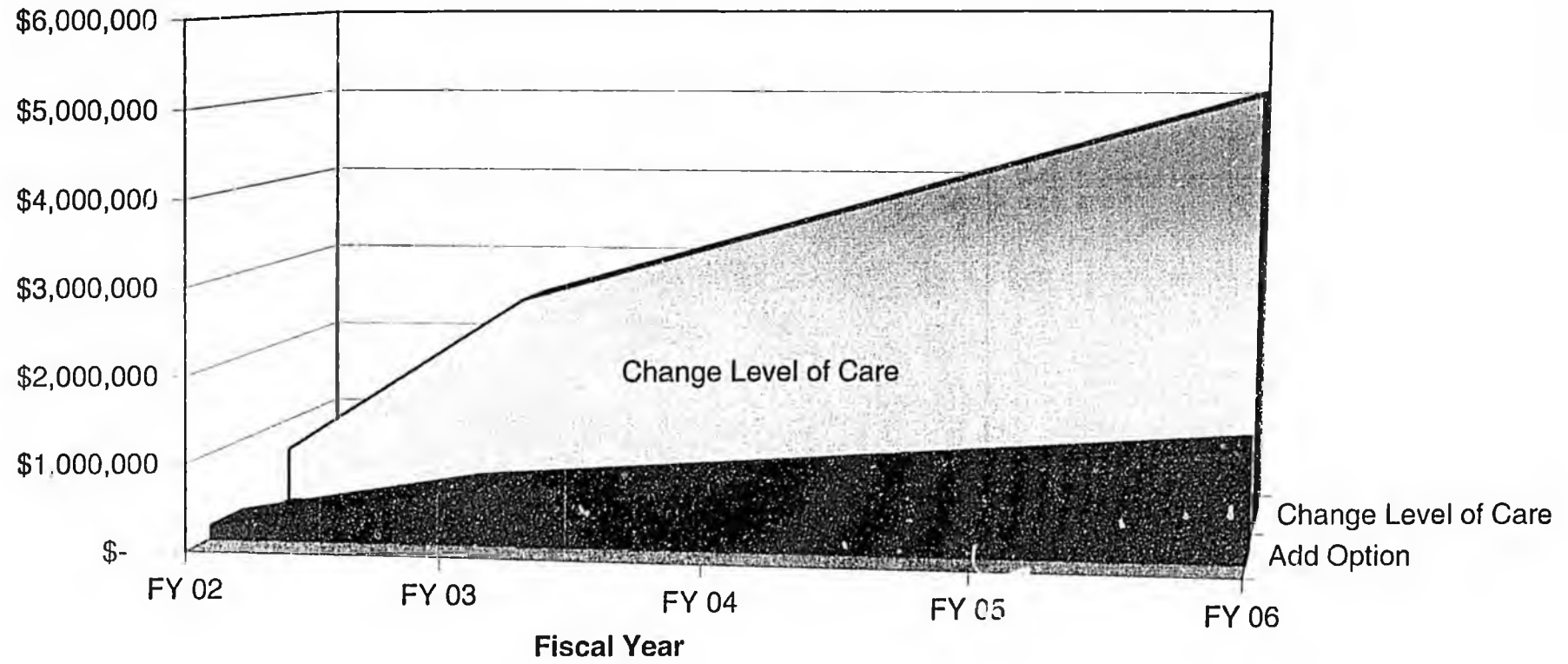
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General Fund Costs of Options



■ Add Option ■ Change Level of Care

MEDICAID SERVICES AND GROUPS NOT IN CURRENT STATE LAW

OPTIONAL SERVICES

Chiropractic
Case Management (for additional populations)
Christian Science Nurses
Christian Science Sanatorium
Clinic services
Community Supported living arrangements
Adult dental services (preventive and restorative)
Dentures
Diagnostic services
Emergency Hospital services (for hospitals not enrolled)
Podiatry
Preventive Services
Private Duty Nursing
Respiratory Therapy
Screening services
Home and community care for functionally disabled elderly
Services of any type of practitioner licensed under state law

- Psychologists and Psychological Associates
- Licensed Clinical Social Workers
- Marital and Family Therapists
- Acupuncturists
- Licensed Professional Counselors
- Naturopaths

OPTIONAL GROUPS

TB infected individuals
Women diagnosed with breast or cervical cancer under the CDC Program
Aged and disabled with incomes to 100% of the Federal Poverty level
Expanded Working Disabled Option
Medically Needy families and children
Medically Needy Aged and Disabled
Independent Foster Care Adolescents
Presumptive eligibility for pregnant women
Presumptive eligibility for children
Other groups of low income people under a Demonstration Waiver
Family Planning Waiver

OTHER SERVICES OR GROUPS THAT HAVE BUDGETARY IMPLICATIONS BUT MAY NOT REQUIRE LEGISLATION

Alzheimer's and other conditions for nursing facility /waiver admission
12 month continuous eligibility for children
Non emergent transportation within communities of residence
School based services
Tobacco cessation services
More liberal financial eligibility and coverage policies

STATE OF ALASKA

DEPT. OF HEALTH AND SOCIAL SERVICES

OFFICE OF THE COMMISSIONER

TONY KNOWLES, GOVERNOR

P.O. BOX 110601
JUNEAU, ALASKA 99811-0601
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FAX: (907) 465-3068

April 25, 2001

The Honorable Dave Donley, Co-Chair
The Honorable Pete Kelly, Co-Chair
The Honorable Jerry Ward, Vice-Chair
Senate Finance Committee
State Capitol, Room 508, 518 and 423
Juneau, AK 99801-1182

Re: Status of FY2001 Medicaid Expenditures

Dear Senators Donley, Kelly and Ward:

For your information we are providing you with an update on FY2001 Medicaid expenditures. We know you are currently working on the FY2001 supplemental and this should be useful to you.

Current FY2001 Status

As of today, April 25, Medicaid expenditures have exceeded \$486,316.6 with a remaining balance available to pay claims of \$11,053.1.¹

It is important for you to note the following:

- Medicaid program pays claims every Tuesday.
- Medicaid program was able to pay all claims for April 23rd checkwrite.
- The remaining balance may not be sufficient to pay all claims for the May 1st checkwrite.
- It is imperative that action is taken on the supplemental appropriation bill prior to May 7th (Monday) so that funds are available for the May 8th checkwrite.
- Any interruption in Medicaid payments could have devastating effect on providers.
- Last year when Medicaid claims were pended (for lack of funds) several non-profit entities suffered cash flow problems.

The Department has a supplemental request pending legislative action that is needed to pay claims through the end of this fiscal year. This supplemental request includes authority to maximize the Division's ability to participate in Proshare. The additional Proshare payments were distributed to hospitals in March and all receipts from hospitals have been received. Of the \$77.6 million supplemental request, \$11.4 million is from statutory designated program receipts

¹ 4/24 checkwrite interface to AKSAS will run 4/25.

that have already been received but cannot be used without legislative action on the supplemental bill. Additionally, the Department has forwarded to OMB, a request for an additional \$2,997.1 in federal funds due to an unanticipated increase in IHS Outpatient Hospital payments.

The department is reviewing all temporary measures available internally to make additional funds available for continued check-writes. For example, where feasible we have temporarily released encumbrances of approximately \$4 million so that the Medicaid Services appropriation has additional funds to continue payments for the first week in May. However these are temporary measures only as they are valid obligations and will still need to be paid once the supplemental authority is approved.

Increased Medical Expenditures

In the past nine months, Alaska has experienced substantial increases in Medicaid payments for prescription drugs and waivers.

Prescription Drugs

Prescription drug cost increases have been on the rise for several years as shown below. From FY1999 to FY2000, costs have increased 24 percent. The Division projects an additional 21 percent increase by fiscal year end.

<u>Fiscal Year</u>	<u>Pharmacy Costs</u>
FY 1999	\$37,288.2
FY 2000	\$46,312.2
FY 2001 Projected	\$55,900.0

In the first six months of FY2001, there has been a 19 percent increase in dollars spent and a 21 percent increase in claims made within the top ten therapeutic classes for pharmacy. Over 40 percent of these increases can be attributed to two drug classes: anti-arthritic drugs and anti-epileptic drugs. This is because new anti-arthritic drugs that lessen the chance of gastrointestinal distress have replaced older drugs that do not have the same benefit, and the new anti-epileptic drug, Gabapentin, is being prescribed as a replacement for several older drugs.

