

STATE OF COLORADO

DEPARTMENT OF HEALTH CARE POLICY & FINANCING

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Bill Owens
Governor

Stephen C. Tool
Executive Director

July 10, 2006

The Honorable Bernie Buescher, Chairman
Joint Budget Committee
200 East 14th Avenue, 3rd Floor
Legislative Services Building
Denver, CO 80203

Dear Representative Buescher:

Footnote 29 of House Bill 06-1385 requested that beginning in April 2006, the Department should provide the Joint Budget Committee with quarterly reports regarding the calculations for the mandatory maintenance of effort payment to the federal government for the Medicare Modernization Act of 2003. This is the second quarterly report for this Footnote request.

Summary of Budgeted Savings in Medical Services Premiums

As you are aware, part D of the Medicare Modernization Act of 2003 was implemented on January 1, 2006 relieving states of their obligation to pay for the majority of pharmaceuticals to Medicaid clients that are also Medicare eligible (or dual eligibles). Based on this knowledge, the Department submitted Decision Item #6 in its November 3, 2004 Budget Request asking for temporary change to the "M" headnote provision to allow for flexibility in managing the Medical Services Premiums line item for FY 05-06, until additional experience regarding the Clawback and federal formulary was gathered.

On March 15, 2005, the Joint Budget Committee voted to approve staff's recommendation during the Department's FY 05-06 Figure Setting session, which removed \$62,394,408 total funds (or \$78,112,536 pre-rebate) for fee-for-services drug costs for the last six months of the fiscal year (March 15, 2005 Figure Setting document, page 118). This amount was equal to roughly 51% of total anticipated fee-for-service drug expenditures for the second half of the fiscal year.

The Department later requested a revision to the estimated savings appropriated in the FY 05-06 Long Bill (SB 05-209) through Supplemental S-1 in the Department's February 15, 2006 Budget Request. Exhibit EQ-1 of this request estimated that additional savings in both health maintenance organizations and the Program for All Inclusive Care of the Elderly, equal to \$8,793,703 and \$2,047,988, respectively are possible, as drug expenditures are included in the capitations for these programs. Through the add-on process of the FY 06-07 Long Bill (HB 06-1385), the above amounts are anticipated to revise the Department's FY 05-06 budget.

"The mission of the Department of Health Care Policy & Financing is to purchase cost-effective health care for qualified, low-income Coloradans."

<http://www.chcpf.state.co.us>

See the following tables for a summary of budget actions for FY 05-06 and FY 06-07.

JBC Recommendations	FY 05-06
JBC action for fee-for-service drugs – March 15, 2005	(\$62,394,408)
S-1 for health maintenance organizations – February 15, 2006	(\$8,793,703)
S-1 for the Program for All Inclusive Care of the Elderly – February 15, 2006	(\$2,047,988)
Total FY 05-06 Adjustments	(\$73,236,099)

JBC Figure Setting Recommendations	FY 06-07
BA-A1 for fee-for-service drugs – February 15, 2006	(\$126,790,399)
BA-A1 for health maintenance organizations – February 15, 2006	(\$17,869,503)
BA-A1 for the Program for All Inclusive Care of the Elderly – February 15, 2006	(\$2,124,288)
Total FY 06-07 Adjustments	(\$146,784,190)

Expenditure Experience

Based on average fee-for-service drug expenditures pre- and post-implementation of part D, the Department has experienced a reduction in total fee-for-service drug expenditures by 45.9% in FY 05-06. While there are other factors to consider, mainly caseload and utilization changes, this percentage provides a reasonable estimate of the impact of part D on Colorado's fee-for-service drug expenditures. Please note, receipt of drug rebates by the State is subject to manufacture involvement, and are therefore not correlated to actual drug expenditures in the same month. There will be a lag in experiencing reduced rebates due to the implementation of part D.

Fee-For-Service Drug Expenditures*	Pre-Rebate	Rebate Amount
July 2005	\$16,768,137	\$0
August 2005	\$26,577,758	(\$11,736,536)
September 2005	\$21,213,451	(\$7,511,692)
October 2005	\$30,737,098	(\$550,149)
November 2005	\$23,067,017	(\$14,968,297)
December 2005	\$30,476,687	(\$3,322,455)
Six month average before Part D implementation	\$24,806,691	(\$6,348,188)
January 2006	\$13,507,510	(\$327,069)
February 2006	\$13,123,051	(\$16,087,466)
March 2006	\$13,766,859	(\$2,911,907)
April 2006	\$12,968,393	(\$314,724)
May 2006	\$15,228,868	(\$11,847,564)
June 2006	\$11,977,744	(\$8,188,721)
Six month average post Part D implementation	\$13,428,738	(\$6,612,909)
Percent change in monthly averages	(45.9%)	4.2%

* As communicated to the Joint Budget Committee from the Department's monthly Footnote 32 reports

Similarly, the Department has experienced decreased expenditures in health maintenance organizations and the Program for All Inclusive Care of the Elderly equal to 4.8% for the same time period. However, there were a couple of outside influences affecting this net reduction.

