

March 8, 2017

The Honorable Don Shooter  
Chairman, Joint Legislative Budget Committee  
1700 West Washington  
Phoenix, Arizona 85007

Dear Representative Shooter:

The Arizona Health Care Cost Containment System (AHCCCS) is amending Contract Year Ending (CYE) 2017 (October 1, 2016, through September 30, 2017) capitation rates for Regional Behavioral Health Authorities (RBHAs). On September 21, 2016, the Joint Legislative Budget Committee (JLBC) provided favorable review of the majority of AHCCCS CYE 2017 capitation rates, and included a provision that AHCCCS submit the RBHA rates at a later date as those rates were not yet complete. On December 2, 2016, AHCCCS notified you that RBHA capitation rates effective October 1, 2016, were being submitted to the Centers for Medicare and Medicaid Services (CMS) for approval in accordance with federal requirements, but that those rates were preliminary and were not ready for JLBC review. AHCCCS is now submitting amended RBHA capitation rates retroactive to October 1, 2016 to CMS, and respectfully requests to be placed on the agenda of the next Joint Legislative Budget Committee (JLBC) meeting to review the capitation rate amendments.

This update to the capitation rates accommodates multiple issues, including:

- A technical fix to the member months that were used to initially set the CYE 17 per member capitation rates;
- A pharmacy analysis based on AHCCCS' Pharmacy and Therapeutics (P&T) Committee decisions;
- A retrospective analysis of the impact to the RBHAs related to the October 1, 2015 increase in the behavioral health inpatient hospital Fee For Service (FFS) rates to align with the market (to ensure current capitation rates appropriately reflect this change);
- Increased labor costs resulting from the Arizona minimum wage increase as approved by voters as Proposition 206; and
- Implementing the Vivitrol Pilot initiative.

#### Background

Below please find details regarding changes beyond those previously explained in the September 8, 2016 letter. The fiscal impact of each of these changes is detailed in Table III below.

#### *Member Months*

In a letter to the JLBC dated September 8, 2016, AHCCCS explained that it was changing the way it pays RBHAs as a result of the merger between AHCCCS and the Division of Behavioral Health Services formerly of the Department of Health Services. That explanation stated, in part, "Effective October 1, 2016, RBHAs will be paid in the same manner as all other AHCCCS Contractors: one monthly capitation payment for every member assigned to/enrolled with the RBHA as of that payment date, and then prorated payments/recoupments for the number of members added to/falling off the RBHA daily throughout that month." In our December 2, 2016, letter, we communicated that we needed several months of actual RBHA enrollment data to ensure the integrity of the rates. That enrollment data has been reviewed, and AHCCCS has adjusted the RBHA capitation rates to fix a misalignment of member months between those being used to develop the capitation rates and those being used to pay the RBHAs. This adjustment is retroactive to October 1, 2016.

#### *Pharmacy and Therapeutics (P&T) Committee Decisions*

AHCCCS' Pharmacy and Therapeutics (P&T) Committee makes policy changes that impact the utilization and unit costs of AHCCCS Contractors' pharmacy costs. These changes have been made to maximize the most favorable net cost of pharmaceuticals to the State. This may occur by encouraging generic drug use when generic drugs offer the best value for an efficacious clinical outcome, or may result in mandating brand drugs when such branded products are the least costly option due to the value of AHCCCS' drug rebates. As a result of these changes, AHCCCS actuaries completed a thorough review to ensure that the underlying funding included in the capitation rates accurately reflected the changes in P&T. As a result of this analysis, funding is both added and subtracted to the RBHA capitation rates retroactive to October 1, 2016 (resulting in a net increase overall).

#### *Inpatient Hospital FFS Rates*

Effective October 1, 2015, AHCCCS increased the behavioral health FFS inpatient hospital rates to align with rates being paid by the RBHAs to ensure access to care for AHCCCS' FFS members. Capitation rates were not initially adjusted because the RBHAs' contracted provider rates formed the basis of the FFS rate increase. However, the FFS rates are the default rates that AHCCCS Contractors pay to non-contracted providers. Because of the higher FFS rates, AHCCCS members had increased access to non-contracted facilities, often moving to those facilities from an Emergency Department. This resulted in increased spend on non-contracted inpatient providers, but mitigating holds in the EDs. Thus the RBHAs have experienced an increase in unit costs that was not previously accounted for in the capitation rate setting process. Funding is added to the RBHA capitation rates retroactive to October 1, 2016 and AHCCCS is exploring with the RBHAs options to mitigate this issue in the future.

