

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

Department: Health Care Policy and Financing

Request Title: Leased Space Rent Increase and True-up

Priority Number: R-10

Dept. Approval by: John Bartholomew *JB 10/26/12* Date: _____

OSPB Approval by: *Erin M. ...* *10/31/12* Date: _____

<input checked="" type="checkbox"/>	Decision Item FY 2013-14
<input type="checkbox"/>	Base Reduction Item FY 2013-14
<input type="checkbox"/>	Supplemental FY 2012-13
<input 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	\$696,564	\$0	\$696,564	\$92,115	\$120,194
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$197,119	\$0	\$197,119	\$92,402	\$104,999
	GFE	\$0	\$0	\$0	\$0	\$0
	CF	\$151,164	\$0	\$151,164	(\$46,344)	(\$44,901)
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$348,281	\$0	\$348,281	\$46,057	\$60,096
(1) Executive Director's Office; (A) General Administration, Leased Space	Total	\$696,564	\$0	\$696,564	\$92,115	\$120,194
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$197,119	\$0	\$197,119	\$92,402	\$104,999
	GFE	\$0	\$0	\$0	\$0	\$0
	CF	\$151,164	\$0	\$151,164	(\$46,344)	(\$44,901)
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$348,281	\$0	\$348,281	\$46,057	\$60,096

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

For FY 2012-13
Of this amount, ~~\$2,535,659~~ \$2,489,315 shall be from the Hospital Provider Fee Cash Fund ..

Cash or Federal Fund Name and COFRS Fund Number: CF: Hospital Provider Fee Cash Fund (24A); FF: Title XIX

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 2013-14 Funding Request
November 1, 2012

Susan E. Birch
Executive Director

Signature

10/23/12
Date

Department Priority: R-10
Leased Space Rent Increase and True-up

Summary of Incremental Funding Change for FY 2013-14	Total Funds	General Fund	FTE
Leased Space	\$92,115	\$92,402	0.0

Request Summary:

The Department requests an increase of \$92,115 total funds, comprised of \$92,402 General Fund in FY 2013-14 to cover the shortage in the leased space appropriation. Similarly, the Department requests an increase of \$120,194 total funds, comprised of \$104,999 General Fund in FY 2014-15 to cover the shortage in the leased space appropriation.

Problem or Opportunity:

The current FY 2013-14 appropriation is \$696,564 total funds for leased space the Department occupies at 225 East 16th Avenue, Denver, CO 80203. This is insufficient to cover the projected leased space expenditures as rental rates and operating expenses for which the Department is liable have increased. This request will ensure the Department continues to have the adequate space necessary to continue to administer the Medicaid and Child Health Plan Plus programs, as well as a variety of other programs for Colorado's low-income families, the elderly, and persons with disabilities.

Brief Background:

The Department rents several units at 225 East 16th Avenue, including units 120, 220, 350, 650, 690, 900, 1050, and B200, a basement training

room. Leases for units 120, 220, and 650 have been renewed effective July 1, 2012, with the rates for units 120 and 220 increasing from \$16.77 per square foot per the old lease terms, to \$21.00 per square foot when the new leases took effect July 1, 2012. The annual rate in suite 650 remains at \$21.00 per square foot, unchanged from the old lease terms.

Lease terms for units at 225 East 16th Avenue are also subject to additional rent payments. Additional rent is calculated as the Department's proportionate share of actual building operating expenses. Proportionate share is defined in the lease as the number of square feet in the Department's leased units divided by the total rentable square footage available for lease in the building. The leases limit annual operating expense increases to 107% of base year operating expenses plus the previous year's additional rent payable. The base year is normally the calendar year following the signing of the lease. No refund is provided to the Department if operating expenses fall below the base year level. Operating expenses covered in additional rent calculations include supplies, obtaining and providing energy for the building, water, sanitary, and storm drainage services, janitorial and security services, general maintenance and

repairs, and several other expressly noted items. Some of the additional rents stem from improvements initiated by building management to obtain LEED certification with the ultimate goal of reducing operating costs passed to tenants in out years. The Department received notice of the additional rent in December 2011 and has worked to determine the appropriateness of the charges and liability of the Department. In April 2012, after a thorough review, the Department concluded the charges were appropriate and the Department is liable.

