Schedule 13
Funding Request for the 2012-13 Budget Cycle

Department: Health Care Policy and Financing

Request Title: HB 12-1281 Departmental Differences Reconciliation

Priority Number: Emergency Supplemental

Dept. Approval by: John Bartholomew 6/6/12 Date

OSPB Approval by: 6/6/12 Date

- ☐ Decision Item FY 2012-13
- ☐ Base Reduction Item FY 2012-13
- ☐ Supplemental FY 2011-12
- ☑ Budget Amendment FY 2012-13

Line Item Information		FY 2011-12		FY 2012-13		FY 2013-14
		1	2	3	4	5
	Fund	Appropriation FY 2011-12	Supplemental Request FY 2011-12	Base Request FY 2012-13	Funding Change Request FY 2012-13	Continuation Amount FY 2013-14
Total of All Line Items	Total	$29,472,970	$0	$29,803,821	$169,954	$0
	FTE	313.0	0.0	313.5	0.9	0.0
	GF	$9,786,153	$0	$10,149,592	$84,977	$0
	GFE	$0	$0	$0	$0	$0
	CF	$2,797,531	$0	$2,608,898	$0	$0
	RF	$461,750	$0	$393,871	$0	$0
	FF	$16,427,536	$0	$16,651,460	$84,977	$0
(1) Executive Director's Office; (A) General Administration, Personal Services	Total	$21,290,686	$0	$21,847,209	$64,782	$0
	FTE	313.0	0.0	313.5	0.9	0.0
	GF	$7,675,241	$0	$7,954,067	$32,391	$0
	GFE	$0	$0	$0	$0	$0
	CF	$1,974,533	$0	$2,058,349	$0	$0
	RF	$448,289	$0	$380,410	$0	$0
	FF	$11,192,623	$0	$11,454,383	$32,391	$0
(1) Executive Director's Office; (A) General Administration, Operating Expenses	Total	$1,586,232	$0	$1,546,560	$15,172	$0
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	$679,994	$0	$708,357	$7,586	$0
	GFE	$0	$0	$0	$0	$0
	CF	$101,248	$0	$53,049	$0	$0
	RF	$13,461	$0	$13,461	$0	$0
	FF	$791,529	$0	$771,693	$7,586	$0
(1) Executive Director's Office; (A) General Administration, General Professional Services and Special Projects	Total	$6,596,052	$0	$6,410,052	$90,000	$0
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	$1,430,918	$0	$1,487,168	$45,000	$0
	GFE	$0	$0	$0	$0	$0
	CF	$721,750	$0	$497,500	$0	$0
	RF	$0	$0	$0	$0	$0
	FF	$4,443,384	$0	$4,425,384	$45,000	$0

Letternote Text Revision Required? Yes: ☐ No: ☑ If yes, describe the Letternote Text Revision:

Cash or Federal Fund Name and COFRS Fund Number: N/A

Reappropriated Funds Source, by Department and Line Item Name:

Approval by OIT? Yes: ☐ No: ☐ Not Required: ☑

Schedule 13s from Affected Departments: N/A

Other Information:

DEPARTMENT OF HEALTH CARE POLICY AND FINANCING

John W. Hickenlooper
Governor

Susan E. Birch
Executive Director

FY 2012-13 Emergency Supplemental
June 20, 2012

Department Priority: Emergency Supplemental
HB 12-1281 Departmental Differences Reconciliation

Summary of Incremental Funding Change for FY 2012-13	Total Funds	General Fund	Federal Funds	FTE
HB 12-1281 Departmental Differences Reconciliation	$169,954	$84,977	$84,977	0.9

Request Summary:
The Department requests overexpenditure authority for the implementation of HB 12-1281, which requires the Department to accept and evaluate payment reform pilot project proposals. The Departments requests an additional 0.9 FTE, $169,954 total funds, $84,977 General Fund in FY 2012-13.

While funding was appropriated for the implementation of HB 12-1281, the amount of funding is less than the Department indicated would be needed to successfully implement the bill. The Departmental Difference is discussed in the HB 12-1281 fiscal note, and the Department has included a comparison of the differences in table 1 of Appendix A. This request represents the incremental difference between funds appropriated and funds needed to successfully implement HB 12-1281.