A new passive enrollment policy was implemented by the Department between April and May 2006 for the following counties: Adams, Arapahoe, Denver, and Jefferson. This passive enrollment policy encourages client participation in a Medicaid managed care health plan and promotes selecting a primary care physician as the client's medical home. As can be seen in the table below, implementation of this policy has significantly increased enrollment in managed care (April 2006 enrollment was 63,911 versus May 2006 enrollment of 80,639). Therefore, if one was to carve out the offsetting average change in enrollment pre- and post-implementation of part D of 1.4%, this implies that the impact to expenditures due solely to part D is a negative 6.2%.

Please note, rates for the Program for All Inclusive Care of the Elderly were rebased at the same time as the Department was instructed to implement part D, and therefore dampen the affect of part D in this program. Based on actuarial certification, rates for the Program for All Inclusive Care for the Elderly increased 5.6% between calendar year 2005 and calendar year 2006 (the net affect of removing part D drugs and rebasing rates).

Managed Care Expenditures and Enrollment (HMO and PACE) for FY 05-06	Expenditures*	Enrollment	Annual Average Enrollment*
July 2005	\$16,616,805	74,982	74,982
August 2005	\$17,100,958	72,630	73,806
September 2005	\$16,404,662	72,948	73,520
October 2005	\$16,505,971	70,640	72,800
November 2005	\$17,022,871	68,660	71,972
December 2005	\$16,397,549	68,000	71,310
Six month average before Part D implementation	\$16,674,803	71,310	N/A
January 2006	\$15,137,790	66,375	70,605
February 2006	\$14,703,010	65,301	69,942
March 2006	\$13,339,502	63,813	69,261
April 2006	\$13,704,810	63,911	68,726
May 2006	\$17,919,940	80,639	69,809
June 2006	\$20,398,814	93,689	71,799
Six month average post Part D implementation	\$15,867,311	72,288	N/A
Percent change in monthly averages	(4.8%)	(1.4%)	N/A

* Expenditures and Average Annual Enrollment are as communicated to the Joint Budget Committee from the Department's monthly Footnote 32 reports. Actual Enrollment is the monthly enrollment amounts used to calculate the Average Annual Enrollment column. Note: Between April 2006 and May 2006, the Department implemented a new passive enrollment policy that increased enrollment in managed care plans for four Denver metro counties: Adams, Arapahoe, Denver, and Jefferson.

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Clawback

The Department has received all but one invoice from the federal Centers for Medicare and Medicaid Services (CMS) regarding the State's Clawback contributions for FY 05-06. The following tables summarize the dollars and number of clients per invoice received to date.

	Caseload (Date Invoiced vs Date Attributable)					
	January Invoice	February Invoice	March Invoice	April Invoice	May Invoice	Total
January	43,098	0	414	267	537	44,316
February		42,583	605	369	1,204	44,845
March			45,593	603	(482)	46,918
April				45,193	(101)	44,873
May					45,357	45,519
Caseload	43,098	42,583	46,612	46,432	46,778	272,437

	Expenditures by Month					
	January Invoice	February Invoice	March Invoice	April Invoice	May Invoice	Total
Caseload	43,098	42,583	46,612	46,432	46,778	272,437
Per capita	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71
Invoice	\$4,943,772	\$4,884,696	\$5,346,863	\$5,326,215	\$5,361,545	\$25,867,449

On June 20, 2006, the Department submitted an Emergency 1331 Supplemental Request for \$2,781,716 to cover the final month in FY 05-06 as it was determined that this appropriation must be treated under accrual accounting. The Joint Budget Committee approved this Request, increasing the spending authority in this line to \$31,442,918. Therefore, based on expenditures to date, \$5,357,185 remains available for the final invoice anticipated for June 2006.

If you have any questions, please contact John Bartholomew, Budget Director, at 303-866-2854.

Sincerely,

Stephen C. Tool
 Executive Director

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