

**Schedule 13  
Funding Request for the 2013-14 Budget Cycle**

Department: Health Care Policy and Financing

Request Title: Medicaid Management Information System Operating Rules Compliance

Priority Number: S-6, BA-6

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

OSPB Approval by: \_\_\_\_\_ Date: \_\_\_\_\_

Decision Item FY 2013-14  
 Base Reduction Item FY 2013-14  
 Supplemental FY 2012-13  
 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
<b>Total of All Line Items</b>	<b>Total</b>	\$31,899,317	\$1,993,873	\$29,586,597	\$2,158,892	\$330,038
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$6,379,650	\$279,308	\$6,016,590	\$316,156	\$73,696
	GFE	\$0	\$0	\$0	\$0	\$0
	CF	\$1,566,666	\$44,962	\$1,660,853	\$49,864	\$9,804
	RF	\$100,328	\$0	\$100,328	\$0	\$0
	FF	\$23,852,673	\$1,669,603	\$21,808,826	\$1,792,872	\$246,538
<b>(1) Executive Director's Office; (C) Information Technology Contracts and Projects, Information Technology Contracts<sup>a, b</sup></b>	<b>Total</b>	\$31,899,317	\$1,993,873	\$29,586,597	\$2,158,892	\$330,038
	FTE	0.0	0.0	0.0	0.0	0.0
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Letternote Text Revision Required? Yes:  No:  If yes, describe the Letternote Text Revision:

FY 2012-13:  
a Of this amount, ~~\$1,317,953~~ \$1,347,213 shall be from the Hospital Provider Fee Cash Fund created in Section 25.5-4-402.3 (4), C.R.S., ~~\$246,828~~ \$262,530 shall be from the Children's Basic Health Plan Trust ...

FY 2013-14:  
b Of this amount, ~~\$1,412,213~~ \$1,445,075 shall be from the Hospital Provider Fee Cash Fund created in Section 25.5-4-402.3 (4), C.R.S., ~~\$248,956~~ \$265,958 shall be from the Children's Basic Health Plan Trust.

Cash or Federal Fund Name and COFRS Fund Number: CF: Children's Basic Health Plan Trust Fund 11G, Hospital Provider Fee Cash Fund 24A; FF: Title XIX, Title XXI

Reappropriated Funds Source, by Department and Line Item Name: None

Approval by OIT? Yes:  No:  Not Required:

Schedule 13s from Affected Departments: None

Other Information: None



# DEPARTMENT OF HEALTH CARE POLICY AND FINANCING

John W. Hickenlooper  
Governor

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

Susan E. Birch  
Executive Director

*Susan E. Birch* for *Sue Birch* 1/2/13  
Signature Date

Department Priority: S-6, B.1-6  
Medicaid Management Information System Operating Rules Compliance

Summary of Incremental Funding Change for FY 2012-13	Total Funds	General Fund	FTE
MMIS Operating Rules Compliance	\$1,993,873	\$279,308	0.0

Summary of Incremental Funding Change for FY 2013-14	Total Funds	General Fund	FTE
MMIS Operating Rules Compliance	\$2,158,892	\$316,156	0.0

**Request Summary:**

In order to make software and hardware modifications to the Department’s Medicaid Management Information System (MMIS) to comply with the Administrative Simplification provisions of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively referred to as the Affordable Care Act or ACA), the Department requests \$1,993,873 total funds, comprised of \$279,308 General Fund, \$44,962 cash funds, and \$1,669,603 federal funds for FY 2012-13; \$2,158,892 total funds, comprised of \$316,156 General Fund, \$49,864 cash funds, and \$1,792,872 federal funds for FY 2013-14; and \$330,038 total funds, comprised of \$73,696 General Fund, \$9,804 cash funds, and \$246,538 federal funds in continuation funding beginning FY 2014-15.

**Problem or Opportunity:**

Section 1104(b)(2) of ACA establishes new requirements, known as operating rules, for the electronic exchange of health care information.

In order to comply with these requirements and meet federal implementation deadlines to avoid significant fines for noncompliance, the Department must make modifications to the MMIS.

**Brief Background:**

The MMIS is the system of hardware, software, and business process workflows designed to meet the criteria for a “mechanized claim processing and information retrieval system” required by federal law to participate in the Medicaid program (see Section 1903(r) of the Social Security Act). The MMIS is administered by a third-party vendor, Xerox State Healthcare, which carries out daily MMIS operations and system modifications. While the MMIS’s core function is adjudicating and processing the Department’s medical claims and capitations for payment, it performs many ancillary functions, including transferring data between the Department and other health care entities through its Electronic Data Interchange (EDI) – it is mainly this functionality that is affected by the ACA

operating rules requirements discussed in this request.