The Departmental Difference is primarily the result of a difference in assumptions regarding the cost and amount of actuarial services needed and the amount of analysis the Department will need to conduct for each pilot program proposal. It is the Department's experience that even established rate setting methodologies, such as HMO rate setting, require significant external actuarial contribution and dedicated internal resources. The pilot programs will not be using established rate setting methodologies; without the requested resources to develop sound reimbursement methodologies, the state would be put at financial risk.

Since the passage of the bill, the Department has been contacted by several current care coordination organizations that have expressed their intent to submit multiple payment reform pilot program proposals. In particular, two vendors have told the Department that they plan to submit as many as four proposals each; the original fiscal note assumed that the Department would only evaluate four proposals total. While the Department has not yet established criteria for the solicitation of proposals, it is clear that there is much interest in payment pilot programs. The Department does not believe that it will be able to select pilot programs by the deadline specified in the bill, July 2013, with the currently appropriated resources.

Resources Requested
The Departmental Differences section of the fiscal note included differences for both actuarial funding and personnel costs. The appropriation for HB 12-1281 provided less funding for actuarial work, and did not provide as many FTE, than the Department requested.

The fiscal note estimated that the Department would require 60 hours of actuarial services at a rate of $250 per hour; the Department received a total appropriation of $60,000 for actuarial

services. However, the Department anticipates that the level of actuarial involvement required to evaluate and implement proposals will be significantly higher than estimated by Legislative Council Staff. The Department anticipates that the process to determine the pilot programs will take at least 9 months of negotiations, with rigorous analysis of the proposals to ensure compliance with federal law. On average, the Department currently spends roughly $90,000 in actuary funding for *each* of its three risk-based Medicaid managed care programs, despite the fact that each of the programs is well established and has been operational for at least a decade. Given this experience, the Department does not believe that multiple new programs, which may have never been tested in a Medicaid system before, can be evaluated with the current appropriation.

The fiscal note stated that the Department would need two 0.5 FTE (0.4 FTE each in the first year): one General Professional IV, and one Rate/Financial Analyst II. The Department's analysis identified the need for 4.0 FTE (1.7 FTE in the first year), including one General Professional V, two General Professional IVs, and one Rate/Financial Analyst II.

The Department would hire two staff, the General Professional V and Rate/Financial Analyst II, by September 1, 2012. These staff would be responsible for the assessment of program methodologies, operational impacts, and estimation of fiscal impact. This includes extensive collaboration with actuaries to deconstruct the proposals, develop a comprehensive understanding of how the proposals can be incorporated within the Medicaid system, and ultimately determining feasibility of implementation. While the requested staff will not be determining the specific proposals, staff will need to assess what risk any proposal puts to the state and to ensure that a proposal is, at a minimum, budget neutral. Stakeholder engagement will also be a key responsibility. Stakeholder engagement is both a federal requirement and necessary to ensure a viable program. Further, the stakeholder outreach process will result in multiple iterations of the aforementioned responsibilities. Following selection and implementation of the programs, these FTE will be responsible for retrospective analysis of the programs, validation of budget neutrality, and continued stakeholder engagement.

Beginning in April 2013, the two additional staff would be hired to manage the specific contracts and handle day-to-day operations. It is important to recognize the operational complexity introduced when implementing new programs. These FTE will be responsible for a host of responsibilities including, but not limited to following: client enrollment/disenrollment, dispute resolution, customer outreach, policy issues that go beyond the scope of the provider contracts, stakeholder communication in addition to that provided by the other FTE, county outreach, monthly reporting requirements, performance monitoring, and contract management.

The four FTE fill two distinct roles, technical and operational, both of which are critical to the successful implementation of HB 12-1281.

The Department is not able to absorb a project of this magnitude within the current appropriation. This is also why the actuarial request needs to be fully funded. Although HB 12-1281 directs the Department to implement pilot programs, all managed care contracts implemented pursuant to this bill must comply with all applicable federal managed care laws and regulations, without exception. These regulations contain numerous and complicated requirements on rate setting, access to care, and state oversight. If the Department is not able to establish programs that comply with these regulations, the Department is at significant risk of losing federal funding for this program. Further, the loss of federal funds may occur retroactively, putting the state at significant, and unacceptable, risk of paying the federal government back with money from the General Fund.

Implementation Timeline

In order to begin these pilots in 2013 as intended, resources – staffing and actuarial analysis – needs to be available prior to 2013.

