



COLORADO DEPARTMENT OF HEALTH CARE POLICY & FINANCING

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

November 3, 2008

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

Dear Representative Buescher:

This letter is in response to your April 30, 2008 Legislative Request for Information #21 to Governor Ritter requesting the Department of Health Care Policy and Financing (the Department) provide the status of the rules adopted by the Medical Services Board regarding all changes to reimbursement rates that have been enacted for FY 2008-09. As you are aware, the Governor directed the Department to:

Comply to the extent feasible. The Medical Services Board is not required to approve changes to all provider reimbursement rates. However I am directing the Department to provide information concerning the implementation of rate increases no later than November 3, 2008.

Footnote 12 of HB 08-1375 authorized the Department to increase acute care provider rates as adopted by the Joint Budget Committee on March 11, 2008. The Department has applied the rate increases as follows:

| Provider Class | Rate Increase | Appropriated Funding |
|-----------------------------------|----------------|----------------------|
| Physician - Evaluation/Management | 24.25% average | \$11,750,000 |
| Dental | 25% | \$11,880,289 |
| Substance Abuse | 23-63% | \$750,000 |
| Radiology | 17.7% | \$2,250,000 |
| Vision | 33.45% | \$500,000 |
| Medical Home Incentive | N/A | \$3,305,400 |

Providers were notified of the rate increase in the Medical Assistance Program Bulletin issued July 1, 2008. Implementation of these rate increases does not require rules to be adopted by the Medical Services Board. The \$500,000 allocated to increase rates to the Prenatal Plus service providers will be applied soon. The Department is developing a strategy with the Department of Public Health and Environment to apply the rate increase and implement a process to achieve

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program improvements at the same time. The rate increase will be retroactive to July 1, 2008 if the exemption request to apply the rate increase is approved by the Office of State Planning and Budgeting.

The Department has applied the additional \$4,679,688 specified in footnote 10 to inpatient hospitals rates effective on July 1, 2008. In order to use the full \$4,679,688, the FY 2008-09 rates were increased until the difference between forecasted FY 2008-09 expenditures exceeded budget neutrality expenditures by exactly \$4,679,688. The Department increased each hospital's rate over what their rate would have been under the current definition of budget neutrality; this equates to the Medicaid rates being set at approximately 91.5 percent of their Medicare rate. Setting the rates in this manner did not require a rule change but did require a State Plan Amendment.

Footnote 11 of HB 08-1375 authorized the Department to increase the pharmacy dispensing fee from \$4 to \$5.60 by April 1, 2009. To date, no rules have been adopted because the Department needs additional approval from The Centers for Medicare and Medicaid Services (CMS). CMS communicated to the Department that a legislative mandate to increase the dispensing fee is only partial justification. The remaining justification results from the cost of dispensing fee study that must establish that the cost to dispense medications is more than \$4.00 per prescription. A meeting to discuss the requirements for the cost of dispensing fee study between the Department and CMS is pending. Without CMS approval the Department cannot proceed with implementation. This requirement from CMS was not anticipated when the authorization to increase the dispensing fee was granted. The Department estimates that the cost of a dispensing fee study could take between 6 and 9 months. The Department does not have existing resources to conduct the study.

The Department has applied the rate increases to the Health Maintenance Organizations (HMO) rates in an actuarially sound manner. This step is to correspond to the rate increase applied to fee-for-service providers. This implementation did not require rules to be adopted by the Medical Services Board and did not require approval through a State Plan Amendment.

Questions regarding hospital or HMO rate increases can be addressed to Jessica McKeen at 303-866-3858 or Jessica.McKeen@state.co.us. Questions regarding acute care services rate increases can be addressed to Margaret Mohan, Manager at 303-866-5620 or Margaret.Mohan@state.co.us. Questions regarding pharmacy dispensing fees can be addressed to Kerri Coffey at 303-866-4131 or Kerri.Coffey@state.co.us.

Sincerely,

Joan Henneberry
Executive Director

JH/mrm

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Cc: Senator Moe Keller, Vice-Chairman, Joint Budget Committee
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Representative Al White, Joint Budget Committee
Senator John Morse, Joint Budget Committee
Senator Steve Johnson, Joint Budget Committee
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