

Schedule 13
Funding Request for the 2013-14 Budget Cycle

Department: Health Care Policy and Financing

Request Title: Public School Health Services True-up

Priority Number: S-12, BA-12

Dept. Approval by: John Bartholomew *JB 12/27/12*
Date

OSPB Approval by: [Signature] *12/31/12*
Date

| | |
|-------------------------------------|--------------------------------|
| <input type="checkbox"/> | Decision Item FY 2013-14 |
| <input type="checkbox"/> | Base Reduction Item FY 2013-14 |
| <input checked="" type="checkbox"/> | Supplemental FY 2012-13 |
| <input checked="" type="checkbox"/> | Budget Amendment FY 2013-14 |

| Line Item Information | | FY 2012-13 | | FY 2013-14 | | FY 2014-15 |
|--|--------------|-----------------------------|---------------------------------------|----------------------------|--|--------------------------------------|
| | | 1 | 2 | 3 | 4 | 5 |
| | Fund | Appropriation FY 2012-13 | Supplemental Request FY 2012-13 | Base Request FY 2013-14 | Funding Change Request FY 2013-14 | Continuation Amount FY 2014-15 |
| Total of All Line Items | Total | \$31,584,893 | \$22,054,160 | \$31,584,893 | \$25,260,785 | \$25,260,785 |
| | FTE | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | GF | \$0 | \$0 | \$0 | \$0 | \$0 |
| | GFE | \$0 | \$0 | \$0 | \$0 | \$0 |
| | CF | \$16,010,155 | \$9,639,859 | \$16,010,155 | \$11,166,823 | \$11,166,823 |
| | RF | \$0 | \$0 | \$0 | \$0 | \$0 |
| | FF | \$15,574,738 | \$12,414,301 | \$15,574,738 | \$14,093,962 | \$14,093,962 |
| (5) Other Medical Services; Public School Health Services Contract Administration | Total | \$1,138,549 | \$1,200,476 | \$1,138,549 | \$1,353,173 | \$1,353,173 |
| | FTE | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | GF | \$0 | \$0 | \$0 | \$0 | \$0 |
| | GFE | \$0 | \$0 | \$0 | \$0 | \$0 |
| | CF | \$0 | \$0 | \$0 | \$0 | \$0 |
| | RF | \$0 | \$0 | \$0 | \$0 | \$0 |
| | FF | \$1,138,549 | \$1,200,476 | \$1,138,549 | \$1,353,173 | \$1,353,173 |
| (5) Other Medical Services; Public School Health Services | Total | \$30,446,344 | \$20,853,684 | \$30,446,344 | \$23,907,612 | \$23,907,612 |
| | FTE | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | GF | \$0 | \$0 | \$0 | \$0 | \$0 |
| | GFE | \$0 | \$0 | \$0 | \$0 | \$0 |
| | CF | \$16,010,155 | \$9,639,859 | \$16,010,155 | \$11,166,823 | \$11,166,823 |
| | RF | \$0 | \$0 | \$0 | \$0 | \$0 |
| | FF | \$14,436,189 | \$11,213,825 | \$14,436,189 | \$12,740,789 | \$12,740,789 |

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

Cash or Federal Fund Name and COFRS Fund Number: CF: Certified Public Expenditures; FF: Title XIX

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

FY 2012-13 Supplemental Request and FY 2013-14 Budget Amendment
January 2, 2013

Susan E. Birch
Executive Director

[Signature] for *Sue Birch* 12/31/12
Signature Date

Department Priority: S-12, BA-12
Public School Health Services True-up

| Summary of Incremental Funding Change for FY 2012-13 | Total Funds | Cash Funds | Federal Funds |
|---|--------------|-------------|------------------|
| Public School Health Services Contract Administration | \$1,200,476 | \$0 | \$1,200,476 |
| Public School Health Services | \$20,853,684 | \$9,639,859 | \$11,213,825 |

| Summary of Incremental Funding Change for FY 2013-14 | Total Funds | Cash Funds | Federal Funds |
|---|--------------|--------------|------------------|
| Public School Health Services Contract Administration | \$1,353,173 | \$0 | \$1,353,173 |
| Public School Health Services | \$23,907,612 | \$11,166,823 | \$12,740,789 |