Home and Community Based Services: Waivers

Waivers provide services for adults with physical disabilities (APD Waiver), children with complex medical conditions (CCMC Waiver), persons with chronic disabilities caused by mental retardation and/or developmental disabilities (MRDD), and the elderly (OA Waivers) in a home environment. Persons on waivers must meet specific criteria as well as general eligibility criteria for Medicaid that would apply to the equivalent institutional population. Alaska's capacity for institutional care is minimal. Without waivers, approximately 1,500 Medicaid clients would need alternative placement; many of these Alaskans would be forced to leave the State.

The Division projects waiver costs will reach \$68,700.0 by the end of FY2001. It is estimated that without waivers, institutional care could cost the State three times that amount.

Increased IHS Hospital Claiming Activity

IHS cost shifting is a procedure by which Division of Medical Assistance staff manually review claims paid to locate those that should be IHS claims at 100 percent federal funds. In doing so, increased federal funds are utilized while general funds become available for other incurred Medicaid claims. To accomplish this task, the Division has requested additional federal authority of \$2,997.1. This additional authority will help Medicaid capitalize on available general funds to meet anticipated costs in the current year.

Current projections based on average weekly check-write data indicate Medicaid Services will be less than one full week short of funding if all supplemental requests are authorized. This amount will change weekly, as expenditures vary.

FY2002 Status

The Department's FY2002 budget request of \$548,273.2 for Medicaid was based on a low-case scenario and included incremental changes from FY2001 of \$12.8 million in general funds and \$50.5 million in federal receipts. At the request of OMB the department has recently completed a mid-case scenario projection. This updated projection shows an increase from the Governor's FY2002 Request of \$8.1 million in general funds.

	Federal	GF	Other	Total
Original Increment Request	50,450.9	12,807.5		63,258.4
Mid-Case Update				
Children	(320.5)	(163.3)		(483.8)
Adults	(795.9)	(405.5)		(1,201.4)
Elderly	46.7	23.8		70.5
Disabled	13,165.3	6,706.8		19,872.1
Pro-Share	(2,281.5)	1,900.0	(3,433.7)	(3,815.2)
Subtotal	9,814.1	8,061.8	(3,433.7)	14,442.2
Mid-Case Projected Increment	60,265.0	20,869.3	(3,433.7)	77,700.6 *

As the chart above shows, there have been significant changes between the original low-case scenario and the recent mid-case update. For instance, we project disabled eligibles will increase by 2.7% with costs projected to increase by 8.3% from the low-case projection.

The mid-case scenario update also adjusts for the loss of the Department's ability to use Proshare as a means to leverage more match money since the federal government has recently scaled back this program.

Federal funding changes are still an unknown.* In addition to any reduction to the FMAP, the mid-case scenario information above does not include any adjustments between federal and general funds that may be necessary due to varying unknown federal factors. On one hand we could receive more federal dollars for increased IHS claims or reallocation for Children's Health

Insurance Program (CHIP). However, decreases in federal dollars could result federal program changes, etc. This could mean that more state dollars are needed to pay entitlement services.

Alaska is not alone in dealing with increases in Medicaid service costs. Rising medical care costs is a nationwide trend. The United States Department of Labor, Bureau of Labor Statistics' "Consumer Price Index: March 2001" reports "[m]edical care costs rose 0.4 percent in March to a level of 4.6 percent higher than a year ago ... hospital and related services advanced at 7.6 percent annual rate in the first three months of 2001 and increased 6.8 percent in the 12 months ended in March."

FMAP Update

The Department has prepared and distributed to interested parties a document titled "Unintended Consequences". This document can also be downloaded from the Division of Medical Assistance web sight at www.hss.state.ak.us/dma/. The document describes the problems and impacts on many states created by recent statistical methodology changes by the federal Bureau of Economic Analysis. This material has been distributed to the Commissioner's Office, Governor's Offices in Juneau and Washington DC, Alaska's Congressional delegation, the co-chairs of the House and Senate Finance Committees, and HCFA Region X. The Medical Care Advisory Committee and the Medicaid Rate Advisory Commission also received copies. The Congressional Senate Finance Committee co-chair has expressed some interest in addressing this problem during the budget process this summer.

The Division of Medical Assistance will continue to monitor current spending on a weekly basis to anticipate year-end expenditure levels and future program needs. Please do not hesitate to contact me with any questions or concerns regarding these issues.

Sincerely,



Karen Perdue
Commissioner

cc: Senator Alan Austerman, Capitol Building, Room 417
Senator Lyda Green, Capitol Building, Room 125
Senator Lyman Hoffman, Capitol Building, Room 7
Senator Loren Leman, Capitol Building, Room 516
Senator Donald Olson, Capitol Building, Room 510
Senator Gary Wilken, Capitol Building, Room 514
Annalee McConnell, Director, OMB
Jay Livey, Deputy Commissioner
Elmer Lindstrom, Special Assistant
Janet Clarke, Director, DAS
Bob Labbe, Director, DMA
Laura Baker, Chief Budget Analyst, DAS
Nancy Burns, Admin. Manager, DMA

MEMORANDUM

STATE OF ALASKA
Department of Education & Early Development
Division of Teaching and Learning Support

TO: Office of Senator Green
FROM: Greg Maloney
RE: Medicaid Funding for Education
DATE: April 17, 2001

Senator Green and Aurora:

Thank you very much for your time yesterday. The issue of Medicaid funding for special education and related services is a very complex issue for which we would like more time to work with appropriate agencies and individuals to develop policy suggestions. Specific issues that need to be addressed include

- sources for matching funds;
- mechanism for billing Medicaid for district expenses;
- Medicaid policy regarding out-of-state placement costs;
- federal and state limitations regarding allowable Medicaid costs;
- defining specifications for how Medicaid funds may be used;
- determining potential consequences of changing current Medicaid policy; and,
- obtaining technical assistance from federal sources and other states regarding effective Medicaid practices

Our goal is to work closely with stakeholders such as school districts, the Governor's Council on Disabilities and Special Education, the Department of Health and Social Services, and technical assistance providers to devise a workable plan to be presented during the next session.

Thank you.

FAX TRANSMITTAL INFORMATION SHEET

ALASKA DEPARTMENT OF
 EDUCATION & EARLY DEVELOPMENT
 Division of Teaching and Learning Support
 801 West 10th Street, Suite 200
 Juneau, AK 99801-1894

DATE: April 18, 2001

TO	
Name:	<u>Aurora Hawke</u>
Agency/Office:	<u>Office of Senator Green</u>
FAX #:	<u>465-3805</u>
Phone #:	<u></u>

FROM	
Name:	<u>David Sampson</u>
Division/Office:	<u>Special Education</u>
FAX #:	<u>465-2806</u>
Phone #:	<u>465-8693</u>
Email:	<u>David_Sampson@eed.state.ak.us</u>

REFERENCING: Medicaid Funding for Education

COMMENTS:

This transmittal contains 2 page(s) including the cover page. If you do not receive the total number of pages, please contact the sender.

Medicaid Directions

Presented to the Senate HESS Committee

April 2001

History of Medicaid

Basic Federal Framework

- **Title XIX of Social Security Act**
 - Created by Congress in 1965 (in the same bill which created Medicare) to pay for medical assistance for certain individuals and families with low incomes and resources.
 - Administered by each State, under a host of Federal rules.
 - Federal government and State share in cost of the program.
- **Regulations found in 42 CFR**
 - Sets forth broad guidelines for States to follow.
- **State Plan**
 - Contract with Federal government setting out what States are required to do and the States' choices of payment, coverage and administrative processes.

Basic Framework *continued*

- **Each State is required to designate a Single State Agency**
 - Department of Health and Social Services.
 - Administers State Plan.
 - Alaska joined the Medicaid Program in 1972.
 - New services and eligible groups have been added by the Alaska Legislature.
- **Each single State agency must designate a Medical Assistance Unit**
 - Division of Medical Assistance.
 - Develop, analyze, coordinate and evaluate the Medicaid program.
- **Eligibility for Medicaid**
 - Determined by Division of Public Assistance.
 - Historically tied to federally assisted or administered cash assistance programs.

Medical Care Advisory Committee

- Federal law requires each State to have a committee to advise the Medicaid agency in order to obtain Federal matching funds.
- Committee meets quarterly.
- Members appointed by Commissioner of Health and Social Services.
- Composition of current committee includes:
 - a pharmacist from Anchorage
 - a pediatric dentist from Fairbanks
 - a mental health provider from Juneau
 - a parent consumer from Anchorage
 - a parent consumer from Palmer
 - a physician from Anchorage
 - a senior citizen from Juneau
 - an advocate for the disabled from Kodiak
 - a hospital administrator from Valdez
 - a disability advocate from Fairbanks
- Patty Hong, a nurse at the University of Alaska Anchorage, is the current chair.

