

**Testimony on:**  
Caseload Estimate Update

**presented to:**  
Senate Committee on Ways and Means

**by:**  
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**January 19, 2007**

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**Senate Committee on Ways and Means**  
**January 19, 2007**

**Caseload Estimate Update**

Good morning, Mr. Chairman, and members of the Committee. My name is Scott Brunner, and I am the Chief Financial Officer for the Kansas Health Policy Authority (KHPA). Thank you for this opportunity to provide you updated information on the Medicaid caseload estimate.

**Consensus Caseload Process.** Consensus Caseload Estimating occurs twice each year in March and November. At those times, representatives from agencies that have entitlement programs and assistance payments meet with staff from the Division of Budget and Legislative Research. The group reviews agency estimates to develop a consensus estimate for the specific programs included in the process. That consensus estimate becomes the official budget amount for the Governor's Budget Recommendation and for the final Legislative approved budget.

Many pieces of information go into making these estimates, including utilization of services by each population, expenditures for services provided to each population, the estimated impact of changes in covered services, revenues received by agencies, and the federal Medicaid matching rate. The Medicaid matching rate changes slightly from year to year and it varies for some Medicaid populations and services.

All Medicaid service expenditures are included in the consensus process. The responsibility for the estimates and the location of the Medicaid expenditures in the state budget vary depending on the agency. KHPA's consensus estimate includes those Medicaid funded services that would be part of a traditional health insurance program. The largest amounts are for inpatient and outpatient hospital payments, prescription drugs, and physician services. Also included are the payments we make for Medicaid beneficiaries that are covered by private managed care organizations and for Medicare buy in beneficiaries.

**KHPA Consensus Caseload Estimates.** The table attached to my testimony shows the amounts of the Spring estimate for Medicaid services provided through KHPA during FY 2007, the revised estimate for FY 2007 made in November 2006, and the initial estimate for FY 2008. For FY 2007, the current consensus estimate of is \$1,182.0 million from all funding sources. This amount is \$41.7 million less than the Spring estimate. However, between the Spring and Fall Consensus Caseload meetings, the State General Fund (SGF) portion of the FY 2007 Medicaid caseload increased by \$28.6 million, or 7.6 percent. This increase was due primarily to an updated federal match rate and a shortfall in revenue from prescription drug rebates.

The agreed upon federal match rate for all Medicaid programs used for the Spring 2006 estimate was 38.9 percent. After a more detailed analysis of populations and categories of service within KHPA, an updated rate of 40.5 percent was calculated, resulting in an increased need for state matching funds of approximately \$22.0 million. Each population and category of service has a different effective matching rate due to the mix of services at varying match rates. For example, the State Share for FY 2007 is 39.75 percent but the Pharmacy rate is 41.3 percent because of state only funded programs like MediKan. KHPA has refined our estimates to calculate the effective matching rate based on the population mix and types of services provided.

The other factor affecting the FY 2007 estimate is a revenue shortfall of \$45.0 million in the Medicaid Services Fee Fund. This fee fund receives proceeds from several sources, primarily drug rebates paid by pharmaceutical manufacturers as part of the Federal drug rebate and supplement drug rebate agreements. After Medicare Part D was implemented in January 2006 Kansas collections from drug rebates dropped by 43.0 percent. This

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impact lagged several months behind implementation of Part D in January 2006. The original rebate revenue projection for FY 2007 was \$88.0 million. After reviewing the actual collections for the last quarter of FY 2006 and the first few months of FY 2007 the revenue estimate was revised to \$43.4 million. Average monthly rebates were \$9 million prior to implementation of Medicare Part D, and are currently only \$5 million per month.

For FY 2008, the consensus estimate was \$63.0 million (5.3 percent) over FY 2007. This increase is due to a 2.4 percent increase in population estimates and a 4.8 percent increase in average costs. The growth in population is primarily in the disabled and children categories. The SGF portion for FY 2008 versus 2007 is projected to increase by \$35 million (8.6 percent). The population and cost increases contribute to the SGF increase, but there is also an anticipated drop in the federal Medicaid matching rate from 60.25 percent to 59.43 percent. The combined impact of the projected caseload increases and the decrease in the Federal Match rate is approximately \$30 million net increase in SGF needed. Drug rebate revenue is expected to continue dropping as additional drug utilization and market shift reduces drug rebate collections. The anticipated decrease in drug rebate revenue was \$4.9 million between FY 2007 and FY 2008.

The level of SGF is influenced by many factors. In this latest estimate, the delayed impact of Medicare Part D on rebate revenues is the driving force causing an increase in projected SGF spending. Thank you for the opportunity to provide this information. I am happy to answer any questions.

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## Medicaid Caseload Estimate

	FY 2007 Spring Consensus		FY 2007 Fall Consensus				FY 2008 Fall Consensus				Diff Gen Funds	% Diff
	All Funds	General Funds	All Funds	General Funds	Diff Gen Funds	% Diff	All Funds	General Funds	Diff Fed Funds	% Diff		
Below the line	233,048,946	113,697,852	173,637,196	78,356,876	(35,340,976)	-31.1%	162,721,230	77,254,717	(10,915,966)	-6.3%	(1,102,159)	-1.4%
Populations	990,651,054	385,580,855	1,008,362,804	408,343,124	22,762,269	5.9%	1,082,278,770	439,545,283	73,915,966	7.3%	31,202,159	7.6%
ADAP		2,000,000		2,000,000				2,000,000				
Total Caseload	1,223,700,000	501,278,707	1,182,000,000	488,700,000	(12,578,707)	-2.5%	1,245,000,000	518,800,000	63,000,000	5.3%	30,100,000	6.2%
Revenue		124,879,636		83,700,000	(41,179,636)	-33.0%		78,800,000			(4,900,000)	-5.9%
CIF		3,000,000		3,000,000	-	0.0%		3,000,000				
Fee Fund		88,489,636		43,400,000	(45,089,636)	-51.0%		38,500,000			(4,900,000)	-11.3%
Provider Assessment		33,390,000		37,300,000	3,910,000	11.7%		37,300,000				
GBR	1,223,700,000	376,399,071	1,182,000,000	405,000,000	28,600,929	7.6%	1,245,000,000	440,000,000	63,000,000	5.3%	35,000,000	8.6%