

**State of Alaska
FY2006 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) maintains the 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

HCS Medicaid

The Medicaid program is a jointly funded, cooperative venture between federal and state governments to assist in the provision of adequate and competent medical care to eligible needy persons. Alaska’s Medicaid program impacts the service delivery of every division within the Department of Health and Social Services, as well as divisions in six other departments within the state system. There are six sources of federal funding that branch into a kaleidoscope of varying federal participation rates, allotments, and reimbursements, each with their own federal and state regulatory processes.

Federal financial participation (FFP), which is the federal government’s share for states’ Medicaid program expenditures, is generally claimed under two categories: administration and medical assistance payments with several subcategories within. The Health Care Services RDU incorporates all program activities and responsibilities associated with assuring medical assistance payments are made timely, accurately, and as efficiently and cost effectively as possible.

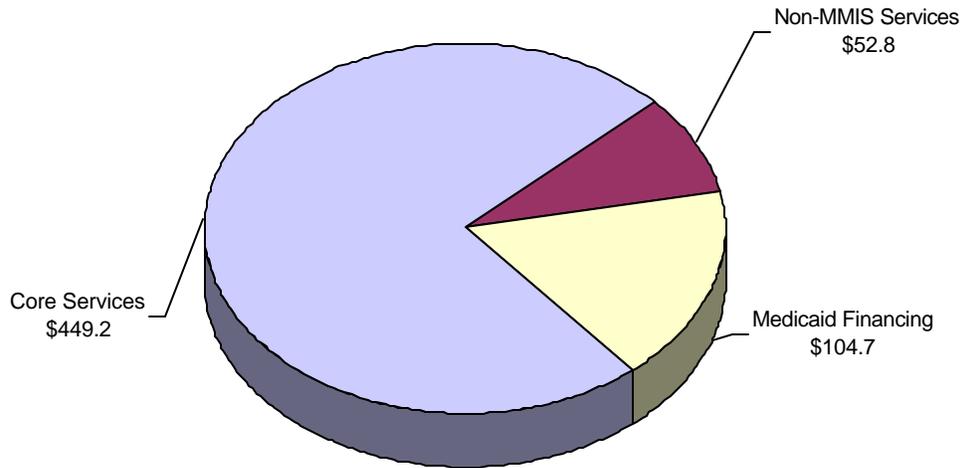
Medicaid Services. Medicaid Services are reimbursed by the federal government at a statutory Federal Medical Assistance Percentage (FMAP). FMAP under Title XIX of the Social Security Act is determined by formula calculation on the federal fiscal year (FFY). In addition to the Title XIX rate, certain Medicaid fund source categories are reimbursed at enhanced or fixed levels. Published formulated rates are not always available for timely Alaska budget development calculations resulting in necessary FMAP adjustments to projected or authorized funding levels.

Title XXI (SCHIP known in Alaska as the Denali KidCare Program (DKC)) and the Breast and Cervical Cancer program are reimbursed at enhanced rates which are also formula-based on the FFY. Family planning and the Indian Health Services (IHS) rates are fixed at 90% and 100% respectively.

The HCS Medicaid categories of service, while not necessarily the fastest growing, are in the aggregate the most costly. The categories of service administered by HCS supported more than 129,500 eligible Alaskans in FY2004 and provided services to more than 119,300 Alaskans during that same fiscal period. The total cost for core services provided exceeded \$473 million in FY2004.