Federal Requirements for Program Administration

- The program must operate statewide.
- States must cover certain mandatory groups of people and certain mandatory services.
- Services must be comparable for all persons.
- Services must be provided in adequate amount, duration and scope.
- A recipient must have freedom of choice of providers.
- Medicaid is the payer of last resort.
- An applicant or recipient must receive notice of any adverse action and be granted an opportunity for a fair hearing.
- States may request “waivers.”

Alaska Medicaid Program

A Brief History Timeline for Services and Eligibility

- July 6, 1972 Alaska Medicaid program enacted.
- 1976 Eye glasses, optometrist services, nursing home group eligibles, clinic services option (primarily community mental health centers), speech, hearing and language disorders option in effect.
- 1983 Medicaid Rate Advisory Commission (MRAC) established in statute; first facility payment rates established under new law July 1.
- 1988 Pregnant women, and children five years or younger with household income not exceeding 100 percent of Federal Poverty Level; case management and nutrition services for pregnant women; prescribed drugs.
- May 4, 1990 Home and community based waiver services established.
- Dec. 31, 1992 Effective date of HB 545, adds rehabilitation services for mental illness, alcoholism, and drug abuse to Medicaid.
- July 1, 1993 HB 173 becomes effective: adds children in subsidized adoptions and the TEFRA option to the Medicaid program (TEFRA option grants eligibility to disabled children age 18 and younger who need an institutional level of care, and would be Medicaid eligible in an institution, to attain Medicaid eligibility living in the community).
- July 1, 1998 HB 369 becomes effective: expanding Medicaid coverage for children and pregnant women with incomes up to 200% of the federal poverty level, and establishing continuous eligibility for children.

Eligibility for Medicaid

Medicaid Costs =

eligibles x services x reimbursement

Of the more than 50 Federal eligibility categories, Alaska covers 32.

Eligible Persons

- **Federally mandated groups – families and children**
 - Families meeting the old Aid to Family with Dependent Children (AFDC) financial criteria
 - Families who become ineligible for Family Medicaid due to increased earnings may receive up to 12 months extended Medicaid coverage.
 - Post-Medicaid coverage is required for four months for families losing eligibility due to increased child support collections.
 - Children receiving Title IV-E foster care or adoption assistance.
 - Children up to age 6 and pregnant women with family incomes up to 133% Federal Poverty Level (FPL).
 - Infants born to women on Medicaid are automatically eligible for one year.
 - Children up to age 18 with family incomes up to 100% FPL born after 9/30/83.
 - Certain aliens may receive coverage for emergency services only.

Federal Poverty Level (FPL) for family of three in Alaska: \$1,475 monthly

Eligible Persons *continued*

- **Federally mandated groups – aged and disabled**
 - **A person qualifying for a Supplemental Security Income (SSI) payment.**
 - Certain groups who have lost SSI eligibility due to work related income.
 - Certain groups of people who lost eligibility due to Cost of Living Adjustment (COLA) increases in Social Security benefits
 - Disabled Adult Children are eligible for Medicaid. They are individuals who lost SSI because they started receiving social security payments when they turned 18.
 - Disabled Widows between the ages of 60 and 64 who lose SSI due to receipt of social security benefits.
 - **Qualified Medicare Beneficiaries (QMB)**
 - must have Medicare premiums and cost sharing covered by Medicaid. Income up to 100% FPL and twice the SSI resource standard.
 - Qualified Disabled and Working Individuals (QDWI) must have Part A Medicare premium paid for by Medicaid. Individuals who lost disability status because they returned to work. Incomes below 200% FPL and resources twice the SSI standard.
 - Special Low Income Medicare Beneficiary (SLMB) must have Medicare Part B premiums paid by Medicaid. There are three categories of income: 120% FPL, 135% FPL (an annual capped amount for each State) and 175% (who qualify only for partial payment of the Part B premium)

Eligible Persons *continued*

- **Optional groups: families and children**
 - ✓ Pregnant women and children with family incomes up to 185% FPL
 - ✓ Children in State custody or under State-only adoption assistance agreements
 - ✓ Children up to age 21 who meet the old AFDC financial standards
 - ✓ Persons under 21 receiving treatment in an inpatient psychiatric facility who meet the old AFDC standards
 - ✓ Optional targeted low-income children (State Child Health Insurance Program, or SCHIP), included in Denali KidCare
 - Medically needy – these are categories of women and children with higher incomes who can “spend down” their income and resources on health care in order to become Medicaid eligible
- ✓ *Option selected by Alaska Legislature.*

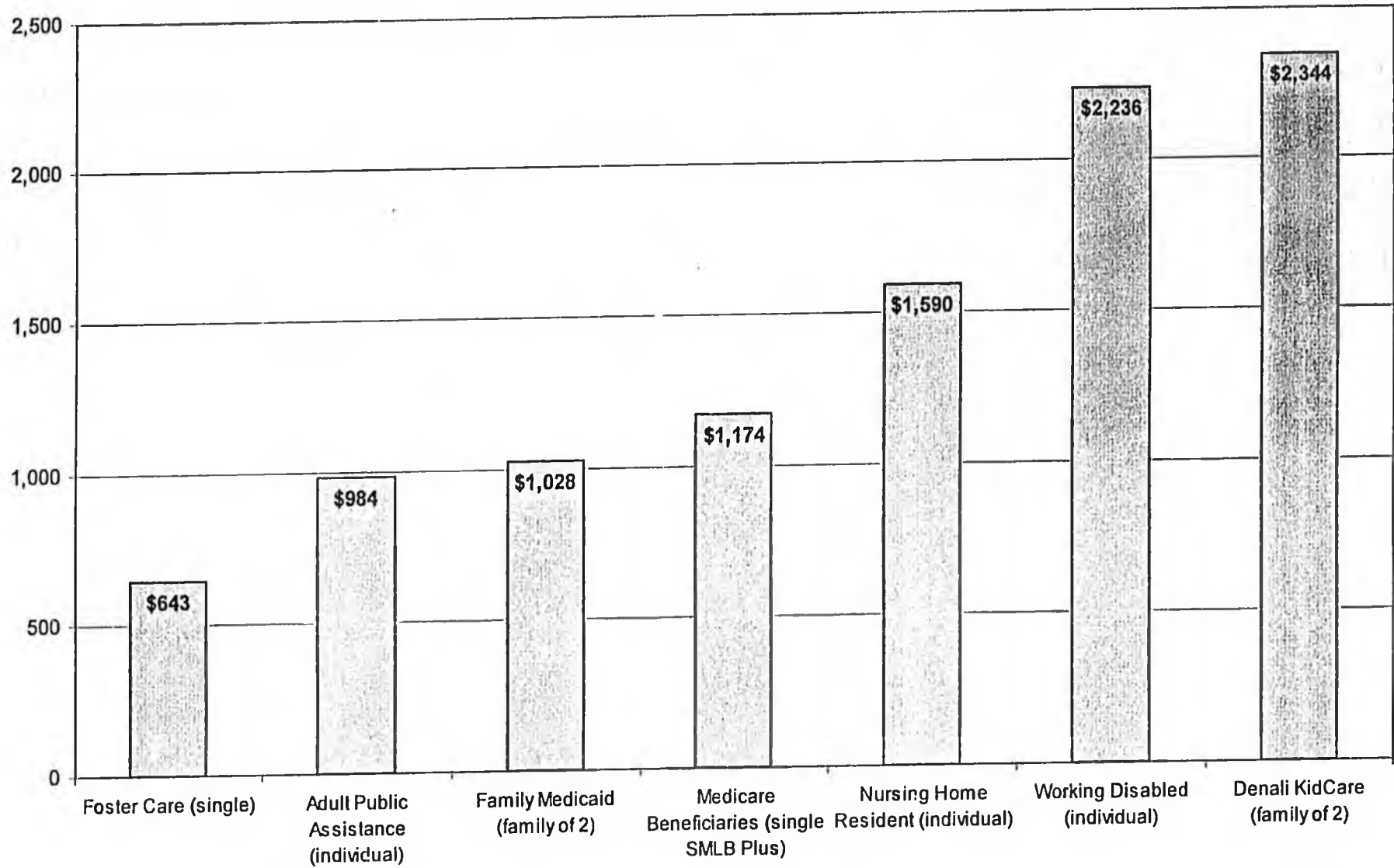
Eligible Persons *continued*

- **Optional groups: aged and disabled**

- ✓ Individuals receiving only a State supplemental payment (Adult Public Assistance) but *NOT* Supplemental Security Income (SSI).
- ✓ Disabled children age 18 or younger who would be eligible if they were in a medical institution (TEFRA kids).
- ✓ Individuals in need of an institutional level of care (300% of the SSI standard)
- ✓ Persons in a facility who would be eligible for assistance if they left the facility
- ✓ The “working disabled” with income up to 250% FPL
- Medically needy – these are categories of aged and disabled with higher income who can “spend down” their income on health care in order to become Medicaid eligible.