Three units at 225 East 16th Avenue, 350, 1050, and the basement training room, are currently funded using federal funds through a Health Resources and Services Administration (HRSA) grant. HRSA is the primary federal agency for improving access to health care services for people who are uninsured, isolated or medically vulnerable. The grant was extended in FY 2011-12 and is now set to expire August 31, 2013. The Department will continue using HRSA funds to fund the units currently funded by HRSA for FY 2012-13, and for the two months HRSA funding will be available in FY 2013-14.

This request will also serve to true-up the hospital provider fee funding appropriated to the line item. Currently, hospital provider fee funding is appropriated to this line item directly from the original fiscal note developed for HB 09-1293, however the actual need has been found to be less than that originally forecasted. This request will make the hospital provider fee more efficient by ensuring that the appropriate level of fee is being assessed on hospitals for leased space.

Currently, the Department's leased space appropriation for FY 2012-13 and the base request for FY 2013-14 remains unchanged from the FY 2011-12 appropriation of \$696,564. However, in going from FY 2011-12 to FY 2012-13, the Department was appropriated an additional 11.9 FTE as a result of the annualizations of HB 12-1339, "Colorado Benefits Management System Project," HB 12-1281, "Medicaid Payment Reform Pilot Project,"

and SB 12-060, "Improve Medicaid Fraud Prosecution." As a result of these three bills, the Department requests \$84,747 total funds, comprised of \$31,111 General Fund in FY 2013-14 to provide the space to house these new employees. Similarly, the Department requests \$103,040 total funds, comprised of \$38,115 General Fund in FY 2014-15 to provide the space to house these new employees.

Proposed Solution:

The Department requests an increase of \$92,115 total funds, comprised of \$92,402 General Fund in FY 2013-14 to cover the shortage in the leased space appropriation. Similarly, the Department requests an increase of \$120,194 total funds, comprised of \$104,999 General Fund in FY 2014-15 to cover the shortage in the leased space appropriation.

The Department will also be submitting a supplemental request for FY 2012-13 related to this issue.

Alternatives:

The Department has examined comparable space in the vicinity of the capitol complex. Department research indicates that first year lease rates at comparable space in the vicinity of the capitol complex run from \$21.00 to \$26.00 per square foot. The proximity of 225 East 16th Avenue to 1570 Grant Street makes day-to-day business manageable, the rent is reasonable given department needs and available space, and it is expected current additional rents will result in slower operating expense growth in future years. It is for these reasons the Department has decided to remain at 225 East 16th Avenue.

Anticipated Outcomes:

This request will enable Department staff to continue serving the health care needs of Colorado citizens enrolled in Medicaid, CHP+, and many other health based programs for eligible Coloradans.

Assumptions for Calculations:

To estimate the funding need for this request, negotiated rental rates from signed leases were used, in addition to projected additional rents for operating expenses. For FY 2014-15, rental rates were forecasted using the weighted average rental increase as experienced with the most recent rent renewals executed on June 27th, 2012. Operating expense increases were forecasted using the maximum increase that can be allowed under the contract, as discussed previously. Hospital provider fee funds are applied by multiplying the appropriated 51 hospital provider fee FTE, the average loaded cost per square foot, and 204 rentable square feet per FTE, which is based on The Colorado Standards for Measuring Overall Space Use Efficiency in Leased Office Spaces. The annual base rent of units funded through the leased space appropriation (all units at 225 E. 16th Avenue excluding HRSA units) were summed and then reduced for property taxes and increased by projected additional rents for operating expenses to determine the Department's projected

liability. Please refer to Tables 1 – 6 in Appendix A for the calculations of the funding need.

Consequences if not Funded:

If this request is not approved, it would critically impair the Department's ability to meet its objectives. The Department would be required to use funding appropriated in other administrative line items to fund the leased space need, which would put a strain on other areas of the budget.

Cash Fund Projections:

This request includes Cash Funds from the Hospital Provider Fee Cash Fund. For information on associated revenues, expenditures, and cash fund balance, please see the Schedule 9 "Cash Funds Report" in Section O of this Budget Request.

Current Statutory Authority or Needed Statutory Change:

24-1-107 C.R.S. (2012) allows the head of a principal department to structure the internal organization of the Department.

