

COLORADO DEPARTMENT OF HEALTH CARE POLICY AND FINANCING; FY 08-09 BUDGET REQUEST

Schedule 13 Change Request for FY 08-09 Budget Request Cycle											
		<input checked="" type="checkbox"/> Decision Item FY 08-09		<input type="checkbox"/> Base Reduction Item FY 08-09		<input type="checkbox"/> Supplemental FY 07-08		<input type="checkbox"/> Budget Request Amendment FY 08-09			
Request Title:	Increase Funding for State Contribution Payment										
Department:	Health Care Policy and Financing			Dept. Approval by: John Bartholomew JB		Date: November 1, 2007					
Priority Number:	DI-4			OSPB Approval: <i>[Signature]</i>		Date: 11/24/07 for 11/1/07					
		1	2	3	4	5	6	7	8	9	10
		Prior-Year Actual FY 06-07	Appropriation FY 07-08	Supplemental Request FY 07-08	Total Revised Request FY 07-08	Base Request FY 08-09	Decision/ Base Reduction FY 08-09	November 1 Request FY 08-09	Budget Amendment FY 08-09	Total Revised Request FY 08-09	Change from Base (Column 5) FY 09-10
Fund	Total										
Total of All Line Items	Total	72,494,301	69,546,453	0	69,546,453	76,719,821	2,854,636	79,574,457	0	79,574,457	2,854,636
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	72,494,301	69,546,453	0	69,546,453	76,719,821	2,854,636	79,574,457	0	79,574,457	2,854,636
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	0	0	0	0	0	0	0	0	0
	CFE	0	0	0	0	0	0	0	0	0	0
	FF	0	0	0	0	0	0	0	0	0	0
(5) Other Medical Services											
Medicare	Total	72,494,301	69,546,453	0	69,546,453	76,719,821	2,854,636	79,574,457	0	79,574,457	2,854,636
Modernization Act of 2003 State Contribution Payment	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	72,494,301	69,546,453	0	69,546,453	76,719,821	2,854,636	79,574,457	0	79,574,457	2,854,636
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	0	0	0	0	0	0	0	0	0
	CFE	0	0	0	0	0	0	0	0	0	0
	FF	0	0	0	0	0	0	0	0	0	0
Letternote revised text:											
Cash Fund name/number, Federal Fund Grant name:											
IT Request: <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No											
Request Affects Other Departments: <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If Yes, List Other Departments Here:											

CHANGE REQUEST for FY 08-09 BUDGET REQUEST CYCLE

Department:	Health Care Policy and Financing
Priority Number:	DI-4
Change Request Title:	Increase Funding for State Contribution Payment

SELECT ONE (click on box):

- Decision Item FY 08-09
- Base Reduction Item FY 08-09
- Supplemental Request FY 07-08
- Budget Request Amendment FY 08-09

SELECT ONE (click on box):

Supplemental or Budget Request Amendment Criterion:

- Not a Supplemental or Budget Request Amendment
- An emergency
- A technical error which has a substantial effect on the operation of the program
- New data resulting in substantial changes in funding needs
- Unforeseen contingency such as a significant workload change

Short Summary of Request:

This Request seeks an additional \$2,854,636 General Fund in FY 08-09 for the (5) Other Medical Services, Medicare Modernization Act of 2003 State Contribution Payment line item and estimates a need of \$9,133,831 in FY 09-10. The additional funds are needed due to an increase in the projected caseload of dual eligible individuals and a projected increase in the per capita rate paid by the State, per federal regulations.

Background and Appropriation History:

On January 1, 2006, the federal Centers for Medicare and Medicaid Services (CMS) assumed responsibility for the Part D prescription drug benefit replacing the Medicaid prescription drug coverage for dual eligible clients. In lieu of the states' obligation to cover prescription drugs for this population, the federal Centers for Medicare and Medicaid Services began requiring states to pay a portion of what their anticipated dual eligible drug cost would have been had this cost shift not occurred. In January 2006, states began to pay the Centers for Medicare and Medicaid Services these "clawback" payments. The payments were calculated by taking 90% of the federal portion of each state's average per capita dual eligible drug benefit from calendar year 2003, inflated to 2006 using the average growth rate from the National Health Expenditure per capita drug

expenditures. This inflated per capita amount is multiplied by the number of dual eligible clients including retroactive clients back to January 2006. As each calendar year passes, the 90% factor is lowered by 1.67% each year, which is known as the phasedown percentage, until it reaches 75%, where it will remain starting in 2015. In addition, the Centers for Medicare and Medicaid Services inflate each state's per capita rates based on either the National Health Expenditures' growth or actual growth in Part D expenditures. In FY 05-06, the Department expended \$31,461,626 for 6 months of payments. In FY 06-07 the Department expended \$72,494,301 for a full year of payments.

