**Legislative Fiscal Bureau**
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December 14, 2010

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Health Services: Family Care Expansion to Langlade and Lincoln Counties -- Agenda Item VI

On October 15, 2010, the Department of Health Services (DHS) notified the Committee of its intent to contract with Community Care of Central Wisconsin (CCCW) to administer the Family Care benefit in Langlade County, beginning January 1, 2011, and in Lincoln County, beginning April 1, 2011. DHS seeks the Committee's approval to enter into the contract under a passive review process specified under s. 46.281 of the statutes. On November 5, the Co-Chairs notified DHS Secretary Timberlake that an objection was raised to the DHS request, and that the item would be addressed at a meeting of the Joint Committee on Finance.

## BACKGROUND

### Program Description

The Family Care program provides long-term care services to qualifying individuals under a capitated, risk-based payment system. The program has two primary components -- aging and disability resource centers (ADRCs) and managed care organizations (MCOs). ADRCs serve as a gateway for individuals who need long-term care services, providing "one-stop shopping" for information, assessments, functional eligibility determinations, prevention, wellness, and other services relating to long-term care. MCOs provide long-term care services to Family Care enrollees, either by contracting with providers, or by providing care directly through their employees. An individual enrolled in Family Care receives services that are tailored to his or her needs and preferences, which may include the kind of services provided under the state's medical assistance (MA) home- and community-based waiver programs, as well as standard MA eligible long-term care services, such as home health, personal care, and nursing home services.

If the Family Care benefit is offered in a county, eligible individuals must also have the option to self-direct their long-term care services through the IRIS program (Include, Respect, I Self-Direct), rather than enroll in Family Care. IRIS participants receive a monthly budget allocation and choose which long-term care services they receive, and which providers will render these services. DHS operates both programs under waivers of federal MA laws granted by the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid (CMS).

Under Family Care and IRIS, individuals that meet both functional and financial eligibility standards are entitled to a full package of home- and community-based services designed to meet their needs. Family Care and IRIS benefits become an entitlement for all eligible individuals residing in a Family Care county 36 months after these benefits first become available. Family Care and IRIS benefits replace the MA waiver programs (described below) that are currently available in counties.

MA recipients who live in counties where MCOs do not offer the Family Care benefit, but are eligible for institutional care, may participate in the MA home- and community-based waiver programs, such as the community integration program (CIP IA, CIP IB, CIP II), and the community options waiver program (COP-W). These programs fund certain long-term care services that are not available as standard MA card services. Unlike MA card services, for which providers submit reimbursement claims to the MA program or MCO in which the MA recipient is enrolled, MA waiver services are supported from sum certain allocations to counties. Consequently, some counties maintain waiting lists for these services. Counties also provide other funds, including community aids, GPR-funded (non-waiver) COP funds, and tax levy revenue, to support these long-term care services. The state claims federal MA matching funds for MA-eligible services counties support with these funds.

Individuals who are eligible for Family Care and IRIS in Family Care counties are not required to participate in these programs. However, eligible individuals who choose not to enroll in the programs, once they become available, do not have access to the wide range of services that are only available under Family Care and IRIS. These individuals continue to be eligible for medically necessary, MA-funded long-term care services through the standard set of Medicaid benefits, subject to certain limitations.

Currently, MCOs offer the Family Care benefit in 55 counties, while 57 counties and two tribes are served by ADRCs.

**Joint Finance Committee Review**

2007 Wisconsin Act 20 authorized DHS to expand the Family Care program statewide, in all counties that choose to participate in the program. Act 20 created a requirement that DHS notify the Joint Committee on Finance, under a 14-day passive review process, if DHS proposes to contract with entities to administer the Family Care benefit in geographic areas in which resides, in the aggregate, more than 29 percent of the state population that is eligible for the Family Care benefit. Since the benefit is currently available to more than 29 percent of the state

population that is eligible for it, DHS submits all proposed expansions to the Joint Committee on Finance. If the Committee objects to any proposal submitted by DHS, it must then meet for the purpose of reviewing the proposal. DHS may only enter into the proposed contract if the Committee approves the proposed contract, or if the Committee fails to act on the proposed contract within 59 working days after the date of the DHS notification (in this case, January 10, 2011).