Request Summary:

The Department is requesting to increase the FY 2012-13 appropriation for the Public School Health Services line item by \$20,853,684 total funds, of which \$9,639,859 is cash funds and \$11,213,825 is federal funds. Similarly, the Department is requesting to increase its November 1, 2012 FY 2013-14 base request for this line item by \$23,907,612 total funds, of which \$11,166,823 is cash funds and \$12,740,789 is federal funds. The cash funds portion of this line item is comprised entirely of certified public expenditures (CPE) and does not impact any State cash funds.

Although the Department has estimated program expenditures in FY 2012-13 and FY 2013-14, the Department notes that this line item is comprised solely of certified public expenditures incurred by providers and federal funds, and is requesting that the Public School Health Services line item be notated as informational only in the Long Bill to better manage expenditure uncertainty in the current environment of increased Medicaid

utilization and extensive Department outreach and training.

The Department is also requesting to increase the Public School Health Services Contract Administration line item by \$1,200,476 total funds in FY 2012-13 and \$1,353,173 total funds in FY 2013-14. This line item is comprised entirely of federal funds drawn through the program, and this request would align the appropriation with the statutory maximum of 10% of federal funds obtained through the program for its administration.

The increases to these line items will provide the Department spending authority for federal matching funds to reimburse program participants for the allowable health care services they provide to Medicaid-eligible students and continue to manage and increase participation in this program. This request has no General Fund impact.

Problem or Opportunity:

Colorado public school districts, Boards of Cooperative Education Services (BOCES), and the Colorado School for the Deaf and Blind (providers) are federally required to provide certain health and related services to Medicaid-eligible children. The Public School Health Services (SHS) Program allows these providers to recuperate some of their Medicaid expenditures by certifying a portion of their state fund expenditures (CPE) on eligible services, which are then matched by the federal government through Medicaid. Due to increases in Medicaid-eligible children and improved training in recent years, providers participating in the SHS Program have been able to increase the amount of public expenditures they can certify to receive federal matching funds (please see Appendix A for more details). Program expenditures increased significantly between FY 2010-11 and FY 2011-12, and are expected to increase further in FY 2012-13 and beyond. Forecasting expenditures for this program is problematic, as certain factors that determine the amount of CPE vary annually and cannot be calculated until after the end of the fiscal year - CPE for each year is not finalized until the following spring. This uncertainty increases the likelihood that the Department will be required to submit an emergency supplemental at the end of the fiscal year to ensure it has sufficient spending authority to fully reimburse SHS providers. Otherwise, the Department would be forced to overexpend the appropriation.

Historically, retaining participating providers and attracting new providers to the SHS Program has been challenging, as the burden of administering the program is often overwhelming for potential providers. The recent increase in federal reimbursement for individual providers, however, presents an excellent opportunity for the Department to attract more school districts through increased outreach and training.

Brief Background:

The Public School Health Services (SHS) Program uses Medicaid funds to support local school health services, increase access to primary and preventive care programs to low-income,

under or uninsured children, and improve the coordination of care between schools and health care providers. The SHS Program allows Colorado public school districts, Boards of Cooperative Education Services (BOCES), and the Colorado School for the Deaf and Blind (providers) to certify the expenditure of state funds on eligible services which are matched by the federal government through Medicaid.

