



**Colorado
Legislative
Council
Staff**

Bill 3

FISCAL NOTE

FISCAL IMPACT: State Local Statutory Public Entity Conditional No Fiscal Impact

Drafting Number: LLS 16-0285
Prime Sponsor(s):

Date: October 23, 2015
Bill Status: Colorado Health Insurance Exchange Oversight Committee Bill Request
Fiscal Analyst: Bill Zepernick (303-866-4777)

BILL TOPIC: HCPF AVOID GAPS IN MEDICAL COVERAGE

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018	FY 2018-2019
State Revenue			
State Expenditures	\$2,245,416	\$1,401,668	\$315,685
General Fund	1,096,174	302,871	143,727
Federal Funds	1,096,174	1,042,711	143,727
Centrally Appropriated Costs	53,068	56,086	28,231
FTE Position Change	3.7 FTE	4.0 FTE	2.0 FTE
Appropriation Required: \$2.2 million - Department of Health Care Policy and Financing (FY 2016-17)			
Future Year Impacts: Ongoing increase in state expenditures, conditional on federal waiver approval.			

Summary of Legislation

The bill, **requested by the Colorado Health Insurance Exchange Oversight Committee**, requires the Department of Health Care Policy and Financing (HCPF) to apply for all necessary waivers under federal law by January 1, 2017, to align the methods used for assessing client income when determining eligibility for:

- Medicaid and other state medical assistance programs; and
- advanced premium tax credits for purchasing health insurance coverage on the Colorado health benefit exchange (Connect for Health Colorado).

In addition, HCPF is required to conduct a study on the potential benefits and costs of implementing 12-month continuous eligibility for adult Medicaid beneficiaries who would otherwise lose their eligibility due to income fluctuations. The study must also analyze other methods for reducing the effect of fluctuating income on continuity of coverage. The study must be completed by November 1, 2016.

Background

In most cases, eligibility for Medicaid and other state medical assistance programs is determined by looking at a person's current or prior month's income. For federal advanced premium tax credits, eligibility for, and the amount of, tax credits for purchasing health coverage through Connect for Health Colorado is determined by estimating a person's income over the upcoming year. The exact amount of the tax credit is then reconciled with actual income when the person files his or her taxes at the end of the year.

Persons with variable or seasonal income may not be eligible for Medicaid after experiencing a period of higher income, even though their annual income over the whole year is within the eligibility thresholds. At the same time, their projected annual income may make them ineligible for tax subsidies. These discrepancies can result in gaps in health coverage. In addition, different types of income and household size are both looked at differently for purposes of Medicaid eligibility and federal tax calculations, which can also complicate the interaction between these two systems.

State Expenditures

The bill increases costs in HCPF by **\$2.2 million and 3.7 FTE in FY 2016-17, \$1.4 million and 4.0 FTE in FY 2017-18, and \$0.3 million and 2.0 FTE in FY 2018-19** and future years. Most of the second year costs and all future year costs are conditional upon federal approval of the state's waiver applications. These costs are paid equally with General Fund and federal funds, with the exception of information technology costs in the second year. The costs of the bill are summarized in Table 1 and discussed below.

Table 1. Expenditures Under LLS 16-0285			
Cost Components	FY 2016-17	FY 2017-18	FY 2018-19
Personal Services	\$244,735	\$266,982	\$135,554
FTE	3.7 FTE	4.0 FTE	2.0 FTE
Operating Expenses and Capital Outlay Costs	22,612	3,800	1,900
Actuarial Analysis	1,625,000	0	0
Waiver Analysis and Support Contractor	150,000	150,000	150,000
Continuous Eligibility Study Contractor	150,000	0	0
Information Technology Costs	0	924,800	0
Centrally Appropriated Costs*	53,068	56,086	28,231
TOTAL	\$2,245,415	\$1,401,668	\$315,685

* Centrally appropriated costs are not included in the bill's appropriation.

