State of Alaska
FY2009 Governor's Operating Budget

Department of Health and Social Services
Medicaid Services
Component Budget Summary

Component: Medicaid Services

Contribution to Department's Mission

The Division of Health Care Services (HCS) provides Medicaid core services including hospitals, physician services, pharmacy, dental services, transportation; and other services including physical, occupational, and speech therapy; laboratory; x-ray; durable medical equipment; hospice; and home health care.

Core Services

The Medicaid program is a jointly funded, cooperative entitlement program between federal and state governments to assist in the provision of adequate and competent medical care to eligible needy persons. The State Children's Health Insurance Program (SCHIP), operated through Denali KidCare, is an expansion of Medicaid which provides health insurance for uninsured children whose families earn too much to qualify for Medicaid, but not enough to afford private coverage.

Health Care Medicaid Services can be grouped into three elements: Direct Services provided to the client and processed through the Medicaid Management Information System (MMIS), Non-MMIS Services for services that are not tracked in MMIS, and Medicaid Financing Services for activities that maximize federal funding.

Direct Services include these service categories: inpatient and outpatient hospital, physician, health clinic, surgical clinic, prescribed drugs, durable medical equipment, prosthetic devices, dental, transportation, physical therapy, occupational therapy, speech pathology/audiology, laboratory, x-ray, optometrist, midwife, family planning, nutrition, home health, and hospice.

Non-MMIS Services include payments for insurance premiums (primarily Medicare), contracts for Medicaid operations and cost containment activities, third-party liability services, and supplemental payments to hospitals for uninsured and uncompensated care (Disproportionate Share Hospital program or DSH).

FY2009 Resources Allocated to Achieve Results

FY2009 Component Budget: $711,897,600

Personnel:	
Full time	0
Part time	0
Total	0

Key Component Challenges

- The State Children's Health Insurance Program (SCHIP) is facing a funding crisis. SCHIP is a part of Alaska's Medicaid program operated through Denali Kid Care. As with Medicaid, the federal and state governments jointly fund SCHIP but the FMAP is higher. The total amount of federal funds available for SCHIP at the enhanced FMAP rate is capped. Once the allotment is exhausted, claims are reimbursed at the regular FMAP instead of the enhanced FMAP. Alaska will have only 43% of the federal SCHIP funding needed to cover program expenditures in 2009, exhausting its SCHIP funds in the second quarter. Congress recently passed a bill reauthorizing SCHIP and increasing funding; however, the President vetoed the bill.

- To provide affordable access to quality health care services to eligible Alaskans, a sufficient supply of providers must be enrolled in Medicaid. A strategy to maintain provider participation is for provider reimbursement rates to keep pace with health care costs. Because provider participation in Medicaid is voluntary, if Medicaid's rates are

too low providers may stop seeing Medicaid clients. In FY09 there are several challenges related to reimbursement rates.

- Health care facility rates will be recalculated beginning in FY08. By regulation, payment rates for most health care facilities must be recalculated at least every four years [7 AAC 43.685(a)(6)(B)]. Facilities were last re-based in FY04. For Health Care Services' Medicaid, this means that non-tribal inpatient hospital payment rates for FY09 will be adjusted. The new rate for each facility will become effective at the start of that facility's 2009 fiscal cycle. The department estimates that the average adjustment will be 8.5%. Less than a third (29%) of payments for non-tribal hospital services will be impacted by re-based rates in FY09.

- Many dentists choose not to participate in Medicaid because of the low reimbursement rates. According to a study published by the Alaska dental provider community, Medicaid offers the lowest reimbursement rates for dental services in the state. Medicaid is currently paying 60% of billed charges for dental services. Payment to dental providers is based on 80% of what was usual and customary for dental procedures in 1995. Except for dental services billed at physician rates (oral surgeries) and dental services with codes developed after 1997, rates for most dental services have not been updated since February 1997. The division proposes to update reimbursement rates to approximately 80% of current billed charges over a two or three year process. Dental services provided at federally qualified health centers (FQHC) are billed at an encounter rate and will not be affected by any fee for service rate changes.