The Department's request for additional spending authority for FY 2012-13 and FY 2013-14 is due to an increase in providers' certified public expenditures in FY 2011-12 and the expectation that these will continue to increase in FY 2012-13 and FY 2013-14. During each fiscal year, the Department makes quarterly payments for certain administrative activities and monthly interim payments for specific non-administrative activities. Interim payments are based on prior years' Medicaid-eligible costs and must be reconciled with annual audited cost reports submitted by providers after the end of the fiscal year. The Department must review the submitted cost reports and discuss any issues with providers before making cost-settlement payments to reconcile interim payments received during the year with providers' finalized costs. As a result, the Department does not make final payments for the current year until the last quarter of the next year.

The final CPE amount and the resulting cost-settlement to be paid for the previous year are difficult to forecast. The variables used to determine the amount of expenditures that providers can certify, such as the number of Medicaid-eligible students and the amount of time spent providing Medicaid-allowable services, vary each year and are not calculated until after year-end. Moreover, while the Department provides outreach, training, and program guidance, it is not designed to directly control expenditures for this program as these depend on the activities of providers.

In April 2012 as the cost-settlements for FY 2010-11 were finalized, the Department identified that the SHS Program would significantly

overexpend in FY 2011-12 due to a large increase in Medicaid-allowable costs for FY 2010-11. Thus, prior to FY 2011-12 Figure Setting, the Department recommended to Joint Budget Committee Staff that the appropriation to this line item be notated as informational only as it is CPE from providers and matching federal funds. This change would have allowed the Department to make cost-settlement payments without an emergency supplemental. However, this notation was not included in the final FY 2011-12 or subsequent appropriations, resulting in the need for an emergency supplemental for FY 2011-12, which was submitted on June 20, 2013, and this request.

Administrative activities for the SHS Program are funded entirely from federal funds, which may reach a maximum of 10% of the federal funds received through the certification of public expenditures. In recent years, the appropriation for the Public School Health Services Contract Administration has been lower than the maximum allowable amount. Increasing this appropriation will allow the Department to provide additional outreach and training while continuing to effectively manage this growing program. Please see Appendix A for additional details on the financing of the SHS program administration.

The Department believes that expenditures in the SHS program will increase further as providers become more adept at reporting their expenditures, Medicaid enrollment continues to grow and additional outreach attracts new districts to the program. Combined with the difficulties in forecasting outlined above, the growth in expenditures also increases the probability that these expenditures will approach and even surpass the line's spending authority, as they did in FY 2011-12. In order to comply with its federally-approved reimbursement methodology, the Department must draw the entire amount of federal matching funds based on providers' CPE. Please see Appendix A for a more detailed description of the SHS reimbursement methodology and estimated expenditures in FY 2012-13 and FY 2013-14.

Proposed Solution:

To allow SHS providers to certify all of their Medicaid-allowable costs as public expenditures and receive the federal matching funds allowed under the Department's federally-approved reimbursement methodology, and continue to expand and improve outreach and training, the Department is requesting increasing the FY 2012-13 appropriation and its FY 2013-14 base request for the Public School Health Services and Public School Health Services Contract Administration line items. Given the difficulties in projecting expenditures for this program, the Department is also requesting that the Public School Health Services line be notated as informational only as the cash funds in this line item are CPE and are not actual State cash funds. This would also help to address the timing issue created by the fact that reconciliation amounts are not finalized until spring of the following year, after both the Supplemental Bill and the Long Bill are passed, which forces the Department to submit an emergency supplemental if new data show that expenditures will exceed appropriations. The Department would collaborate with the Joint Budget Committee staff to create a process to update the appropriation for this line to reflect the Department's estimated expenditures on an annual basis, rather than requiring the Department to submit funding requests through the normal budget process. This would allow the line item to be adjusted to inform the General Assembly and the public of projected expenditures using the best available data while providing the Department the flexibility necessary to fulfill its obligations when expenditures change more than anticipated.

Alternatives:

None. In order to comply with its federally-approved reimbursement methodology, the Department must draw the entire amount of federal matching funds based on providers' CPE.