With the operating rules requirements of ACA, Congress is seeking to create more uniformity in the way that entities in the health industry electronically exchange health care information; the Department is required to comply with these requirements as a Covered Entity under the Health Insurance Portability and Accountability Act of 1996 (HIPAA). The requirements build on a statutory and regulatory history to construct a more consistent framework for electronic health care transactions beginning with HIPAA in 1996 and more recently affected significantly by the adoption of ASC X12 Version 5010, NCPDP Version D.0, and ICD-10 (see *Federal Register* Vol. 74, No. 11, dated January 16, 2009), which the Department is currently working to comply with (see the Department's FY 2012-13 S-8, BA-8 "MMIS Technical Adjustments" for more information). These efforts have produced administrative efficiencies and cost savings across the health industry and the new ACA operating rules requirements are expected to continue this legacy. In particular, they are expected to reduce transaction costs for state Medicaid agencies through, for example, reduced time and effort related to contacting physicians and health plans for the resolution of claims and the denial of claims, and savings on postage and paperwork costs.

Whereas HIPAA and ASC X12 Version 5010, NCPDP Version D.0, and ICD-10 created transaction standards that are mainly concerned with the content of electronic health care transactions, the new ACA operating rules requirements are mainly concerned with how that content is transmitted. They define such things as the rights and responsibilities of parties involved in a transaction, security requirements, transmission formats, response times, liabilities, exception processing, error resolution and more, serving in a supporting role to the previously created transaction standards for further administrative uniformity.

ACA requires the operating rules to be adopted by the health industry in three stages. Each stage specifies a set of electronic transactions and a deadline by which those transactions must begin using the new operating rules. The deadlines are:

- January 1, 2013
  - Eligibility for a health plan
  - Health claim status
- January 1, 2014
  - Electronic funds transfers
  - Health claim status
  - Also requires the adoption of a new transaction standard for electronic funds transfers
- January 1, 2016
  - Health care claims or equivalent encounter information
  - Coordination of benefits
  - Health plan enrollment / disenrollment
  - Health plan premium payment
  - Referral certification and authorization transactions
  - Also requires the adoption of a new transaction standard for health care claims attachments

ACA imposes significant fines for Covered Entities that have not certified their compliance with the operating rules requirements with the Department of Health and Human Services beginning April 1, 2014. Note that although the first and second deadlines are before this date, these fines do not begin until April 1, 2014.

**Proposed Solution:**

To comply with the operating rules requirements of ACA, the Department's proposed solution is to fund software and hardware modifications to the MMIS that will allow the MMIS to adopt the operating rules as required. Of the requirement's three implementation deadlines, this request seeks funding for only the first two since the third implementation deadline is not until January 2016.

**Alternatives:**

Funding for this request is based on a proposal and cost estimate from the state's MMIS vendor for system modifications that will make the MMIS compliant with the first implementation deadline of the operating rules requirements (see Table 1 in the Appendix to this request for details). The Department believes the vendor's cost estimate is somewhat high and is thus seeking alternative compliance solutions at the time of developing this request. To this end, the Department is working together with Xerox State Healthcare and the vendor's other MMIS clients (the Medicaid agencies of New Mexico, Wyoming, Montana, and Washington, D.C.), which received equivalent proposals and cost estimates, to find a less expensive alternative solution.

Also, as the Department intends to replace the MMIS by July 1, 2016 (see the Department's November 1, 2012 FY 2012-13 R-5 "MMIS Reprocurement"), the Department has requested in writing from the federal Centers for Medicare and Medicaid Services (CMS) for permission to delay the Department's compliance with the ACA operating rules requirements until the new MMIS is in place. Such leniency in the compliance dates would allow the Department to avoid the lost investment resulting from implementing this project in the current MMIS that will be replaced by a new system. Initial feedback indicates that CMS does not have the authority to amend this regulatory and statutory requirement and therefore cannot approve a State's request to delay the implementation of this section of the ACA, although the Department will continue to pursue this request.

**Anticipated Outcomes:**

With the proposed solution, the Department expects the MMIS vendor will successfully make the required system modifications to the MMIS that will put the Department in compliance with the first two implementation deadlines of the ACA operating rules requirements. The Department will address the third implementation deadline at a later date through the normal state

budgeting process if additional funding is required. Note that the Department expects to miss the first compliance deadline by several months due to late CMS guidance on implementation; however, the Department does not expect to be fined for noncompliance per ACA since the Department expects to be fully compliant with deadlines by the time fines begin on April 1, 2014.

