Attachment A
Monitoring Budget Neutrality for the
North Carolina Family Planning Waiver Program

The following is the method by which budget neutrality will be monitored for the North Carolina Family Planning Program.

North Carolina will be subject to a limit on the amount of Federal Title XIX funding it will receive for extending Medicaid eligibility for family planning services during the demonstration period. This limit will be determined using a pre/post comparison of fertility rates for demonstration participants. Thus, North Carolina will be at risk for the cost of family planning services (including traditional family planning services at the enhanced match rate and ancillary services described in STC #6 at the FMAP rate) that are not offset by the demonstration intervention. The demonstration aims to increase the number of women and men receiving comprehensive reproductive health services while reducing unintended pregnancy for non-Medicaid-participating, childbearing women with income at or below 185 percent of the Federal poverty level (FPL). The demonstration will not change the current division of Federal and State responsibility for costs of the current Medicaid program. CMS will confirm that the demonstration expenditures do not exceed the levels that would have been in the absence of the demonstration.

Annual Budget Limits

To calculate the overall expenditure limit for the demonstration, separate budget limits will be calculated for each year, and will be on a Demonstration Year (DY) basis. These annual estimates will then be added to obtain an expenditure estimate over the entire demonstration period. The Federal share of the estimate will represent the maximum amount of Federal financial participation (FFP) that the State can receive during the expanded family planning services demonstration. For each DY, the Federal share will be calculated using the FMAP rate(s) for that 12-month period.

The intent of the demonstration is to avert unplanned pregnancies to offset the cost of family planning services for demonstration participants. During each year of the demonstration, the number of births averted (BA) will be estimated by the following equation:

> BA = (base year fertility rate - fertility rate of demonstration participants during DY) x (number of demonstration participants during DY), where fertility rates will be measured per thousand. The base year fertility rate will be adjusted for age groupings, using the age distribution of the actual demonstration participants and predetermined age-specific fertility rates. Participants are all women who obtain one or more covered medical family planning service(s) through the demonstration. At its option, the state may also adjust the fertility rates for ethnicity.

The calculation of the average cost of a birth (BC) during each year of the demonstration will be the following:

BC = (cost of prenatal services + delivery and pregnancy related costs + costs for infants through year 1 of life)/number of deliveries, where the costs and number of deliveries pertains to the North Carolina Medicaid program.

The annual budget limit will be the savings that are calculated by multiplying the number of births averted (BA) by the average cost of a birth (BC).

Base-Year Fertility Rate

The state will submit to CMS base-year fertility rates and a methodology for calculating the fertility rates. Preliminary base-year fertility rates must be submitted for approval within the first operational year of the demonstration and conform to the following requirements:

a. They must reflect fertility rates during Base Year 2003, for women in families with income at or below 185 percent of the FPL.

b. They must be adjusted for the age for all potential demonstration participants.

c. The fertility rates will include births paid by Medicaid.

The state will be allowed up to 6 months after the end of the first demonstration year to finalize these preliminary rates. Following the conclusion of each year of the demonstration, a demonstration year fertility rate will be determined by summing the age-specific rates using the age distribution of the demonstration participants during that DY to weight the age-specific fertility rates, unless the state demonstrates that the age distribution is consistent with the prior demonstration year(s). The annual age distribution categories will correspond with the base-year age-specific fertility rates.

How the Budget Limit Will Be Applied

The budget limit calculated above will apply to waiver expenditures, as reported by the state on the CMS-64 forms. If, at the end of the demonstration period, the costs of the demonstration services exceed the budget limit, the excess Federal funds will be returned to CMS.

Expenditure Review

CMS will enforce budget neutrality over the life of the demonstration, rather than annually. However, no later than 6 months after the end of each demonstration year or as soon thereafter as the data are available, the state will calculate annual expenditure targets for the completed year. This amount will be compared with the actual claimed FFP for

Medicaid. Using the schedule below as a guide, if the state exceeds these targets, it will submit a corrective action plan to CMS for approval. The state will subsequently implement the approved program.

Year	Cumulative Target Expenditures	Percentage
Year 1	Year 1 budget limit amount	+ 16 percent
Year 2	Years 1 and 2 combined budget limit amount	+ 8 percent
Year 3	Years 1 through 3 combined budget limit amount	+ 4 percent
Year 4	Years 1 through 4 combined budget limit amount	+ 2 percent
Year 5	Years 1 through 5 combined budget limit amount	0 percent

The state, whenever it determines that the demonstration is not budget neutral or is informed by CMS that the demonstration is not budget neutral, shall immediately collaborate with CMS on corrective actions, which shall include submitting a corrective action plan to CMS within 21 days of the date the state is informed of the problem. While CMS will aggressively pursue corrective actions with the state, CMS will work with the state to set reasonable goals that will ensure that the state is in compliance by the end of year 5.

The with and without waiver costs (Federal share) follow. The without waiver costs are estimates of the costs of births that would occur in the absence of the demonstration. The with waiver costs are estimates of costs of births that would occur during the demonstration plus the cost of family planning services provided to demonstration participants.

YEAR	WITHOUT WAIVER	WITH WAIVER	TOTAL SAVINGS
2005	$362,398,600	$363,371,536	$972,936.47
2006	$392,397,804	$389,956,745	$(2,441,058.46)
2007	$423,531,933	$419,854,645	$(3,677,288.07)
2008	$457,364,043	$452,183,808	$(5,180,234.83)
2009	$494,084,086	$487,332,435	$(6,751,650.80)
TOTAL	$2,129,776,465	$3,218,017,143	$(17,077,296)