Assumptions. The fiscal note assumes that HCPF will be required to apply for a combined Section 1115 Medicaid demonstration waiver and Section 1332 State Innovation Waiver under the federal Patient Protection and Affordable Care Act (PPACA). The following time line is assumed for the waiver applications:

- new staff are hired by July 1, 2016;
- required contractors are in place by January 1, 2017 following a competitive bidding process;

- waiver applications are submitted by July 1, 2017; and
- a federal decision on the waiver applications will be provided no earlier than March 2018.

Personal services. HCPF will require \$244,735 and 3.7 FTE in the first year and \$266,982 and 4.0 FTE the second year while waiver applications are in development. First-year costs are prorated to reflect the General Fund paydate shift. These staff will be responsible for policy analysis, contract management, eligibility system development, and other tasks associated with the waiver applications. If the waivers are approved, \$135,554 and 2.0 FTE will be required in FY 2018-19 for ongoing waiver support and management. Standard operating expenses and capital outlay costs for these staff are shown in Table 1.

Actuarial analysis. Federal waivers require budget neutrality in order to be approved. The waiver application is expected to be complex, given that it must consider Medicaid eligibility and costs, federal tax subsidies for persons purchasing health insurance via Connect for Health Colorado, and various income eligibility rules concerning household composition and different types of income. The fiscal note estimates that about 6,500 hours of contract actuarial analysis at a rate of \$250 per hour will be required, resulting in a cost of \$1.6 million in FY 2016-17. To the extent the actual cost of the analysis differs from this amount after the competitive bidding process, funding may need to be adjusted through the annual budget process.

Waiver analysis and support contractor. Federal waivers, in particular Section 1332 waivers, require ongoing reporting and analysis to the federal government, both during the application process and after approval is given. In addition, stakeholder input and Native American tribal consultation is required. To accomplish these tasks, the fiscal note estimates that a contractor will be retained at a cost of \$150,000 per year beginning in FY 2016-17, based on prior projects of similar scope.

Continuous eligibility study contractor. The bill requires that HCPF conduct an analysis of continuous eligibility for adults and other strategies for reducing the impact of income fluctuation on the continuity of health coverage. This one-time cost is estimated at \$150,000 in FY 2016-17.

Information technology costs. If federal waiver approval is received, changes to the Colorado Benefits Management System (CBMS) will be required. While the exact changes that will be required are not known at this time, costs for system modifications are preliminarily estimated at \$924,800, based on the workload and costs for other significant system changes affecting client eligibility determination. This work will likely begin in FY 2017-18 and will require a reappropriation of funds to the Office of Information Technology. This cost is based on 6,800 hours of programming time at an average rate of \$136 per hour. Assuming advanced federal approval is given, these costs will be eligible for a 90-percent federal match.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 2.

Table 2. Centrally Appropriated Costs Under LLS 16-0285			
Cost Components	FY 2016-17	FY 2017-18	FY 2018-19
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$32,125	\$32,163	\$16,085
Supplemental Employee Retirement Payments	20,943	23,923	12,146
TOTAL	\$53,068	\$56,086	\$28,231

Statutory Public Entity Impact

Connect for Health Colorado will have increased costs and workload, likely around \$50,000 and 1.0 FTE for two years for staff to coordinate with, and provide information to, HCPF during the waiver application process. While the system changes that will occur if federal waiver approval is provided are assumed to primarily occur to state programs and systems, Connect for Health Colorado may have some costs and workload to adjust their system and procedures, depending on the nature of the approved waiver. Any additional costs to Connect for Health Colorado will be covered through fees assessed on policies sold through the exchange.

Technical Issues

The deadlines specified in the bill may not be feasible given the usual time frames required when employing contractors hired through a competitively bid request-for-proposal process. Given this, the fiscal note adjusted the deadlines for completing the continuous eligibility study (November 1, 2016) and submitting waiver applications (January 1, 2017) by pushing these dates back by six months. See the assumptions listed in the State Expenditures section for additional detail.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

For FY 2016-17, the bill requires an appropriation of \$2,192,347 to the Department of Health Care Policy and Financing and an allocation of 3.7 FTE. Funds are split evenly between General Fund and federal funds.

State and Local Government Contacts

Health Care Policy and Financing
 Office of Information Technology

Regulatory Agencies
 Health Benefit Exchange

Law

The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit: www.colorado.gov/fiscalnotes.