COLORADO DEPARTMENT OF HEALTH CARE POLICY & FINANCING

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

November 1, 2008

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

Dear Representative Buescher:

This report is in response the Legislative Request for Information 26 which states:

The Department is requested to provide recommendations to the Joint Budget Committee by November 1, 2008 on whether greater budget accuracy would be achieved if caseload and capitation payments were estimated and tracked for each Regional Behavioral Center. In developing their recommendations, the Department will note any additional administrative costs associated with changing systems to track caseload data in this manner and to compile and report on the data.

Governor Ritter instructed the Department not to comply with this legislative request; however, the Department is providing a report regarding this information.

Questions regarding the attached report can be addressed to Jason Kolaczkowski, Budget Analyst, at 303-866-4854.

Sincerely,

Joan Henneberry
Executive Director

JH/mi

Attachment

cc: Senator Moe Keller, Vice-Chairman, Joint Budget Committee
Representative Jack Pommer, Joint Budget Committee
Representative Al White, Joint Budget Committee
Senator John Morse, Joint Budget Committee
Senator Steve Johnson, Joint Budget Committee
Senator Peter Groff, President of the Senate
Senator Ken Gordon, Senate Majority Leader
Senator Andy McElhany, Senate Minority Leader
Representative Andrew Romanoff, Speaker of the House
Representative Alice Madden, House Majority Leader
Representative Mike May, House Minority Leader
John Ziegler, JBC Staff Director
Melodie Beck, JBC Analyst
Todd Saliman, Director, Office of State Planning and Budgeting
Luke Huwar, Budget Analyst, Office of State Planning and Budgeting
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COLORADO DEPARTMENT OF HEALTH CARE POLICY AND FINANCING

RESPONSE TO THE JOINT BUDGET COMMITTEE

MEDICAID MENTAL HEALTH COMMUNITY PROGRAMS, MENTAL HEALTH CAPITATION PAYMENTS

NOVEMBER 1, 2008

This response is presented to the Joint Budget Committee (JBC) of the Colorado General Assembly Request for Information #26, which states:

> *Department of Health Care Policy and Financing, Medicaid Mental Health Community Programs, Mental Health Capitation Payments -- The Department is requested to provide recommendations to the Joint Budget Committee by November 1, 2008 on whether greater budget accuracy would be achieved if caseload and capitation payments were estimated and tracked for each Regional Behavioral Center. In developing their recommendations, the Department will note any additional administrative costs associated with changing systems to track caseload data in this manner and to compile and report on the data.*

The Governor directed the Department not to comply:

> *I am directing the Department not to comply with this request for information for three reasons. First, the Medicaid mental health budget was transferred to the department in FY 2005-06 with the passage of House Bill 04 - 1265. Second, the executive maintains the flexibility to adapt budgeting methodology as it best sees fit to ensure accuracy as needed. Finally the department has an impending request for proposal to re-procure the delivery of mental health services. Responses to the request are to be based on the current methodology for caseload and rates which would be invalidated if changes to the methodology occur.*

The Department is committed to providing the most accurate forecasts possible. Although this report does not provide recommendations for changes to the Department's budgeting methodology, the Department has already taken substantial steps to improve forecast accuracy. Recently, the Department has altered methodologies from 1) forecasting on an aggregated percentage change, to 2) forecasting based on eligibility category specific information in February 2008, to 3) tying forecasts directly to by-eligibility category aggregated capitation rates for the November 2008 submitted Budget Request.

The Department's new methodology examines the trend in capitation rates across each eligibility category and applies that trend to the actual per member per month cost. By examining the capitation rate trends directly, future expenditures are forecasted directly through the primary cost driver: the actuarially agreed upon capitation rate.

Additionally, the Department has incorporated an incurred but not reported methodology similar to other Departmental Requests (e.g. the nursing facilities component of Medical Services Premiums). The Department is adjusting its request to explicitly capture the reality that some mental health claims incurred in any one fiscal year may not be paid during that same fiscal year. Similarly, some portion of expenditure in any fiscal year will be payments on claims incurred in prior fiscal years.

