Department of Health Care Policy and Financing
Tobacco Tax Update
FY 08-09 Budget Request

NOVEMBER 1, 2007

Tobacco Tax Update

The Department of Health Care Policy and Financing receives Tobacco Tax funding from four separate sources, each with their own percentage of Tobacco Tax revenues: the Primary Care Fund (19%), the Cash Fund for Health Related Purposes (3%), the Prevention, Early Detection, and Treatment Fund (16%), and the Health Care Expansion Fund (46%). The Five Year Outlook on page Appendix Page 1 provides FY 06-07 actual expenditures for the Health Care Expansion Fund and the Department's projected need for Health Care Expansion Fund money from FY 07-08 through FY 11-12.

The Five Year Outlook is broken into the following sections: 1) Tobacco Tax Revenues; 2) Health Care Expansion Fund; 3) Health Care Expansion Fund Reserve Balance; 4) Health Care Expansion Fund Expenditures; and 5) End of the Year Health Care Expansion Fund Balance. The Department used the Tobacco Tax Revenue or Amendment 35 revenue forecast provided by Legislative Council in August 2007.

The second section provides detail on the Health Care Expansion Fund including the revenues into the fund, the 10% reserve requirement, the anticipated interest earned, and the amount available in a given year for Health Care Expansion Fund programs. The amount of funds available for expansion programs in any given year is calculated as 46% of total tobacco revenues, plus interest earned on the fund, minus the 10% reserve requirement.

The most complicated portion of the Five Year Outlook is the Health Care Expansion Fund Reserve Balance. The reserve balance is the sum of the following: 1) the reserve balance from the previous year; 2) any unspent Health Care Expansion Fund money or interest unspent from the previous year; and 3) 10% of the current year's appropriation into the Health Care Expansion Fund, if the total reserve is not greater than or equal to the current year's Health Care Expansion Fund transfer. The Health Care Expansion Fund Reserve may not be spent unless one of the following situations occurs: 1) the Health Care Expansion Fund Reserve Balance is equal to or greater than the annual transfer into the Health Care Expansion Fund from the treasury, or 2) expenditures for the expansion populations in any given year exceed the annual transfer net the 10% reserve balance, at which time the General Assembly may appropriate up to 50% of the total reserve balance. The Health Care Expansion Fund Reserve Balance earns interest at the same rate as the Health Care Expansion Fund.

The fourth section — Health Care Expansion Fund Expenditures — provides information on the Department's FY 06-07 actual expenditures, the FY 07-08 appropriated amounts, and the anticipated need for FY 08-09 through FY 11-12. The estimates are based on the estimated need for the Medical Services Premiums, Medicaid Mental Health Community Programs, and Children's Basic Health Plan for FY 07-08 and FY 08-09.

I. The Health Care Expansion Fund

The Health Care Expansion Fund receives 46% of annual Tobacco Tax revenues as stipulated in statute set forth in HB 05-1262. This legislation also requires that Health Care Expansion Fund money must be used to expand eligibility for citizens through Medicaid (Title XIX) or the Children's Basic Health Plan (Title XXI). The funds are used to pay for Medicaid services provided to the following expanded eligibility groups:

- Children's Basic Health Plan to 200% of the federal poverty level
- Children's Basic Health Plan above the FY 03-04 enrollment levels
- Removal of the Medicaid asset test
- Removal of the Children's Extensive Support and Children's Home and Community Based Services waitlists
- Increase the eligibility of parents of enrolled children to 60% of the federal poverty level
- Medicaid coverage for optional legal immigrants
- Presumptive eligibility for pregnant women on Medicaid
- Expand Medicaid eligibility for Foster Care children (SB 07-002)

The latest Tobacco Tax Revenue forecast from the Legislative Council shows that tobacco tax revenues, and therefore revenues into the Health Care Expansion Fund, are expected to decrease on a yearly basis. Actual Health Care Expansion Fund revenues have shown to be decreasing on a yearly basis, but not as significant as earlier projected. In fact, there is less than a 1% decrease in revenues into the Health Care Expansion Fund between FY 05-06 and FY 06-07.

The expenditures out of the Health Care Expansion Fund are increasing on a yearly basis due to adjustments in caseload and per capita rates. These expenditures are projected to under expend revenue into the fund by $1,457,098 in FY 07-08 due to lower projected expenditures for the Children's Basic Health Plan. However, in FY 08-09, Health Care Expansion expenditures will exceed revenue into the fund by $16,227,630 which will need to be covered by the Health Care Expansion Fund Reserve Balance.