Although the Department is actively seeking a less expensive alternative solution to the current proposal from the MMIS vendor (as discussed in the *Alternatives* section), the Department does not have a later opportunity to request funding for this project before the first two implementation deadlines of the ACA operating rules requirements because of the timing of the state budgeting process. Thus, the Department is unable to wait for an alternative solution before requesting funding for this project if it is to meet the first two implementation deadlines. In addition, the Department has requested leniency in the compliance deadlines from CMS (as discussed in the *Alternatives* section), but initial feedback indicates that CMS does not have the authority to approve this request. Since the fines for missing the implementation deadlines are so high (as discussed in the *Consequences if not Funded* section), the Department believes that the best solution at this time is to fund the MMIS modifications as proposed based on the statutory deadlines, and the currently available proposal and cost estimate from the MMIS vendor. The Department will reevaluate funding for this project through the normal budgetary process if CMS grants a delay for the compliance deadlines or if the Department and the MMIS vendor can find a less expensive alternative solution.

**Assumptions for Calculations:**

Funding calculations are based on the MMIS vendor's October 2012 proposal and cost estimate for MMIS modifications to comply with the first deadline of the ACA operating rules requirements, as shown in Table 1 of the Appendix to this request. While the vendor has not provided an estimate for modifications that

comply with the second deadline, the Department anticipates such modification will be similar in scope to the first deadline. Thus, the Department has duplicated the first deadline cost estimate to cover the second compliance deadline.

The Department anticipates federal financial participation (FFP) to be split between the Medicaid program (covering 97% of the total cost) and the Children's Basic Health Program (CHP+) (covering the remaining 3%), in accordance with the state's cost allocation methodology with CMS. The Medicaid portion is eligible for 90% FFP or 75% FFP pursuant to Chapter 11 of the State Medicaid Manual published by CMS; CHP+ financing is eligible for 65% FFP. The Department also intends to allocate a portion of the cost to the Hospital Provider Fee Cash Fund in proportion to the HB 09-1293 expansion caseload under each program. Please see Tables 2 through 4 in the Appendix to this request for complete detail of the requested funding by fiscal year.

**Consequences if not Funded:**

If this request is not approved, the Department will be unable to fund modifications to the MMIS to comply with the first two implementation deadlines of the ACA operating rules requirements before significant fines for noncompliance begin on April 1, 2014. According to the law, fines for noncompliance are \$1 per day of noncompliance for every covered life, up to \$20 per year for each covered life. With an estimated caseload of roughly

840,000 by April 2014, the Department could be fined \$16,800,000 after April 1, 2014 if the maximum \$20 fine per covered life were reached.

**Cash Fund Projections:**

This request includes Cash Funds from the Children's Basic Health Plan Trust Fund and the Hospital Provider Fee Cash Fund. For information on associated revenues, expenditures, and cash fund balances, please see the Schedule 9 "Cash Funds Report" in Section O of the Department's November 1, 2012 FY 2013-14 Budget Request.

**Relation to Performance Measures:**

Federal mandate.

**Supplemental, 1331 Supplemental, or Budget Amendment Criteria:**

CMS published implementation guidance for the first deadline of the ACA operating rules requirements on March 21, 2012 and the Department's MMIS vendor submitted its proposal and cost estimate to the Department in October 2012. These events produced substantive new data after certain state budgeting deadlines had passed to request funding before the time of this request.

**Current Statutory Authority or Needed Statutory Change:**

The Department is the single state Medicaid agency and has authority to administer the MMIS through 25.5-4-204 (3), C.R.S. (2012) and §1903 (a) of the Social Security Act [42 U.S.C. 1396b].

## Appendix: Funding Calculations for MMIS Operating Rules Compliance

### MMIS Vendor Estimate

Table 1 is the itemized cost estimate from the MMIS vendor for system modifications that will make the MMIS compliant with the first implementation deadline of the ACA operating rules requirements. Each item's cost will be allocated 97% to Medicaid and 3% to CHP+. The table shows the anticipated FFP for the portion of costs allocated to Medicaid: software licenses and ongoing operating costs receive 75% FFP, while all other Design, Development, and Implementation (DDI) costs receive 90% FFP. The portion of costs allocated to CHP+ receives 65% FFP for all items.

