Schedule 6
Change Request for FY 06-07

Department:	Health Care Policy and Financing	**Dept. Approval by:**	John Bartholomew	**Date:**	November 15, 2005
Priority Number:	BRI - 2	**OSPB Approval:**		**Date:**	
Program:	Medical Assistance Office	**Statutory Citation:**	26-4-104, C.R.S. (2005)		
Request Title:	Adjust Cash Funds Exempt in Medical Services Premiums Upper Payment Limit				

	Fund	1 Prior-Year Actual FY 04-05	2 Appropriation FY 05-06	3 Supplemental Request FY 05-06	4 Total Revised Request FY 05-06	5 Base Request FY 06-07	6 Decision/ Base Reduction FY 06-07	7 November 15 Request FY 06-07	8 Budget Amendment FY 06-07	9 Total Revised Request FY 06-07	10 Change from Base in Out Year FY 07-08
Total of All Line Items	**Total**	1,920,474,771	2,178,221,370	0	2,178,221,370	2,177,202,148	(13,299,304)	2,163,902,844	0	2,163,902,844	(13,299,304)
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	935,078,890	1,042,362,634	0	1,042,362,634	1,038,134,760	0	1,038,134,760	0	1,038,134,760	0
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	76,512	0	76,512	76,512	0	76,512	0	76,512	0
	CFE	30,699,080	66,065,603	0	66,065,603	85,146,310	(13,299,304)	71,847,006	0	71,847,006	(13,299,304)
	FF	954,696,801	1,069,716,621	0	1,069,716,621	1,053,844,566	0	1,053,844,566	0	1,053,844,566	0
(2) Medical Services Premiums	**Total**	1,920,474,771	2,178,221,370	0	2,178,221,370	2,177,202,148	(13,299,304)	2,163,902,844	0	2,163,902,844	(13,299,304)
	FTE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GF	935,078,890	1,042,362,634	0	1,042,362,634	1,038,134,760	0	1,038,134,760	0	1,038,134,760	0
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	76,512	0	76,512	76,512	0	76,512	0	76,512	0
	CFE	30,699,080	66,065,603	0	66,065,603	85,146,310	(13,299,304)	71,847,006	0	71,847,006	(13,299,304)
	FF	954,696,801	1,069,716,621	0	1,069,716,621	1,053,844,566	0	1,053,844,566	0	1,053,844,566	0

Letter Notation:

Cash Fund name/number, Federal Fund Grant name: FF: Title XIX, CFE: Breast and Cervical Cancer Prevention Fund, Autism Treatment Fund, Health Care Expansion Fund, Transfer from Department of Public Health and Environment, and Certification of Public Expenditures

IT Request: ☐ Yes ☑ No (If yes and request includes more than 500 programming hours, attach IT Project Plan)

Request Affects Other Departments: ☐ Yes ☑ No (If Yes, List Other Departments Here:)

CHANGE REQUEST for FY 06-07
EFFICIENCY AND EFFECTIVENESS ANALYSIS

SELECT ONE (click on box):

☐ Decision Item
☑ Base Reduction Item
☐ Supplemental Request Criterion:
☐ Budget Request Amendment Criterion:

Priority Number:	BRI - 2
Change Request Title:	Adjust Cash Funds Exempt in Medical Services Premiums Upper Payment Limit
Long Bill Line Item(s)	(2) Medical Services Premiums
State and Federal Statutory Authority:	26-4-104, C.R.S. (2005), 42 CFR 447.272, 42 CFR 447.321, 42 CFR 433.51.

Summary of Request (Alternative A): The Request seeks to achieve consistency in the accounting for the "Medicare Upper Payment Limit" and certification of public expenditures in the two Long Bill appropriations that contain this financing mechanism. The Request is for a reduction of $13,299,304 in total funds, all of which is Cash Funds Exempt funding for the Medical Services Premiums Long Bill group.

Alternative A {Recommended alternative}:

Problem or Opportunity Description: The purposes of Base Reduction Item #1 and #3 proposed in the Department's FY 02-03 Budget Request submitted November 1, 2001, were to: 1) reduce the amount of General Fund required to be appropriated for the State share of expenditures for client services provided in the Medical Services Premiums line item and, 2) increase federal revenue to the State. These goals were achieved through the application of Medicaid federal regulations regarding the maximum reimbursement of health care facilities and the use of public funds as the State's share in claiming federal funds participation for Medicaid expenditures for public owned nursing facilities and hospitals.