Appendix A: Tables and Calculations

Table 1: Summary of 225 E 16th Ave Leased Space by Unit

FY 2013-14		SUMMARY BY FLOOR						FUNDING SPLIT				
Units	Square Feet	Price/ Sq Ft	Prop. Tax Adjustment	Annual Rent	Annual Tax Adjustment	Annual Addr'l Rent	Total Rent	GF	CF	RF	FF	Grant Funded
120	7,239	\$21.00	(\$2.41)	\$152,019	(\$17,446)	\$10,207	\$144,780	\$72,390	\$0	\$0	\$72,390	\$0
220	5,817	\$21.00	(\$2.41)	\$122,157	(\$14,019)	\$8,202	\$116,340	\$58,170	\$0	\$0	\$58,170	\$0
350	1,770	\$21.57	(\$2.59)	\$38,179	(\$4,584)	\$2,655	\$36,250	\$15,104	\$0	\$0	\$15,104	\$6,042
650	8,347	\$21.00	(\$2.41)	\$175,287	(\$20,116)	\$11,769	\$166,940	\$83,470	\$0	\$0	\$83,470	\$0
690	2,440	\$21.00	(\$2.59)	\$51,240	(\$6,320)	\$1,489	\$46,409	\$23,205	\$0	\$0	\$23,204	\$0
900	10,846	\$22.25	(\$2.66)	\$241,324	(\$28,850)	\$16,029	\$228,503	\$114,252	\$0	\$0	\$114,251	\$0
1050	2,676	\$21.57	(\$2.59)	\$57,722	(\$6,931)	\$4,014	\$54,805	\$22,836	\$0	\$0	\$22,835	\$9,134
B200	765	\$15.00	(\$2.59)	\$11,475	(\$1,981)	\$1,148	\$10,642	\$4,434	\$0	\$0	\$4,434	\$1,774
Storage	80	\$12.00	\$0	\$960	\$0	\$0	\$960	\$480	\$0	\$0	\$480	\$0
TOTAL	39,980	\$21.27	(\$2.51)	\$850,363	(\$100,247)	\$55,513	\$805,629	\$394,341	\$0	\$0	\$394,338	\$16,950
Provider Fee Adjustment								(\$104,820)	\$104,820	\$0	\$0	\$0
Net Total							\$805,629	\$289,521	\$104,820	\$0	\$394,338	\$16,950

Table 2: Summary of 225 E 16th Ave Leased Space by Funding Source

FY 2013-14		SUMMARY BY FLOOR						FUNDING SPLIT				
Units	Square Feet	Price/ Sq Ft	Prop. Tax Adjustment	Annual Rent	Annual Tax Adjustment	Annual Addr'l Rent	Total Rent	GF	CF	RF	FF	Grant Funded
B200, 350, 1050	5,211	\$20.61	(\$2.59)	\$107,376	(\$13,496)	\$7,817	\$101,697	\$42,374	\$0	\$0	\$42,373	\$16,950
120, 220, 650, 690, 900, Storage	34,769	\$21.37	(\$2.50)	\$742,987	(\$86,751)	\$47,696	\$703,932	\$351,967	\$0	\$0	\$351,965	\$0
Provider Fee Adjustment								(\$104,820)	\$104,820	\$0	\$0	\$0
Net Total	39,980	\$21.27	(\$2.51)	\$850,363	(\$100,247)	\$55,513	\$805,629	\$289,521	\$104,820	\$0	\$394,338	\$16,950

Table 3: Derivation of FY 2013-14 Request Amount

Row	Description	TF	GF	CF	RF	FF	Grant Funded	Notes
A	Leased Space Appropriation	\$713,514	\$197,119	\$151,164	\$0	\$348,281	\$16,950	FY 2013-14 Base Request
B	Estimated Expenditure	\$805,629	\$394,341	\$0	\$0	\$394,338	\$16,950	Tables 1 and 2: Units 120, 220, 350, 650, 690, 900, 1050, B200, and Storage
C	HB 09-1293 Adjustment	\$0	(\$104,820)	\$104,820	\$0	\$0	\$0	Tables 1 and 2: Provider Fee Adjustment
D	HRSA Adjustment	\$16,950	\$0	\$0	\$0	\$0	\$16,950	Tables 1 and 2: Grant Funded Funding Split
E	Total Projected Leased Space Expenditure	\$805,629	\$289,521	\$104,820	\$0	\$394,338	\$16,950	Row B + Row C
F	Projected Under/(Over) Expenditure	(\$92,115)	(\$92,402)	\$46,344	\$0	(\$46,057)	\$0	Row A - Row E
	Total Request Amount	\$92,115	\$92,402	(\$46,344)	\$0	\$46,057	\$0	

