Arizona Nursing Facility Provider Tax Proposal

Request for Review and Approval of Waiver of Uniformity Assessment Model

As part of its most recent legislative session, the Arizona legislature passed HB2526, establishing a tax on the nursing facilities within the State. The legislation has an effective date of October 1, 2012. The assessment would neither be uniform nor broad-based; therefore the State is seeking a waiver of the broad-based and uniformity requirements.

Attached is the waiver model reflecting provider-specific assessments and Medicaid payments. The specific assessment and payment methodology is detailed below.

Assessment Calculations

The draft assessment model is structured as follows:

1. The assessment is imposed on non-Medicare patient days as allowed for under 42 CFR 433.68(d);
2. The assessment imposed is $7.50 per non-Medicare day except:
   a. Continuing Care Retirement Centers (20 of them) will not be assessed;
   b. Facilities with 58 or fewer total beds (12 of them) will not be assessed; and
   c. Facilities with 43,500 or more annual Medicaid days (9) will be taxed at a rate of $1.00 per non-Medicare day;

The assessments under these parameters will meet the statistical re-distributional test under 42 CFR 433.68(e)(2).

The patient days and inpatient nursing facility revenues used in the computations were derived from the 2010 Nursing Facility Uniform Accounting Report. The “Assessment Classes” sheet in the attached excel workbook details: the assessment classes; the assessment rate of each class; the Medicaid volume range of each class; and both the range and average Medicaid percentage (of total days) for each class. This demonstrates that no waiver class is based solely on no or
very low Medicaid volume and all waiver classes have providers with Medicaid volume. It also reflects that there are some non-Medicaid providers in the class with the highest assessment rate, demonstrating the assessment program has providers paying the full assessment and receiving nothing back in Medicaid payments. Therefore, there is no hold harmless guarantee in this assessment program.

**Medicaid Payments**

Nursing homes in Arizona are paid rates based upon contracts with managed care program contractors. The only exception is for rates paid to facilities for a small number of AHCCCS fee-for-service members (mostly Native American members who cannot be mandated into managed care), which the State pays directly using its fee schedule. The assessment proceeds will be used to increase rates to nursing facilities paid through managed care contracts by increasing the capitation rates to the Medicaid managed care program contractors. The contractors will then pass-through the capitation increases in the form of rate increases to providers. For nursing facilities with FFS AHCCCS members, the State will pay Medicaid supplemental payments based upon their Medicaid volume.

Rates were reduced in Fiscal Year 2012 by 5%. The assessment and federal match allows for restoration of these rate reductions and inflationary increases.

The sheets labeled “Input Variables” and “Model” in the excel workbook reflect the computations of provider-specific assessments and estimated annual Medicaid payments. In the model, the payments are estimated as an equal per diem increase but the rate increases for days provided through managed care contracts will ultimately be determined as a percentage increase in the negotiated rates. The estimated increase is between 10 and 11%. Since rates are negotiated with providers with the fee schedule as a floor, the existing Medicaid rates for each provider are not known. Therefore, the model uses an equal per diem as a proxy.
The proposal also includes the “6 % safe harbor revenue test” (“Input Variables” sheet, Column B, rows 30-36), demonstrating that the total assessment falls well below the safe harbor maximum allowed under the regulations.

The State respectfully requests your review and approval of the uniformity waiver by August 31, 2012. This will allow our actuaries time to incorporate the assessment and federal matching funds into the capitation rates of the program contractors for establishing new October 1, 2012 rates.