<b>Table 1: Cost Estimate to Comply with First Operating Rules Deadline</b>			
Item	Cost	Medicaid FFP	CHP+ FFP
<b><u>DDI</u></b>			
EDI Solution Assessment Activities	\$134,084	90%	65%
TIBCO Licenses (Other Support Licenses)	\$673,008	75%	65%
TIBCO Contract Services	\$145,933	90%	65%
Contract Labor (Fixed Price)	\$545,776	90%	65%
EDI Labor, include misc overhead expense	\$368,911	90%	65%
Hardware, Servers	\$28,866	90%	65%
Travel, Telecomm, Office Supplies	\$14,785	90%	65%
<b>Subtotal: DDI</b>	<b>\$1,911,363</b>		
<b><u>Annual Operations</u></b>			
Software & Hardware Maintenance	\$165,019	75%	65%
<b>Subtotal: Annual Operations</b>	<b>\$165,019</b>		

### Funding Request by Fiscal Year

Tables 2 through 4 show the funding requested for fiscal years 2012-13 through 2014-15. The calculations that produced these tables use the following assumptions.

1. 97% of costs will be allocated to the Medicaid program and the remaining 3% to the CHP+ program.
2. For each program, federal funds will be allowed at the FFP percentages shown in Table 1.
3. The state share for Medicaid will come from General Fund and the state share for CHP+ will come from the Children's Basic Health Plan Trust Fund, except as provided for in assumption 4.
4. 7.92% of the Medicaid allocation will use Hospital Provider Fee Cash Funds for the state share instead of General Fund and 25% of the CHP+ allocation will use Hospital Provider Fee Cash Funds for the state share instead of General Fund. However, beginning in FY 2014-15, 30% of the CHP+ allocation will use Hospital Provider Fee Cash Funds for the state share instead of General Fund. These allocations are proportional to the HB 09-1293 expansion caseload under each program based on the Department's most recent caseload forecast. (The increase in the CHP+ allocation beginning FY 2014-15 is due to a forecasted proportional increase of the HB 09-1293 expansion caseload.)

**Table 2: FY 2012-13 Funding Request for MMIS Operating Rules Compliance**

<b>Item</b>	<b>Total Funds</b>	<b>General Fund</b>	<b>Children's Basic Health Plan Trust</b>	<b>Hospital Provider Fee Cash Fund</b>	<b>Federal Funds</b>
DDI (to reach first implementation deadline)	\$1,911,363	\$260,884	\$15,052	\$27,458	\$1,607,969
Ongoing Operations (beginning Jan 1, 2013)	\$82,510	\$18,424	\$650	\$1,802	\$61,634
<b>Total Request</b>	<b>\$1,993,873</b>	<b>\$279,308</b>	<b>\$15,702</b>	<b>\$29,260</b>	<b>\$1,669,603</b>

**Table 3: FY 2013-14 Funding Request for MMIS Operating Rules Compliance**

<b>Item</b>	<b>Total Funds</b>	<b>General Fund</b>	<b>Children's Basic Health Plan Trust</b>	<b>Hospital Provider Fee Cash Fund</b>	<b>Federal Funds</b>
Ongoing Operations (continuing for first implementation deadline)	\$165,019	\$36,848	\$1,300	\$3,602	\$123,269
DDI (to reach second implementation deadline)	\$1,911,363	\$260,884	\$15,052	\$27,458	\$1,607,969
Ongoing Operations (beginning Jan 1, 2014 for second implementation deadline)	\$82,510	\$18,424	\$650	\$1,802	\$61,634
<b>Total Request</b>	<b>\$2,158,892</b>	<b>\$316,156</b>	<b>\$17,002</b>	<b>\$32,862</b>	<b>\$1,792,872</b>

**Table 4: FY 2014-15 Funding Request for MMIS Operating Rules Compliance**

<b>Item</b>	<b>Total Funds</b>	<b>General Fund</b>	<b>Children's Basic Health Plan Trust</b>	<b>Hospital Provider Fee Cash Fund</b>	<b>Federal Funds</b>
Ongoing Operations (continuing for first implementation deadline)	\$165,019	\$36,848	\$1,213	\$3,689	\$123,269
Ongoing Operations (continuing for second implementation deadline)	\$165,019	\$36,848	\$1,213	\$3,689	\$123,269
<b>Total Request</b>	<b>\$330,038</b>	<b>\$73,696</b>	<b>\$2,426</b>	<b>\$7,378</b>	<b>\$246,538</b>