- Alaska Native Tribal organizations have asked the State to consider changing the reimbursement methodologies available to Tribal dental providers. Tribal dental services are currently reimbursed based on the lesser of the billed charges, the provider's lowest billed charge, or a per-procedure rate schedule (fee for service) established by the State. Reimbursing Tribal dental providers at the Indian Health Service outpatient hospital encounter rate will provide improved financial stability and allow Tribal organizations to expand the volume and scope of dental services they offer. The more Medicaid dental services that can be provided in Tribal facilities, the more state general funds Alaska will save by ensuring that the federal government meets its trust responsibility to native beneficiaries. The IHS outpatient hospital encounter rate is also closer to the actual costs of delivering the broad range of health services offered at Tribal facilities, including dental services. Allowing tribal dental providers to bill at the encounter rate may improve the financial viability of the Tribal health care infrastructure, ensuring access to dental health care for all the residents, both Native and non-Native, in many areas of the state. Local access to dental health care will reduce the costs for Medicaid clients traveling to receive similar care elsewhere in the state.

- The federal government has cut the rates for prescription drugs. Without an increase in dispensing fees many of the small "Mom and Pop" pharmacies that Alaskans rely on will not be able to make a profit anymore. One of the tenets of Medicaid is to pay providers rates that are consistent with economy, efficiency, and quality of care and sufficient to enlist enough providers. This increase is necessary to continue to efficiently provide quality pharmacy services by maintaining enough local providers to serve clients' needs.

- Reduce costs for end stage renal dialysis (ESRD) through a change to the rate structure and by shifting eligible costs to Medicare. Currently Medicaid pays providers 100% of their billed charges for each procedure and different providers can charge different rates for the same service. The new rate would be an inclusive composite rate so that all providers are paid the same rate for the same group of services. A comparison of the current rate to the Medicare rate found that in some cases Medicaid is paying as much as ten times what Medicare pays. A large portion of Medicaid clients receiving end stage renal dialysis treatment are over age 65 and are likely eligible for Medicare.

- Medicaid is the "payor of last resort", so if a client is eligible for both Medicare and Medicaid, Medicare will be billed first. By making sure that dually eligible clients are enrolled in Medicare, Medicaid will be able to avoid the full cost of treatment.

- Other reimbursement rate challenges include increasing rates for emergency transportation providers to bring them up to Medicare rates, and reducing Medicaid rates for high cost durable medical equipment items by changing the current pricing methodology and requiring documentation of manufacturer's suggested retail price or true cost before establishing a rate of reimbursement.

- General hospitals are required to see patients regardless of their income or insurance coverage. The Alaska Medicaid Upper Payment Limit program (ProShare) has allowed the state to make payments to qualifying

