

**COLORADO GENERAL ASSEMBLY  
JOINT BUDGET COMMITTEE**



**INTERIM SUPPLEMENTAL REQUEST FOR FY 2009-10**

**DEPARTMENT OF HEALTH CARE POLICY AND  
FINANCING**

**JBC Working Document - Subject to Change  
Staff Recommendation Does Not Represent Committee Decision**

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The over-expenditure in the CBHP Premiums line item results from higher than anticipated per capita costs, and not caseload. The Department identified three main drivers for the over expenditure:

- (1) In FY 2008-09 the State's Managed Care Network (SMCN) contract was reprocured and the vendor changed from Anthem to Colorado Access. During this process, the settlement of outstanding claims adjustments with Anthem were delayed. Therefore, the adjudication of some FY 2007-08 claims did not occur until FY 2009-10. This resulted in much higher than anticipated reconciliation payments in FY 2009-10 than originally anticipated.
- (2) Utilization patterns in the SMCN for both children and prenatal clients have exceeded past trends and weren't fully accounted for in the forecasted per capita adjustments.
- (3) The Department's hospital reimbursement methodology did not allow them to accurately forecast or control hospital costs.

**Staff Recommendation: Staff recommends the Department's request with technical adjustments.** Based on information through June 2010, the Children's Basic Health Plan Premiums line item will over expend the current FY 2009-10 appropriation by \$14.6 million total funds by fiscal year end. Of this amount, \$5.1 million is the State share and \$9.5 million is the federal share. The State share is funded from the following funding sources:

Estimated Over Expenditure from CBHP Trust Fund:	\$2,972,200
Estimated Over Expenditure from Health Care Expansion Fund:	2,479,199
Offset by Hospital Fee Share:	<u>(381,802)</u>
Total State Share of the Over Expenditure:	\$5,069,597
Federal Share	<u>\$9,506,829</u>
Total Over-expenditure (with June Payment)	\$14,576,426

The Health Care Expansion Fund has sufficient fund balance in FY 2009-10 to absorb the costs of this supplemental. However, the CBHP Trust Fund does not have sufficient fund balance to absorb this supplemental. The Department estimates that \$817,042 in unused fund balance in the CBHP Trust Fund is available for this supplemental. After this fund balance is exhausted, an additional \$2,155,158 would be needed. The Department requests and staff recommends a General Fund appropriation for the funding that can not be absorbed by the CBHP Trust Fund. However, staff

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recommends that the General Fund appropriation be made directly to the CBHP Premiums line item instead of to the CBHP Trust Fund. This avoids the need to reappropriate the funds from the CBHP Trust Fund into the CBHP Premiums line item. The only reason for General Fund appropriations into the CBHP Trust Fund is so that the CBHP Trust Fund can retain unused balance and interest earnings. However, for this supplemental appropriation, there is not anticipated to be any unused balance and nor should there be any interest earnings.

Section 24-75-109 (1) (a.5) Colorado Revised Statutes authorizes over expenditure authority for the Children's Basic Health Plan. However, the amount of the General Fund over expenditure authority is limited to \$250,000. The State has already paid the CBHP capitation payments for June. Therefore, the \$14.6 million over expenditure, including the \$2.2 million General Fund liability, has already occurred.<sup>1</sup> Without this emergency supplemental, the State would not be in compliance with Section 24-75-109 (1) (a.5).

***Alternative staff recommendation:*** If the Committee is uncomfortable approving an additional General Fund supplemental due to the June 2010 revenue forecast and the concern that there will not be adequate cash available during the remainder of FY 2009-10, the entire State share of the supplemental could come from the Health Care Expansion Fund. The Committee sponsored HB 10-1320 during the 2010 to provide authority to use the Health Care Expansion Fund, if necessary, to offset General Fund. Specifically, Section 24-22-117 (a) (V) (A), C.R.S. provides:

*"Notwithstanding any provision of this paragraph (a) to the contrary, and pursuant to the declaration of a state fiscal emergency as described in paragraph (b) of subsection (6) of this section, for the 2009-10 fiscal year, the moneys in the health care expansion fund may be appropriated for **any** health-related purpose and to serve populations enrolled in the children's basic health plan and the Colorado medical assistance program at the programs' respective levels of enrollment as of January 1, 2005".*

The Department's supplemental request indicates Health Care Expansion (HCE) Fund balance would be \$78.2 million at the end of FY 2009-10. However, the HCE Fund is anticipated to be insolvent by FY 2011-12.

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<sup>1</sup>The CBHP capitation payments are paid at the same time capitation payments for the Medicaid program are run. This typically occurs around the 2nd payment cycle of each month. Therefore, the Medicaid and CBHP capitation payments were made before the OSPB and State Controller decision to stop paying claims from the MMIS system for the remainder of FY 2009-10.

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**Additional Information:**

In the 2009 Session, the Department was requested to provide additional information to the Committee regarding the current CBHP caseload served by each HMO and in the SMCN and the per capita costs for each (Request for Information #23, 2009). This request was made in order to better understand recent per capita growth trends in the program. As part of the response to this RFI, the Department alerted the Committee that there would be larger than anticipated reconciliation payments in FY 2009-10. At the staff briefing last December, staff noted that the CBHP program would be needing a supplemental for FY 2009-10.

In February 2010, the Department submitted a FY 2009-10 supplemental (S-3 submitted on February 23). At that time, the Department requested a CBHP Premiums supplemental of \$6,972,366 total funds. Based on staff's recommendation, the Committee approved a CBHP Premiums supplemental of \$7,493,706. The staff's recommendation was higher based on slightly different caseload assumptions but assumed the Department's estimated per capita expenditures (which are somewhat based on actuarially developed rates). Neither the Department nor the staff's recommendation fully recognized the full impact that the higher than anticipated reconciliation payments were having on the per capita costs in FY 2009-10.<sup>2</sup> Table 1 below illustrates the assumed expenditures that the Department's February supplemental used.

