



ROBERT BENTLEY
Governor

Alabama Medicaid Agency

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STEPHANIE MCGEE AZAR
Acting Commissioner

May 30, 2014

Eliot Fishman, Director
Centers for Medicare and Medicaid Services
7500 Security Boulevard
Baltimore, MD 21244

Dear Mr. Fishman:

The Alabama Medicaid Agency (Agency) requests approval from the Centers for Medicare and Medicaid Services (CMS) for a Section 1115 Demonstration Project that will allow the State of Alabama to implement our version of CMS accountable care organizations, which we refer to as regional care organizations (RCOs). Through RCOs, we aim to improve care coordination, clinical outcomes, patient engagement, and access while ensuring the long-term sustainability of Alabama's Medicaid program. RCOs will also be responsible for the expansion of our Health Home program, presently named Patient Care Networks of Alabama, which is currently in place under an approved State Plan Amendment.

RCOs are the cornerstone of the State's Medicaid transformation plan. These provider-based, community-led organizations will manage Medicaid State Plan benefits and coordinate care for the Demonstration Populations through a prospective, capitated payment model. Through this Demonstration Project, the Agency intends to preserve the fundamental principles of our current Maternity Care Program; Patient 1st, our primary care case management program; and the Patient Care Networks of Alabama, Health Home program. Building upon these existing programs through the development of RCOs will enable the State to meet the CMS "triple aim" objectives to improve patient experience, improve health, and reduce costs. Specifically, our objectives are to:

- Address fragmentation in the State's delivery system
- Improve beneficiary outcomes
- Support quality care and protect and further improve access to health care providers
- Increase transparency and fairness in the Medicaid reimbursement system

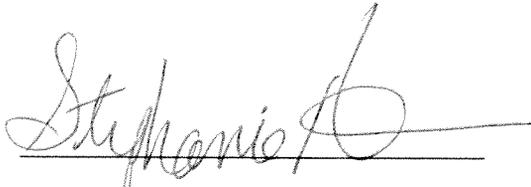
This Demonstration Project is based on the recommendations of a multi-stakeholder Medicaid Advisory Commission, convened by Governor Robert J.

Bentley in October 2012. The Commission's recommendations focused on the Agency transitioning from a volume-based, fee-for-service reimbursement system to a payment system that incentivizes the delivery of quality health outcomes and improved care coordination. The Commission's recommendations informed the plan to create RCOs, which was incorporated into Senate Bill 340 and signed into law in May 2013.

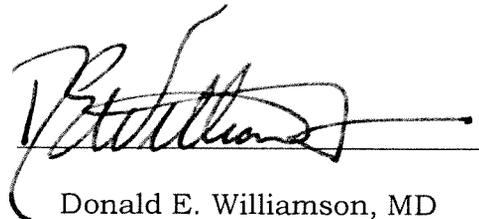
To permit sufficient planning time for the implementation of this Demonstration Project, we request approval of this Demonstration Project by October 1, 2014. We appreciate the discussions we have had with your Department to date and look forward to further collaboration regarding the Agency's efforts to transform the State's Medicaid delivery system. Along with the Demonstration Proposal submission, the Agency is enclosing responses to questions posed by Leila Ashkeboussi regarding our Medicaid transformation plan.

Thank you for your consideration of this important initiative.

Sincerely,



Stephanie McGee Azar
Acting Commissioner



Donald E. Williamson, MD
Chairman, Alabama Medicaid
Agency Transition Task Force

Enclosures

cc: Leila Ashkeboussi
Stanley Fields
Angela Garner
Diane Gerrits
Tonya Moore
Lane Terwilliger
Jackie Glaze

Alabama Medicaid Agency Response to CMS Questions

The Agency provides the following responses to questions posed via email by Leila Ashkeboussi on May 20, 2014.

1. How much would the RCOs be paid and how would the payment amounts be determined? Will payment consider a processing fee?

Capitation payments for the RCO will be determined by an actuarial rate setting process in accordance with 42 CFR Part 438. For the initial rate setting process, Medicaid historical fee-for-service data, along with supplemental hospital payments currently paid outside of the claims by the State, will be used to set rates, and will continue to be used until sufficient RCO encounter data is available. While only fee-for-service data is available, assumptions will be made as to the utilization and unit cost changes associated with the transition to the RCO delivery system.

Rates will be developed at a statewide level based on historical data. The Demonstration Populations will be broken into subpopulations potentially segregated by age, sex, and type of eligibility. Once statewide rates are established, these rates will be adjusted to each regional population's risk and demographics. The final RCO payments will be adjusted for the risk of the population assigned to each RCO. RCO payments will also include appropriate amounts for administration, case management, and risk premium.

The estimated RCO payments are summarized in Attachment 10 of the Demonstration Proposal.

2. Please confirm that the RCO infrastructure expenditures one-time cost items?

RCO infrastructure expenditures (Transition Pools) are one-time costs allocated over four years, decreasing over each year as RCO infrastructure becomes more developed.

3. Is the \$244 million that will be used to pay for RCOs, Provider HIE Enhancements and Medicaid Infrastructure Analytics and Third Party Administration factored into the cost savings projection?

Yes, the Designated State Health Program and Transition Payment pool amounts are accounted for within the cost savings projection and can be seen in Attachment 10 of the Demonstration Proposal.

4. How does the state ensure that HIE enhancements are supplementing HIE efforts within the RCO and are not duplicating other federal funding initiatives?

There is no duplication in federal funding initiatives related to pre-RCO versus Post RCO HIE activities. Prior to the RCO standing up, the HIE funding was granted to Alabama via an ONC HITECH grant. These

resources were spent to build the core infrastructure for the HIE and have since been depleted. Current funding, thru a CMS Medicaid EHR Incentive Program and guided by the CMS “FairShare” requirements, relates to the ongoing management, technical support and sustaining of the HIE operations. The funding sought through the Demonstration Proposal will be drawn down to provide assistance to individual providers who have been required to connect and do not have the resources to do so.

5. What changes to the Medicaid state plan payment and financing arrangements does the state intend to make concurrently with this demonstration?

Hospitals will continue to provide intergovernmental transfers and pay taxes as they do currently. The Agency will provide a capitation payment to the RCOs, and the RCOs will be responsible for paying providers for RCO-covered services.

6. Is the state prepared to assume financial responsibility for inpatient utilization as part of the demonstration?

The Agency is prepared to have discussions with CMS about conditioning receipt of Designated State Health Program and/or Delivery System Reform Incentive Payment funding based on the State meeting targets related to inpatient utilization and other metrics.

7. How does the state intend to monitor the health outcomes of non-covered individuals?

Certain initiatives within the Demonstration Proposal will have statewide system impacts. These include initiatives related to health information exchange, enhanced delivery system capacity, and improved analytic and management capacity. The Agency will monitor and assess the impact of these initiatives.

In particular, initiatives implemented through the Delivery System Reform Incentive Payment program are expected to impact non-covered individuals in addition to covered individuals. The Agency will monitor the achievement of milestones associated with Delivery System Reform Incentive Payment program initiatives.

8. Please provide more details about the services provided through the Designated State health programs in Attachment D so CMS can assess and advise the most appropriate coverage vehicle. The outpatient substance use program and community mental health center services may be benefits that could be covered through the Medicaid State plan.

We are in the process of completing the Designated State Health Program templates provided by Ms. Ashkeboussi and will submit these templates to CMS upon completion. A high-level description of the services provided

through the proposed Designated State Health Program is provided in Figure 4 in Section I of the Demonstration Proposal.