



COLORADO DEPARTMENT OF HEALTH CARE POLICY & FINANCING

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Bill Ritter, Jr., Governor • Joan Henneberry, Executive Director

April 30, 2007

The Honorable Abel Tapia, Chairman
Joint Budget Committee
200 East 14th Avenue, Third Floor
Denver, CO 80203

Dear Senator Tapia:

Footnote 29 of House Bill 06-1385 requested that beginning in July 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 fourth 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).

On March 8, 2007, the Joint Budget Committee voted to approve staff's recommendation during the Department's FY 07-08 Figure Setting session, which removed \$147,167,998 total for fee-for-services and managed care drug costs for the fiscal year (February 15, 2007, FY 06-07 Supplemental Requests, tab EQ-1). See the following tables for a summary of budget actions for FY 06-07.

JBC Figure Setting Recommendations	FY 06-07
S-1 for fee-for-service drugs – February 15, 2007	(\$125,113,302)
S-1 for health maintenance organizations – February 15, 2007	(\$19,402,220)
S-1 for the Program for All Inclusive Care of the Elderly – February 15, 2007	(\$2,652,476)
Total FY 06-07 Adjustments (included in the FY 07-08 Long Bill Add-ons)	(\$147,167,998)

Current Estimate

The Department's FY 07-08 Supplemental Request submitted on February 15, 2007 estimated that the savings in Medical Services Premiums in FY 06-07 would be \$73,583,999 for half of a year (FY 06-07 Supplemental Requests for Medical Services Premiums Page EQ-1, Table 1, Row E), resulting in an annual savings of \$147,167,998. As a result, the related General Fund savings to Medical Services Premiums is estimated at \$73,583,999 based on a 50/50 split between State and federal funds. This General Fund savings is greater than the current

appropriation of \$73,493,542 in General Fund for the “Clawback” payment, resulting in an estimated General Fund savings of \$90,457 in FY 06-07.

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 36.9% in FY 06-07. 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)
July 2006	\$14,181,448	(\$0)
August 2006	\$11,860,212	(\$9,698,830)
September 2006	\$14,138,941	(\$2,984,155)
October 2006	\$18,094,048	\$13,738
November 2006	\$14,686,216	(\$9,752,067)
December 2006	\$18,680,495	(\$1,618,271)
January 2007	\$16,173,456	(\$4,752,493)
February 2007	\$16,264,696	(\$5,302,527)
March 2007	\$16,857,657	(\$774,958)
Nine month average post Part D implementation	\$15,659,685	(\$3,874,396)
Percent change in monthly averages	(36.9%)	(39.0%)

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

The Department has experienced decreased expenditures in health maintenance organizations and the Program for All Inclusive Care of the Elderly equal to 19.7%. 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). The increase in expenditures for July and August of 2006 was due to a new passive enrollment policy that was implemented by the Department between April and May 2006 for the following counties: Adams, Arapahoe, Denver, and Jefferson, which encourages client participation in a Medicaid managed care health plan and promotes selecting a

primary care physician as the client's medical home. However, in September 2006 there was significance decline in managed care expenditures due to Colorado Access decision to discontinue providing services to Medicaid clients. In April 2006 enrollment in managed care programs was 63,911 versus March 2007 enrollment of 36,303 (based on monthly enrollment amount used to calculate the average annual enrollment in Footnote 32 reports).

Managed Care Expenditures for FY 06-07	Expenditures*
July 2005	\$16,616,805
August 2005	\$17,100,958
September 2005	\$16,404,662
October 2005	\$16,505,971
November 2005	\$17,022,871
December 2005	\$16,397,549
Six month average before Part D implementation	\$16,674,803
July 2006	\$22,922,803
August 2006	\$22,548,536
September 2006	\$11,281,536
October 2006	\$11,477,776
November 2006	\$10,492,122
December 2006	\$11,695,846
January 2007	\$9,893,528
February 2007	\$8,889,741
March 2007	\$11,379,159
Nine month average post Part D implementation	\$13,397,894
Percent change in monthly averages	(19.7%)

* Expenditures are as communicated to the Joint Budget Committee from the Department's monthly Footnote 32 reports. 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.

Clawback

The Department has received all invoices from the federal Centers for Medicare and Medicaid Services (CMS) regarding the State's Clawback contributions for FY 05-06. In addition, the Department has received invoices for July 2006 through March 2007 for FY 06-07. For the dollars and number of clients per invoice received to date, see Attachment A.

For FY 06-07, the Department's total appropriation for the Clawback payment is \$73,493,542. This includes an increase over FY 05-06 for an annualization of an additional six months, and for changes in both the phasedown percentage (reduced from 90.0% to 88.6%) and an increase for inflation based on the National Health Expenditures growth for prescription drugs. As of April 24, 2007 the Department has received nine invoices for the months of July 2006 through March 2007 for a total of \$53,899,188, resulting in a remaining balance of \$19,594,354 for the remainder of the year.

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If you have any questions, please feel free to contact me at 303-866-2854.

Sincerely,

John Bartholomew
Budget Director

JB:mf

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Cc: Representative Bernie Buescher, Vice-Chairman, Joint Budget Committee
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ATTACHEMENT A

Caseload (Date Invoiced vs Date Attributable) and Expenditures for FY 05-06							
	January Invoice	February Invoice	March Invoice	April Invoice	May Invoice	June Invoice	Total
January 2006	43,098	0	414	267	537	187	44,503
February 2006		42,583	605	369	1,204	220	44,981
March 2006			45,593	603	-482	283	45,977
April 2006				45,193	162	409	45,764
May 2006					45,357	683	46,040
June 2006						46,986	46,986
Caseload	43,098	42,583	46,612	46,432	46,778	48,768	274,271
Per Capita	\$114.71	\$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	\$5,365,904	\$5,594,177	\$31,461,626

Caseload (Date Invoiced vs Date Attributable) and Expenditures for FY 06-07										
	July Invoice	August Invoice	September Invoice	October Invoice	November Invoice	December Invoice	January Invoice	February Invoice	March Invoice	Year-to-Date Total
January 2006	325	157	142	262	613	129	89	115	(61)	1,771
February 2006	344	179	152	308	620	137	85	117	(33)	1,909
March 2006	313	198	149	314	445	122	101	119	(39)	1,722
April 2006	344	248	177	349	457	130	105	126	(15)	1,921
May 2006	471	337	258	532	488	175	122	151	36	2,570
June 2006	619	471	330	630	294	175	131	161	45	2,856
July 2006	47,351	751	506	747	280	204	153	187	92	50,271
August 2006		47,658	768	938	334	273	169	207	137	50,484
September 2006			48,012	1,158	493	333	190	234	171	50,591
October 2006				48,397	762	468	252	306	218	50,403
November 2006					48,781	668	359	382	295	50,485
December 2006						48,454	546	578	440	50,018
January 2007							48,212	877	632	49,721
February 2007								48,456	885	49,431
March 2007									48,614	48,614
Caseload	49,767	49,999	50,494	53,635	53,567	51,268	50,514	52,016	51,417	462,677
Per Capita (Jan. – Dec. 2006)	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71	\$114.71
Per Capita (Jan. – Dec. 2007)	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30	\$120.30
Invoice	\$5,708,773	\$5,735,385	\$5,792,167	\$6,152,471	\$6,144,671	\$5,880,952	\$6,063,966	\$6,242,527	\$6,178,276	\$53,899,188