DHS is required to provide certain information in conjunction with its notification to the Committee, including: (a) the contract proposal; (b) a fiscal estimate of the proposed addition that illustrates that the addition will be cost-neutral (including start-up, transitional, and ongoing operational costs); (c) the amount and conditions of any proposed county contribution; (d) documentation that the county consents to the administration of the Family Care benefit in the county; and (e) a proposal by the county for using any savings in county expenditures on long-term care that may result from the administration of the Family Care benefit in the county.

On October 15, 2010, DHS submitted a letter notifying the Joint Committee on Finance of its intent to contract with Community Care of Central Wisconsin to make the Family Care benefit available in Langlade and Lincoln Counties. The letter included the following items to meet the notification requirements outlined above: (a) MCO Specific Contract Terms; (b) a statement that Family Care expansion to Langlade and Lincoln counties would be cost neutral compared to funding provided in 2009 Wisconsin Act 28; (c) a five-year list of county contributions under Family Care expansion; (d) a resolution passed by the Langlade County Board approving Family Care expansion and the use of county savings for human service programs; and (e) a letter and resolution passed by the Lincoln County Board approving the expansion of Family Care and the use of county savings for human services and/or property tax relief.

**ANALYSIS**

Under the DHS request, Family Care would expand to Langlade County on January 1, 2011, and to Lincoln County on April 1, 2011. If the expansion occurs, all individuals eligible for Family Care benefits in these counties will continue to receive standard Medicaid card services for many of their acute health care needs. However, they will also have the choice of three long-term care options: (1) receiving an expanded set of long-term care benefits under Family Care through CCCW; (2) self-directing a similar set of long-term care benefits through IRIS; or (3) foregoing both Family Care and IRIS and using only the more limited set of long-term care services offered as card services. These three long-term care options would replace COP, CIP, and other home and community-based waivers currently administered by Langlade and Lincoln Counties.

While all eligible individuals would have the option to enroll in Family Care and IRIS, these services would be available to different groups at different times, based on the services individuals are currently receiving. Current nursing home residents would be placed in their preferred program as soon as possible after Family Care is available in the county. Participants

moving from an institutional setting to the community could immediately enroll in Family Care at any time. Approximately 350 individuals who currently receive long-term care services as part of a home- and community-based waiver would be phased-in to their preferred program during the first month that Family Care is offered. Individuals on the waitlist for waiver services -- 14 in Langlade County and 19 in Lincoln County -- would be enrolled in Family Care or IRIS during the 36-month period after the benefit first becomes available in each county. After 36 months, Family Care would become an entitlement and any eligible individual would be able to enroll in Family Care or IRIS.

The following table summarizes estimates of the net fiscal effect of the proposal in the current fiscal year and each year of the 2011-13 biennium. The figures in the table are based on the current federal medical assistance percentage (FMAP) of 68.75% in 2010-11 and the assumption that the FMAP will be 60.44% in each year of the 2011-13 biennium.

**Estimated Net Effect of Proposal**
**Fiscal Years 2010-11 through 2012-13**

| | 2010-11 | | 2011-12 | | 2012-13 | |
|---|---|---|---|---|---|---|
| | GPR | All Funds | GPR | All Funds | GPR | All Funds |
| **New Program Costs** | | | | | | |
| FC Capitation Payments | $1,013,200 | $3,242,200 | $4,771,600 | $12,061,700 | $5,093,500 | $12,875,300 |
| IRIS Service Costs | 66,400 | 212,500 | 315,400 | 797,200 | 343,300 | 867,900 |
| Total Service Costs | $1,079,600 | $3,454,700 | $5,087,000 | $12,858,900 | $5,436,800 | $13,743,200 |
| **Offsetting Savings** | | | | | | |
| Waiver Programs | -$570,300 | -$1,824,800 | -$1,576,500 | -$3,985,200 | -$1,576,500 | -$3,985,200 |
| GPR-Funded COP | -365,800 | -1,170,700 | -974,100 | -2,462,400 | -974,100 | -2,462,400 |
| County Contributions | -604,400 | -1,934,200 | -1,671,200 | -4,224,500 | -1,365,600 | -3,452,000 |
| Nursing Home Services | -23,200 | -74,300 | -167,900 | -424,400 | -281,100 | -710,500 |
| MA Card Savings | -262,500 | -840,100 | -1,244,500 | -3,146,000 | -1,310,700 | -3,313,200 |
| Total Offsetting Savings | -$1,826,200 | -$5,844,100 | -$5,634,200 | -$14,242,500 | -$5,508,000 | -$13,923,300 |
| Net Cost (Savings) | -$746,600 | -$2,389,400 | -$547,200 | -$1,383,600 | -$71,200 | -$180,100 |