✓ *Option selected by Alaska Legislature.*

Monthly Income Standards Compared



Who will not qualify?

Adults* (ages 21-64) with no children --
regardless of their medical need or lack
of financial resources.

**Unless the adult meets disability requirements.*

Services Covered

Federally Mandated Services

Children's Services

- All medically necessary health care services must be covered for eligible children.
 - *Within the scope of mandatory or optional services under Federal law.*
 - *Even if those services are not included as part of the covered services in that State's plan.*

Inpatient hospital services

Outpatient hospital services

Prenatal care

Vaccines for children

Physician services

Nursing facility services

Family planning services and supplies

Rural health clinic services

Home health care for persons eligible for skilled-nursing services

Laboratory and x-ray services

Pediatric and family nurse practitioner services

Nurse-midwife services

Federally qualified health-center (FQHC) services

Early and periodic screening, diagnostic, and treatment (EPSDT)

Optional Services

(✓ Selected by the Alaska Legislature for coverage)

- ✓ Ambulatory surgery center services
- ✓ Case management services
- Chiropractic
- Christian Science sanatorium
- Clinic services
- Community supported living arrangements
- ✓ Dental (*adults limited to emergency treatment for pain and infection*)
- Dentures
- Diagnostic services
- ✓ Durable medical equipment
- Emergency hospital services (for hospitals not enrolled)
- ✓ Home and community care
- ✓ Home health
- ✓ Hospice services
- ✓ Intermediate Care Facility for the Mentally Retarded (ICF/MR)
- ✓ Services in an inpatient psychiatric facility for age 65 and older

Optional Services *continued*

(✓ Selected by the Alaska Legislature for coverage)

- ✓ Medical supplies
- ✓ Occupational therapy
- Optometrist services
- ✓ Personal care services
- ✓ Physical therapy
- Podiatry
- ✓ Prescription drugs
- Preventive services
- Private duty nursing
- ✓ Prosthetics and orthotics
- ✓ Rehabilitation services (*mental health and substance abuse*)
- Respiratory therapy
- Screening services
- ✓ Speech, language and hearing services
- ✓ Vision services

Plus: ✓ Any service as recognized under State law

Paying Providers

Facility Reimbursement

- Alaska law provides for a Medicaid Rate Advisory Commission (MRAC) to advise the department on rate setting for **facilities**.
- Alaska law requires that facility rates be set prospectively based on a fair rate for reasonable costs incurred by a facility.
- Hospitals – daily per diem rates are set for each facility based on their Medicare cost report. Outpatient services are reimbursed at a percent of charges.
- Nursing Facilities – daily rates are determined from the facility's Medicare cost report.
- Alaska has employed its Federal Disproportionate Share Hospital (DSH) allotment to support the State operated psychiatric hospital, Alaska Psychiatric Institute (API), for a number of years matching State general fund appropriations to API with allotment funds.

Provider Reimbursement Rates

Physician and others who bill physician codes

- use the Resource Based Relative Value Scale (RBRVS) which
 - compares the complexity of work (w), the practice expense (p), and the malpractice insurance cost (m) for each medical procedure, multiplied by a cost factor for Alaska (the Geographic Practice Cost Index or GPCI).
 - each procedure is assigned a Relative Value Unit (RVU) for each factor.
 - mathematical formula multiplies the RVU for each procedure by a State-adopted conversion factor of \$49.90:

$$[(RVU_w \times GPCI_w) + (RVU_p \times GPCI_p) + (RVU_m \times GPCI_m)] \times \text{the conversion factor}$$

Provider Reimbursement Rates

- Prescription drugs – reimbursement is made at 95% of the Average Wholesale Price of the drug plus a dispensing fee. Only those drugs for which the manufacturers have entered into a rebate agreement with the Federal government may be purchased.
- Laboratory services, Ambulatory Surgery, Rural Health Clinics are paid based on the Medicare rates.
- Other services – rates and fees for other services are developed in State regulation.

Program Accountability

- **Surveillance and Utilization Review (SURS)**

- In order to determine that Medicaid funds are spent appropriately, the Surveillance and Utilization Review (SURS) function reviews service utilization of recipients and claims patterns of providers. Patterns of over utilization or aberrant billing are investigated and actions are taken to end the behavior.
- SURS staff also send random letters to recipients to determine if services billed to the division were actually received.

- **Claim Check**

- Claims auditing software package
- Evaluates billing information and coding accuracy
- Follows health care industry standards

- **Audits and On-Site Reviews**

- Program staff and auditors on contract with the division may perform reviews of provider records to determine that services were provided according to program requirements and that records adequately document the level of services billed.
- The division recovers funds from providers determined to have been erroneously paid through SURS functions, audits, and on-site reviews.

Program Accountability *continued*

- **“Primary Care Program”**

- health care services are managed by a designated provider for recipients who over-utilize services or prescription drugs

- **Third Party Liability (TPL)**

- The TPL function assures that other parties liable for payment for services received by Medicaid recipients are billed and funds collected.
- TPL also operates the Buy-In program, in which Medicaid pays Part A and Part B Medicare premiums on behalf of dual beneficiaries so that Medicare pays their share of the costs of services.
- The TPL unit administers contracts to search for liable parties including accidental injuries and insurance that may be available for collection and recovery of funds due Medicaid.
- TPL also completes “Pay and Chase Waivers” that allows the State to recover from other insurance instead of requiring the provider to bill for those services before they bill Medicaid. These waivers are requested for services that are rarely covered by other payers, relieving providers from getting denials of claims in order to bill Medicaid.

Program Accountability *continued*

- **Prior Authorization**

- approval is required before some services will be reimbursed
 - certain inpatient admissions
 - mental health rehabilitation
 - high cost medical equipment and procedures
 - transportation

- **Medicaid Provider Fraud Unit**

- As required under Federal law, the Department of Law houses the Medicaid Provider Fraud Unit (MPFU). The division forwards any suspected fraud cases detected through SURS, audits, or tips from the public to the MPFU for investigation and possible prosecution.
- The MPFU is an independent unit from the Department that works in cooperation with the US Department of Justice, the Office of the Inspector General and other Federal agencies.
- Any provider convicted of fraudulent activity related to Medicaid or Medicare are banned from participation with any federally funded program.

Program Accountability *continued*

- **Care Coordination**

- voluntary management of seriously ill, medically complex persons in Anchorage
- services provided by nurses under state contract with PRO-West