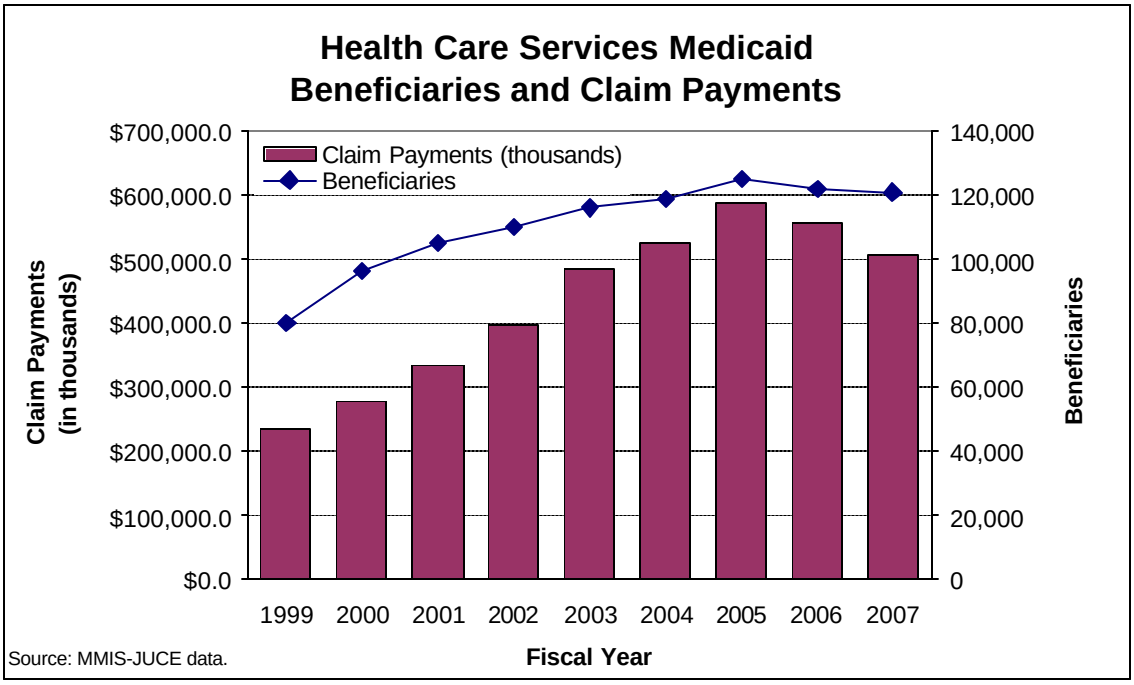
hospitals to compensate these hospitals for the cost of providing care to persons who are publicly insured. As a result of a negative court decision, the department's ProShare program has been ended. Without the Medicaid ProShare program, many of the services will be funded through grant programs that are totally GF.

- The department wishes to fully utilize its annual Medicaid Disproportionate Share Hospital (DSH) federal allotment by providing the necessary GF match. Hospitals that provide a disproportionately high share of care to persons who are uninsured or underinsured may qualify for DSH payments to help offset their loss of revenue for uncompensated charity care. The state has had plans to negotiate agreements with qualifying hospitals to preserve or expand health care services that will benefit the state or local community. Alaska's allotment of federal DSH funds increases by 16% each federal fiscal year; however, the level of funding in the state's budget for DSH has not increased in many years. The department does not currently have sufficient funding to expend the full allotment.

