

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

Schedule 13											
Change Request for FY 08-09 Budget Request Cycle											
	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 <input checked="" type="checkbox"/>			
Request Title:	FY 08-09 Funding Increase for Old Age Pension State Medical Program										
Department:	Health Care Policy and Financing				Dept. Approval by:	John Bartholomew			Date:	January 23, 2008	
Priority Number:	BA - 8				OSPB Approval:				Date:		
		1	2	3	4	5	6	7	8	9	10
		Prior-Year		Supplemental	Total	Base	Decision/	November 1	Budget	Total	Change
		Actual	Appropriation	Request	Revised	Request	Base	Request	Amendment	Revised	from Base
	Fund	FY 06-07	FY 07-08	FY 07-08	FY 07-08	FY 08-09	Reduction	FY 08-09	FY 08-09	FY 08-09	(Column 5)
Total of All Line Items	Total	12,578,662	13,293,672	0	13,293,672	13,181,483	0	13,181,483	2,130,232	15,311,715	0
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	0	0	0	0	0	0	0	0	0	0
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	0	0	0	0	0	0	0	0	0
	CFE	12,578,662	13,293,672	0	13,293,672	13,181,483	0	13,181,483	2,130,232	15,311,715	0
	FF	0	0	0	0	0	0	0	0	0	0
(5) Other Medical Services	Total	12,578,662	13,293,672	0	13,293,672	13,181,483	0	13,181,483	2,130,232	15,311,715	0
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	0	0	0	0	0	0	0	0	0	0
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	0	0	0	0	0	0	0	0	0
	CFE	12,578,662	13,293,672	0	13,293,672	13,181,483	0	13,181,483	2,130,232	15,311,715	0
	FF	0	0	0	0	0	0	0	0	0	0
Letternote revised text:											
Cash Fund name/number, Federal Fund Grant name:				Old Age Pension Health and Medical Care Fund (OAP H & MC Fund) and Supplemental OAP H & MC Fund/ Fund 15k							
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:	BA - 8
Change Request Title:	FY 08-09 Funding Increase for Old Age Pension State Medical Program

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:

An additional \$2,130,232 is requested to be appropriated from the Supplemental Old Age Pension Health and Medical Care Fund to the Services for Old Age Pension State Medical Program client line item for FY 08-09. This reflects the current projected costs of services for this program based on maintaining the same reimbursement rates effective July 1, 2007.

Background and Appropriation History:

The Old Age Pension was established in 1936 by an amendment to the State Constitution, creating article XXIV. This article was amended in 1956 to add the Health and Medical Care Program and Fund. Old Age Pension benefits specified in article XXIV of the State Constitution require that a health and medical program be provided to anyone who qualifies to receive an Old Age Pension cash payment and is not a patient in an institution for tuberculosis or mental disease. Eligible recipients for these program benefits are over the age of sixty but do not meet the Supplemental Security Income criteria and are therefore ineligible for Medicaid. This population is not sufficiently disabled to qualify for Supplemental Security Income.

Funding for the Old Age Pension State Medical Program is comprised of three sources: 1) the Colorado Constitution Article XXIV, Old Age Pension Health and Medical Care Fund which is allocated \$10,000,000 annually; 2) \$750,000 annually appropriated by the General Assembly from the Supplemental Old Age Pension Health and Medical Care Fund per Senate Bill 03-299; and 3) the Cash Fund for Health Related Purposes appropriated through the passage of House Bill 05-1262. House Bill 05-1262 allocated \$1,000,000 of state sales and use tax revenues annually to the supplemental fund and any moneys appropriated to the supplemental fund by the General Assembly. Starting in FY 03-04, the amount allocated annually from sales and use taxes by statute was reduced to \$750,000 by Senate Bill 03-299. An additional source of funding for the Supplemental Old Age Pension Health and Medical Care Fund was created in House Bill 05-1262. This bill implemented the provisions of Amendment 35, approved by voters, which increased taxes on tobacco products. The bill specifies that three percent of annual estimated taxes collected under Amendment 35 be appropriated to the Cash Fund for Health Related Purposes. Of the funds appropriated to the Cash Fund for Health Related Purposes, by statute, fifty percent is to be deposited into the Supplemental Old Age Pension Health and Medical Care Fund. Any unspent moneys appropriated for Services for Old Age Pension State Medical Program clients at the end of each fiscal year are credited to (or remain in) the Supplemental Old Age Pension Health and Medical Care Fund.

Senate Bill 07-133 requires that the Department utilize the cash system of accounting for the Old Age Pension Health and Medical Care fund and the Supplemental Old Age Pension Health and Medical Care Fund starting July 1 2007.

