

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

Department: Health Care Policy and Financing
 Request Title: Medicaid Management Information System Technical Adjustments
 Priority Number: S-8, BA-8
 Dept. Approval by: John Bartholomew *JB 12/27/12* Date
 OSPB Approval by: [Signature] *12/31/12* 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
Total of All Line Items	Total	\$31,899,317	(\$612,453)	\$29,586,597	\$2,088,200	\$645,563
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$6,379,650	(\$97,722)	\$6,016,590	\$209,122	\$117,354
	GFE	\$0	\$0	\$0	\$0	\$0
	CF	\$1,566,666	\$31,752	\$1,660,853	\$73,593	\$16,871
	RF	\$100,328	\$0	\$100,328	\$0	\$0
	FF	\$23,852,673	(\$546,483)	\$21,808,826	\$1,805,485	\$511,338
(1) Executive Director's Office; (C) Information Technology Contracts and Projects, Information Technology Contracts	Total	\$31,899,317	(\$612,453)	\$29,586,597	\$2,088,200	\$645,563
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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~~ \$1,349,705 shall be from the Hospital Provider Fee Cash Fund ...

FY 2013-14:
 a Of this amount, ~~\$1,412,213~~ \$1,481,247 shall be from the Hospital Provider Fee Cash Fund created in Section 25.5-4-402.3 (4), C.R.S., ~~\$248,956~~ \$253,515 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

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

**Department Priority: S-8, B.1-8
Medicaid Management Information System Technical Adjustments**

Summary of Incremental Funding Change for FY 2012-13	Total Funds	General Fund	FTE
MMIS Technical Adjustments	(\$612,453)	(\$97,722)	0.0

Summary of Incremental Funding Change for FY 2013-14	Total Funds	General Fund	FTE
MMIS Technical Adjustments	\$2,088,200	\$209,122	0.0

Request Summary:

In order to true up previously appropriated funding for modifications to the Department's Medicaid Management Information System (MMIS), the Department requests a net reduction of \$612,453 total funds comprised of a reduction of \$97,722 General Fund, an increase of \$31,752 cash funds, and a reduction of \$546,483 federal funds for FY 2012-13; a net increase of \$2,088,200 total funds comprised of increases of \$209,122 General Fund, \$73,593 cash funds, and \$1,805,485 federal funds for FY 2013-14; and a net increase of \$645,563 total funds comprised of increases of \$117,354 General Fund, \$16,871 cash funds, and \$511,338 federal funds in FY 2014-15. Of the FY 2014-15 funding, the Department requests \$445,563 total funds comprised of \$99,491 General Fund, \$13,235 cash funds, and \$332,837 federal funds as annual base funding for ongoing MMIS operating costs.

Problem or Opportunity:

Two MMIS modification projects – the implementation of the Adults without Dependent Children (AwDC) benefit package initiated by

HB 09-1293 and the federally-mandated adoption of updated electronic health care transaction standards (referred to as Versions 5010, D.0, and 3.0) and coding (referred to as ICD-10) – have revised implementation timelines and funding needs that vary significantly from previously appropriated funding for the projects, which jeopardizes their successful implementation.

Brief Background:

The MMIS is a system of hardware, software, and business process workflows that has been designed to meet the criteria for the “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 managed by a third-party vendor, Xerox State Healthcare, which carries out daily MMIS operations and any required 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 provider enrollment

and management, certain client management functions, and analytics and reporting.

The two MMIS modification projects addressed in this request have previously been appropriated funding through the State's regular budgeting process. The modification project for the AwDC benefit package (among other projects) was initiated and funded by HB 09-1293, the Hospital Provider Fee. Funding for HB 09-1293 projects was most recently adjusted by the Department's FY 2012-13 R-12 "Hospital Provider Fee Administrative True-up" and FY 2012-13 BA-6 "MMIS Technical Adjustments" funding requests. The modification project for adopting Versions 5010, D.0, and 3.0, and ICD-10 was initiated and originally funded by the Department's FY 2009-10 BA-16 "MMIS Funding for HIPAA ICD-10 and Transactions v5010/D.0" funding request, which was later modified by the Department's FY 2010-11 BA-15 "MMIS Adjustments" funding request. Please see the above-referenced documents for more comprehensive information on these projects.

Timelines and cost estimates for these projects have been recently revised, which has caused funding needs to vary significantly from the previously appropriated amounts for the projects. For the AwDC benefit package project, previously appropriated funding was based on high-level, indeterminable estimates from the MMIS vendor due to the timing of the state budgeting process. As often happens with MMIS modification projects, more refined estimates have since been developed because the Department and the MMIS vendor have had time to complete detailed business requirements, causing funding needs to vary from previously appropriated funding. This problem has also occurred with the Versions 5010, D.0, and 3.0 project. This project was successfully implemented in February 2012, but ongoing operating costs for the project were not foreseen in the original appropriation.

