

Attachment 10
Health Care Policy and Financing Estimates per JBC Staff Request
Amendment 35 Tobacco Tax Increase for Health-related Purposes

[Section 21, (5), (a)]
January 4 and 5, 2004

This document is an explanation of the Exhibits in the Amendment 35 Scenarios.

Exhibit 1: Summary of Proposed Changes into a Net Impact

Page 1 of this exhibit contains a table outlining how the \$80,500,000 in estimated Tobacco Tax revenue from Amendment 35 will expand eligibility or increase populations in Medicaid and CBHP, as defined by Amendment 35. Page 2 contains a summary table for how each of the following four components will impact both Medicaid and the Children's Basic Health Plan: expanding CBHP eligibility beyond 185% FPL, removal of the asset test, expanding parent's eligibility in CBHP up to 100% FPL, and repeal of SB 03-176.

It is critical to note that these estimates do not include administrative cost adjustments, which are likely to include Medicaid Management Information System changes, Medicaid Management Information System claim volume, Colorado Benefits Management System changes, staffing needs, utilization reviews, etc. The estimates assume a full year for FY 05-06; however, a July 1, 2005 implementation is not possible due to delays inherent with making the necessary administrative changes. Results displayed within this summary are supported in the following exhibits.

Exhibit 2: Update Children's Basic Health Plan Federal Allotment Projection

The Children's Basic Health Plan (CBHP) receives 65% federal financial participation, but only to a certain federally-capped amount. In other words, the amount of federal match that the program can earn over time is limited. Many of the federal funds do carry forward from year to year, but if the CBHP were to continue as it stands today, and as projected in the November 1, 2004 FY 05-06 Budget Request, federal funds would run out by FY 07-08. This exhibit estimates future federal allotments and CBHP expenditures, assuming no changes in eligibility rules, no changes to the asset test currently in place, and assumes that enrollment is allowed to grow naturally.

The federal allotment is awarded at the end of each federal fiscal year and is available for use for two federal fiscal years. For example, the FFY 2004 allotment of \$44,865,766 becomes available on October 1, 2004 and expires on September 30, 2006. The amount awarded to each state is the result of an allocation formula with four major components: 1) how much is available nationally each year, 2) the number of uninsured low-income kids in the state, 3) the number of low-income kids in the state, and 4) a state "cost factor." The first factor is already known though FFY 2007, at which point federal funding will rely on renewal of the federal grant. The other three factors are used to allocate the total amount available between the states. For the past 7 years, Colorado's allotment has averaged 1.129% of the total amount available to the states.

This projection assumes Colorado will receive 1.129% of the available amount though FFY 2007 and assumes a continuation of funding at the FFY 2007 level for subsequent years.

Projecting caseload and premium rates out six years is inherently difficult and subject to a wide margin of error. This is particularly true for the Prenatal and Delivery Program where there is very little history to draw from. The November 1, 2004 Budget Request was used for the FY 04-05 and FY 05-06 figures. Subsequent years were estimated using caseload growth rate assumptions and inflation factors. The caseload growth rate of 6.09% was estimated using the average annual growth for the Baby Care-Adults Medicaid population from FY 99-00 through FY 06-07 projected in the November 1, 2004 Budget Request. For children, the FY 06-07 caseload assumes a continuation in the growth rate of 359 children per month assumed in the FY 05-06 Budget Request. However, for subsequent years, a long-term growth rate of 6.09% was used. The applied 4.12% inflation rate for medical costs is equal to the average Consumer Price Index (CPI) for medical care for Denver, Boulder, and Greeley from 1994 to 2003.

Exhibit 3 (included in all scenarios except Scenario 5): Update, Estimate and Clarify Assumptions to Increase CBHP Children and Pregnant Women

This exhibit provides an estimate for the costs associated with expanding CBHP eligibility to now include clients with income greater than 185% FPL. The year one projection is based on FY 05-06 caseload and rates requested in the November 1, 2004 Budget Request. Year two is based on a projection for FY 06-07, and incorporates the inflationary factor of 4.12% for medical costs, and caseload growth equal to the 6.09% growth rate described above (except for children, which assumes the same monthly growth rate as projected in the FY 05-06 November 1, 2004 Budget Request).

The costs presented in the Department's fiscal note to expand the CBHP population to 200% of FPL for the tobacco tax initiative are higher than the estimates presented in this exhibit, primarily due to differing caseload assumptions. The fiscal note estimates were based on Census data that suggested there would be 25,023 uninsured Colorado children in this income category, and assumed a 75% penetration rate resulting in an expansion in CBHP enrollment of 18,767. The Department has since found that it was not the number of uninsured children that was used, but the total estimated uninsured population.

The updated estimate uses a different methodology for determining the expansion population. Approximately 10.19% of the children enrolled in the Children's Basic Health Plan have incomes between 171% and 185% federal poverty level (FPL) (Exhibit 5 in Scenario 1). Because this income bracket is the same size and would contain the most similar type of characteristics as the expansion population (186% to 200%) in this scenario, it was assumed expanding the population another 15% would result in approximately the same percentage growth. However, since the expansion population would be more wealthy, an adjustment rate was applied to account for less instances of the population needing insurance. This assumption was supported by data provided by the Colorado Health Institute. For other scenarios, this 10.19% factor was adjusted to account for larger expansions in eligibility (for instance increasing eligibility to 250% FPL), as well as further changes in wealth of the considered expansion populations.

A breakdown of pregnant women's enrollment by income groups was not available, so the distribution of the children's income was used instead. As was the situation with children described above, pregnant women under 134% FPL are eligible for Medicaid. Therefore, the same proportion of enrolled children from 186%-200% FPL to enrolled children 134%-185% FPL was used.