Finally, and again regarding caseload, the Department now considers the by-BHO caseload mix as part of its forecast. The aggregated, by-eligibility category capitation rate is created by weighting each BHO's individual rate within an eligibility category by its projected caseload proportion (see Section G, Exhibit FF in the November 3, 2008 Budget Request). By doing so,

the Department now directly considers the relationship of BHO enrollment to Medicaid caseload, although separate forecasts are not necessary.

As part of the Department's evaluation process, the Department considered the feasibility of creating an expenditure forecast for each BHO. However, micro-data at the by-BHO level has been too volatile to produce a quality forecast. The recent history of the mental health capitation program does not lend itself to providing the type of stable data necessary for a more itemized budget forecast:

1. In FY 2005-06, the program moved from eight Mental Health Assessment and Service Agencies (MHASAs) to a consolidated five BHOs. This only provides three unique rates (one for each fiscal year) for each eligibility category within each BHO since the time of consolidation. Three data points would not produce a reliable trend.

2. Based on actuarial requirements, the capitation rate setting process has weighted different data sources more heavily from year to year, emphasizing the most accurate data available. BHO-specific encounter data has not always been reliable. Some years have had to utilize higher percentages of proxy data such as BHO financial statements or historical fee for service data. The evolving rate setting process makes cross year comparisons of rates more difficult. Any one individual rate may change erratically (see Table 1 at the end of this document). However, when the rates are aggregated, any anomalous change in one particular rate is balanced against the other BHOs' rates; this yields a higher degree of confidence in the trend.

3. Outside influences can affect individual rates in unexpected and volatile ways. For example, the Goebel settlement disproportionately affected the rates for disabled individuals within Colorado Access; that rate moved from $51.11 to $140.73 (a 175.35% increase) within one fiscal year, as a result. Such a substantial increase or decrease in a single rate would have a dynamic effect on the rate's trend. Compensating for those trend effects when forecasting on an individual rate would be difficult. Aggregated forecast models are better able to "smooth" this type of irregular data by tying forecasts to more data points.

4. The actuarial rate setting process utilizes the aggregate reporting of costs by the BHOs. To attempt to budget based on each BHO, individually, would add an additional component of error into the forecast. By budgeting in aggregate, the budget forecast is directly tied to the rate setting process.

Currently, the Department does not feel that budget forecasting by BHO would provide a more accurate Budget Request. The limited and volatile data available to the Department does not lend itself to, what are in essence, twenty-five forecasts (five BHOs by five eligibility categories). The Department continues to make every effort to ensure that its budget forecasts are the most accurate possible, including a constant reevaluation of its methodologies and forecasting assumptions.

Finally, the Department is investigating the feasibility of presenting historical, by-BHO caseload figures in its monthly caseload and expenditure report. Currently, the Department does not

anticipate that presenting these figures would create any additional administrative costs. The Department anticipates that it will be able to add both caseload and expenditure by BHO to its monthly report by January 2009.

TABLES

Table 1: Examples of Individual Capitation Rate Changes

Behaviorial Health Organization	Eligibility Category	Capitation Rates				
		FY 05-06	FY 06-07	Percent Change in Cap Rate	FY 07-08	Percent Change in Cap Rate
Colorado Access	Adults 65 and Over	$14.29	$19.52	36.60%	$19.03	-2.51%
Northeast Behavioral Health	Disabled Adults 60 to 64 and Disabled Individuals to 59	$50.26	$77.15	53.50%	$82.30	6.68%
Behavioral Health Care, Incorporated	Categorically Eligible Low Income Adults, Expansion Adults, Baby Care Program Adults, and Breast and Cervical Cancer Program Adults	$10.66	$13.75	28.99%	$16.52	20.15%
Foothills Behavioral Health	Eligible Children	$17.28	$16.62	-3.82%	$18.88	13.60%
Colorado Health Partnerships	Foster Care	$321.17	$333.16	3.73%	$292.52	-12.20%