Medicaid Financing

Federal Matching Rates For Services

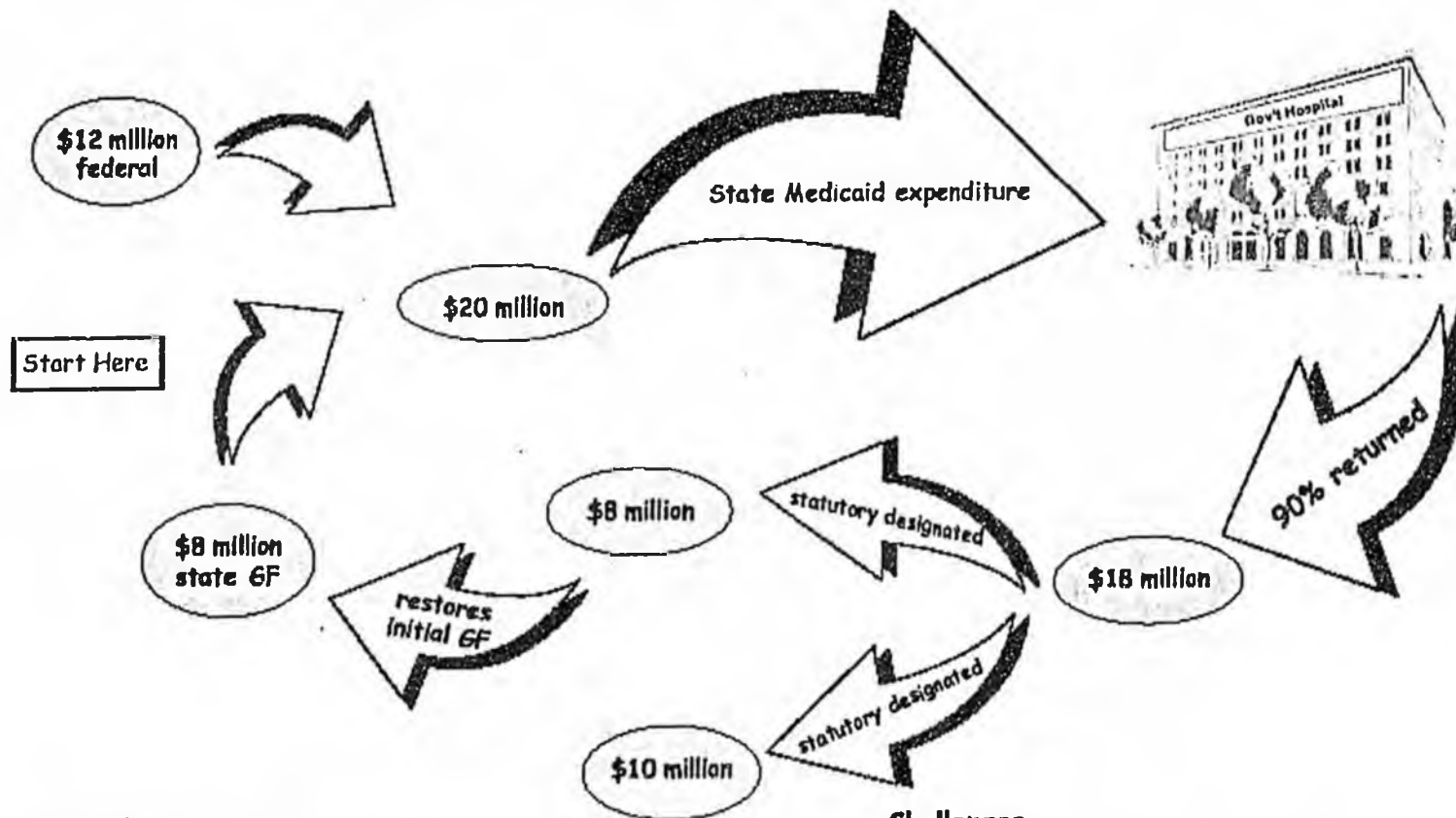
- Federal medical assistance rate (FMAP): 50% or more
 - FY01 for Alaska: 60.13%
 - 90% for family planning services
 - 100% for services provided to Alaska Natives by Tribal health care providers contracting for the provision of services formerly provided by the HIS

- Child Health Insurance match rate enhanced rate from FMAP
 - FY01 for Alaska: 72.09%

FMAP – Federal Medical Assistance Percentage

- Determined based on a statutory formula that compares the State per capita income to the national per capita income
- Minimum is 50%; Alaska received the minimum until FFY 98 when Congressional action increased the FMAP to 59.8% for three years
- Bureau of Economic Analysis (BEA) adopted a new methodology for income calculation, which radically affected Alaska, as the BEA began counting government contributions to retirement as income
- BEA change will result in a reduction of the Alaska FMAP to 57.38% in FFY 02 unless the Congressional delegation can achieve an additional change to the formula

Maximizing Federal Funds Through Inter-Governmental Transfers



Known Limitations

Must be within Alaska's Medicare upper limit
Expenditures must serve a new Medicaid purpose
Participating facilities must be:

- ◆ A hospital
- ◆ Government operated
- ◆ Enrolled in Medicaid

Challenges

Sufficiency of statutory or regulatory authority
Moving while the opportunity remains open
Assuring a reliable Medicare upper limit calculation
Identification of governmental policy issues:

- ◆ Notification or involvement of the Legislature
- ◆ Identifying the Medicaid purpose of the expenditure
- ◆ Determining which facilities participate
- ◆ How much of the expenditure to leave with the facilities

Hospital Pro-Share

- A means for making additional payments to qualified public hospitals that experience low occupancy, thus often low revenues
- Accomplished in cooperation with the Federal Health Care Financing Administration (HCFA) and the Alaska State Hospital and Nursing Home Association (ASHNHA)
- Hospital returns 90 percent of the payment made to the State, while retaining 10 percent to address any local needs in hospital services
- Funds retained for local purposes have provided means for replacement of outdated hospital equipment, payment of hospital debts, funding payroll, and paying other costs of hospital physical plant and operating costs
- Eleven public hospitals have benefited from Hospital Pro-Share payments

Hospital Pro-Share *continued*

- HCFA has taken a hard line on continuation of State plans which involve recycling Medicaid payments to reduce State share and increase Federal share
- Congress required HCFA to issue new rules by December 31, 2000 that limit further use of a pro-share approach
- Final regulations published January 12, 2001 and effective 60 days later will severely restrict Pro-Share payments within the next two years.

Alaska Medicaid Eligibles and Expenditures

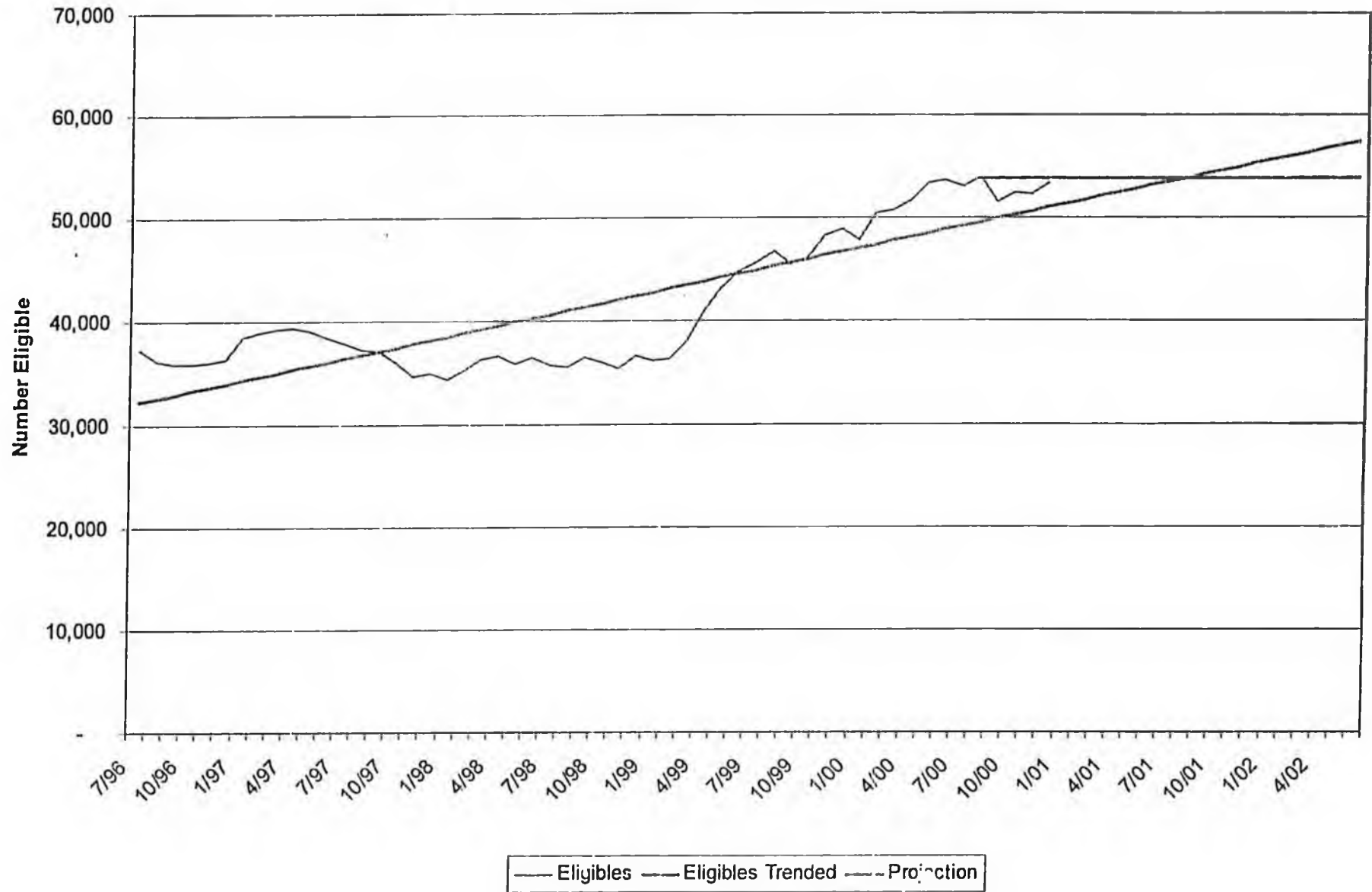
Budget Projection Methodology

- Basic Formula: $\text{Total Cost for Services Per Month} / \text{Total Number of Members Enrolled Per Month} = \text{Total Cost Per Member Per Month}$.
- Formula is applied individually to each beneficiary group: Children, Adults, the Elderly, and the Disabled.
- Historical data post 5 years – monthly averages are determined.
- Computation of trend expressed in the form of a mathematical formula
 - results are definite and independent of any subjective estimate by the division
- Projections further developed by separate analysis of varying factors that affect Medicaid
 - anticipated changes in state and federal policy
 - related environment that will likely influence number of members and cost per member