Exhibit 4 (included in all scenarios except Scenario 3): Estimated Cost to Eliminate the Asset Test for Medicaid Children and Families

The purpose of the attached analysis is to project savings to the Children's Basic Health Plan if the asset test for Medicaid were removed. It should be understood that while savings would be generated for the Children's Basic Health Plan, costs would increase in Medicaid. However, doing this would open up room under the CBHP federal allotment, so that other CBHP expansions could occur under the Tobacco Tax and still be eligible for federal match.

Children in the following two categories are currently eligible for Medicaid provided they also fall within certain resource limits:

- Children under 134% FPL and 6 years old or younger;
- Children under 101% FPL and 19 years old or younger.

To be eligible for Medicaid, the household must have less than \$1,000 in assets after deducting \$1,500 from the most valuable vehicle in their possession. Many children in the CBHP program fall under the income limit for Medicaid eligibility but have assets in excess of the limit, and thus are not eligible for Medicaid. For purposes of this analysis, this population of children was identified using CBHP enrollment broken out by age and income level. 39.5% of Children's Basic Health Plan clients could transition to Medicaid if the asset test were removed from the eligibility criteria.

Please note that this analysis assumes that the population transferred to Medicaid would receive a Title 19 Medicaid federal match.

Exhibit 5 (Exhibit 4 in Scenarios 3 and 5): Detail of CBHP Enrollment, Enrollment Figures by Specific Federal Poverty Levels

The purpose of this exhibit is to provide a ratio (as a percentage) of eligible number of children who could potentially be shifted to Medicaid if the asset test were removed over the total current CBHP population. As stated above, the population potentially eligible to be transferred to Medicaid consists of two groups: 1) children under 134% FPL and 6 years old or younger; or 2) children under 101% FPL and 19 years old or younger. This exhibit illustrates how many of the total CBHP children are at the different federal poverty ranges. The conclusion is that as incomes increase, the percent of children in that category decreases.

Exhibit 6 (Exhibit 5 in Scenarios 3 and 5): CBHP Caseload Projection

Exhibit 7 (Exhibit 6 in Scenarios 3 and 5): Estimates the Cost to Repeal SB 03-176

This exhibit includes an analysis of the projected savings to the Children's Basic Health Plan and the costs to Medicaid if SB 03-176 is repealed. SB 03-176 eliminated Medicaid coverage for legal immigrants, an optional Medicaid population. The assumed impact in FY 04-05 was for a half year, with an assumed implementation date of January 1, 2005. Utilizing the JBC Staff recommended impacts for the legal immigrant population, as included in the FY 04-05 Long Bill, \$5,142,017 in total funds would need to be added back into the FY 04-05 appropriation for Medical Services Premiums (page 91, JBC Figure Setting document, March 9, 2004). Since this is only for a partial year in FY 04-05, the amount has been doubled for FY 05-06 and beyond.

Additionally, HB 04-1447 provided funding for legal immigrants entering CBHP from Medicaid as a result of SB 03-176. The fiscal note for HB 04-1447 assumed that total CBHP enrollment would increase by 568 children in January 2005 as a result of SB 03-176. The same assumption is used in the following analysis to estimate a savings to the Children's Basic Health Plan if the SB 03-176 is not implemented.

Exhibit 8 (Exhibit 7 in Scenarios 3 and 5): Revised Children's Basic Health Plan Federal Allotment Projection

This exhibit is identical to Exhibit 2 aside from now incorporating the impacts associated with the proposed changes. If all proposed changes were integrated, some scenarios estimate that the assumed federal CBHP allocation would now be sufficient to support the CBHP program until FFY 2011. This projection utilizes the same caseload growth and medical inflationary increases as were assumed in Exhibit 2.

Exhibit 9 (Exhibit 8 in Scenario 5): Impact to CBHP Caseload Resulting from Proposed Changes to the Program

This exhibit summarizes the caseload impact related to expanding the CBHP eligible population above 185% FPL, as well as the reductions in caseload resulting from the proposed removal of the asset test (if applicable) and the repeal of SB 03-176.

Beginning with the projected caseload figures as reported in the Department's November 1, 2004 Budget Request, impacts related to the proposed changes are added or subtracted to determine the net caseload figure for each fiscal year. To provide a benchmark for how this relates to the statutory floor for caseload outlined in Amendment 35, FY 03-04 average monthly caseload figures for both women and children are provided.

Exhibit 10 (Exhibit 8 in Scenario 3, not included in Scenario 5): Development of Caseload Growth Factor for Expansion Populations

This exhibit develops the adjusted growth rate used to determine the amount of increase in caseload to extend beyond the current 185% FPL population. Beginning with the children enrolled in CBHP within 170% to 185% FPL *in relation to* the entire CBHP children's enrollment, this percentage is adjusted downward to account for a change in number of instances

of uninsured individuals as population's income level increases. Data supplied by the Colorado Health Institute indicates this decreasing need for insurance as income level rises, thus this has been incorporated into estimated population growth percentages.

Exhibit 9 (Scenario 5 only): Expansion of CBHP Parent Population to 100% FPL

This exhibit develops the estimated cost for increasing eligibility of parents up to 100% of the Federal Poverty Level. Beginning with uninsured parents from 37% to 100% FPL and a penetration rate derived from the third and fourth year of CBHP enrollment, an estimated caseload for parents is determined. Caseload is then multiplied by the per member per month rate for CBHP prenatal care (since no actuarial rate was available for this population).

Exhibit (varies by scenario): Summary – Multi-Year Projection

This exhibit develops the impact of the proposed changes and projects the scenario impacts out six fiscal years. While this exhibit incorporates the proposed changes in previous exhibits, it does so independently; and therefore, has slight rounding differences in calculated results for FY 05-06 and FY 06-07.