The Department is appropriated \$69,546,453 for FY 07-08, which consists of \$76,719,821 from the Long Bill (SB 07-239) and a reduction of \$7,173,368 from the Department of Health Care Policy and Financing's Cash Accounting Bill (SB 07-133). SB 07-133 changed the accounting for the payment from accrual to cash thus resulting in a one-time savings by shifting the June 2008 payment, which is billed in July 2008, to FY 08-09. The Department's continuation budget assumes FY 08-09 funding of \$76,719,821.

General Description of Request:

The Department currently estimates that the FY 08-09 Clawback payment will equal \$79,574,457 which is \$2,854,636 above the FY 08-09 continuation Base Budget. This information is based on revised projections of the per capita rate, dual eligible caseload, and the level of anticipated retroactivity.

The Clawback payment is estimated to increase by \$271,625 in FY 08-09 due to changes in the per capita rates alone. The Department was provided by the Centers for Medicare and Medicaid Service a per capita rate for January through September 2008 of \$120.03. The Department assumes that the per capita rate will remain unchanged through the remainder of 2008. The Centers for Medicare and Medicaid Services used a growth factor of 1.69%, which was offset by a change in the phasedown percentage from 88.33% to 86.67%, resulting in a net reduction of 0.23%. In order to estimate the calendar year 2009 per capita and beyond, the Department used the growth factor from the National Health Expenditure report for drug expenditures. The Department notes that the projection of per capita rates is based on the growth in the National Health Expenditures

drug expenditures; however, federal law states the growth factor for 2007 and succeeding years will equal the annual percentage increase in average per capita aggregate expenditures for covered Part D drugs in the United States for Part D eligible individuals for the 12-month period ending in July of the previous year. Since actual expenditure data is not available to the Department, the actual per capita rate growth may differ from the Department's projection.

The Clawback payment is also estimated to increase by \$2,583,011 in FY 08-09 due to changes in the dual eligible caseload. The Department estimates that the dual eligible caseload for the June 2009 invoice will equal 50,467. This estimate is based on the historic growth rate and level of retroactivity in caseload. The dual eligible caseload is comprised of a subset of the Medicaid eligibility categories Adults 65 and Older (OAP-A), Disabled Adults 60 to 64 (OAP-B), and Disabled Individuals to 59 (AND/AB). In addition, the caseload provided to the Centers for Medicare and Medicaid Services is obtained through the Medicaid Management Information System.

The Department's FY 08-09 Budget Request forecasts the Medicaid caseload to have a small increase in FY 08-09 and FY 09-10. In addition, the eligibility categories related to dual eligible clients are projected to see increases in both fiscal years. The overall Medicaid caseload is projected to increase by 0.88% in FY 08-09. The Department assumes that during FY 08-09 and FY 09-10 the dual eligible clients will continue to increase due to the retirement of the "baby boomers." The Colorado Demographers Offices projects that the annual growth in 2007 through 2009 of the Colorado population 65 years or older will be 3.84% per year.

Consequences if Not Funded:

If the Department does not receive an additional appropriation and subsequently cannot make the required payment, the Department is at risk of having the amount due for the "clawback" payment plus interest deducted from the federal funds received for the Medicaid program. Such a deduction could cause the Department to be under funded to provide medical services in FY 08-09 and would necessitate a General Fund appropriation to make up the difference.