Significant Changes in Results to be Delivered in FY2009

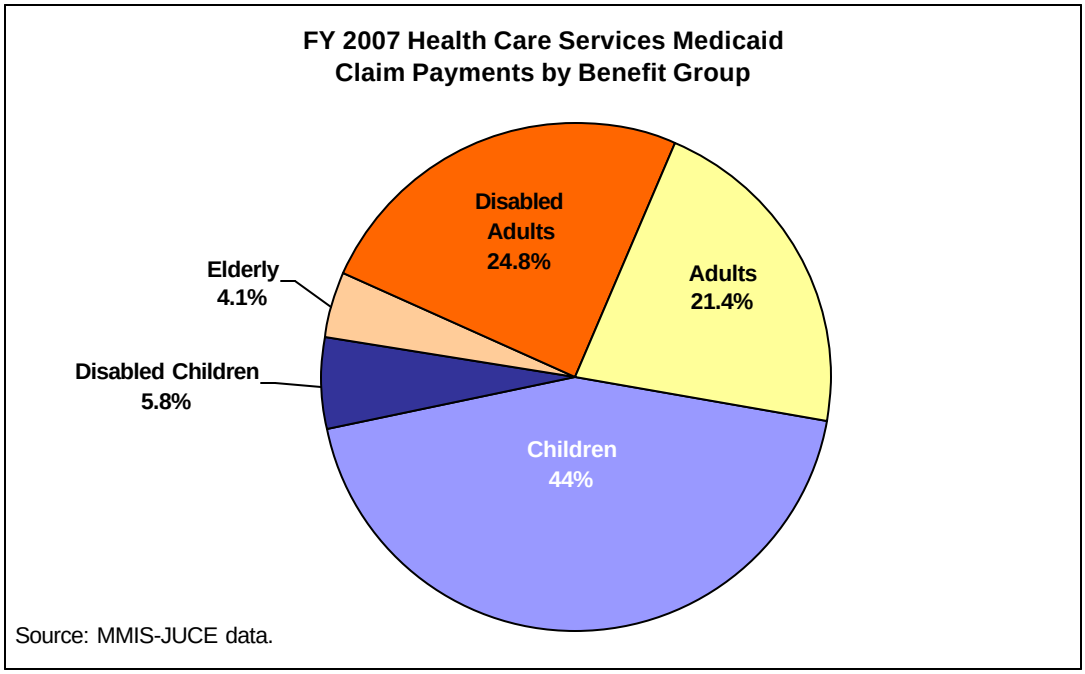
- The Health Care Services Medicaid component funds acute health care benefits (medical services provided by hospitals, physicians, dentists, pharmacies, and transportation providers) and other Medicaid activities such as premium assistance and supplemental hospital payments. Total expenditure includes all direct services and supporting activities. Between FY06 and FY07, the total expenditure decreased by almost 6% or about $32 million dollars. About two-thirds of the decrease in total expenditure in FY07 was due to lower refinancing costs (Fairshare payments ended in FY06) and about one-third was due to savings in the costs of direct benefits (including pharmacy program savings due to Medicare Part D). Total expenditure is projected to increase by about 9% in FY08, due mostly to increased costs for direct services. The total expenditure in FY09 for Health Care Services Medicaid is projected to grow 9% above the FY08 authorized amount of $689,694.3.