Anticipated Outcomes:

With sufficient funding, the Department will be able to accept and evaluate proposals for payment reform pilot programs as required by HB 12-1281.

Assumptions for Calculations:

Calculations for the request are included in Appendix A. Table 1 summarizes the Departmental Difference. Table 2 shows calculation of FTE and operating expenses. Table 3 contains detailed calculations of the resources needed to implement HB 12-1281.

The Department assumes two FTE will be hired in October 2012 and two additional FTE in April 2013. All positions will be full-time.

The Department assumes four pilot programs will be implemented on July 1, 2013.

Additional assumptions are indicated in the tables included in Appendix A.

Consequences if not Funded:

The Department does not believe that it will be able to select pilot programs by July 1, 2013 with the resources that have been appropriated. Therefore, without the requested funding, it is unlikely the Department will be able to implement the payment reform pilot programs as required and intended by HB 12-1281.

Supplemental, 1331 Supplemental, or Budget Amendment Criteria:

The Department cannot absorb the procurement of the requested resources within its existing appropriation.

If the Department utilizes the regular supplemental process, it would not receive spending authority for resources until after the statutory deadline to accept pilot program proposals has passed.

Current Statutory Authority or Needed Statutory Change:

HB 12-1281 Medicaid Payment Reform Pilot Program

Summary of Request

Table 1a: Department Need to Fully Implement HB 12-1281

Item		FY 2012-13	FY 2013-14[1]	FY 2014-15[1]
FTE and Operating Expenses	Personal Services	$112,320	$263,556	$263,556
	Operating	$20,713	$3,800	$3,800
	FTE	1.7	4.0	4.0
External Administration	Actuary And Consultants	$250,000	$450,000	$450,000
	External Quality Review Organization	$0	$202,856	$202,856
	Enrollment Broker	$0	$267,220	$163,590
Total		**$383,033**	**$1,187,432**	**$1,083,802**

(1) FY 2013-14 and FY 2014-15 are not included in the Emergency Supplemental request. Figures are included for completeness.

Table 1b: Funding Appropriated in HB 12-1281

Item		FY 2012-13	FY 2013-14[2][3]	FY 2014-15[2]
FTE and Operating Expenses	Personal Services	$47,538	$59,423	$59,423
	Operating	$5,541	$5,541	$5,541
	FTE	0.8	1.0	1.0
External Administration	Actuary And Consultants	$160,000	$60,000	$60,000
	External Quality Review Organization	$0	$0	$0
	Enrollment Broker	$0	$0	$0
Total		**$213,079**	**$124,964**	**$124,964**

(2) FY 2013-14 is the annualization of the HB 12-1281 fiscal note. FY 2014-15 held constant.

(3) The HB 12-1281 fiscal note did not address costs for external quality review, the enrollment broker, or additional costs for actuarial services and report development beyond the first year.

Table 1c: Difference (Department Request)

Item		FY 2012-13	FY 2013-14[4]	FY 2014-15[4]
FTE and Operating Expenses	Personal Services	$64,782	$204,134	$204,134
	Operating	$15,172	($1,741)	($1,741)
	FTE	0.9	3.0	3.0
External Administration	Actuary And Consultants	$90,000	$390,000	$390,000
	External Quality Review Organization	$0	$202,856	$202,856
	Enrollment Broker	$0	$267,220	$163,590
Total		**$169,954**	**$1,062,469**	**$958,839**

(4) FY 2013-14 and FY 2014-15 are not included in the Emergency Supplemental request. Figures are included for completeness.