To project expenditures for the expansion populations from the various programs, the Department has projected caseload and per capita growth rates and applied them to the FY 08-09 bases. The final estimated expenditure is calculated by taking the product of the estimated caseload and per capita rate and, if necessary, an annualization factor. The Department has used growth rates published in other sections of this November 1, 2007 FY 08-09 Budget Request. However, due to the subtle differences in how the Medical Services Premiums, Medicaid Mental Health Community programs, and the Children's Basic Health Plan programs are projected, there are slight variations in this methodology among and between the three programs. In the Medical Services Premiums program, the Department has estimated a separate per capita and caseload growth rate for each subsequent year of the projection. In the Medicaid Mental Health Community Programs and the Children's Basic Health Plan lines, the Department has estimated separate caseload growth rates and per capitas for most populations for all years.

(a) Children's Basic Health Plan Expansion Populations

The Children's Basic Health Plan provides services to clients between 186 – 200% of the federal poverty level and all clients enrolled over the FY 03-04 enrollment levels. In previous budget documents, the Department estimated that the "Above FY 03-04 Enrollment" population would only include prenatal costs and not medical or dental costs as enrollment in the Children's Basic Health Plan was not anticipated to exceed the FY 03-04 levels for those services in the foreseeable future. However, recent data on actual enrollment into the Children's Basic Health Plan suggests that this population will exceed the FY 03-04 threshold. To account for this unanticipated growth in caseload, the Department submitted an emergency supplemental request on June 20, 2007 for $1,850,803 to pay for total Health Care Expansion Fund expenditures for both expansion populations in the Children's Basic Health Plan. In FY 06-07, total expenditures for the expansion population were $9,557,980, which included $518,545 in administrative costs.

Because the caseload and per capita rates for the Children's Basic Health Plan expansion populations are expected to grow into the future, the Department estimates a corresponding growth in demand for Health Care Expansion Fund money as well. The Department has submitted DI-3 and DI-3A in this November 1, 2007 FY 08-09 Budget Request that provides additional information regarding the additional need for Health Care Expansion Fund money.

(b) Removal of the Medicaid Asset Test

With the passage of HB 05-1262, the State removed the Medicaid asset test as part of its eligibility criteria, which expanded Medicaid eligibility to include a larger population. The asset test removal was implemented beginning July 1, 2006.

Because the Department is no longer able to request asset test information for individuals that are not applying for Medicaid and other financial assistance programs, the asset test removal population has been difficult to track. Changes to the Colorado Benefits Management System allow for all individuals applying for Medicaid benefits to be marked with a flag that reports the following: whether the client would have been eligible for Medicaid regardless of the asset test removal; the client would not qualify for Medicaid if the asset test was still in place; or, it is unknown whether the client's assets are a factor in determining eligibility. Circumstances where this information may not be known include: existing clients who have not gone through a yearly re-determination, or clients who are not required to provide asset information as a result of not applying for other public assistance programs. The Department's fiscal agent has created a report that shows the amount of Medicaid expenditures the State has incurred from clients that have provided asset information. Based on an analysis of Medicaid applicants served by the Colorado Benefits Management System, the Department estimated that 50% of the asset test removal population would be identifiable. Indeed, the asset test removal report states that approximately 48.2% of the total potentially eligible population has been marked with the asset test removal flag.

In FY 06-07, Health Care Expansion Fund expenditures for the asset test removal population were $17,871,753. To project expenditures for FY 07-08, the Department has applied an adjustment factor to correct for the artificially low expenditures during the initial months of the asset test flag implementation. Because the asset test affects the Medicaid Adults and Children caseloads, the Department has applied caseload and per capita growth factors to the asset population based on the percent change of the weighted average of caseload and per capita rates.