- Claims for services provided directly to Medicaid beneficiaries now comprise about 85% of total expenditures in Health Care Services Medicaid before adjustments for third party liability recoveries, drug rebates, pharmacy clawback payments, and Continuing Care settlements. Growth is due mostly to changes in enrollment, utilization, and reimbursement rates for claims. Claim payments decreased by 5% between FY05 and FY06, and decreased by 9% between FY06 and FY07. Changes to reimbursement rates for hospital facilities and for physician services in FY08, will drive up costs for claims over the next two years. Claim payments are projected to increase by about 9% between FY08 and FY09.

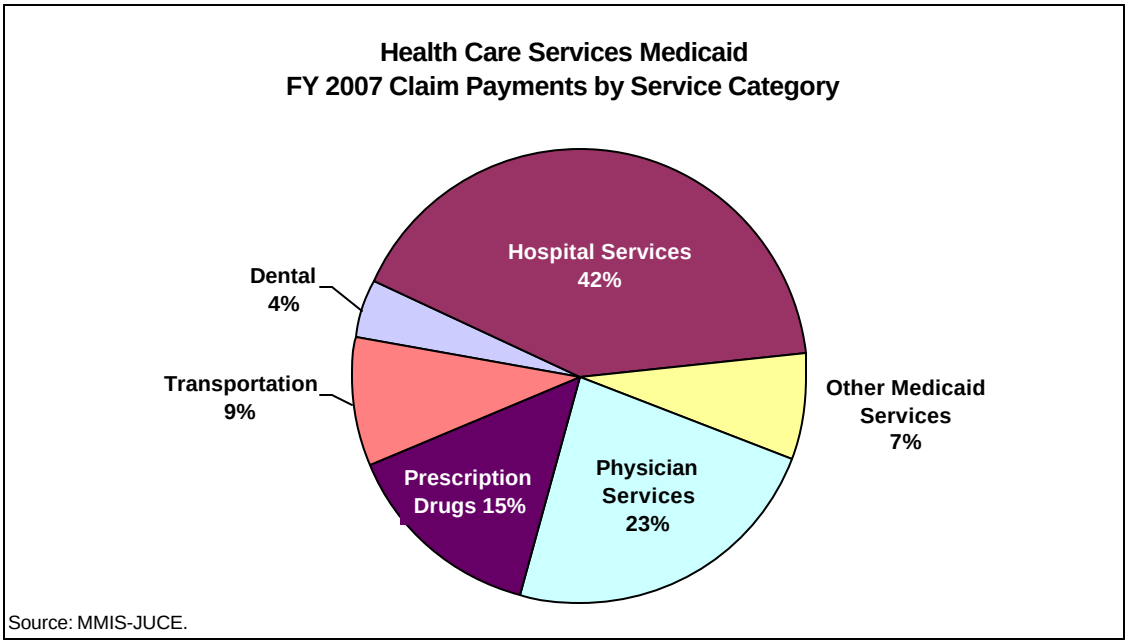


Major Component Accomplishments in 2007

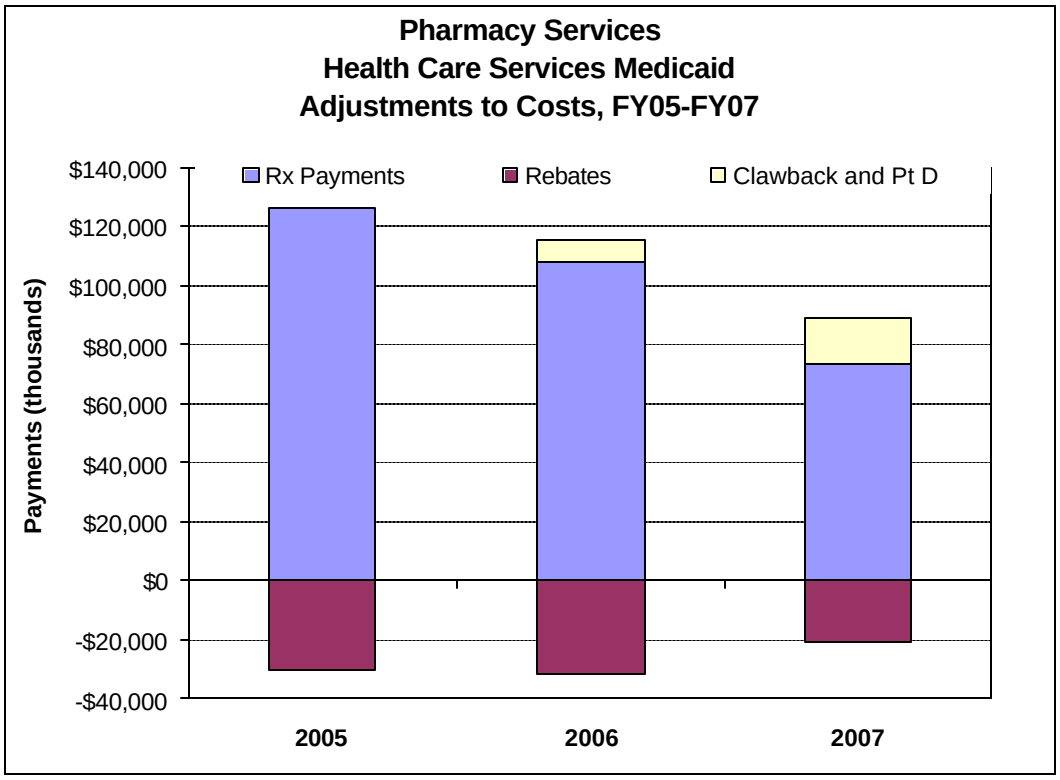
- The Health Care Services' Medicaid component funded benefits for approximately 121,000 Medicaid beneficiaries at an annual claim cost of $4,200 per person in FY07 (on average, about $350 per person per month). Benefits provided to children comprised 44% of claim payments processed in FY07. Benefits provided to adults comprised 21%, services to disabled adults 25%, services to disabled children 6%, and services provided to elderly beneficiaries comprised 4% of Health Care Services' Medicaid claim payments.



