

Schedule 13
Funding Request for the 2013-14 Budget Cycle

Department: Health Care Policy and Financing

Request Title: HB 12-1281 Departmental Differences Reconciliation

Priority Number: R-11

Dept. Approval by: John Bartholomew *10/30/12* Date

OSPB Approval by: *Grant H. Selig* 10/30/12 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	\$43,501,296	\$0	\$44,563,780	\$1,096,749	\$995,244
	FTE	326.2	0.0	326.6	3.0	0.0
	GF	\$14,600,814	\$0	\$15,783,428	\$497,661	\$446,908
	GFE	\$0	\$0	\$0	\$0	\$0
	CF	\$2,730,341	\$0	\$2,799,822	\$0	\$0
	RF	\$1,254,902	\$0	\$1,093,465	\$0	\$0
	FF	\$24,915,239	\$0	\$24,887,065	\$599,088	\$548,336
(1) Executive Director's Office; (A) General Administration, Personal Services	Total	\$22,593,922	\$0	\$23,641,039	\$238,414	\$240,539
	FTE	326.2	0.0	326.6	3.0	0.0
	GF	\$7,971,021	\$0	\$9,149,778	\$119,207	\$120,269
	GFE	\$0	\$0	\$0	\$0	\$0
	CF	\$2,038,599	\$0	\$2,077,080	\$0	\$0
	RF	\$1,176,645	\$0	\$1,069,555	\$0	\$0
	FF	\$11,407,657	\$0	\$11,344,626	\$119,207	\$120,270
(1) Executive Director's Office; (A) General Administration, Operating Expenses	Total	\$1,625,353	\$0	\$1,557,009	(\$1,741)	(\$1,741)
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$715,356	\$0	\$708,358	(\$87)	(\$87)
	GFE	\$0	\$0	\$0	\$0	\$0
	CF	\$53,049	\$0	\$53,049	\$0	\$0
	RF	\$78,257	\$0	\$23,910	\$0	\$0
	FF	\$778,691	\$0	\$771,692	(\$87)	(\$87)
(1) Executive Director's Office; (A) General Administration, General Professional Services and Special Projects	Total	\$5,940,552	\$0	\$5,902,552	\$390,000	\$390,000
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$1,312,418	\$0	\$1,262,418	\$195,000	\$195,000
	GFE	\$0	\$0	\$0	\$0	\$0
	CF	\$437,500	\$0	\$468,500	\$0	\$0
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$4,190,634	\$0	\$4,171,634	\$195,000	\$195,000
(1) Executive Director's Office; (D) Eligibility Determinations and Client Services, Customer Outreach	Total	\$4,927,018	\$0	\$5,048,729	\$267,220	\$163,590
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$2,376,649	\$0	\$2,437,504	\$133,610	\$81,795
	GFE	\$0	\$0	\$0	\$0	\$0
	CF	\$86,861	\$0	\$86,861	\$0	\$0
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$2,463,508	\$0	\$2,524,364	\$133,610	\$81,795

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
(1) Executive Director's Office; (E) Utilization and Quality Review Contracts, Professional Services Contracts	Total	\$8,414,451	\$0	\$8,414,451	\$202,856	\$202,856
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$2,225,370	\$0	\$2,225,370	\$50,714	\$50,714
	GFE	\$0	\$0	\$0	\$0	\$0
	CF	\$114,332	\$0	\$114,332	\$0	\$0
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$6,074,749	\$0	\$6,074,749	\$152,142	\$152,142
Letternote Text Revision Required? Yes: <input type="checkbox"/> No: <input checked="" type="checkbox"/> If yes, describe the Letternote Text Revision: N/A Cash or Federal Fund Name and COFRS Fund Number: N/A Reappropriated Funds Source, by Department and Line Item Name: Approval by OIT? Yes: <input type="checkbox"/> No: <input type="checkbox"/> Not Required: <input checked="" type="checkbox"/> Schedule 13s from Affected Departments: N/A Other Information: N/A						



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-11
HB 12-1281 Departmental Differences Reconciliation*

Summary of Incremental Funding Change for FY 2013-14	Total Funds	General Fund	FTE
HB 12-1281 Departmental Differences Reconciliation	\$1,096,749	\$497,661	3.0

Request Summary:

The Department requests 3.0 FTE, \$1,096,749 total funds, \$497,661 General Fund in FY 2013-14 for the implementation of HB 12-1281, which requires the Department to accept and evaluate payment reform pilot project proposals. This request reflects the annualization of the Department's June 20, 2012 emergency supplemental request, which was approved by the Joint Budget Committee.

Problem or Opportunity:

The Department is requesting the incremental difference between the level of funding appropriated in HB 12-1281 and the level of funding indicated in the Department's fiscal note as necessary for the implementation of the bill. The Department was granted the Departmental Difference for FY 2012-13 through the emergency supplemental process. Consequently, this request reconciles only the Departmental Difference in FY 2013-14 and subsequent years.

Brief Background:

While funding was appropriated for the implementation of HB 12-1281, the amount of funding is less than the Department indicated would be needed to successfully implement the bill. The Departmental Difference is discussed in

the HB 12-1281 fiscal note, and the Department has included a comparison of the differences in table 1 of Appendix A. This request represents the incremental difference between funds appropriated and funds needed to successfully implement HB 12-1281.