General Description of Request:

The request is for an increased level of funding for FY 08-09 to maintain the current reimbursement rates in effect as of July 1, 2007 through June 30, 2009. The increase in funding will provide stability for the program for at least the current fiscal year and next fiscal year. During the last two fiscal years, frequent reimbursement rate changes enacted by the Department have been necessary to keep program expenditures within the appropriation while still using available funds in the most effective manner. This management strategy has created uncertainties for the providers and may have affected

their willingness to provide services to Old Age Pension clients. It has also been difficult for the Department to predict utilization of services by clients when the rates are often changing. A period of reimbursement rate stability will help the Department assess program utilization as it continues to examine other opportunities to change the structure of the Old Age Pension State Medical program within the discussions on health care reform.

The Old Age Pension State Medical Program is 100% State-funded and not an entitlement program. Total payments to providers for services to eligible Old Age Pension clients are limited to the funds appropriated for any given fiscal year and the Department must manage to the available appropriation. As eligibility for the program is defined in the State Constitution and State Statute, the Department's options to manage expenditures are limited to either adjusting the rates paid to providers for services or limiting the utilization of services by clients. The program's caseload has fluctuated over the years, but has risen steadily since FY 02-03.

The rates paid to providers of services for Old Age Pension clients are tied to the rates the Colorado Medicaid program pays for the same services provided to Old Age Pension clients. As Medicaid rates have increased over the years costs of providing medical services to Old Age Pension clients have risen as well. Since FY 99-00, the Department has attempted to manage costs to utilize the maximum funding available to reimburse providers without exceeding the appropriation for the fiscal year. The Department's primary strategy has been to adjust the rates paid for selected services provided to Old Age Pension clients based on a percentage of the Medicaid rates for the same services. The history of actions taken by the Department is outlined in the "Report to the Joint Budget Committee on Old Age Pension State Medical Program" dated November 1, 2007 in response to Footnote 35 in the Long Bill, Senate Bill 07-239. Changing the reimbursement rates has had indirect effects. When rates are changed, utilization may also change and providers' willingness to provide services may vary as rates are increased or decreased. As a result, the effects of rate changes are difficult to measure and predict and constant monitoring is required to determine if subsequent modifications

of reimbursement rates are necessary. In addition, providers have been subject to a level of uncertainty regarding their reimbursement for services to Old Age Pension clients.

Consequences if Not Funded:

Reimbursement rates paid for medical services for Old Age Pension clients may need to be reduced for FY 08-09 in order to manage to the current appropriation request for the Old Age Pension State Medical Program as of November 1, 2007 to insure the appropriation is not overspent. Lower rates could reduce the number of providers willing to provide medical care to the Old Age Pension clients or cause providers to reduce or limit the amount of services they are willing to provide to this eligibility group.

Calculations for Request:

Summary of Request FY 08-09	Total Funds	Cash Funds Exempt
Total Request	\$2,130,232	\$2,130,232
Other Medical Services: Services for Old Age Pension State Medical Program clients (Column 8)	\$2,130,232	\$2,130,232

Table 1 (below) shows the estimated final expenditures for FY 06-07 pending closing of the accounts payable for the year and the projections using the forecast model for FY 07-08 and FY 08-09 using the higher ranges of projections for the service categories.

Table 1				
Old Age Pension State Medical Program Projections Based on July 1, 2007 Rates				
Service Category/Claim Type	FY 07-08 % of Medicaid Rates as of 7/1/07	Actual	Projected	Projected
		FY 06-07	FY 07-08	FY 08-09
Capitation	100.0%	\$0	\$ 0	\$0
Pharmacy	70.0%	\$4,875,034	\$4,064,740	\$4,222,993
Inpatient	10.0%	\$1,035,713	\$859,171	\$811,637
Outpatient	60.0%	\$2,306,092	\$3,118,474	\$3,560,414
Practitioner/Physician	60.0%	\$2,779,869	\$3,562,099	\$5,646,287
Dental	60.0%	\$30,726	\$20,367	\$6,759
Independent Laboratory	60.0%	\$186,270	\$180,756	\$184,207
Medical Supply	60.0%	\$529,524	\$551,158	\$572,692
Home Health	60.0%	\$228,517	\$150,586	\$155,880
Transportation	60.0%	\$39,268	\$48,840	\$52,607
Medicare Part A Crossover	100.0%	\$4,197	\$1,704	\$601
Medicare Part B Crossover	100.0%	\$21,827	\$30,973	\$74,977
Medicare UB92 Part B Crossover	100.0%	\$30,413	\$23,569	\$22,662
Projected Totals Before Adjustments		\$12,067,450	\$12,612,438	\$15,311,715
Minus Prior Year Accounts Payable (1)		(\$746,694)	(\$810,544)	\$0
Plus Current Year Accounts Payable (1)		\$810,544	\$0	\$0
Total Estimated Expenditures (2)		\$12,131,300	\$11,801,893	\$15,311,715
Current Appropriation or Appropriation Request		\$12,578,662	\$13,293,672	\$13,181,483
Projected Under/(Over) Appropriation/Current Request (3)		\$447,362	\$1,491,779	(\$2,130,232)

Notes:

(1) Adjustments for Accounts Payable are to convert the cash based monthly projections to accrual accounting for FY 06-07 and reflect a one-time savings for FY 07-08 for the change to cash-based accounting starting in FY 07-08.