(c) Children's Extensive Support and Children's Home and Community Based Services Waiver Increase

The Children's Extensive Support and Children's Home and Community Based Services Waivers are Medicaid waivers that provide optional services to clients, as defined by federal Medicaid law. Each of these waivers has a cap on the number of clients that it can serve pursuant to the number of clients approved to receive waiver services by the Centers for Medicare and Medicaid Services. However, since the number of potential clients for these waivers exceeds the number of available slots, the State has developed a waitlist for each of the waiver programs. When HB 05-1262 passed, it provided Health Care Expansion Fund money to buy down the 149 Children's Extensive Support waitlist slots and 478 Children's Home and Community Based Services waitlist slots. Finally, because the demand for disability services has been increasing in recent years, the Joint Budget Committee approved an additional 200 Home and Community Based Services expansion slots and 30 Children's Extensive Support expansion slots during FY 06-07 Figure Setting (FY 06-07 Figure Setting Document, March 13, 2006).

It should be noted that while there are 179 approved expansion slots for the Children's Extensive Support waiver program, only a portion of them will be funded through the Health Care Expansion Fund. This is because each child is evaluated separately and if they were determined to be Medicaid eligible before being placed on the waiver, they will have been deemed ineligible to receive funding through the Health Care Expansion Fund. Because of this, the Department anticipates that only 59 of the Children's Extensive Support waiver program expansion slots will be funded through the Health Care Expansion Fund.

To project expenditures for the Children's Extensive Support and the Children's Home and Community Based Services waiver programs through Medical Services Premiums and Medicaid Mental Health, the Department has assumed that both of the waivers will be at full capacity through FY 11-12. To determine the per capita costs, the Department has used the FY 06-07 actual per capita for each waiver program as the base to grow for future years.

In Medical Services Premiums, the per capita growth rate is equal to the two-year average per capita growth rate for the Children's Extensive Support and Children's Home and Community Based Services lines. The per capita rates for the waiver programs in the

Medicaid Mental Health line for FY 07-08 and FY 08-09 are the same per capitas that are described in the Medicaid Mental Health narrative.

(d) Increase Eligibility to Parents of Eligible Children up to 60% of the Federal Poverty Level
The fourth expansion population funded by the Health Care Expansion Fund provides eligibility to the parents of any Medicaid or Children's Basic Health Plan eligible child up to 60% of the federal poverty level. The Department implemented the changes on July 1, 2006 when it began to assign this expansion population category — Expansion Adults — its own program aid code in the Colorado Benefits Management System. Expenditures in FY 06-07 for this population were $3,688,933 and $514,324 in the Medical Services Premiums and Medicaid Mental Health Community Programs, respectively

According to the Department's estimates, the Expansion Adult caseload will be approximately 7,886 in FY 07-08 with a per capita cost of $1,562.70 (please see Medical Services Premiums Exhibit EB – 1 and EC – 1). Because the Health Care Expansion Fund pays for 50% of all expenditures for the Expansion Adult population, the State's portion of funding is expected to be $6,161,740 in FY 07-08. In FY 08-09, the Department estimates that the Expansion Adult population will grow to 9,462 full-time clients at a per capita of $1,640.14. Please see Medical Services Premiums Exhibits EA – 1 (FY 07-08 and FY 08-09) in this November 1, 2007 FY 08-09 Budget Request for more information on these estimates.

The Department has also projected Expansion Adult caseload and per capita rates through FY 11-12. In doing so, the Department has assumed per capita growth rates of 5.40% for years beyond FY 09-10. Caseload growth in this population between FY 08-09 and FY 09-10 is estimated to be approximately 11.16%. Caseload growth is expected to decrease by 44.14% in each year past FY 09-10, which is the rate of caseload decay from FY 08-09 to FY 09-10.

The Expansion Adult population also receives services through the Department's Medicaid Mental Health Capitation line item. The caseload for the Expansion Adult population in the Medicaid Mental Health Capitation line is the same as that for the Medical Services Premiums line item; however, the per capita rates are different. In FY 07-08, the Department has estimated the Expansion Adult per capita rate in the Medicaid Mental Health line to be $216.28. For all years following FY 07-08, the Department has assumed that the per capita rate will grow at 3.92% each fiscal year. Please see the Medicaid Mental Health narrative for the assumptions and calculations behind this growth rate.