The table shows that the administration's proposal to begin offering the Family Care benefit in Langlade and Lincoln Counties is estimated to generate net GPR savings in 2010-11 ($746,000), 2011-12 ($547,200), and 2012-13 ($71,200), compared to maintaining the current MA-supported long-term care programs in those counties. The savings are due to estimated reductions in MA-funded costs for current long-term care services available in those counties, including the MA waiver programs, GPR-funded COP services, nursing home services, and MA card services that will be funded as part of the capitation payments DHS will make to the MCO. In addition, the two counties will begin contributing funding (budgeted as program revenue) to support MCO capitation payments, which offsets costs that would otherwise be supported with GPR. Because Family Care costs are budgeted as part of the MA and community aids programs, these savings are realized within the programs, eliminating the need to transfer funding between DHS appropriations as the program expands. The MA budget approved as part of 2009 Act 28

assumed that this expansion would occur, and that savings would be realized as a result of the expansion.

The net state costs of the proposed expansion will likely increase in future years. This is attributable to several factors, including: (a) the establishment of Family Care as an entitlement and the subsequent elimination of waiting lists for services; and (b) declining county contributions. DHS estimates that Family Care enrollment in the first year after entitlement will increase by 19.2%. In the second and third years, enrollment will increase by an estimated 10.8% and 8.4%, respectively. Enrollment is expected to increase by 2.4% each year thereafter. Increases in capitation rates due to changes in the intensity of services used by Family Care enrollees also contribute to higher total program costs, both under Family Care and other MA-funded long-term care services.

As indicated previously, Family Care enrollees receive services through the Family Care MCO. Currently, DHS pays each MCO one of two capitation rates for each individual enrolled in the MCO. One rate applies to Family Care enrollees who require a nursing level of care, and the other applies to Family Care enrollees who meet the functional requirements of the program, but do not require a nursing level of care. Each rate represents an average cost calculated across all members of each respective MCO. Rates may differ between MCOs due to differences in each MCO's case mix, labor costs and administrative costs. To protect MCOs, the state may make payment adjustments to MCOs to correct for extreme differences in the actual case mix experience. This protection is available for the first two years as the MCO becomes fully operational in the county. DHS projects that the calendar year 2011 monthly capitation rates it will pay to CCCW, weighted across CCCW's entire service area including Langlade and Lincoln Counties, will be approximately $2,996.50 for nursing level of care enrollees and $694.05 for non-nursing level of care enrollees. Lincoln and Langlade Counties have a lower projected rate for nursing level of care enrollees than the other counties served by CCCW. As a result, Lincoln and Langlade Counties' rates lower the weighted average for CCCW's service region as a whole. To determine the net impact of expanding Family Care to Lincoln and Langlade, the table uses the lower nursing level of care rate projected for these two counties, $2,830 per member per month, and assumes that capitation rates will increase by 1% each calendar year.

In addition to the monthly capitation rate paid to CCCW, DHS will also provide monthly budget allocations for individuals that enroll in IRIS. DHS estimates that the IRIS population will constitute 5.5% of the total Family Care and IRIS population and that the per member per month budget allocation for IRIS participants will be approximately $3,136.76 in calendar year 2011. IRIS budget allocations are assumed to increase by 3% each calendar year.

As indicated in the table, offsetting the projected increases in costs for Family Care capitation payments and IRIS budget allocations are a number of Family Care-related savings and funding transfers. First, as individuals transition from the waiver programs, funding is reallocated from the waiver programs to Family Care within the total MA budget. Second, GPR-funded COP funding is transferred to Family Care as individuals transition to Family Care. Third, DHS estimates that Family Care will generate savings as individuals are diverted or

relocated from nursing homes to less expensive community-based settings. DHS estimates that approximately 5% of individuals on waitlists will be diverted or relocated from a nursing home to a community setting. Fourth, Family Care is expected to lower overall MA card costs, both because some MA card services will be managed as part of the Family Care benefit and because Family Care benefits will prevent the need for acute care services.