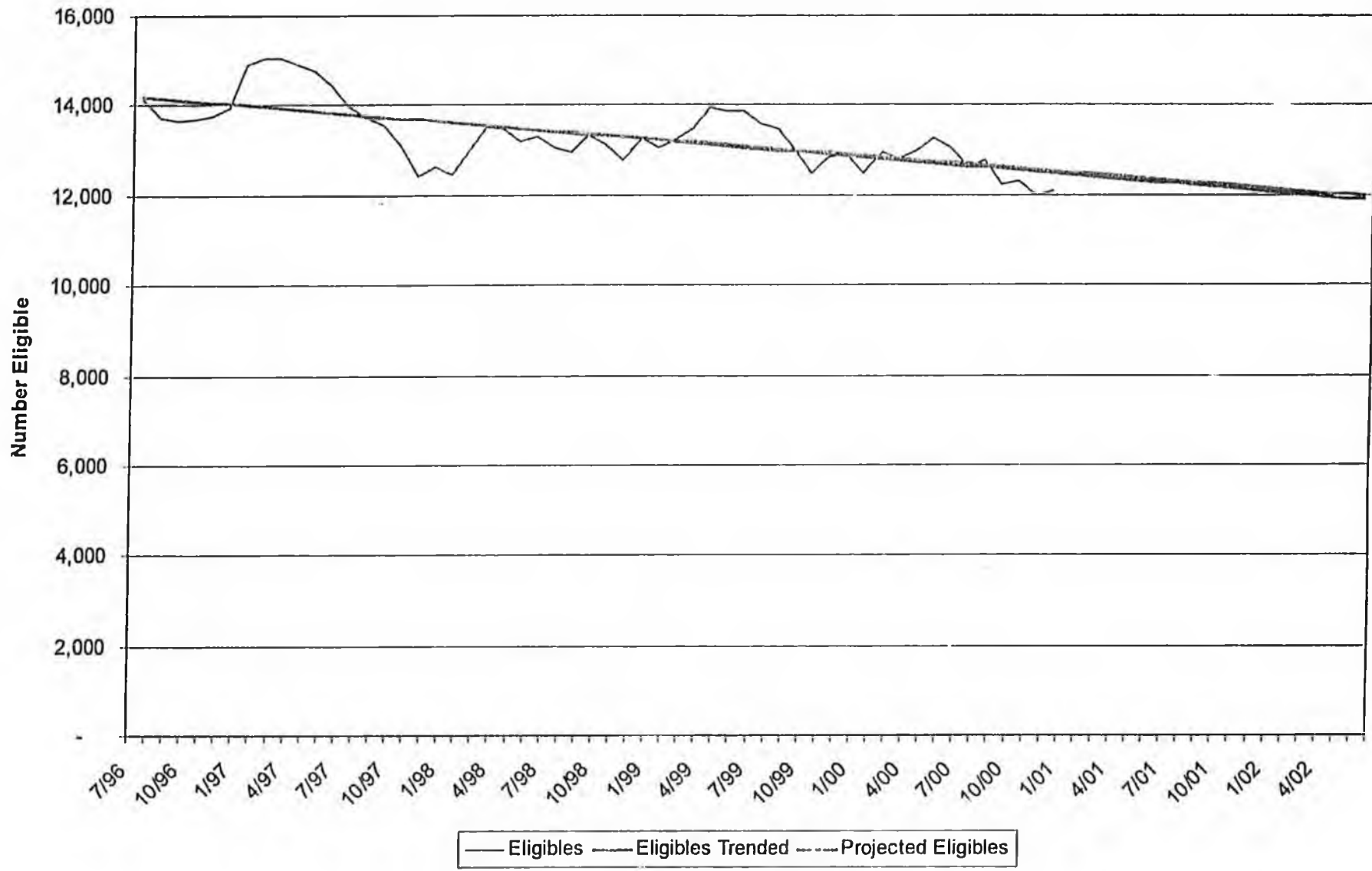
Fiscal Year Analysis

- On average, 76,664 Alaskans received Medicaid services each month during FY00.
- In FY01, an average of 81,178 Alaskans are receiving Medicaid services each month.
- Medicaid eligible members per month grew by 18 percent in FY00 from FY99. Children enrolled in Title XIX and Title XXI accounted for 97 percent of the 18 percent increase in total Medicaid eligible members from FY99 to FY00. The enrollment of eligible children is expected to level out during the last of FY01 through FY02.
- The average number of adults receiving Medicaid assistance each month decreased by 3 percent in FY00 from FY99. This is consistent with the trend of very slight decreases in the number of eligible adults each year since FY96.
- The average number of elderly Medicaid members per month has grown by 4 percent from FY99 to FY00. This is consistent with previous years and is expected to remain close to the same in FY02.
- The number of Alaska's Medicaid members in the Disabled category increased by 6 percent in FY00 over FY99. The Department expects the number of disabled members to continue to grow at approximately that same rate.