Table 2: FTE and Operating Expenses

								GRAND TOTAL	
Fiscal Year(s) of Request		**FY 2012-13**	**FY 2013-14**	**FY 2012-13**	**FY 2013-14**	**FY 2012-13**	**FY 2013-14**	**FY 2012-13**	**FY 2013-14**
PERSONAL SERVICES (100)	**Title:**	**GENERAL PROFESSIONAL V**		**GENERAL PROFESSIONAL IV**		**RATE/FINANCIAL ANALYST II**			
Number of PERSONS / class title		1	1	2	2	1	1		
Number of months working in FY 2012-13 and FY 2013-14		9	12	3	12	9	12		
Number of months paid in FY 2012-13 and FY 2013-14		8	12	2	12	8	12		
Calculated FTE per classification		**0.7**	**1.0**	**0.3**	**2.0**	**0.7**	**1.0**	1.7	4.0
Annual base salary		$65,772	$65,772	$56,796	$56,796	$56,796	$56,796		
Salary		$43,848	$65,772	$18,932	$113,592	$37,864	$56,796	$100,644	$236,160
PERA FY 2012-13 and FY 2013-14	**10.15%**	$4,451	$6,676	$1,922	$11,530	$3,843	$5,765	$10,216	$23,971
Medicare	**1.45%**	$636	$954	$275	$1,647	$549	$824	$1,460	$3,425
Subtotal Personal Services Appropriation 100		$48,935	$73,402	$21,129	$126,769	$42,256	$63,385	$112,320	$263,556
OPERATING EXPENSES (118)									
Supplies @ $500/$500*	**$500**	$375	$500	$250	$1,000	$375	$500	$1,000	$2,000
Computer @ $900/$0	**$900**	$900	$0	$1,800	$0	$900	$0	$3,600	$0
Office Suite Software @ $330/$0	**$330**	$330	$0	$660	$0	$330	$0	$1,320	$0
Office Equipment @ $3,473 /$0	**$3,473**	$3,473	$0	$6,946	$0	$3,473	$0	$13,892	$0
Telephone Base @ $450/$450[1]	**$450**	$338	$450	$225	$900	$338	$450	$901	$1,800
Subtotal Operating Expenses Appropriation 118		**$5,416**	**$950**	**$9,881**	**$1,900**	**$5,416**	**$950**	**$20,713**	**$3,800**
GRAND TOTAL ALL COSTS		**$54,351**	**$74,352**	**$31,010**	**$128,669**	**$47,672**	**$64,335**	**$133,033**	**$267,356**

(1) The $450 for Telephone Base and $500 for Supplies will carry over each year as an acceptable expense.

External Administration Costs

Table 3a: Actuary and Consultants

Row	Item	FY 2012-13	FY 2013-14	FY 2014-15	Source
A	Actuarial Services	$150,000	$150,000	$150,000	Assumed based on cost of similar actuarial projects for the Department's managed care programs
B	Evaluation by Nonprofit Entity or Higher Education	$0	$300,000	$300,000	Assumed based on scope of work to evaluate all pilot projects and draft reports
C	Consultant for Report on Managed Care Administrative Structure	$100,000	$0	$0	Assumed based on scope of work to research and draft report; report due January 1, 2013
D	**Total Costs**	**$250,000**	**$450,000**	**$450,000**	Row A + Row B + Row C

Table 3b: External Quality Review Organization

Row	Item	FY 2012-13	FY 2013-14	FY 2014-15	Source
A	Appropriated Amount for EQRO ACC-Related Activities	$355,000	$355,000	$355,000	Current appropriation
B	Appropriated Amount per RCCO	$50,714	$50,714	$50,714	Row A / Row B
C	Estimated Number of Proposed Payment Projects	0	4	4	Assumed, see narrative
D	Percentage of Year in Operation	0 00%	100 00%	100 00%	Assumed implementation date of July 1, 2013
E	**Total Costs**	**$0**	**$202,856**	**$202,856**	Row B * Row C * Row D

Table 3c: Enrollment Broker

Row	Item	FY 2012-13	FY 2013-14	FY 2014-15	Source
A	Estimated Number of Enrolled Clients Per Month	0	4,408	2,460	Assumed based on 30,750 initial enrollment, three month ramp-up, and 8% monthly attrition rate
B	Cost of Passive Enrollment Packet	$4 50	$4 50	$4 50	Based on current cost
C	Months in Operation	0	12	12	Assumed implementation date of July 1, 2013
D	**Subtotal for New Clients**	**$0**	**$238,032**	**$132,840**	Row A * Row B * Row C
E	Estimated Number of Existing Clients	0	28,188	30,750	Average enrolled clients
F	Cost of Annual Open Enrollment Letter	$1 00	$1 00	$1 00	Based on current cost
G	**Subtotal for Existing Clients**	**$0**	**$28,188**	**$30,750**	Row E * Row F
H	Cost of Designing New Brochure	$0	$1,000	$0	Based on current cost
I	**Total Costs**	**$0**	**$267,220**	**$163,590**	Row D + Row G + Row H

(1) Because open enrollment letters are sent on the client's birthday, in FY 2013-14 only 75% of enrolled clients will receive an open enrollment letter