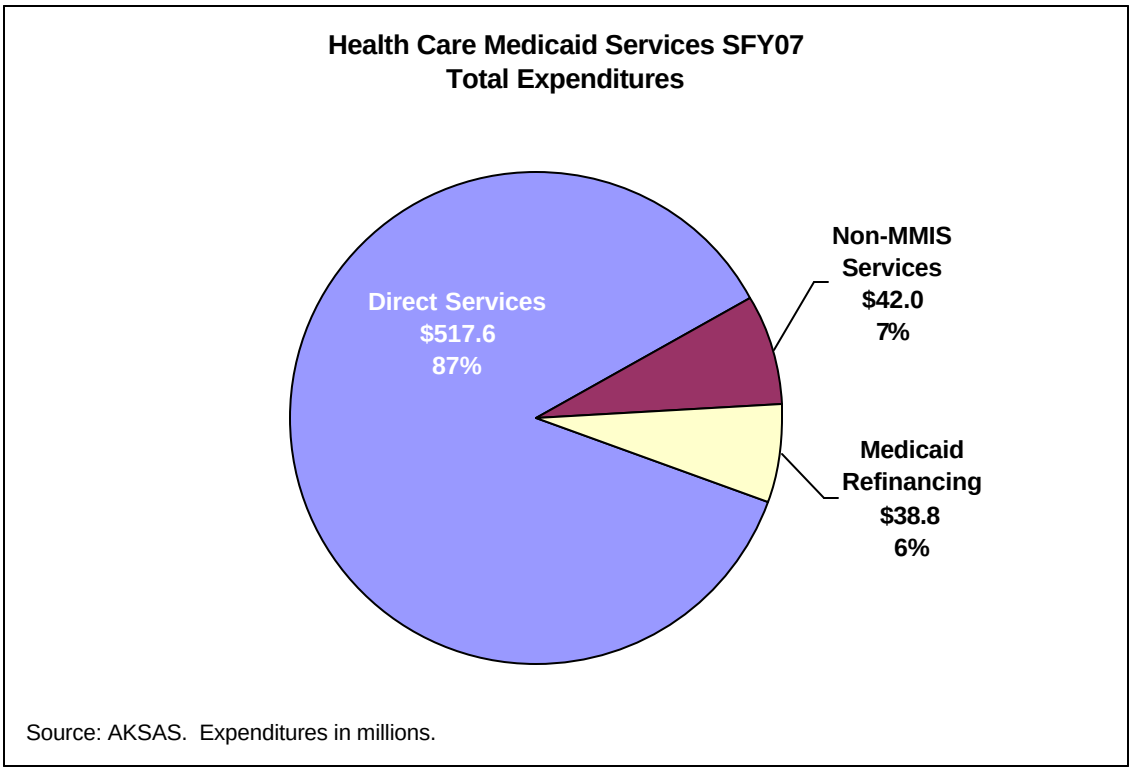
- Total payments in FY07 for all services provided directly to Medicaid beneficiaries decreased by about 9% from the prior fiscal year. Payments for benefits provided in inpatient and outpatient hospital settings comprised 42% of unadjusted claim costs in FY07. Physician services accounted for 23%, prescription drugs claims 15%, and transportation services accounted for 9% of the cost of services provided directly to Medicaid beneficiaries.



- The Medicare Prescription Drug Improvement and Modernization Act of 2003 created a new Medicare Part D prescription drug benefit available to all Medicare recipients, effective January 1, 2006. Medicare now pays prescription drug costs for Medicaid recipients who qualify for Medicare (dual eligibles), while Medicaid continues to pay prescription drug costs for those not eligible for both programs. Even after repayments to the federal government for prescription drug costs avoided for dual eligibles ("clawback" payments) the Medicare Prescription Drug Improvement and Modernization Act has had a profound impact on Medicaid pharmacy costs. The state forecast last year that pharmacy costs in FY07 (total pharmacy claim payments reduced by revenue from drug rebates and adjusted for clawback payments) would be about $70 million. The actual net cost in FY07 was $68,432.7.



- Direct services comprised 87% of Medicaid expenditures in FY07. Refinancing (ProShare payments) comprised 6% of total expenditures and Non-MMIS services (including DSH payments, and Part A and Part B premium assistance for dual eligibles) comprised about 7% of total expenditures. Direct Services includes third party liability (TPL) recoveries, drug rebates and pharmacy clawback, Part D premiums for dual eligibles, and Continuing Care settlements in addition to the cost of claims for services provided directly to beneficiaries. Total expenditures decreased by about 6% between FY06 and FY07.



Source: AKSAS. Expenditures in millions.