Calculations for Request:

Summary of Request FY 08-09	Total Funds	General Fund
Total Request	\$79,574,457	\$79,574,457
Decision Item Request	\$2,854,636	\$2,854,636
(5) Other Medical Services, Medicare Modernization Act of 2003 State Contribution Payment	\$76,719,821	\$76,719,821

Summary of Request FY 09-10	Total Funds	General Fund
Total Request	\$85,853,652	\$85,853,652
Decision Item Request	\$9,133,831	\$9,133,831
(5) Other Medical Services, Medicare Modernization Act of 2003 State Contribution Payment	\$76,719,821	\$76,719,821

Table 1: National Health Expenditures Projections 2003-2010 Prescription Drug Expenditures		
Calendar Year:	Per Capita (in dollars)	Percent Change
2003	\$600	
2004	\$645	7.50%
2005	\$676	4.81%
2006	\$714	5.62%
2007	\$761	6.58%
2008	\$814	6.96%
2009	\$875	7.49%
2010	\$943	7.77%

Table 2: Phasedown Percentage from the Medicare Modernization Act of 2003

Phasedown Percent Per Calendar Year:	Percentage
2006	90.00%
2007	88.33%
2008	86.67%
2009	85.00%
2010	83.33%
2011	81.67%
2012	80.00%
2013	78.33%
2014	76.67%
2015 and all future years	75.00%

Table 3: Estimates of Calendar Year 2008 and Calendar Year 2009 Per Capita Rate

Actual Calendar Year 2008 Per Capita	\$120.03
Calendar Year 2008 Phasedown Percent (from Table 2)	86.67%
Calendar Year 2008 Per Capita Rate before Phasedown Percent ($\$120.03 / 86.67\%$)	\$138.50
Prescription Drug Expenditure Growth Rate for CY 2009 (from Table 1)	7.49%
Projected 2009 Rate before Phasedown Percent ($\$138.50 * (1 + 7.49\%)$)	\$148.87
Calendar Year 2009 Phasedown Percent (from Table 2)	85.00%
Projected Calendar Year 2009 Per Capita ($\\$148.87 * 85.00\%$)	\$126.54
Prescription Drug Expenditure Growth Rate for CY 2010 (from Table 1)	7.77%
Projected 2010 Rate before Phasedown Percent ($\$148.87 * (1 + 7.77\%)$)	\$160.44
Calendar Year 2010 Phasedown Percent (from Table 2)	83.33%
Projected Calendar Year 2010 Per Capita ($\\$160.44 * 83.33\%$)	\$133.70

Table 4: Estimated Decay Factors Related to Caseload Retroactivity	
Months Prior to the Current Caseload	Decay Rate
1st Month	1.68%
2nd month	66.95%
3rd month	69.42%
4th month	77.78%
5th month	83.27%
6th Month	89.79%
7 th - 12 th Month	91.04%
Greater than 1 year	79.71%

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	Table 5: Invoices to be Paid in FY 08-09											
Dual Eligible Attributed to Each Month	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09
Jan – Dec 2006 duals	166	131	104	83	67	55	46	39	34	30	27	25
Jan – Dec 2007 duals	1,589	1,413	1,237	1,073	924	782	651	531	433	345	275	219
Jan – May 2008 duals	2,318	1,721	1,369	1,170	1,043	947	863	786	720	642	560	477
Jun 2008 duals	49,434	831	558	388	303	252	226	207	189	172	157	143
Jul 2008 duals		49,527	833	559	389	303	252	227	208	189	172	157
Aug 2008 duals			49,620	834	560	389	303	253	228	208	189	172
Sep 2008 duals				49,714	836	561	390	304	254	228	208	189
Oct 2008 duals					49,807	838	562	391	305	254	229	208
Nov 2008 duals						49,901	839	563	392	305	255	229
Dec 2008 duals							49,995	841	564	392	306	255
Jan 2009 duals								50,089	842	565	393	306
Feb 2009 duals									50,183	844	566	394
Mar 2009 duals										50,278	845	567
Apr 2009 duals											50,372	847
May 2009 duals												50,467
Total Duals from invoice	53,507	53,624	53,721	53,821	53,929	54,027	54,127	54,231	54,352	54,451	54,554	54,655
CY 2006 Rate	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71
CY 2007 Rate	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30
CY 2008 Rate	\$120.03	\$120.03	\$120.03	\$120.03	\$120.03	\$120.03	\$120.03	\$120.03	\$120.03	\$120.03	\$120.03	\$120.03
CY 2009 Rate	\$126.54	\$126.54	\$126.54	\$126.54	\$126.54	\$126.54	\$126.54	\$126.54	\$126.54	\$126.54	\$126.54	\$126.54
Monthly Payment	\$6,421,989	\$6,436,117	\$6,447,943	\$6,460,002	\$6,473,020	\$6,484,839	\$6,496,787	\$6,835,308	\$6,856,024	\$6,872,205	\$6,887,775	\$6,902,447
Total Payment												\$79,574,457

Note: To calculate the Monthly Payment you must take each calendar year rate and multiply it by the respective caseload that is shown for that calendar year. In addition, numbers may not exactly add due to rounding.