(e) Medicaid for Legal Immigrants
In the 2005 Legislative session, Colorado lawmakers passed HB 05-1086 which reinstated Medicaid coverage for a portion of Colorado's legal immigrant population. In that same year, the legislature decided that the legal immigrant population could be considered an expansion population and replaced the General Fund portion of the appropriation for legal immigrants with Health Care

Expansion Fund money. The implementation of the changes required to track the legal immigrant population initially were estimated to take a considerable amount of time. But the Department implemented the final changes to the Colorado Benefits Management System in August 2007 and is now capable of tracking the legal immigrant population. Up to this point, the Department has used an allocation methodology that expends 1/12th of the total appropriation each month. Going forward, the Department will be able to track expenditures on the expansion population on a more detailed basis and provide more accurate forecasts of costs. Please see the Medical Services Premiums Exhibit EA – 1 in the November 1, 2007 FY 08-09 Budget Request for more information on the Department's cost allocation.

(f) Provide Marketing for the Children's Basic Health Plan
HB 05-1262 allowed up to $540,000 to be spent on cost-effective expanded marketing efforts for the Children's Basic Health Plan, 24-22-117 (2) (a) (II) (G), C.R.S. (2007). In FY 06-07, the Department spent $518,545 in Health Care Expansion Fund money on the expanded marketing efforts for the Children's Basic Health Plan marketing firm — Maximus. Due to a Joint Budget Committee analysis of the statute passed in HB 05-1262, the portion of the Children's Basic Health Plan enrolled as a result of the expanded marketing efforts is not considered expansion unless they meet other expansion criteria for the Children's Basic Health Plan (Figure Setting, March 13, 2006, page 92). The Department has estimated that marketing efforts will increase to the statutory maximum of $540,000 in FY 08-09 through FY 11-12.

(g) Presumptive Eligibility for Pregnant Women on Medicaid
When HB 05-1262 was passed, it provided Health Care Expansion Fund money to support a Medicaid presumptive eligibility program similar to that already administered through the Children's Basic Health Plan. The presumptive eligibility program allows pregnant women to apply for Medicaid benefits and receive them immediately if they pass an initial eligibility screening at a certified clinic. In FY 06-07, the Department spent $3,924,672 on presumptively eligible Medicaid clients through the Medical Services Premiums line.

For FY 07-08, the Department has estimated that the caseload for the presumptively eligible population will be 1,649. Each client is expected to cost the State $3,798.36 in FY 07-08. Because the State receives a 50% match from the federal government for expenditures on the presumptively eligible population, the Health Care Expansion Fund portion of total expenditures will be $3,131,748 in FY 07-08.

For fiscal years after FY 07-08, the presumptively eligible population and per capita rates are expected to grow at the same rate as those for the Baby Care Kids Care population (see Exhibit EC – 1 for per capita growth and Exhibit EB – 1 for caseload growth in this November 1, 2007 FY 08-09 Budget Request).

(h) Expand Medicaid Eligibility for Foster Care children
In the 2007 Legislative session, the General Assembly passed SB 07-002 which expands Medicaid eligibility to young adults, who are under 21 years of age and who were in the foster care system immediately prior to their 18th birthday or emancipation. Without this change in statute, most foster care children would lose Medicaid eligibility on their 18th birthday or when they graduate from high school. By expanding Medicaid eligibility, the Health Care Expansion Fund can provide 50% of the expenditures associated with this new expansion population.

In FY 07-08, the Department has estimated the foster care expansion population to be 1,226 with associated per capita costs of $3,446.82 and $3,668.72 for Medicaid and Mental Health services, respectively. In FY 08-09, the Department projected caseload to increase to 1,678 and per capita rates of $3,598.01 and $3,811.15 for Medicaid and Mental Health services, respectively. Please see Exhibit EA – 1 for caseload and Medicaid per capita rates for both FY 07-08 and FY 08-09 and Exhibit F.DD – 2 for Mental Health per capita rates for both FY 07-08 and FY 08-09.

II. Cash Fund for Health Related Purposes

(a) Old Age Pension Health and Medical Care Fund
The Old Age Pension Health and Medical Care Fund provides revenue for health and medical programs for individuals that qualify for Old Age Pension funds but do not qualify for Medicaid and who are not patients in mental or tuberculosis institutions. In FY 06-07, the Old Age Pension Health and Medical Care Fund received $2,522,529 in Tobacco Tax money. Going forward, the Department will estimate the amount of funding available to the Old Age Pension Health and Medical Care Fund according to the original appropriation formula set forth in HB 05-1262. Pursuant to Section 24-22-117, C.R.S. (2007), 3% of tobacco tax revenues must be deposited into the Cash Fund for Health Related Purposes, 50% of which is then appropriated to the Supplemental Old Age Pension Health and Medical Care Fund. The Department used the latest Tobacco Tax revenue projection provided by Legislative Council for estimates of future Tobacco Tax revenue to project the Old Age Pension's funding. In FY 07-08, the Long Bill (SB 07-239) appropriated $2,500,500 in Tobacco Tax money to the Supplemental Old Age Pension State Medical Fund. The anticipated revenues for the following years are as follows: $2,433,000 in FY 08-09, $2,401,500 in FY 09-10, $2,374,500 in FY 10-11, and $2,361,000 in FY 11-12.