(2) The FY 06-07 total differs from the Colorado Financial Reporting System (COFRS) final closing expenditures as the projected expenditures do not include accounting adjustments for estimated accrued accounts payable and other adjusting entries.

(3) Unused appropriations remain available for the health and medical care costs of Old Age Pension clients and may not be used for any other purposes. Therefore, negative supplemental budget requests are not submitted.

Table 2 shows the estimated impact on the Supplemental Old Age Pension Health and Medical Care Fund using the expenditures projected by the forecasting model for FY 07-08 and FY 08-09:

Table 2			
Supplemental Old Age Pension Health and Medical Care Fund Analysis			
	Actual	Projected	Projected
	FY 06-07	FY 07-08	FY 08-09
Beginning Fund Balance (Estimated for FY 08-09)	\$1,850,147	\$2,542,498	\$4,422,686
Annual Transfer or Sales and Use Tax Revenue from Department of Revenue	\$750,000	\$750,000	\$750,000
Estimated HB 05-1262 Tobacco Taxes (Note A)	\$2,580,180	\$2,500,500	\$2,433,000
Estimated Reversion from Prior Year Accounts Payable		\$433,098	
Adjustment for Actual Tobacco Taxes Credited to the Fund	(\$57,650)		
Total Revenues	\$3,272,530	\$3,683,598	\$3,183,000
Total Funds Available	\$5,122,677	\$6,226,096	\$7,605,686
Actual Expenditures from Supplemental Fund for the Fiscal Year	(\$2,580,179)		
Original Appropriation or Request for Funding from Supplemental OAP Fund		(\$3,975,968)	(\$3,183,000)
SB 07-122 Reduction for Change to Cash Based Accounting		\$680,779	
Projected Underexpenditure for FY 07-08 Based on Projection Model		\$1,491,779	
Projected Additional Need for FY 08-09 Based on Projection Model			(\$2,130,232)
Total Expenditures	(\$2,580,179)	(\$1,803,410)	(\$5,313,232)
Estimated Ending Fund Balance (Actual for FY 06-07)	\$2,542,498	\$4,422,686	\$2,292,454

Note: Source: November 1, 2007 Health Care Policy and Financing Budget Request for FY 08-09 Schedule 3 Pages D 5-4 and 5-5.

Assumptions for Calculations:

The calculations for this request differ significantly from those used for the Department's November 1, 2007 Budget Request for FY 08-09 for the Old Age Pension State Medical Program. The November 1 request is based on a calculation of a continuation level of funding without regard to the projected costs of providing services at a given rate of reimbursement for various services relative to Medicaid rates. The November 1 request assumes that rates will be adjusted as necessary during the year in order to manage as closely as possible to the appropriation and insure the line item is not overspent at fiscal year-end. The caseload projections for the November 1 request are based on the average annual caseload growth rates for the previous two fiscal years and are not used in calculating the request amount. For this request, expenditure projections are made for FY 07-08 and FY 08-09 based on maintaining the reimbursement rates for client services in effect on July 1, 2007 for the duration of both fiscal years. Caseload projections are based on monthly caseloads and are an integral part of the calculations of estimated expenditures.

The expenditure projections for this request are intended to provide assurance that the reimbursement rates in effect on July 1, 2007 for each service category (expressed as a percentage of the Medicaid rates for the same services) can be maintained through the end of FY 08-09 while remaining within the appropriation for the fiscal years. By stabilizing rates for at least two years, the Department believes providers can better predict reimbursement for their services and utilization can be assessed over time at a given level of reimbursement.

The expenditure projections are based on a forecasting model using monthly caseload and paid claims history for the 12 service categories (claim types) paid for Old Age Pension clients starting July of 2002. The model is updated each month with the caseload and paid claims data derived from the Medicaid Management Information System used to process provider claims for the Old Age Pension State Medical Program.

Expenditures are forecast at an average weekly per capita basis for each of the 12 claim types. These weekly forecasts are extended to monthly values, which can be summed to

obtain forecasts by fiscal year. The model includes fields to specify the reimbursement rate (as a percentage of Medicaid's reimbursement rate) for each claim type, and these rates can be adjusted for each month to predict the future effect of rate changes. However, the model assumes utilization of services by clients is not affected by changes in reimbursement rates and does not attempt to predict and incorporate any changes in utilization resulting from changes in reimbursement rates. Frequent rate changes over the last two fiscal years have precluded collection of sufficient data to predict the impacts on utilization. In addition, some claim types are not billed and paid for several months, so the effect of rate changes does not bring immediate results. Therefore, the model considers the lag effect of all claim types.

