

AGENDA and RESPONSES
FY 2007-08 Joint Budget Committee Hearing
Department of Health Care Policy and Financing (Medicaid Mental Health Only)

Friday, December 15, 2006
1:30 p.m. - 5:00 p.m.

1:30 – 1:45

Goebel Lawsuit

The Medicaid funding for the Goebel program was transferred from the Department of Human Services to the Department of Health Care Policy and Financing on September 20, 2006. It is JBC staff's understanding that \$870,000 of the \$12,275,081 Medicaid funds that were transferred were not "certified" as a legitimate Medicaid expenditure by Colorado Access.

- 1. Please discuss why the funds were not certified (including a description of the programs which were not certified as Medicaid eligible) and explain what this means for Denver.**

RESPONSE:

The behavioral health organization (BHO) that serves Denver County originally submitted encounter data to the Department to support Goebel expenditures in December 2005. After a self audit in August 2006, the BHO determined that certain services included in the original data set were not, in fact, covered Medicaid services as defined in the contract. Therefore, the BHO had to retract its certification that the data used for the new rates was correct. The Centers for Medicare and Medicaid Services requires that the Department set capitated rates on encounter data that BHOs certify as correct and complete.

Most of the services removed from the revised data set were internal case management and intensive evidence-based integrated services. Internal case management is a service that occurs primarily as consultation between the service provider staff rather than with external involved parties.

The BHO will receive a reduction in the previously calculated capitation rate as a result of this data change. The Department estimates the reduction at \$870,000. The Department will submit a revised estimate to the Joint Budget Committee in the February 15, 2007 Supplemental Request binder.

- 2. Given that the Goebel lawsuit settlement ended last year and given that the Department of Health Care Policy and Financing now administers \$12,275,081 of the \$19,051,716 total funds, please comment on whether it is recommended for the General Assembly to eliminate the statute which currently has Goebel oversight by the Department of Human Services.**

RESPONSE:

The Department does agree that the following statute should be changed:

25.5-5-411 (3), C.R.S. (2006) The administration of the provision of mental health services to persons receiving services pursuant to Arevalo v. Colorado Department of Human Services, Case No. 81 CV 6961, in the district court for the city and county of Denver, and the administration of the mental health institutes shall remain the responsibility of the department of human services.

Foremost, the lawsuit was dismissed. Secondly, with the September 20, 2006 emergency supplemental that was approved by the Joint Budget Committee, funding previously transferred to the Department of Human Services was retained within Health Care Policy and Financing in order to pay capitations. Therefore, the Department agrees that the statute must be changed, and has this change on its legislative agenda for the 2007 session. The best approach would be to eliminate the language at paragraph (3) above and any conforming amendments since these clients are now included in the base capitation program.

Budget Projections

Medicaid caseload and required cost inflators are driving the Medicaid mental health budget. The ability to manage the inflator factor could have a large impact on the state's budget. In the FY 2006-07 Long Bill, an inflator of 2.71 percent was approved by the General Assembly. However, on July 1, 2006, an inflationary factor of 3.85 percent was built into the Behavioral Health Organization (BHO) contracts. This inflationary factor differential, plus the actuarial adjustments, total \$3.6 million (\$1.7 million of which is General Fund).

- 3. Please discuss the reasons for and the fiscal impact of the July 1, 2006 rate adjustment(s) as compared to the FY 2006-07 Long Bill appropriation. What are the Department of Health Care Policy and Financing's plans to align its process for rate adjustments with the annual budget process?**

RESPONSE:

The 2.71% from the FY 06-07 Budget Request is a trend of the four cost components of mental health used to estimate actuarial trends for certification. The 3.85% is a weighted average of the same cost components, but certified by actuaries, and used for the actual actuarially certified capitation rates. The Department's FY 07-08 Budget Request developed a projection methodology that uses actual expenditures from previous years, plus projections for the current year, to estimate the trend inflator. By using actual expenditures, all variables are factored into the data providing more accuracy in estimating the inflator. The discrepancy between the estimated and the actual trend for FY 06-07 using the former methodology was \$1,977,704.

The November 1, 2006 Budget Request introduces an improved method to estimate the trend. On page F.EE – 3 in Volume 1 of the November 1, 2006 Budget Request, a rolling average of actual per capita percentage increases was used to derive the cost inflator of 3.76% for the FY 07-08 Medicaid Mental Health Capitation Payments Budget Request. The rolling average incorporates the three years of actuals since the actuarial certification requirement of mental health capitation rates was implemented by the Centers for Medicare and Medicaid Services. The Department notes that the actual actuarial rate trend cannot be exactly known before it is set. The Department believes its new process is a valid approach.

The Department is evaluating the possibility of instituting calendar year rates in place of fiscal year rates for the behavioral health organizations. This would allow the new rates for each calendar year to be available in time for inclusion in the annual February 15 Budget Request. This change would provide greater accuracy in estimating the current fiscal year as well as the first half of the request year since actuarially approved inflators would be used in place of estimated inflators. The second half of the request year would still have to be calculated using the methodology for developing an estimated inflator as described on page F.EE – 3 in Volume 1 of the November 1, 2006 Budget Request, but could be revised during its Supplemental adjustment. Before making a change, the Department would determine what contract changes would be required, receive input from the Department actuaries, and discuss the change with the behavioral health organizations. This change, if proven feasible, would better align the Department's process for rate adjustments with the annual budget process.