

Arizona Health Care Cost Containment System

Manual: Office of Managed Care - Finance
Policy and Procedures

Effective Date: October 1, 2003

Revision Date:

Subject: Performance Bond and Equity per member requirements

Authorized Signature:

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I. Purpose

This policy applies to all AHCCCS contractors that are required to both maintain a performance bond and meet a minimum equity requirement. The purpose of this policy is to establish flexible standards for contractors to meet the performance bonding and equity requirements. These standards will continue to ensure a contractor's ability to meet its claims payment obligations, while addressing the individual differences among contractors and accelerated enrollment growth.

II. Definitions

Performance Bond: In general, a performance bond is an instrument that provides a financial guarantee in the amount of one month's capitation. Refer to the *AHCCCS Performance Bond Policy* for definitions of acceptable instruments

Equity: Net Assets that are not designated or restricted for specific purposes.

III. Policy

A. Equity per member requirements

Contractors with 0-99,999 members: \$150

Contractors with 100,000+ members: \$100

B. Performance bonding requirements

The amount of the performance bond for all contractors is 75% of one month's capitation. For purposes of this policy capitation, supplemental payments, and premiums from all lines of AHCCCS business are considered for this calculation. When the amount of the performance bond falls below 70% of one month's capitation, then the amount of the instrument must be increased to at least 80% of

one month's capitation. Contractors must increase the amount of the performance bond within 30 days of notice from AHCCCSA.

C. Remediation when a contractor fails to meet the equity per member requirement

If a contractor's equity per member falls below the requirement, then AHCCCS will review the causes for the lack of compliance. AHCCCSA may require the contractor to comply with the following measures:

- ✓ Submission of corrective action plan to increase equity
- ✓ Monthly financial reporting
- ✓ Increase the amount of the performance bond
- ✓ Capital infusion to bring equity into compliance

In addition, if the contractor fails to comply with the above requirements, AHCCCSA may apply sanctions as delineated in the *Sanctions Policy*.

D. Restrictions on equity

The following asset types will constitute restricted, and therefore will be subtracted from a contractor's equity when calculating the equity per member ratio:

1. Assets recorded as "due from affiliates" which are encumbered by the parent company
2. Goodwill resulting from a purchase
3. Guarantees of debt
4. On balance sheet performance bonds
5. Other assets designated as restricted by AHCCCSA

E. Requirements for contractors with restricted equity

If a contractor's equity is not supported by unrestricted cash or investments, and the contractor does not meet the equity per member requirements, then the contractor may be required to maintain a performance bond in the amount greater than 75% of one month's capitation to cover the amount of the equity necessary to meet the requirements.

IV. Office of Managed Care Monitoring Responsibilities

1. OMC financial consultants will be responsible for monitoring compliance with performance bond and equity requirements on a quarterly basis. Analyses will be performed to determine the performance bond and equity per member sufficiency. Deficiencies and requests for remediation will be communicated in writing to the contractor. The contractor will be required to submit a plan to increase the equity within 30 days.

2. The financial consultant responsible for performance bonds will continue to monitor compliance with performance bond requirements on a monthly basis. AHCCCS will notify the contractor, by the 15th day of the month, of required changes to the amount of the performance bond. Contractors will have 30 days to comply with new requirements.

IV. References

Acute Care contract, Section D, Paragraphs 46, 47, 48, 50

ALTCS contract, Section D, Paragraphs 46, 47, 48 50, and 52

Arizona Revised Statute 36-2903(N)

AHCCCS rules R9-22-523