Anticipated Outcomes:

Approval of this request will give the SHS Program the spending authority to adhere to its federally-approved cost reporting and reimbursement methodology. The increase in the

federal reimbursement will allow the SHS Program to retain current participants and attract new public school districts and BOCES. By notating the Public School Health Services line as informational only, the Department can ensure the program has sufficient spending authority to maintain federal compliance while reducing administrative burden.

Assumptions for Calculations:

The Department currently contracts with Public Consulting Group (PCG) to facilitate the collection of data from school districts and BOCES and calculate CPE for the SHS Program. The Department's calculations are based on the latest estimates from PCG. Please see Appendix A for more details.

Consequences if not Funded:

If this request is not approved, the Department will overexpend this line in FY 2012-13, FY 2013-14 and beyond, resulting in increasing cash funds restrictions. These restrictions would prevent the Department from allowing participating providers to certify all of their Medicaid-allowable costs and limit the federal matching funds they receive. Some, if not most, of the public school districts and BOCES relying on the additional funding would leave the program, increasing the attrition rate for the program and discouraging new participants. Without additional funding from the SHS Program, the amount and quality of health care services public school districts could provide would likely decrease and adversely affect the health of Colorado students. In addition, if earned federal funds are not allowed to be paid to participating providers due to insufficient spending authority, the Department would be out of compliance with its federally-approved reimbursement methodology.

Impact to Other State Government Agency:

The administration of the Public School Health Services program is split between the Department and the Department of Education through an Interagency Agreement. The Department works with the SHS Program contractor to administer the program's financing, provides districts with

technical assistance, training, and conducts on-site reviews. The Department of Education provides school districts with assistance, reviews and receives all local services plans, reviews annual reports, and pays for additional personnel. The costs incurred by the two departments are financed with a portion of the 10% of federal funds the Department withholds for the program's administration. This request will ensure that the Department of Education continues to receive the funding it needs to assist school districts participating in the SHS Program.

Relation to Performance Measures:

This request will assist the Department in meeting its performance measures related to increasing access to health care. By allowing the Department to reimburse participants for incurred Medicaid costs on a timely basis, approval of this request will ensure that the SHS program can retain current participants and potentially attract new providers, thus increasing provider participation and access to health care.

Supplemental, 1331 Supplemental, or Budget Amendment Criteria:

According to newly available data, the Public School Health Services Program line item must spend over its current appropriation in FY 2012-13 and the Department's FY 2013-14 base request in order to fulfill its obligations to SHS providers.

Current Statutory Authority or Needed Statutory Change:

25.5-5-318 C.R.S. (2012), provides guidelines for the SHS Program.

25.5-5-318 (8) (b), C.R.S. (2012), allows the Department to retain a maximum of 10% of federal funds received for the program for administrative purposes.

Appendix A

Providers may receive federal funding through the SHS Program in two ways: 1) cost-based reimbursement for direct services, targeted case management and specialized transportation provided to Medicaid-eligible students (non-administrative services); and 2) Medicaid Administrative Claiming (MAC) for certain administrative activities such as outreach and enrollment activities. The methodology for calculating the costs for which SHS providers are eligible to receive federal matching funds is complex and attempts to discern the proportion of non-administrative services and MAC services that were provided specifically to Medicaid-eligible students. The Department makes MAC payments based on quarterly financial reports. For non-administrative services costs, the Department makes interim payments to providers throughout the fiscal year for estimated costs they incur. After the fiscal year ends, each provider is required to complete a cost report documenting their total and final Medicaid allowable costs for delivering School Health Services and certifying their public expenditures. The Department makes cost settlement payments to providers to reconcile interim payments to final costs approximately nine months after the fiscal year ends. The portion of the costs SHS providers are allowed to certify increased significantly between FY 2009-10 and FY 2010-11 and continued to increase in FY 2011-12. The Department anticipates that the amount of Medicaid-allowable costs will continue to increase in FY 2012-13 and beyond.