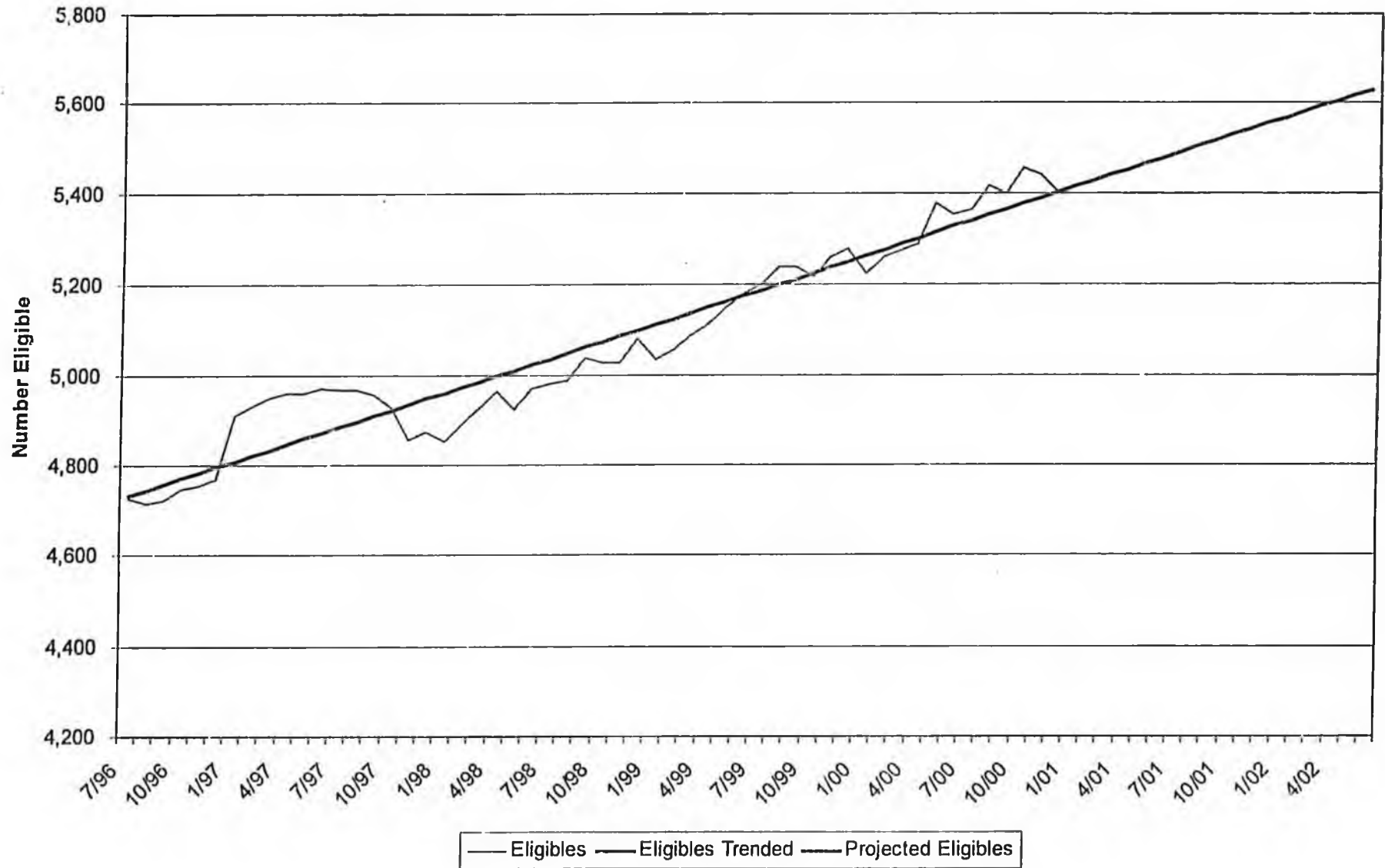
Children Eligible Monthly



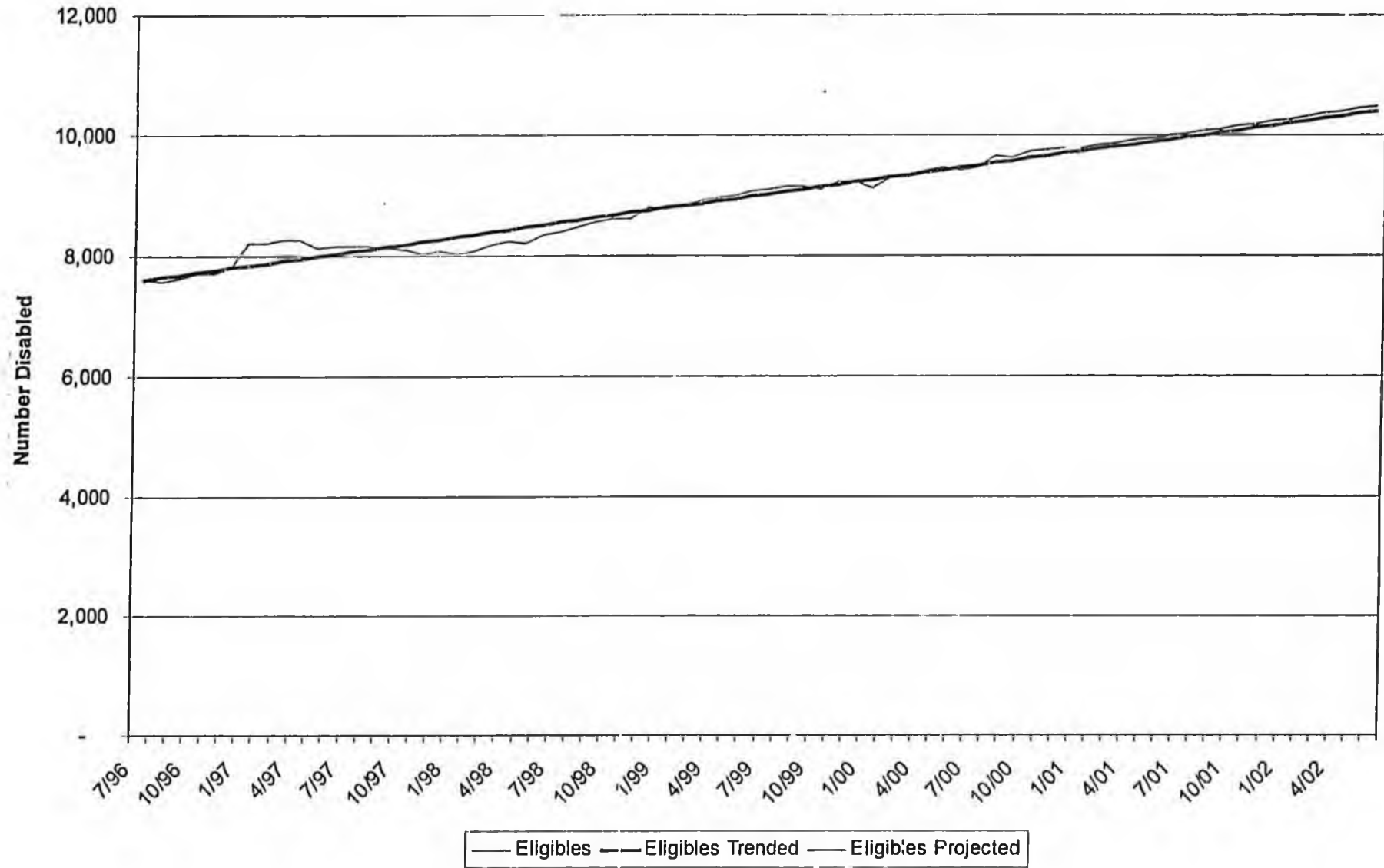
Adults Eligible Monthly



Elderly Eligible Monthly



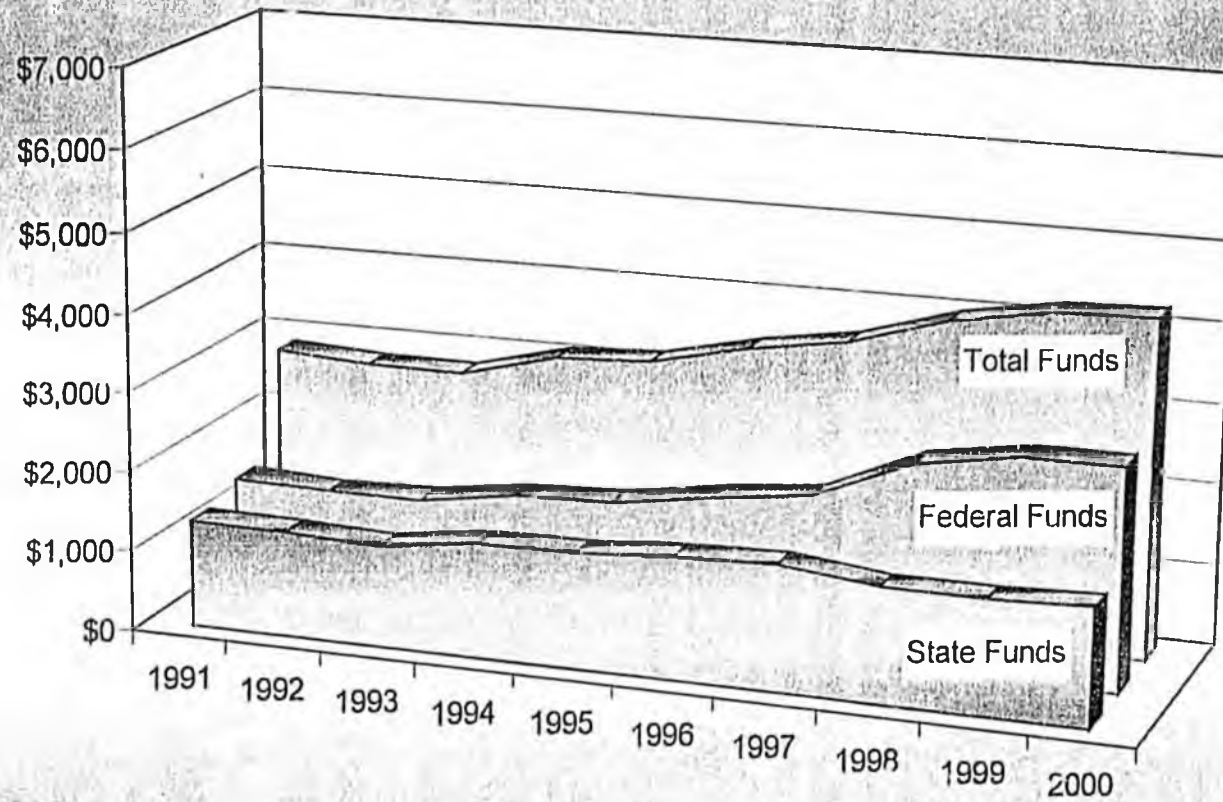
Disabled Eligible Monthly



**Medicaid Eligibles Per Month/Payments Per Month Comparison
Actual Year-to-Date Eligibles Members and Monthly Payments**