As previously indicated, counties are required to make a contribution to the state for the Family Care benefits it provides to their residents. The formula DHS uses to calculate the county contribution was established in 2007 Wisconsin Act 20. In the first year that Family Care is offered in the county, the county must contribute the same amount it spent in 2006 on long-term care services for clients that would have been eligible for Family Care at that time. If this first year amount is less than 22% of the county's basic community aids allocation (BCA), the county will continue to contribute this amount as long as it participates in Family Care. If the first year amount is more than 22% of the county's BCA, the county will lower its contribution by 25% of the difference, each year for four years, until its yearly contribution is 22% of its BCA.

It should be noted that both Langlade and Lincoln Counties had first year county contributions significantly larger than 22% of their BCAs. Langlade County's contribution will decline by $386,484 over five years, from $646,007 to $259,523 and Lincoln County's contribution will decline by $835,922 over five years, from $1,125,771 to $289,849.

Most of the cost and savings estimates in the table are based on current funding allocations or program experience, but some are less certain. The waiver transfer payments, COP transfers, and county contributions identified in the table are known, and are not subject to change. All enrollment assumptions are based on program experience in other counties. However, the Family Care costs shown in the table are based on DHS's assumption that capitation payments will increase by 1% percent annually. These capitation rates are subject to contract negotiations. Most MCOs received capitation rate increases over 6% from 2008-09 to 2009-10, including CCCW. The capitation rate DHS indicates CCCW will receive in 2011 will represent a decrease of 1.5 percent from 2009-10. Similarly, nursing home savings are based on the assumption that 5% of Family Care enrollees will be diverted from nursing homes to the community. The actual diversion rate cannot be measured, but this assumption is lower than in previous years to reflect actual experience in the current biennium. While recognizing the uncertainty of the estimates provided in the table, it appears that the state will realize some GPR savings from expanding Family Care to these counties during the current year and the 2011-13 biennium, as assumed in Act 28.

Expanding Family Care to Langlade and Lincoln Counties entails administrative reorganization, much of which has already been implemented. County employees responsible for administering the waiver programs have been informed that their positions will be eliminated. Many of these county employees have accepted positions with CCCW to administer Family Care. Former Langlade and Lincoln County employees are expected to begin working for CCCW in December 2010, and March 2011, respectively. CCCW has negotiated agreements between the counties it currently serves, has set up offices in both counties, and purchased

equipment for program administration. Current waiver participants have been through Family Care orientation and have selected their preferred program and individuals on the waitlist have been told when they will be able to receive benefits. Langlade County has placed one of its human services buildings up for sale, under the rationale that the space will no longer be needed by the county for administering long-term care programs if Family Care expands. Finally, Langlade County has not made any independent contracts with service providers for calendar year 2011 in case it needs to continue administering the waiver programs.

DHS has indicated that, if the Committee does not approve the administration's request, both Langlade and Lincoln Counties would remain responsible for administering the current waiver programs. Langlade County would have less than one month to re-hire staff, move back into their administrative building, contact all recipients, and establish new contracts with providers to be able to offer waiver services on January 1, 2011. Lincoln County would have three months to re-hire administrative staff, establish new contracts, and contact recipients.

In summary, it appears that permitting CCCW to begin offering the Family Care benefit in Lincoln and Langlade County will result in GPR savings that were assumed in developing the MA budget for the current biennium. Further, these counties have taken some administrative actions in anticipation of no longer administering the current long-term care programs, so that denying the request may create problems for these counties in maintaining long-term care services.

It should be noted that the Legislative Audit Bureau is currently conducting a comprehensive audit of the Family Care program, which will include a review of the program's cost effectiveness and its short- and long-term financial solvency. The audit is expected to be released in the spring of 2011.

**ALTERNATIVES**

1. Approve the DHS request to expand the program to Langlade County, beginning January 1, 2011, and to Lincoln County, beginning April 1, 2011.

2. Deny the request.

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