Under Medicaid federal regulations, payments by State Medicaid agencies to health care facilities cannot exceed the amount that would be paid under Medicare payment principles. This Medicare Upper Payment Limit is the maximum amount Medicaid can reimburse providers and still receive the maximum federal match (also known as federal financial participation) for the payments. As Colorado's Medicaid reimbursement rates for these providers were below these limits, there was an opportunity to earn additional federal revenue by recording and claiming expenditures up to the maximum allowable under federal regulations.

However, the additional expenditures require the State to share in the costs. In order to avoid using General Fund as the State share, the proposals utilized another Medicaid federal regulation that allows public funds certified by public agencies as representing expenditures eligible for federal financial participation as the State share. This "certification of public funds" is appropriated and recorded as Cash Funds Exempt funds and offsets the need for General Fund. As the additional federal revenue earned is retained by the State, the General Fund appropriation required to support Medical Services Premiums expenditures to provide services to eligible clients could be reduced. These base reduction items implemented in FY 02-03 helped avoid the need for additional Medicaid budget cuts during a period of declining State revenues.

The Medicare Upper Payment Limit financing mechanism is utilized in two departmental appropriations: Medical Services Premiums, and Safety-Net Provider Payments. However, unlike the Safety-Net Provider Payments appropriation, the intent of this financing in the Medical Services Premiums appropriation is to lessen the amount of General Fund requested. However, in order to display the full impact this financing, the Department requested that twice the amount of Cash Funds Exempt be appropriated; and thus, offset the General Fund reduction, leaving the remaining Cash Funds Exempt and federal funds equal the total fund impact.

General Description of Alternative: This alternative requests a reduction in the total funds and Cash Funds Exempt appropriated to the Medical Services Premiums line item to reflect the actual amount of State match required to draw the current level of federal funds. This change will result in

a consistent recording of Cash Funds Exempt revenue for the two line items that utilize the Medicare Upper Payment Limit reimbursement and Certification of Public Expenditures State matching financing mechanism. This change will have no impact on the amount of additional federal funds earned and no impact on the resulting reduction in General Fund required.

When the original financing using the certified public expenditures was initially implemented, the Cash Funds Exempt amount equaled the total amount of certified expenditures rather than only the State match. While this was an appropriate procedure under accounting rules, it created confusion and it exaggerated total funds in the State budget. To provide clarity in the Medical Services Premiums line item, to provide consistency with the financing methodology in the Safety Net Provider Payments line item, and to more accurately reflect total funds in the statewide budget, this alternative is requested.

Under the new methodology, the Cash Funds Exempt will reflect the state match (50% of the total expenditure), and the federal funds will reflect 50% of the expenditure. This will match to the typical Medicaid federal financial participation of 50%. This Cash Funds Exempt then "replaces" the General Fund as the State match, causing a General Fund savings. The General Fund savings is not changed in either methodology but the new methodology is more transparent. See Table 1.

Calculations for Alternative's Funding:

Summary of Request FY 06-07 Medical Services Premiums (Matches Schedule 6)	**Total Funds**	**General Fund**	**Cash Funds**	**Cash Funds Exempt**	**Federal Funds**
FY 06-07 Total Request (column 7)	$2,177,202,148	$1,038,134,760	$76,512	$85,146,310	$1,053,844,566
FY 06-07 Change Request (column 6)	($13,299,304)	$0	$0	($13,299,304)	$0
FY 06-07 Base Request (column 5)	$2,163,902,844	$1,038,134,760	$76,512	$71,847,006	$1,053,844,566
FY 07-08 Change From Base (column 10)	($13,299,304)	$0	$0	($13,299,304)	$0

Table 1
Impact of Change Request on Medical Services Premiums By Service Area

	FY 05-06 Appropriation	FY 06-07 Base Request*	FY 06-07 Change Request	FY 06-07 Total Request
Outpatient Hospital				
Total Funds	$24,601,363	$23,331,453	($11,665,726)	$11,665,727
General Fund	($12,300,682)	($11,665,727)	$0	($11,665,727)
Cash Funds Exempt	$24,601,363	$23,331,453	($11,665,726)	$11,665,727
Federal Funds	$12,300,682	$11,665,727	$0	$11,665,727
Nursing Facilities				
Total Funds	$2,949,261	$2,949,261	($1,474,630)	$1,474,631
General Fund	($1,474,631)	($1,474,631)	$0	($1,474,631)
Cash Funds Exempt	$2,949,261	$2,949,261	($1,474,630)	$1,474,631
Federal Funds	$1,474,631	$1,474,631	$0	$1,474,631
Home Health				
Total Funds	$317,896	$317,896	($158,948)	$158,948
General Fund	($158,948)	($158,948)	$0	($158,948)
Cash Funds Exempt	$317,896	$317,896	($158,948)	$158,948
Federal Funds	$158,948	$158,948	$0	$158,948
Total Upper Payment Limit				
Total Funds	$27,868,260	$26,598,610	($13,299,304)	$13,299,306
General Fund	($13,934,260)	($13,299,306)	$0	($13,299,306)
Cash Funds Exempt	$27,868,260	$26,598,610	($13,299,304)	$13,299,306
Federal Funds	$13,934,260	$13,299,306	$0	$13,299,306

Impact on Other Areas of Government: There are no impacts on other areas of government.