The Departmental Difference is primarily the result of a difference in assumptions regarding the cost and amount of actuarial services needed and the amount of analysis the Department will need to conduct for each pilot program proposal. It is the Department's experience that even established rate setting methodologies, such as HMO rate setting, require significant external actuarial contribution and dedicated internal resources. The pilot programs will not be using established rate setting methodologies; without the requested resources to develop sound reimbursement methodologies, the state would be put at financial risk.

Since the passage of the bill, the Department has been contacted by several current care coordination organizations that have expressed their intent to submit multiple payment reform pilot program proposals. In particular, two vendors have told the Department that they plan to submit as many as four proposals each; the

original fiscal note assumed that the Department would only evaluate four proposals total. While the Department has not yet established criteria for the solicitation of proposals, it is clear that there is much interest in payment pilot programs. The Department does not believe that it will be able to successfully implement selected pilot programs with the base FY 2013-14 resources.

Resources Requested

The Departmental Differences section of the fiscal note included differences for both actuarial funding and personnel costs. The appropriation for HB 12-1281 provided less funding for actuarial work, and provided fewer FTE, than the Department requested.

The fiscal note estimated that the Department would require 60 hours of actuarial services at a rate of \$250 per hour; the Department received a total appropriation of \$60,000 for actuarial services. However, the Department anticipates that the level of actuarial involvement required to evaluate and implement proposals will be significantly higher than estimated by Legislative Council Staff. The Department anticipates that the process to determine the pilot programs will take at least 9 months of negotiations, with rigorous analysis of the proposals to ensure compliance with federal law. On average, the Department currently spends roughly \$90,000 in actuary funding for *each* of its three risk-based Medicaid managed care programs, despite the fact that each of the programs is well established and has been operational for at least a decade. Given this experience, the Department does not believe that multiple new programs, which may have never been tested in a Medicaid system before, can be evaluated with the current appropriation.

The fiscal note stated that the Department would need two 0.5 FTE (0.4 FTE each in the first year): one General Professional IV, and one Rate/Financial Analyst II. The Department's analysis identified the need for 4.0 FTE (1.7 FTE in the first year), including one General

Professional V, two General Professional IVs, and one Rate/Financial Analyst II.

The Department has hired two staff, the General Professional V and Rate/Financial Analyst II. The staff are responsible for the assessment of program methodologies, operational impacts, and estimation of fiscal impact. This includes extensive collaboration with actuaries to deconstruct the proposals, develop a comprehensive understanding of how the proposals can be incorporated within the Medicaid system, and ultimately determining feasibility of implementation. While these staff will not be determining the specific proposals, they will need to assess what risk any proposal puts to the state and to ensure that a proposal is, at a minimum, budget neutral. Stakeholder engagement will also be a key responsibility. Stakeholder engagement is both a federal requirement and necessary to ensure a viable program. Further, the stakeholder outreach process will result in multiple iterations of the aforementioned responsibilities. Following selection and implementation of the programs, these FTE will be responsible for retrospective analysis of the programs, validation of budget neutrality, and continued stakeholder engagement.

Beginning in April 2013, the two additional staff will be hired to manage the specific contracts and handle day-to-day operations. It is important to recognize the operational complexity introduced when implementing new programs. These FTE will be responsible for a host of responsibilities including, but not limited to following: client enrollment/disenrollment, dispute resolution, customer outreach, policy issues that go beyond the scope of the provider contracts, stakeholder communication in addition to that provided by the other FTE, county outreach, monthly reporting requirements, performance monitoring, and contract management.

The four FTE fill two distinct roles, technical and operational, both of which are critical to the successful implementation of HB 12-1281.

Proposed Solution:

In order for the Department to successfully comply with the requirements of the bill, the Department requests the full annualization of its June 20, 2012 emergency supplemental request.

Alternatives:

The Department does not believe there is an alternative to funding the legislatively required activities if it is to comply in a manner that does not introduce financial risk to the state.

Anticipated Outcomes:

With the funding requested, the Department will be able to select, implement, and evaluate payment reform proposals as directed by HB 12-1281.

Assumptions for Calculations:

Assumptions and calculations are shown in the attached appendix in Table 1, Table 2, and Table 3. Additional assumptions are mentioned in the background narrative.

Consequences if not Funded:

The Department is not able to absorb a project of this magnitude within the current appropriation.

This is also why the actuarial request needs to be fully funded. Although HB 12-1281 directs the Department to implement pilot programs, all managed care contracts implemented pursuant to this bill must comply with all applicable federal managed care laws and regulations, without exception. These regulations contain numerous and complicated requirements on rate setting, access to care, and state oversight. If the Department is not able to establish programs that comply with these regulations, the Department is at significant risk of losing federal funding for this program. Further, the loss of federal funds may occur retroactively, putting the state at significant, and unacceptable, risk of paying the federal government back with money from the General Fund.

Current Statutory Authority or Needed Statutory Change:

Colorado Medical Assistance Act, section 25.5-5-415 to 25.5-5-416, C.R.S. (2012) grants authority for the implementation of the payment reform pilots.