For the ICD-10 project, the funding changes sought in this request are driven by the recently

revised federal deadline to adopt ICD-10 coding. The original deadline for ICD-10 adoption set by the Centers for Medicare and Medicaid Services (CMS) was October 1, 2013 (see *Federal Register* Vol. 74, No. 11, dated January 16, 2009). This deadline was revised on August 24, 2012, with CMS's announcement of a one-year delay to October 1, 2014 due to concerns about the health industry's ability to meet the original deadline (see *Federal Register* Vol. 77, No. 172, dated September 5, 2012). Consequently, the Department's ICD-10 project timeline has shifted toward the new deadline, and the project's funding need now varies from the previously appropriated funding which was based on the 2013 deadline.

Proposed Solution:

The Department proposes adjusting the appropriations for the AwDC benefit package and Versions 5010, D.0, and 3.0, and ICD-10 projects to align with the revised timelines and cost estimates for these projects. This entails additional funding in FY 2012-13 and FY 2013-14 for the AwDC benefit package project, a shift in funding from FY 2012-13 to FY 2013-14 and an extension of funding for Project Management and Consultation Services for the ICD-10 project, and additional annual base funding for increased MMIS operating costs due to the Versions 5010, D.0, and 3.0 project.

Alternatives:

None. The Department submits this request in order to true up previously appropriated funding for modifications to the MMIS with the revised federal ICD-10 adoption deadline and recently updated project timelines and cost estimates from the MMIS vendor.

Anticipated Outcomes:

If this request is approved, the Department expects the MMIS vendor will complete the AwDC benefits package project by January 2014. The completed project will allow for the AwDC expansion population to receive an alternative benefit package instead of full Medicaid benefits, which has always been intended for this

expansion population as discussed in the original HB 09-1293 fiscal note. The Department expects this alternative benefit package will be better tailored to the AwDC expansion population and will therefore result in better health outcomes and potential cost savings.

Also, if this request is approved, the Department expects funding for the ICD-10 project will be aligned with the revised federal ICD-10 adoption deadline. In response to the deadline extension, the Department expects the timeline for work on ICD-10 to shift into the future. The Department believes the funding appropriated for the project should move in tandem with the delayed timeline as proposed in this request, with the shift in funding for ICD-10 from FY 2012-13 to FY 2013-14. In addition, if this request is approved, the Department will retain Project Management and Consultation Services (previously appropriated funding with the Department's FY 2009-10 BA-16 and FY 2010-11 BA-15 to meet the original 2013 deadline) until the new 2014 deadline (with added time for project closure activities). Note that because the compliance deadline for ICD-10 is almost two years away at the time of developing this request, the Department anticipates that cost estimates may still change and will request funding through the normal state budgeting process if needed.

Finally, if this request is approved, the Department anticipates the appropriation for Versions 5010, D.0, and 3.0 will be sufficient to fund the additional MMIS operating costs of these recently implemented electronic transaction standards. Specifically, the use of these new standards has created additional mainframe usage of the MMIS, which includes Central Processing Unit use, Direct Access Storage Device use, DB2 Database Server use, and Tape/Mounts use.

Assumptions for Calculations:

The funding in this request is based on estimates and information from the MMIS vendor and the Department's estimated timeline for ICD-10 in response to the federal deadline extension. The funding calculations for this request also rely on

assumptions regarding Federal Financial Participation (FFP) and the use of Hospital Provider Fee Cash Fund to offset General Fund. Please see the Appendix to this Request for calculation details and a complete overview of the requested funding.

Consequences if not Funded:

If this request is not approved, then successful implementation of the AwDC benefit package and adoption of Versions 5010, D.0, 3.0, and ICD-10 will be at risk. The Department will likely be unable to fund the MMIS modifications required to implement the AwDC benefit package. Also, the Department will likely revert funding for ICD-10 in FY 2012-13 and have insufficient personnel resources to successfully manage the project until the new federal deadline. Finally, the Department will be unable to fund ongoing MMIS operations that support the use of Versions 5010, D.0, and 3.0.

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"). However, if the Department waits until this time to implement the AwDC benefit package, then the improved health outcomes and potential cost savings associated with an alternative benefit package specifically tailored to the AwDC population will not be realized.

Unsuccessful adoption and use of Versions 5010, D.0, and 3.0, and ICD-10 will put the Department out of compliance with federal mandates and may cause interoperability issues with other provider systems. The Department may risk federal penalties including loss of FFP for MMIS expenditures and fines under the Health Insurance Portability and Accountability Act (HIPAA). Also, since the compliance deadline for ICD-10 is nearly two years before the July 1, 2016 MMIS replacement date discussed above, the Department expects such federal penalties would be incurred if ICD-10 implementation was postponed until the MMIS was replaced. Furthermore, if the MMIS does not support Versions 5010, D.0, and 3.0, and ICD-10, then

this may affect interoperability with other provider systems that are compliant with federal deadlines, which will jeopardize proper billing for services provided to the Department's Medicaid clients.