Assumptions for Calculations: Table 1 illustrates the impact that Alternative A will have on the Medical Services Premiums line item.

The FY 05-06 Appropriation matches Exhibit Q from the Department's February 15, 2005 Budget Request. The FY 06-07 Base Request matches Exhibit K in the November 15, 2005 Budget Request. The requested reduction in Cash Funds Exempt is equal to half of the Cash Funds Exempt in the Base Request.

Concerns or Uncertainties of Alternative: This new method will result in a difference between the total expenditures claimed on the CMS-64 federal report "Quarterly Statement of Medicaid Expenditures" and the total expenditures recorded in the Colorado Financial Reporting System (COFRS.) In the event that future auditors would attempt to reconcile the two reporting systems, documentation of the reasons for the differences should be included in each federal report. However, no problems with this reconciliation are expected.

Alternative B {Status quo; no change in funding; not recommended}:

General Description of Alternative: The calculations of amounts requested for the Medicare Upper Payment Limit financing within the Medical Services Premiums will continue to reflect the Cash Funds Exempt as the total expenditures certified as public expenditures rather the amount required as the State match for drawing the Medicaid federal funds.

Calculations for Alternative's Funding: No change in funding with this alternative.

Concerns or Uncertainties of Alternative: The status quo methodology is confusing and inconsistent with how Cash Funds Exempt is reported in the Safety Net Provider Payments line item. If the current appropriation remains unchanged, the Department essentially double counts the amount of funding within Medical Services Premiums for this purpose. This causes an inflation to total funds in the State budget that is misleading.

Supporting Documentation

Analytical Technique: Benefit-Cost Analysis

The benefit of choosing alternative A is that Cash Funds Exempt will be recorded in a consistent manner in both the Safety-Net Provider Payments and the Medical Services Premiums line. There are no additional costs or savings associated with implementing this change.

Statutory and Federal Authority:

26-4-104, C.R.S. (2005), et seq. Program of medical assistance – single state agency. *The state department, by rules and regulations, shall establish a program of medical assistance to provide necessary medical care for the categorically needy. The state department is hereby designated as the single state agency to administer such program in accordance with Title XIX and this article.*

42 CFR 447.272. Inpatient Services (Hospitals, Nursing Facilities and Intermediate Care Facility Services for the Mentally Retarded): Application of Upper Payment Limits
(b) General rules. (1) Upper payment limit refers to a reasonable estimate of the amount that would be paid for the services furnished by the group of facilities under Medicare payment principles in subchapter B of this chapter. (2) Except as provided in paragraph (c) of this section, aggregate Medicaid payments to a group of facilities within one of the categories described in paragraph (a) of this section may not exceed the upper payment limit described in paragraph (b)(1) of this section.

42 CFR 447.321. Outpatient Hospital and Clinic Services: Application of Upper Payment Limits *(a) Scope. This section applies to rates set by the agency to pay for outpatient services furnished by hospitals and clinics within one of the following categories: (1) State government-owned or operated facilities (that is, all facilities that are either owned or operated by the State). (2) Non-State government-owned or operated facilities (that is, all government facilities that are neither owned nor operated by the State). (3) Privately-owned and operated facilities. (b) General rules. (1) Upper payment limit refers to a reasonable estimate of the amount that would be paid for the services furnished by the group of facilities under Medicare payment principles in subchapter B of this chapter.*

42 CFR 433.51. Public funds as the State share of financial participation.

(a) Public funds may be considered as the State's share in claiming FFP if they meet the conditions specified in paragraphs (b) and (c) of this section. (b) The public funds are appropriated directly to the State or local Medicaid agency, or transferred from other public agencies (including Indian tribes) to the State or local agency and under its administrative control, or certified by the contributing public agency as representing expenditures eligible for FFP under this section.

Department Objectives Met if Approved: 1.5 To accurately project, report, and manage budgetary requirements to effect executive and legislative intent with program and budget development and operations. To accurately record and monitor expenditures for programs managed by the Department so there may be accurate financial reporting at all times.