Table 4: Summary of 225 E 16th Ave Leased Space by Unit

FY 2014-15		SUMMARY BY FLOOR						FUNDING SPLIT				
Units	Square Feet	Price/ Sq Ft	Prop. Tax Adjustment	Annual Rent	Annual Tax Adjustment	Annual Addr'l Rent	Total Rent	GF	CF	RF	FF	Grant Funded
120	7,239	\$21.47	(\$2.63)	\$155,455	(\$19,023)	\$10,386	\$146,818	\$73,409	\$0	\$0	\$73,409	\$0
220	5,817	\$21.47	(\$2.63)	\$124,918	(\$15,286)	\$8,346	\$117,978	\$58,989	\$0	\$0	\$58,989	\$0
350	1,770	\$22.06	(\$2.82)	\$39,042	(\$4,999)	\$2,701	\$36,744	\$18,372	\$0	\$0	\$18,372	\$0
650	8,347	\$21.47	(\$2.63)	\$179,249	(\$21,935)	\$11,975	\$169,289	\$84,645	\$0	\$0	\$84,644	\$0
690	2,440	\$21.47	(\$2.82)	\$52,398	(\$6,891)	\$1,515	\$47,022	\$23,511	\$0	\$0	\$23,511	\$0
900	10,846	\$22.75	(\$2.90)	\$246,777	(\$31,458)	\$16,310	\$231,629	\$115,815	\$0	\$0	\$115,814	\$0
1050	2,676	\$22.06	(\$2.82)	\$59,026	(\$7,557)	\$4,084	\$55,553	\$27,777	\$0	\$0	\$27,776	\$0
B200	765	\$15.34	(\$2.82)	\$11,735	(\$2,160)	\$1,168	\$10,743	\$5,372	\$0	\$0	\$5,371	\$0
Storage	80	\$12.27	\$0.00	\$982	\$0	\$0	\$982	\$491	\$0	\$0	\$491	\$0
Total	39,980	\$21.75	(\$2.73)	\$869,582	(\$109,309)	\$56,485	\$816,758	\$408,381	\$0	\$0	\$408,377	\$0
Provider Fee Adjustment								(\$106,263)	\$106,263	\$0	\$0	\$0
Net Total							\$816,758	\$302,118	\$106,263	\$0	\$408,377	\$0

Table 5: Summary of 225 E 16th Ave Leased Space by Funding Source

FY 2014-15	SUMMARY BY FLOOR							FUNDING SPLIT				
Units	Square Feet	Price/ Sq Ft	Prop. Tax Adjustment	Annual Rent	Annual Tax Adjustment	Annual Adjt'l Rent	Total Rent	GF	CF	RF	FF	Grant Funded
All Units listed above	39,980	\$21.75	(\$2.73)	869,582	(\$109,309)	\$56,485	\$816,758	\$408,381	\$0	\$0	\$408,377	\$0
Portion of All								(\$106,263)	\$106,263	\$0	\$0	\$0
Net Total	39,980	\$21.75	(\$2.73)	\$869,582	(\$109,309)	\$56,485	\$816,758	\$302,118	\$106,263	\$0	\$408,377	\$0

Table 6: Derivation of FY 2014-15 Request Amount

Row	Description	TF	GF	CF	RF	FF	Grant Funded	Notes
A	Leased Space Appropriation	\$713,514	\$197,119	\$151,164	\$0	\$348,281	\$0	Continuation from FY 2013-14 Base Request
B	Estimated Expenditure	\$816,758	\$408,381	\$0	\$0	\$408,377	\$0	Tables 1 and 2: Units 120, 220, 350, 650, 690, 900, 1050, B200, and Storage
C	HB 09-1293 Adjustment	\$0	(\$106,263)	\$106,263	\$0	\$0	\$0	Tables 1 and 2: Provider Fee Adjustment
D	HRSA Adjustment	\$0	\$0	\$0	\$0	\$0	\$0	HRSA Grant Expired.
E	Total Projected Leased Space Expenditure	\$816,758	\$302,118	\$106,263	\$0	\$408,377	\$0	Row B + Row C
F	Projected Under/(Over) Expenditure	(\$103,244)	(\$104,999)	\$44,901	\$0	(\$60,096)	\$0	Row A - Row E
	Total Request Amount	\$120,194	\$104,999	(\$44,901)	\$0	\$60,096	\$0	