As explained in the Department's emergency supplemental request for FY 2011-12, the large increase in Medicaid-allowable costs in FY 2010-11 was due to an increase in two of the factors that determine allowable costs for that year. First, the statewide Random Moment Time Study (RMTS) percentage increased by over 11% between FY 2009-10 and FY 2010-11. All providers are required to participate in a quarterly RMTS which is used to determine a statewide percentage of allowable time spent providing Medicaid claimable School Health Services. This ensures that providers receive a payment based on the actual cost incurred for providing Medicaid services. Increases in the amount of time providers spend providing Medicaid claimable School Health Services lead to increased costs which SHS providers can certify as public expenditures and receive federal matching funds. The Department believes that the statewide RMTS percentage will continue to increase as providers become more adept at managing the RMTS process, although magnitude of this increase is not known at this time. Second, an increase in the Medicaid Eligibility Rate due to growth in Medicaid enrollment in Colorado further increased the portion of allowable Medicaid costs. The Department projects that children's enrollment in Medicaid will continue to increase modestly in the next few years. As both the statewide RMTS percentage and children's enrollment in Medicaid are expected to increase, the Department believes that additional growth in SHS Program expenditures will occur in FY 2012-13 and FY 2013-14.

Using the most recent estimates from the Public Consulting Group (PCG), the Department has projected the total amount to be paid to providers in FY 2012-13. While these estimates account for the latest available data, the cost-settlement for FY 2011-12 will not be finalized until April 2013. Thus, the Department will not know the final payment amount, which could be significantly different than these estimates, until the last quarter of FY 2012-13. Table A.1 and A.2 below show the estimated total payment amounts and fund splits for these expenditures.

| Table A.1 FY 2012-13 Public School Health Services Estimated Expenditures | | | | | |
|--|---------------------|--------------|---------------------|----------------------|---------------------|
| | Total Funds | General Fund | Cash Funds | Reappropriated Funds | Federal Funds |
| Total FY 2012-13 Interim Payments | \$28,586,040 | \$0 | \$14,293,020 | \$0 | \$14,293,020 |
| Total FY 2012-13 MAC Payments | \$6,300,000 | \$0 | \$3,150,000 | \$0 | \$3,150,000 |
| FY 2011-12 Cost-Reconciliations | \$16,413,988 | \$0 | \$8,206,994 | \$0 | \$8,206,994 |
| Total Expenditures | \$51,300,028 | \$0 | \$25,650,014 | \$0 | \$25,650,014 |

| Table A.2 FY 2013-14 Public School Health Services Estimated Expenditures | | | | | |
|--|---------------------|--------------|---------------------|----------------------|---------------------|
| | Total Funds | General Fund | Cash Funds | Reappropriated Funds | Federal Funds |
| Total FY 2013-14 Interim Payments | \$32,873,948 | \$0 | \$16,436,974 | \$0 | \$16,436,974 |
| Total FY 2013-14 MAC Payments | \$9,787,018 | \$0 | \$4,893,509 | \$0 | \$4,893,509 |
| FY 2012-13 Cost-Reconciliations | \$11,692,990 | \$0 | \$5,846,495 | \$0 | \$5,846,495 |
| Total Expenditures | \$54,353,956 | \$0 | \$27,176,978 | \$0 | \$27,176,978 |

To allow SHS providers to certify all of their allowable costs as public expenditures, the Department is requesting an additional appropriation of \$20,853,684 total funds, of which \$9,639,859 is CPE and \$11,213,825 is federal funds for this line item in FY 2012-13. The Department is also requesting an increase to its FY 2013-14 base request for this line item by \$23,907,612 total funds, of which \$11,166,823 is cash funds and \$12,740,789 is federal funds. Tables B.1 and B.2 below summarize the Department's request for increased spending authority in FY 2012-13 and FY 2013-14, respectively.