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	Table 6: Invoices to be Paid in FY 09-10											
Dual Eligible Attributed to Each Month	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10
Jan – Dec 2006 duals	24	24	24	24	24	24	24	24	24	24	24	24
Jan – Dec 2007 duals	174	138	110	88	73	59	48	40	34	30	27	25
Jan – Dec 2008 duals	1,623	1,435	1,256	1,090	948	811	679	558	445	355	283	226
Jan - May 2009 duals	2,372	1,757	1,399	1,193	1,063	969	882	808	736	656	577	491
Jun 2009 duals	50,562	850	570	396	309	258	232	212	193	176	161	147
Jul 2009 duals		50,657	852	571	397	310	258	233	212	193	177	161
Aug 2009 duals			50,752	853	572	398	310	259	233	212	194	177
Sep 2009 duals				50,848	855	573	399	311	260	233	213	194
Oct 2009 duals					50,943	857	575	400	312	260	234	213
Nov 2009 duals						51,039	858	576	401	312	261	234
Dec 2009 duals							51,135	860	577	401	313	261
Jan 2010 duals								51,231	861	578	402	313
Feb 2010 duals									51,328	863	579	403
Mar 2010 duals										51,424	865	580
Apr 2010 duals											51,521	866
May 2010 duals												51,618
Total Duals from invoice	54,754	54,861	54,963	55,063	55,184	55,298	55,400	55,512	55,616	55,717	55,831	55,933
CY 2006 Rate	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71
CY 2007 Rate	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30
CY 2008 Rate	\$120.03	\$120.03	\$120.03	\$120.03	\$120.03	\$120.03	\$120.03	\$120.03	\$120.03	\$120.03	\$120.03	\$120.03
CY 2009 Rate	\$126.54	\$126.54	\$126.54	\$126.54	\$126.54	\$126.54	\$126.54	\$126.54	\$126.54	\$126.54	\$126.54	\$126.54
CY 2010 Rate	\$133.70	\$133.70	\$133.70	\$133.70	\$133.70	\$133.70	\$133.70	\$133.70	\$133.70	\$133.70	\$133.70	\$133.70
Monthly Payment	\$6,916,681	\$6,931,631	\$6,945,864	\$6,959,744	\$6,976,105	\$6,991,438	\$7,005,351	\$7,387,152	\$7,407,941	\$7,426,195	\$7,444,615	\$7,460,935
Total Payment												\$85,853,652

Assumptions for Calculations:

The Department assumes the changes in the per capita rate paid by the Department will be based on the growth in the National Health Expenditures' prescription drug per capita, as shown in Table 1, and offset by the phasedown percent shown in Table 2. Per 42 CFR 423.902 (4), the annual growth rate for calendar year 2004 through 2006 is equal to the average annual percent change of the per capita amount of prescription drug expenditures (as determined by the most recent national total drug National Health Expenditure projections for the years involved). The growth factor for 2007 and succeeding years will equal the annual percentage increase in average per capita aggregate expenditures for covered Part D drugs in the United States for Part D eligible individuals for the 12-month period ending in July of the previous year. Since the Department does not have the data to project the Part D drug expenditures, the Department is using the National Health Expenditures for years past calendar year 2008 as a proxy for the annual growth in the per capita rate.

Tables 1 through 3 provide the relevant information for calculating the calendar year 2008, 2009, and 2010 per capita rates. For calendar year 2008, the Department uses the per capita rate provided by the Centers for Medicare and Medicaid Services of \$120.03. The Department estimates the per capita rate of \$126.54 in calendar year 2009, and \$133.70 in calendar year 2010, as shown in Table 3. This estimate is based on the projected inflation of the National Health Expenditures per capita drug expenditures published in January 2007 and shown in Table 1. In addition, the projection is also based on the phasedown percentage that is detailed in 42 CFR 423.908 and shown in Table 2.