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.

Supplemental, 1331 Supplemental, or Budget Amendment Criteria:

The one-year ICD-10 compliance deadline delay was announced in August 2012, and the Department has received recently updated timelines and cost estimates from the MMIS vendor resulting in substantive change in funding need.

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 Technical Adjustments

Please see below for descriptions of the funding calculations used for this request and Tables 1 through 3 for a complete overview of the requested funding by item and fiscal year.

AwDC System Modifications

Additional funding for implementing the AwDC benefit package is based on an estimate from the MMIS vendor which the Department believes is reasonable due to a low original cost estimate from the vendor for the project. The Department anticipates 90% FFP for this project, with the state share coming from the Hospital Provider Fee Cash Fund since it was initiated under HB 09-1293.

ICD-10 Appropriation Shift from FY 2012-13 to FY 2013-14

The funding shift from FY 2012-13 to FY 2013-14 for ICD-10 is based on the currently estimated need for the project in FY 2012-13, shifting FY 2012-13 funds appropriated in the Department's FY 2010-11 BA-15 for ICD-10 that are above this need into FY 2013-14. The Department anticipates these shifted funds will be required for ICD-10 in FY 2013-14 since this shift reflects only a changed timeline and not a changed project scope.

ICD-10 Project Management and Consultation Services Extension

The extended funding for Project Management and Consultation Services for ICD-10 is based on the extended federal compliance deadline (assuming the need for these services for up to 9 months after the deadline for project closure activities) and the originally appropriated annual amounts for these services under the Department's FY 2009-10 BA-16 and FY 2010-11 BA-15 funding requests.

The Department anticipates 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 Department anticipates the Medicaid portion will receive 90% FFP and the CHP+ portion will receive 65% FFP. The Department also intends to use Hospital Provider Fee Cash Funds instead of General Fund for 7.92% of the Medicaid allocation and 25% of the CHP+ allocation to reflect the proportion of the HB 09-1293 expansion caseload under each program. However, beginning in FY 2014-15, the CHP+ proportion will increase to 30% due to a forecasted proportional increase of the HB 09-1293 expansion caseload in the program.

Version 5010, D.O, and 3.0 Ongoing Operations

The additional funding for Versions 5010, D.O, and 3.0 MMIS operating costs is based on actual mainframe usage reported by the MMIS vendor. The Department requests this funding as ongoing annual base funding. Identically to the ICD-10 Project Management and Consultation Services Extension, the Department anticipates FFP to be split between Medicaid and CHP+ and intends to offset General Fund costs with Hospital Provider Fee Cash Funds with one exception: the Department anticipates the Medicaid portion of the cost will receive 75% FFP instead of 90% FFP because, in contrast to most system modification costs, ongoing MMIS operating costs are only eligible for 75% FFP per Chapter 11 of the State Medicaid Manual published by CMS.

Item	Total Funds	General Fund	Children's Basic Health Plan Trust	Hospital Provider Fee Cash Fund	Federal Funds
AwDC System Modifications	\$317,520	\$0	\$0	\$31,752	\$285,768
ICD-10 Appropriation Shift from FY 2012-13 to FY 2013-14	(\$929,973)	(\$97,722)	\$0	\$0	(\$832,251)
Total Request	(\$612,453)	(\$97,722)	\$0	\$31,752	(\$546,483)

Item	Total Funds	General Fund	Children's Basic Health Plan Trust	Hospital Provider Fee Cash Fund	Federal Funds
AwDC System Modifications	\$579,330	\$0	\$0	\$57,933	\$521,397
ICD-10 Appropriation Shift from FY 2012-13 to FY 2013-14	\$929,973	\$97,722	\$0	\$0	\$832,251
ICD-10 Project Management and Consultation Services Extension	\$133,334	\$11,909	\$1,050	\$1,374	\$119,001
Version 5010, D.0, and 3.0 Ongoing Operations	\$445,563	\$99,491	\$3,509	\$9,727	\$332,836
Total Request	\$2,088,200	\$209,122	\$4,559	\$69,034	\$1,805,485

Item	Total Funds	General Fund	Children's Basic Health Plan Trust	Hospital Provider Fee Cash Fund	Federal Funds
ICD-10 Project Management and Consultation Services Extension	\$200,000	\$17,863	\$1,470	\$2,166	\$178,501
Version 5010, D.0, and 3.0 Ongoing Operations	\$445,563	\$99,491	\$3,275	\$9,960	\$332,837
Total Request	\$645,563	\$117,354	\$4,745	\$12,126	\$511,338