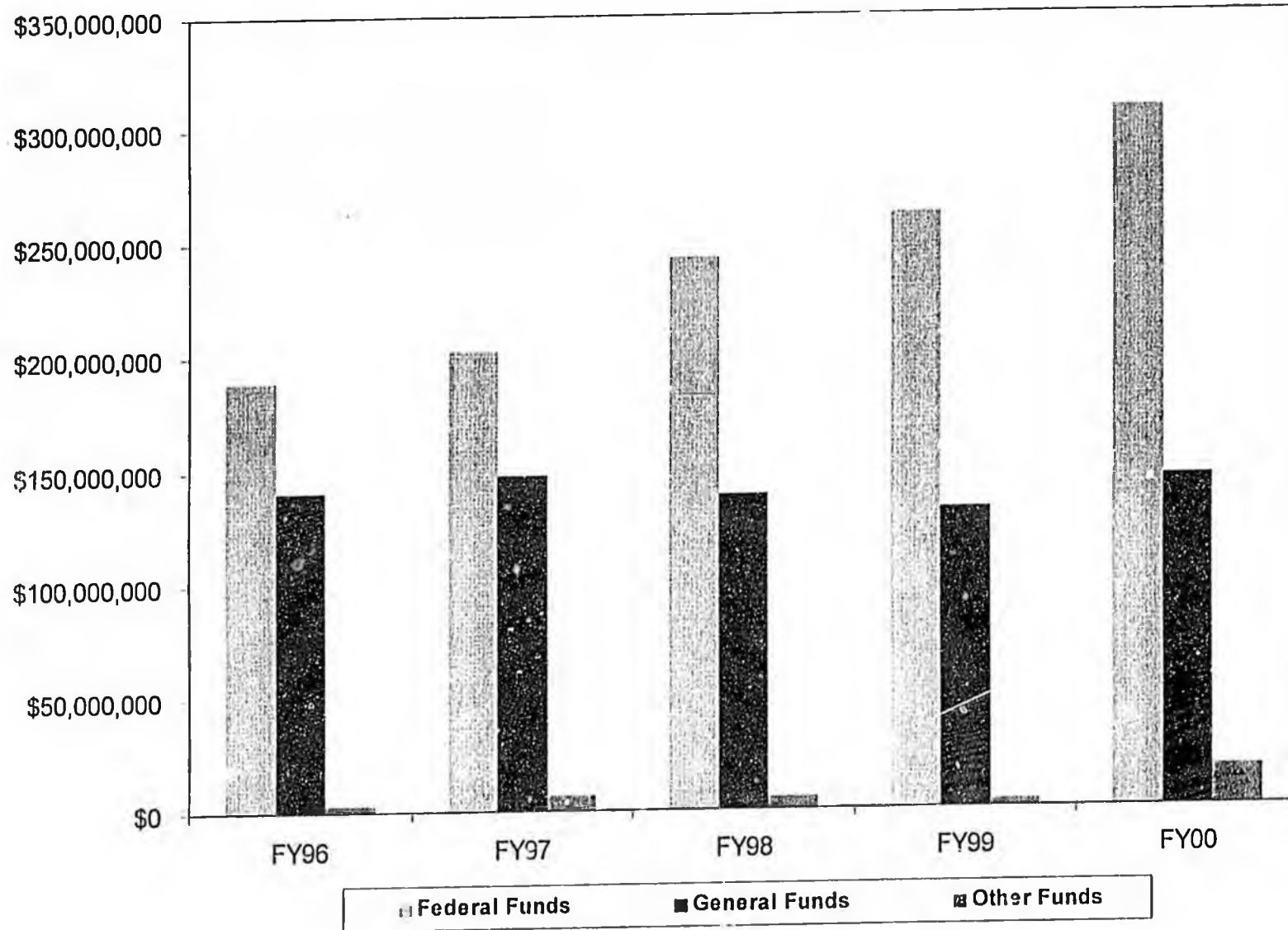
		Eligibles	Payments
Jul-98	FY99	67,751	\$30,566,969
Aug-98		68,127	\$30,933,138
Sep-98		68,503	\$31,299,307
Oct-98		68,879	\$31,665,476
Nov-98		69,255	\$32,031,645
Dec-98		69,631	\$32,397,814
Average		68,691	\$31,482,392
		Eligibles	Payments
Jul-99	FY00	73,583	\$41,640,431
Aug-99		74,721	\$41,853,061
Sep-99		72,931	\$32,488,834
Oct-99		72,961	\$34,791,711
Nov-99		75,676	\$39,239,654
Dec-99		76,415	\$31,567,475
Average		74,381	\$36,930,194
		Eligibles	Payments
Jul-00	FY01	80,517	\$48,657,787
Aug-00		81,840	\$35,185,242
Sep-00		78,795	\$39,833,712
Oct-00		80,049	\$47,936,360
Nov-00		79,504	\$38,451,446
Dec-00		80,684	\$38,127,910
Average		80,232	\$41,365,409
		Eligibles	Payments
Change from FY99 to FY00		5,690	\$5,447,803
Change from FY 00 to FY01		5,850	\$4,435,215
Data Source: Medicaid Management Information System (MMIS) via Juneau Claims & Eligibility Data Base (JUCE)			

**Average Annual Cost per Eligible Medicaid Beneficiary
- Federal and State Shares (FY91 through FY 00 Actuals)**



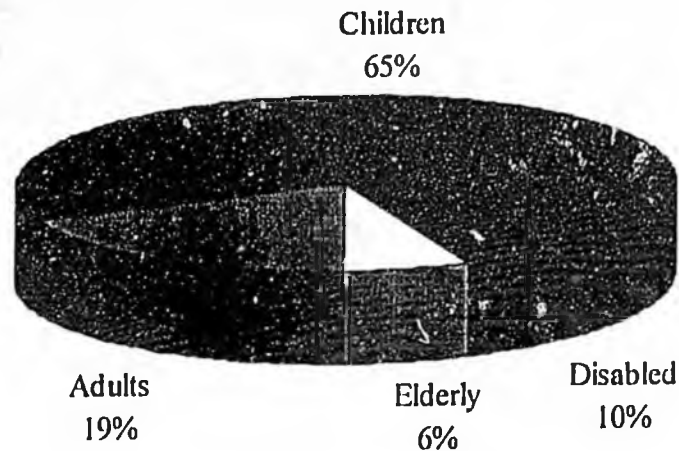
	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
State Funds	\$1,341	\$1,308	\$1,279	\$1,427	\$1,443	\$1,531	\$1,574	\$1,422	\$1,422	\$1,469
Federal Funds	\$1,508	\$1,471	\$1,481	\$1,647	\$1,690	\$1,873	\$2,029	\$2,560	\$2,765	\$2,768
Total Funds	\$2,849	\$2,779	\$2,760	\$3,074	\$3,133	\$3,403	\$3,603	\$3,982	\$4,187	\$4,237

Medicaid Expenditures by Fund Source

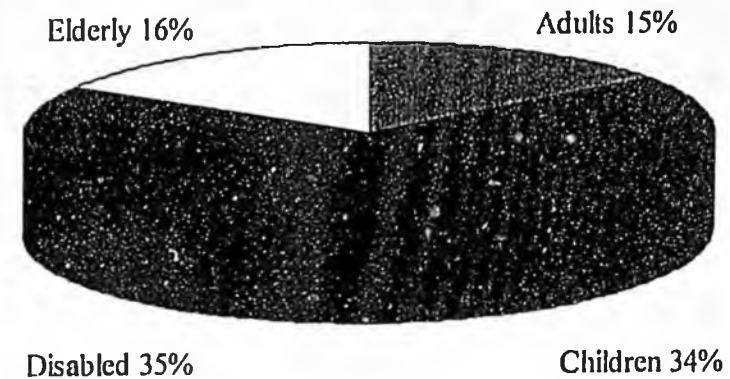


The Medicaid Population in Alaska

FY 2000 Eligibles by Beneficiary Group



FY 2000 Expenditures by Beneficiary Group



	Expenditure (in millions)	Eligibles
Children	\$158.9	72,204
Disabled	163.6	11,108
Elderly	74.8	6,665
<u>Adults</u>	<u>70.1</u>	<u>21,106</u>
Total	\$467.4	111,083

*Rounded

Source: DMA FY00 Annual Report