<b>Table 1: February Supplemental Request Projections</b>					
	<b>Children Capitation</b>	<b>Prenatal Capitation</b>	<b>Reconciliations</b>	<b>Reinsurance</b>	<b>Total</b>
July-Dec. 2009	\$60,903,662	\$7,750,669	\$21,585,778	\$0	\$90,240,109
*Est. Jan-June 2010	\$57,265,782	\$7,180,759	(\$3,000,000)	\$939,180	\$62,385,721
Total Projected	\$118,169,444	\$14,931,428	\$18,585,778	\$939,180	\$152,625,830
Est. Appropriation including Dept Supplemental Req.	\$123,316,136	\$15,973,901	\$12,391,297	\$955,244	\$152,636,578
Total Over/(Under) Funded	\$5,146,692	\$1,042,473	(\$6,194,481)	\$16,064	\$10,748

\*Appropriations are not normally broken out as shown in this table. The Department included this table in their 1331 supplemental request in order to illustrative the assumptions behind their per capita estimates provided to the Committee in February 2010.

<sup>2</sup> Note in the Staff December briefing staff had originally anticipated a larger supplemental than was submitted.

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The Department was assuming that although the reconciliation payments were higher than the appropriation, the actual per capita costs for the caseload would be lower than currently budget. Overall, these assumptions would net to almost zero (\$10,748) once their February supplemental was approved. Therefore, the Department believed that per capita rates they had developed would be sufficient to pay for the FY 2007-08 and FY 2008-09 reconciliation payments that were being made in FY 2009-10 as well as the cost of the program. However, as this 1331 supplemental demonstrates, those assumptions were in error. While the Department had assumed reconciliation payments would account for 8.4 percent of the child and prenatal per capitas for the year, the most current projection is now for 16.9 percent of per capita costs. In addition, reinsurance reimbursed have come in lower than anticipated for the year (through May 2010, the Department had collected only \$925,158 in reinsurance reimbursement, compared to the estimated \$3,000,000). Lastly, the actual costs for the children and prenatal programs were closer to the appropriation rather than to the February projection.

Table 2 below shows the Department's June projection.

<b>Table 2: June Supplemental Request Projections (Updated with June payment)</b>					
	<b>Children Capitation</b>	<b>Prenatal Capitation</b>	<b>Reconciliations</b>	<b>Reinsurance</b>	<b>Total</b>
FY 2009-10 Total Projected (actuals through June -- June projection)	\$123,368,118	\$15,572,779	\$28,100,932	\$692,018	\$167,733,847
Est. Appropriation	\$123,250,639	\$16,073,303	\$12,874,842	\$958,637	\$153,157,421
Total Over/(Under) Funded	(\$117,479)	\$500,524	(\$15,226,090)	\$266,619	(\$14,576,426)

\*Appropriations are not normally broken out as shown in this table. The Department included this table in their 1331 supplemental request in order to illustrative the assumptions behind their per capita estimates provided to the Committee in February 2010.

***Going Forward***

To combat higher than anticipated costs in the CBHP program in FY 2010-11, the Department has taken the following steps.

- (1) The Department is expanding HMO coverage to counties that previously had only the SMCN available to enrollees. Beginning in February 2010, Rocky Mountain Health Plan expanded services to 16 counties in Southeastern Colorado. Contracted HMO rates have greater predictability than do the payments in the SMCN.

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- (2) Effective July 1, 2010, CBHP will reimburse both inpatient and outpatient hospital services at 135 percent of the Medicaid DRG. Before this change, the Department was reimbursing hospitals at 44 percent of billed charges. The Department anticipates that this reimbursement methodology change will result in a 2.0 percent decrease in the PMPM for hospital services.
- (3) The Department is making many changes to the management of the SMCN, including but not limited to:
  - a. Bringing all SMCN providers into compliance with reimbursement schedules (in the past, exceptions were made to the reimbursement schedules in order to build the network).
  - b. Changing pharmacy benefit management services providers from Caremark to Navitus Health Solutions.
  - c. Working on efforts to better case manage SMCN members.
  - d. Retaining 1.0 percent of the administrative fee for the SMCN to assure that performance measures are being achieved in the program.

**Staff Comment:** When the initial reconciliation payments began showing up in the monthly reports, staff informed the Committee that a supplemental with a possible \$4.0 to \$5.0 million state share impact could be anticipated (December briefing -- please note that with this supplemental the state share is closer to \$8.0 million). The actual supplemental requested (and ultimately recommended by staff and approved by the Committee) in February was lower than this original estimate. Staff believes that because of the lateness of the supplemental request (February 23), the proper attention was not given to the supplemental request by staff. By the middle and end of February, staff is trying to develop the next budget year recommendation and is concentrating mainly on the Medical Services Premiums forecast. In the future, the statutory guidelines for submitting supplementals by January 2 of each year should be followed for the CBHP program for the following reasons:

- (1) The supplemental "needs" are not influenced by the need to balance the budget.
- (2) Staff has more time analyze and receive answers to questions regarding the supplemental request.

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- (3) The Committee has more time to develop solutions to the problem. For example, the CBHP program is not an entitlement program. Enrollment into the program could have been suspended (at least for the prenatal caseload). By submitting late supplementals this option becomes "off the table" by the time the Committee could introduce legislation or have system changes made.
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