(b) Pediatric Specialty Hospital Fund
The Pediatric Specialty Hospital Fund, which was also created in HB 05-1262, uses its funds to augment hospital reimbursement rates for regional pediatric trauma centers. Pursuant to Section 24-22-117, C.R.S. (2007), the State 3% of total Tobacco Tax revenue must be transferred into the Cash Fund for Health Related Purposes, 20% of which is allocated to the State General Fund for Health Related Purposes, 50% of which is deposited into the Pediatric Specialty Hospital Fund. Funding for the Pediatric Specialty Hospital Fund in

FY 07-08 is $513,000 per the Long Bill (SB 07-239). The Department used Legislative Council's most recent Tobacco Tax Revenue forecast and projects revenue into the Pediatric Specialty Hospital Fund as follows: $486,600 in FY 08-09, $480,300 in FY 09-10, $474,900 in FY 10-11, and $472,200 in FY 11-12.

III. The Primary Care Fund

The Primary Care Fund allocates 19% of all Tobacco Tax revenue, net of marginal administrative fees, among health care providers that provide basic health care services available in an outpatient setting for Colorado residents who are medically indigent. The Department requires that each provider who submits an application meet certain criteria before they are allowed to receive funding through the Primary Care Fund. All funds in the Primary Care Fund are distributed among the approved providers based on each provider's proportion of medically indigent or uninsured patients served through their facilities relative to the total number of medically indigent served by all participating providers. The Primary Care Fund was appropriated $32,939,958 in FY 06-07 and $32,365,298 in FY 07-08. The Department has followed section 24-22-117, C.R.S. (2007), governing the Primary Care Fund appropriation, to project anticipated revenues in future years, as follows: FY 08-09, $30,818,000; FY 09-10, $30,419,000 ; FY 10-11 $30,077,000; and FY 11-12, $29,906,000.

IV. The Prevention, Early Detection, and Treatment Fund (Administered by the Department of Public Health and Environment

(a) The Breast and Cervical Cancer Program

This program uses Tobacco Tax revenue appropriated in HB 05-1262 to increase the number of cancer screenings performed by the Department of Public Health and Environment. In FY 06-07, the Department realized total expenditures for Breast and Cervical Cancer Prevention clients through the Mental Health Capitation Payments and Medical Services Premiums line items in the amount of $627,562. Pursuant to Section 24-22-117 (2) (d) (I), C.R.S. (2007) the Prevention, Early Detection, and Treatment Fund will receive 16% of total Tobacco Tax revenues. Of this money, the Breast and Cervical Cancer Prevention Program received 18% in FY 07-08, and will receive 20% of that amount for each year thereafter. In FY 07-08, $437,221 in Tobacco Tax funds was appropriated for the Breast and Cervical Cancer Prevention program between the Mental Health Capitation Payments and Medical Services Premiums line items.

(b) Medicaid Disease Management Program

The Medicaid Disease Management Program is designed to maintain the cost of health care by monitoring and assisting prescription drug utilization by asthma or diabetes clients. Section 24-22-117, C.R.S, (2007) specifies that the disease management program will receive a transfer of up to $2,000,000 from the Department of Public Health and Environment to administer programs that address cancer, heart disease, and lung disease in FY 05-06 and FY 06-07. However, because the Department has not been able to fully implement disease management programs, the Joint Budget Committee has authorized a roll-forward for all funds that went unspent in FY 06-07. The Department submitted a roll-forward request in the amount of $3,940,776 for FY 07-08 and was approved by the State Controller's Office. The Medicaid Disease Management Program has secured contracts with providers totaling $2,197,778, but anticipates securing additional provider contracts to fully expend the roll-forward in FY 07-08.