The Department assumes that the growth rate in caseload and retroactivity from July 2006 through July 2007 will remain unchanged through FY 07-08 and FY 08-09. The Department assumes that the dual eligible caseload will grow at an annual rate of 2.28%, and thus a monthly rate of 0.19%. In addition, the Department assumes that the level of retroactivity in the previous month of the invoice will be 1.68% of the total clients. All months prior to the previous month are projected to have a level of retroactivity at a decay rate ranging from 68% to 92% as shown in Table 4.

Table 5 shows the projected caseload, level of retroactivity, and expenditures by month for FY 08-09. Using the assumptions detailed in Tables 3 and 4, as well as the estimated monthly growth rate of 0.19%, Table 5 displays the impact of those assumptions. Note that the FY 08-09 payment is for the 12 months from June 2008 through May 2009 due to SB 07-133 which changed this line item from accrual to cash accounting.

Table 6 shows the projected caseload, level of retroactivity, and expenditures by month for FY 09-10. This estimate continues to use the assumptions detailed in Tables 3 and 4, as well as the estimated monthly growth rate of 0.19%. Table 6 displays the impact of those assumptions.

Impact on Other Government Agencies: None

Cost Benefit Analysis:

FY 08-09 Cost Benefit Analysis	Costs	Benefits
Request	The cost of this request includes \$2,854,636 in General Fund to pay for the increase in the projected caseload of dual eligible individuals and a projected increase in the per capita rate paid by the State, per federal regulations. FY 09-10 General Fund need is projected to equal \$9,133,831.	This request would allow the Department to meet its obligations to the federal government and ensure the Department would not have the amount of payment plus interest deducted from the federal funds received for the Medicaid program.
Consequences if not Funded	The cost of not funding the request would be the potential deduction in federal funds received by the Medicaid program equal to the amount owed for the payment plus interest. This would equal an amount greater than \$2,854,636.	There is no benefit to the Department because the savings of General Fund would be offset by greater loss of federal funds that would need to be backfilled with General Fund for the Medicaid program.

Statutory and Federal Authority:

42 CFR 423.908: *Phased-down State contribution to drug benefit costs assumed by Medicare. This subpart sets forth the requirements for State contributions for Part D drug benefits based on full-benefit dual eligible individual drug expenditures.*

42 CFR 423.910 (a) General rule: *Each of the 50 States and the District of Columbia is required to provide for payment to CMS a phased-down contribution to defray a portion of the Medicare drug expenditures for individuals whose projected Medicaid drug coverage is assumed by Medicare Part D.*

42 CFR 423.910 (b) (2) Method of payment: *Payments for the phased down State contribution begins in January 2006, and are made on a monthly basis for each subsequent month. State payment must be made in a manner specified by CMS that is similar to the manner in which State payments are made under the State Buy-in Program except that all payments must be deposited into the Medicare Prescription Drug Account in the Federal Supplementary Medical Insurance Trust Fund. The policy on collection of the Phased-down State contribution payment is the same as the policy that governs collection of Part A and Part B Medicare premiums for State Buy-in.*

42 CFR 423.910 (g) Annual per capita drug expenditures. *CMS notifies each State no later than October 15 before each calendar year, beginning October 15, 2005, of their annual per capita drug payment expenditure amount for the next year.*

25.5-4-105, C.R.S. (2007) *Nothing in this article or articles 5 and 6 of this title shall prevent the state department from complying with federal requirements for a program of medical assistance in order for the state of Colorado to qualify for federal funds under Title XIX of the social security act and to maintain a program within the limits of available appropriations.*

25.5-5-503, C.R.S. (2007) (1) *The state department is authorized to ensure the participation of Colorado medical assistance recipients, who are also eligible for medicare, in any federal prescription drug benefit enacted for medicare recipients. (2) Prescribed drugs shall not be a covered benefit under the medical assistance program for*

a recipient who is enrolled in a prescription drug benefit program under medicare; except that, if a prescribed drug is not a covered Part D drug as defined in the "Medicare Prescription Drug, Improvement, and Modernization Act of 2003", P.L. 108-173, the prescribed drug may be a covered benefit if it is otherwise covered under the medical assistance program and federal financial participation is available.

Performance Measures:

If the Department does not receive an additional appropriation, and subsequently cannot make the required payment, the Department is at risk of having the amount due for the “clawback” payment plus interest deducted from the federal funds received for the Medicaid program. This deduction would hinder the Department’s ability to achieve all of its performance measures that require State and matching federal funding, as less federal funds would be available.