Statutory and Regulatory Authority

Alaska Statutes:
AS 47.07 Medical Assistance for Needy Persons
AS 47.08 Assistance for Catastrophic Illness and Chronic or Acute Medical Conditions
AS 47.25 Public Assistance

Social Security Act:
Title XVIII Medicare
Title XIX Medicaid
Title XXI Children's Health Insurance Program

Administrative Code:
7 AAC 43 Medicaid
7 AAC 48 Chronic and Acute Medical Assistance
7 AAC 100 Medicaid Assistance Eligibility

Code of Federal Regulations:
Title 42 CFR Part 400 to End

Contact Information

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Medicaid Services
Component Financial Summary

All dollars shown in thousands

	FY2007 Actuals	FY2008 Management Plan	FY2009 Governor
Formula Program:			
Component Expenditures:			
71000 Personal Services	0.0	0.0	0.0
72000 Travel	0.0	0.0	0.0
73000 Services	11,058.9	11,000.0	11,000.0
74000 Commodities	0.1	0.0	0.0
75000 Capital Outlay	0.0	0.0	0.0
77000 Grants, Benefits	601,503.8	678,694.3	700,897.6
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	**612,562.8**	**689,694.3**	**711,897.6**
Funding Sources:			
1002 Federal Receipts	397,117.4	445,749.5	441,463.8
1003 General Fund Match	141,633.6	156,062.8	186,595.8
1004 General Fund Receipts	48,466.0	65,992.2	61,948.2
1007 Inter-Agency Receipts	24,374.1	20,233.5	20,233.5
1108 Statutory Designated Program Receipts	919.7	906.3	906.3
1156 Receipt Supported Services	52.0	750.0	750.0
Funding Totals	**612,562.8**	**689,694.3**	**711,897.6**

Estimated Revenue Collections

Description	Master Revenue Account	FY2007 Actuals	FY2008 Management Plan	FY2009 Governor
Unrestricted Revenues				
None.		0.0	0.0	0.0
Unrestricted Total		**0.0**	**0.0**	**0.0**
Restricted Revenues				
Federal Receipts	51010	397,117.4	445,749.5	441,463.8
Interagency Receipts	51015	24,374.1	20,233.5	20,233.5
Statutory Designated Program Receipts	51063	919.7	906.3	906.3
Receipt Supported Services	51073	52.0	750.0	750.0
Restricted Total		**422,463.2**	**467,639.3**	**463,353.6**
Total Estimated Revenues		**422,463.2**	**467,639.3**	**463,353.6**

Summary of Component Budget Changes
From FY2008 Management Plan to FY2009 Governor

All dollars shown in thousands

	General Funds	Federal Funds	Other Funds	Total Funds
FY2008 Management Plan	**222,055.0**	**445,749.5**	**21,889.8**	**689,694.3**
Adjustments which will continue current level of service:				
-FY09 Medicaid SCHIP Allotment Shortfall	1,000.0	-1,000.0	0.0	0.0
-FFY09 Federal Medical Assistance Percentage (FMAP) Rate Change for Medicaid	14,308.5	-14,308.5	0.0	0.0
-Transfer out General Funds to Programs due to Elimination of ProShare Financing	-4,044.0	0.0	0.0	-4,044.0
Proposed budget decreases:				
-Reduce Medicaid Rates for Durable Medical Equipment (Reg Chg) 1/2 YR	-49.0	-51.0	0.0	-100.0
-Discontinue Private ProShare Refinancing	0.0	-16,013.9	0.0	-16,013.9
-Medicaid Cost Containment in Pharmacy	-500.0	-520.4	0.0	-1,020.4
-Medicaid Cost Containment in End Stage Renal Dialysis (Reg Chg)	-244.9	-255.1	0.0	-500.0
Proposed budget increases:				
-FY09 Projected Medicaid Formula Growth	14,793.9	26,587.7	0.0	41,381.6
-Review/Implement Medicaid Report recommendations (Stat Chg (SB 61) - Pacific Hlth Study	1,224.5	1,275.5	0.0	2,500.0
FY2009 Governor	**248,544.0**	**441,463.8**	**21,889.8**	**711,897.6**