Regarding specific forecasting techniques, historical Medicaid Management Information System data is converted to average per-capita expenditures by claim type by week, and forecasts are calculated with the assistance of forecasting software to predict a range of possible expenditures for each claim type. For most claim types (service categories), the higher ranges of projections were chosen to increase the likelihood that the requested appropriation will be adequate to cover the costs of services based on the July 1, 2007 reimbursement rates. Any remaining unspent appropriations to the Old Age Pension State Medical Program at fiscal year-end are credited to or remain in the Supplemental Old Age Pension Health and Medical Care Fund and are not available for appropriation for other uses.

Impact on Other Government Agencies: None anticipated.

Cost Benefit Analysis:

Benefits	Cost
Reimbursement rates will be stabilized for the Old Age Pension State Medical Program for at least the current and next fiscal years.	\$2,130,232
Health care providers will know what to expect in payment for the services they render to Old Age Pension clients to aid in their decision making regarding the services they are willing to provide.	
The continuity of care for Old Age Pension clients may be improved and possible disruptions in services avoided.	
The Department's knowledge of program utilization will be improved to aid in decision-making as the Department examines other opportunities to change the structure of the program within the discussions on health care reform.	

Implementation Schedule:

Task	Month/Year
Continue to monitor and project program expenditures monthly to determine if rate changes are needed to manage to current appropriations	On-going
If necessary, notify providers of proposed rate changes and write rule changes for approval by Medical Services Board	Starting March 2008 and on-going

Statutory and Federal Authority:

Colorado Constitution, Article XXIV, Section 7 (c) *Any moneys remaining in the old age pension fund, ... shall be transferred to a health and medical care fund. The state board ... shall promulgate rules and regulations for administration of a program to provide health and medical care to persons who qualify to receive old age pensions ..., not to exceed ten million dollars in any fiscal year,...*

25.5-2-101 (2), C.R.S. (2007) *Old age pension health and medical care fund - supplemental old age pension health and medical care fund. Any moneys remaining in the state old age pension fund after full payment of basic minimum awards to qualified*

old age pension recipients and after establishment and maintenance of the old age pension stabilization fund in the amount of five million dollars shall be transferred to a fund to be known as the old age pension health and medical care fund, which is hereby created. The state board shall establish and promulgate rules for administration of a program to provide health and medical care to persons who qualify to receive old age pensions...

25.5-2-101 (3) There is hereby established in the state department a supplemental health and medical care program to provide health and medical care to persons who qualify to receive old age pensions...

25.5-2-101(4) The state department shall utilize the cash system of accounting, as enunciated by the governmental accounting standards board, regardless of the source of revenues involved, for all activities of the state department relating to the financial administration of any nonadministrative expenditure for the health and medical care programs described in subsections (2) and (3) of this section.

24-22-117 (1) (c) (II), C.R.S (2007) (c) For the 2004-05 fiscal year and each fiscal year thereafter, the general assembly shall annually appropriate three percent of the moneys estimated to be deposited in that fiscal year into the cash fund, plus three percent of the interest earned on the moneys in the cash fund, for health-related purposes to provide revenue for the state's general fund and old age pension fund and for municipal and county governments to compensate proportionately for tax revenue reductions attributable to lower cigarette and tobacco sales resulting from the implementation of the tax imposed pursuant to section 21 of article X of the state constitution, as follows:

(II) Fifty percent of the moneys specified in this paragraph (c) to the supplemental old age pension health and medical care fund to provide services under the supplemental health and medical care program, section 25.5-2-101 (3), C.R.S., for persons who qualify to receive old age pensions;

39-26-123(3) (a) (2007) For any state fiscal year commencing on or after July 1, 2006, eighty-five percent of all net revenue collected under the provisions of this article shall be credited to the old age pension fund created in section 1 of article XXIV of the state constitution. The remaining fifteen percent shall be allocated among the sales and use tax holding fund created in subsection (2) of this section, the general fund, the older Coloradans cash fund created in section 26-11-205.5 (5), C.R.S., and the supplemental old age pension health and medical care fund created in section 25.5-2-101 (3), C.R.S., and credited to the funds by the state treasurer as follows:

(IV) Seven hundred fifty thousand dollars to the supplemental old age pension health and medical care fund.

Performance Measures:

Improve access to and the quality of Medicaid health care as demonstrated through improvements in Medicaid Health plan scores on Health Plan Employer Data Information Set (HEDIS) measures. Maintain or reduce the difference between the Department's spending authority and actual expenditures for Medicaid services.