#### *Minimum Wage*

Effective January 1, 2017, AHCCCS and its Contractors' fee schedules increased for select Home and Community Based Setting (HCBS) codes (including behavioral health respite care), all Nursing Facility codes and all alternative living facility services codes. AHCCCS adjusted rates to address the increased labor costs resulting from the Arizona minimum wage increase as approved by voters as Proposition 206 on November 8, 2016. This action helps to assure that payments are consistent with efficiency, economy, and quality of care and are sufficient to enlist enough providers so that care and services are available at least to the extent that such care and services are available to the general population in the geographic area. Managed care organizations, including the RBHAs, must have actuarially sound rates that reflect their expected costs of service delivery, and must ensure an adequate network sufficient to ensure member access to care. Funding is added to the RBHA capitation rates retroactive to January 1, 2017.

#### *Vivitrol Pilot*

Effective April 1, 2017, AHCCCS is implementing Governor Ducey's Vivitrol Pilot initiative. The Vivitrol Pilot is an initiative within Maricopa County to provide individuals being discharged from the Arizona Department of Corrections (ADC) who meet specific criteria with a medication to prevent relapse to opioid dependence. Members will receive the medication prior to leaving ADC and then will be connected to a community provider for ongoing treatment post-incarceration. The typical treatment is via a monthly shot which may be administered for up to 12 months. The Vivitrol Pilot is expected to treat 100 members over a two-year time period beginning April 1, 2017. Funding is added to the Maricopa RBHA capitation rates effective April 1, 2017.

#### Capitation Rate Adjustments

Table I below contains information regarding the RBHA rates as provided in the September 8, 2016 letter (on a state fiscal year basis) as well as the updated final rates and incorporating the items above. Table II provides the fiscal impacts of the changes impacting capitation rates.

**Table I**

	Statewide Rates		CY17	CY16	CY17	Change	Percent Impact over CY 16
	CY16	CY17	Population	with CY17 Pop.	with CY17 Pop.	Inc. (Dec.)	
<b>September 8 Submittal Final Rates</b>	\$111.46	\$115.35	18,870,213	\$2,103,273,941	\$2,176,679,070	\$73,405,129	3.50%
	\$107.74	\$113.95	18,603,129	\$2,004,359,600	\$2,119,753,700	\$115,394,100	5.80%
				Total Fund Impact Above SFY 16		\$115,394,100	
				State Fund Impact		\$27,740,700	
				Federal Fund Impact		\$87,653,400	

**Table II**

	Total Fund Impact
Annual Rate Build Up (trend, provider rates, etc.)	\$ 73,405,100
Member Months Fix	\$ (10,466,200)
FFS Hospital Full Year	\$ 22,252,700
Pharmacy Analysis Full Year	\$ 23,375,400
Min Wage - 9 months	\$ 971,900
Vivitrol Pilot - 6 months	\$ 85,000
Misc <sup>1)</sup>	\$ 5,770,200
<b>Total Fund Impact</b>	<b>\$ 115,394,100</b>
<b>Total State Impact</b>	<b>\$ 27,740,700</b>
<b>Total Federal Impact</b>	<b>\$ 87,653,400</b>

1) Includes premium tax, risk contingency and administration

The actuarial certifications for the RBHA program will be provided as soon as possible and prior to the JLBC meeting. AHCCCS will include all of the certifications submitted to CMS for the CYE 17 RBHA capitation rates, thus allowing a complete picture of the rate build up in each of the phases.

The Honorable Don Shooter  
March 8, 2017  
Page 4

Should you have any questions on any of these issues, please feel free to contact Shelli Silver, Assistant Director, at (602) 417-4647.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth Kohler", with a stylized flourish at the end.

Beth Kohler  
Deputy Director

cc: The Honorable Debbie Lesko, Arizona State Senate  
Lorenzo Romero, Office of Strategic Planning and Budgeting  
Richard Stavneak, Joint Legislative Budget Committee  
Christina Corieri, Senior Policy Advisor, Office of the Governor  
Bret Cloninger, Office of Strategic Planning and Budgeting