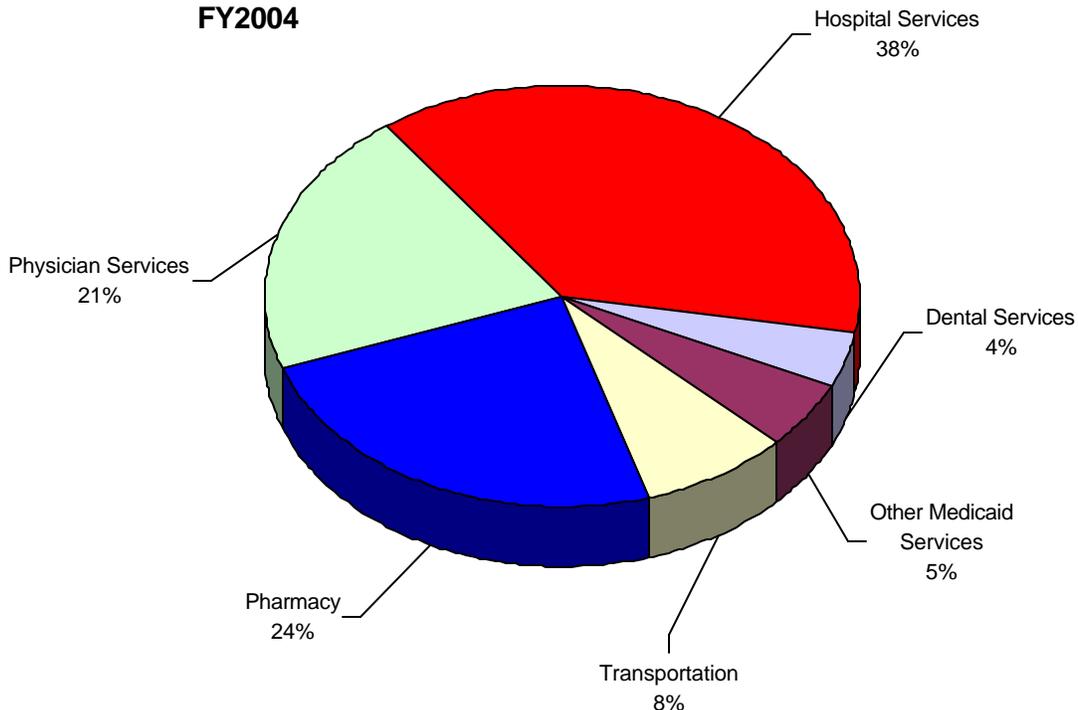
The HCS Medicaid Services Component is comprised of three elements, the “Core Services” described above, “Non-MMIS” services which include premium payments, contracts for Medicaid operations and cost containment, and, “Medicaid Financing” designed to maximize federal funding. Costs for the component break out as follows:

**HCS Medicaid Services Component Costs
FY2004
(Expenditures in Millions)**



The bulk of the HCS Medicaid budget is for core services. Following is the percentage breakout of the core services portion of the HCS Medicaid Services budget in FY2004.

**Medicaid Core Services Costs
FY2004**



Growth rates for the HCS Medicaid service categories have averaged 13% annually for the past 5 years. Largest growth areas include pharmacy at an annual average of 15.6% and transportation at an annual average of 13.7%. In FY2004, nearly 24% of all Medicaid expenditures were 100% federally funded through IHS facilities.

The following numbers encompass all Medicaid eligibles and recipients statewide. Recipient numbers, persons using the services provided, have continued to grow for the past 4 years as shown below. Hospital services are the most highly utilized category of services with pharmacy being second.

Medicaid Eligibles to Recipients

	Eligibles	Recipients	% Utilization
FY1999	94,500	79,770	84.4%
FY2000	111,100	92,100	82.9%
FY2001	118,100	100,150	84.8%
FY2002	124,920	110,570	88.5%
FY2003	128,190	116,840	91.1%
FY2004	129,555	119,321	92.1%

FY2006 Resources Allocated to Achieve Results

FY2006 Component Budget: \$671,732,100

Personnel:

Full time	0
Part time	0
Total	0

Key Component Challenges

The State of Alaska FFY06 Federal Authorized Medicaid Percentage (FMAP) for Medicaid Services will be 50.16% compared to the FFY05 Federal FMAP of 57.78%. Unless a change in the federal national formula occurs, this will result in an increased cost to the State of Alaska of \$52 million for FY06. For the Division of Health Care Services it is estimated to be \$28.8 million.

The goals of the organization are to bring financial stability to operations, maximize federal funds, provide more accountability in program management, and improve quality and customer service. The new program alignment will balance cost effectiveness and service delivery and improve services to clients. This realignment of duties and responsibilities remains a challenge in FY05 and FY06.

Medicaid Service Delivery and Program Management. In FY04 the number of Alaskans enrolled in the departmentwide Medicaid program increased only 1.1% over FY03 while the cost of services provided has grown an average of 5%. Current economic and health care trends in Alaska continue to exert increasing pressure on state health care managers and policymakers to provide clear and demonstrated evidence of the following:

- The ability to sustain an effective and responsive health care management capability while containing costs to the extent permissible by law;
- The capacity to consistently produce comprehensive, accurate, and timely information and data/trends analyses to provide legislators, policymakers, health care providers, and the public the base from which to measure how well that health care management capability is actually performing; and
- The ability to effectively and efficiently disseminate that information to policymakers, legislators, our clients, and the public.

The Division is committed to building and supporting a medical services program with quality technical and management expertise, and to developing and implementing innovative and effective business management practices to assure the department, the governor, the legislature, and the public will in fact receive and enjoy the benefits of a service delivery system capable of meeting state health care needs while continuing cost containment strategy.