| Table B.1 FY 2012-13 Public School Health Services Request | | | | | |
|---|---------------------|--------------|--------------------|----------------------|---------------------|
| | Total Funds | General Fund | Cash Funds | Reappropriated Funds | Federal Funds |
| FY 2012-13 Long Bill (HB 12-1335) Appropriation | \$30,446,344 | \$0 | \$16,010,155 | \$0 | \$14,436,189 |
| FY 2012-13 Estimated Expenditures | \$51,300,028 | \$0 | \$25,650,014 | \$0 | \$25,650,014 |
| FY 2012-13 Supplemental Request | \$20,853,684 | \$0 | \$9,639,859 | \$0 | \$11,213,825 |

| Table B.2 FY 2013-14 Public School Health Services Request | | | | | |
|---|---------------------|--------------|---------------------|----------------------|---------------------|
| | Total Funds | General Fund | Cash Funds | Reappropriated Funds | Federal Funds |
| FY 2013-14 Base Request | \$30,446,344 | \$0 | \$16,010,155 | \$0 | \$14,436,189 |
| FY 2013-14 Estimated Expenditures | \$54,353,956 | \$0 | \$27,176,978 | \$0 | \$27,176,978 |
| FY 2013-14 Budget Amendment Request | \$23,907,612 | \$0 | \$11,166,823 | \$0 | \$12,740,789 |

The Department's requested appropriation includes all federal matching funds derived from the certification of public expenditures. State statute at 25.5-5-318 (8) (b), C.R.S. (2012) allows states to retain up to 10% of the federal funds to finance the costs of administering the SHS program, with providers receiving the remaining 90%. The Department withholds the 10% maximum and generally decreases the appropriation to this line item accordingly so the federal fund appropriation matches the estimated amount reimbursed to providers. However, this creates difficulties in accounting for the federal funds received in this program. In order to properly account for these federal funds, the Department is including all federal funds in this request and no longer removing the amount it withholds for administration. As a result of this change, federal funds from the SHS Program that are used for administration will appear in the Public School Health Services line item as well as the line items in which those funds are expended, including the Public School Health Services Contract Administration line.

The Department is also requesting to increase the Public School Health Services Contract Administration appropriation by \$1,200,476 total funds in FY 2012-13 and \$1,353,173 total funds in FY 2013-14. This will allow the Department to fully utilize the 10% of federal funds it withholds for administration to continue to manage and develop this growing program. The Department's request is calculated using estimated expenditures for the SHS Program and other accounts for appropriations to other administrative line items receiving federal funds from the SHS Program. Tables C.1 and C.2 below summarize the Department's request for FY 2012-13 and FY 2013-14, respectively.

Table C.1 FY 2012-13 Public School Health Services Contract Administration Request

| | Total Funds | General Fund | Cash Funds | Reappropriated Funds | Federal Funds |
|---|--------------------|--------------|------------|----------------------|--------------------|
| FY 2012-13 Long Bill (HB 12-1335) Appropriation | \$1,138,549 | \$0 | \$0 | \$0 | \$1,138,549 |
| FY 2012-13 Estimated Expenditures | \$2,339,025 | \$0 | \$0 | \$0 | \$2,339,025 |
| FY 2012-13 Supplemental Request | \$1,200,476 | \$0 | \$0 | \$0 | \$1,200,476 |

Table C.2 FY 2013-14 Public School Health Services Contract Administration Request

| | Total Funds | General Fund | Cash Funds | Reappropriated Funds | Federal Funds |
|--|--------------------|--------------|------------|----------------------|--------------------|
| FY 2013-14 Base Request | \$1,138,549 | \$0 | \$0 | \$0 | \$1,138,549 |
| FY 2013-14 Estimated Expenditures | \$2,491,722 | \$0 | \$0 | \$0 | \$2,491,722 |
| FY 2013-14 Budget Amendment Request | \$1,353,173 | \$0 | \$0 | \$0 | \$1,353,173 |