Significant Changes in Results to be Delivered in FY2006

Health Care Services continues to adjust to the Department of Health and Social Services reorganization of staff and

programs. The goals of the reorganization are to bring financial stability to operations, maximize federal funds, provide more accountability in program management, and maintain quality and customer service. The new program alignment will balance cost effectiveness and service delivery.

Many internal and external transfers were made in FY04 and in FY05. This will be a continuing effort in FY06 that will require adjustments in the division and the department.

No break to services to the public has occurred throughout this multi-year reorganization.

Major Component Accomplishments in 2004

Medicaid Management Information System

The HCS has played a key role in the design, development, and implementation stage for the state's new MMIS. Requirement verification sessions have been taking place for over a year; staff time and effort without additional compensation has been commendable. Implementation is slated for September of 2005.

Cost Containment

HCS has played a major role in the implementation of cost containment measures in an effort to reduce the cost of Medicaid Services while maintaining wherever possible levels of services provided.

Summary of Cost Containment – HCS

- Cost avoid Medicare covered drugs - regulation required
- Expanded case management of high-cost recipients
- Expanded efforts to identify drug abuse through client lock-in to single physician
- Continued expansion of the Preferred Drug List
- Continued work on prior authorization requirements for hospital visits
- Increase efforts to eliminate duplicative services through MMIS claims editing
- Aiming activities with IHS facilities
- Identify and implement administrative cost avoid Medicare covered drugs - regulation required

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

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

	FY2004 Actuals	FY2005 Management Plan	FY2006 Governor
Formula Program:			
Component Expenditures:			
71000 Personal Services	0.0	0.0	0.0
72000 Travel	0.8	0.0	0.0
73000 Services	20,105.0	54,745.7	45,000.7
74000 Commodities	0.0	0.0	0.0
75000 Capital Outlay	158.7	0.0	0.0
77000 Grants, Benefits	586,377.9	594,512.5	626,731.4
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	606,642.4	649,258.2	671,732.1
Funding Sources:			
1002 Federal Receipts	431,225.2	470,221.8	469,017.4
1003 General Fund Match	94,648.6	97,337.9	121,595.0
1004 General Fund Receipts	3,944.6	4,824.5	4,245.7
1007 Inter-Agency Receipts	24,830.8	20,233.5	20,233.5
1037 General Fund / Mental Health	1,847.0	0.0	0.0
1108 Statutory Designated Program Receipts	49,328.8	55,890.5	55,890.5
1156 Receipt Supported Services	43.5	750.0	750.0
1168 Tobacco Use Education and Cessation Fund	773.9	0.0	0.0
Funding Totals	606,642.4	649,258.2	671,732.1

Estimated Revenue Collections

Description	Master Revenue Account	FY2004 Actuals	FY2005 Management Plan	FY2006 Governor
Unrestricted Revenues				
None.		0.0	0.0	0.0
Unrestricted Total		0.0	0.0	0.0
Restricted Revenues				
Federal Receipts	51010	431,225.2	470,221.8	469,017.4
Interagency Receipts	51015	24,830.8	20,233.5	20,233.5
Statutory Designated Program Receipts	51063	49,328.8	55,890.5	55,890.5
Receipt Supported Services	51073	43.5	750.0	750.0
Restricted Total		505,428.3	547,095.8	545,891.4
Total Estimated Revenues		505,428.3	547,095.8	545,891.4

**Summary of Component Budget Changes
From FY2005 Management Plan to FY2006 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2005 Management Plan	102,162.4	470,221.8	76,874.0	649,258.2
Adjustments which will continue current level of service:				
-Transfer Contract Funds to Medical Assistance Administration	-2,916.0	-6,829.0	0.0	-9,745.0
-Transfer to Medical Assistance Administration for Increased Contract Costs and Enhanced Program Oversight	-578.8	-578.8	0.0	-1,157.6
-Transfer out savings to sustain OPR staff	-300.0	0.0	0.0	-300.0
-Transfer Out Funds for Position Transferred to Rate Review	-30.0	-30.0	0.0	-60.0
-Transfer to Hearing and Appeals to meet caseload demands	-200.0	0.0	0.0	-200.0
Proposed budget decreases:				
-Reduce Excess Federal Authorization	0.0	-20,150.8	0.0	-20,150.8
Proposed budget increases:				
-Increase for Unrealized Cost Containment Efforts	9,321.4	10,388.3	0.0	19,709.7
-Federal Medicare Part A & B Premium Cost Increase	50.2	-4.1	0.0	46.1
-Estimated Medicare Part D Clawback Adjustment	5,301.0	0.0	0.0	5,301.0
-Projected HCS Medicaid Growth	13,030.5	16,000.0	0.0	29,030.5
FY2006 Governor	125,840.7	469,017.4	76,874.0	671,732.1