

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

**Department:** Health Care Policy and Financing

**Request Title:** Medical Management Information System Reprocurement

**Priority Number:** R-5

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

**OSPB Approval by:** *[Signature]* **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>	\$0	\$0	\$0	\$15,624,403	\$33,177,576
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$0	\$0	\$0	\$1,439,072	\$3,009,970
	GFE	\$0	\$0	\$0	\$0	\$0
	CF	\$0	\$0	\$0	\$287,834	\$607,258
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$13,897,497	\$29,560,348
<b>(1) Executive Director's Office; (C) Information Technology Contracts and Projects, MMIS Reprocurement Contracts<sup>a</sup> (new line item)</b>	<b>Total</b>	\$0	\$0	\$0	\$12,625,032	\$30,177,141
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$0	\$0	\$0	\$1,165,817	\$2,736,240
	GFE	\$0	\$0	\$0	\$0	\$0
	CF	\$0	\$0	\$0	\$232,837	\$552,209
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$11,226,378	\$26,888,692
<b>(1) Executive Director's Office; (C) Information Technology Contracts and Projects, MMIS Reprocurement Contracted Staff<sup>b</sup> (new line item)</b>	<b>Total</b>	\$0	\$0	\$0	\$2,999,371	\$3,000,435
	FTE	0.0	0.0	0.0	0.0	0.0
	GF	\$0	\$0	\$0	\$273,255	\$273,730
	GFE	\$0	\$0	\$0	\$0	\$0
	CF	\$0	\$0	\$0	\$54,997	\$55,049
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$0	\$0	\$0	\$2,671,119	\$2,671,656

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

**FY 2013-14:**  
a Of this amount, \$99,422 shall be from the Children's Basic Health Plan Trust created in 25 5 8 105, C.R.S and \$133,415 shall be from the Hospital Provider Fee Cash Fund created in 25.5 4 402.3 (4), C.R.S  
b Of this amount, \$23,620 shall be from the Children's Basic Health Plan Trust created in 25.5 8-105, C.R.S and \$31,377 shall be from the Hospital Provider Fee Cash Fund created in 25 5-4 402 3 (4), C.R.S.

**FY 2014-15:**  
a Of this amount, \$221,802 shall be from the Children's Basic Health Plan Trust created in 25 5 8-105, C.R.S. and \$330,407 shall be from the Hospital Provider Fee Cash Fund created in 25 5-4-402.3 (4), C.R.S.  
b Of this amount, \$22,053 shall be from the Children's Basic Health Plan Trust created in 25 5-8 105, C.R.S. and \$32,996 shall be from the Hospital Provider Fee Cash Fund created in 25 5-4-402.3 (4), C.R.S.

**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 2013-14 Funding Request  
November 1, 2012*

Susan E. Birch  
Executive Director

Signature

10/30/12  
Date

*Department Priority: R-5  
Medicaid Management Information System Reprourement*

Summary of Incremental Funding Change for FY 2013-14	Total Funds	General Fund	FTE
MMIS Reprourement	\$15,624,403	\$1,439,072	0.0

### Request Summary:

In order to competitively bid and procure a new Medicaid Management Information System (MMIS) and corresponding Fiscal Agent services, the Department requests a funding increase in the following amounts:

- FY 2013-14: \$15,624,403 total funds, comprised of \$1,439,072 General Fund, \$287,834 cash funds, and \$13,897,497 federal funds;
- FY 2014-15: \$33,177,576 total funds, comprised of \$3,009,970 General Fund, \$607,258 cash funds, and \$29,560,348 federal funds;
- FY 2015-16: \$32,143,637 total funds, comprised of \$2,917,621 General Fund, \$588,460 cash funds, and \$28,637,556 federal funds; and,
- FY 2016-17: \$23,991,872 total funds, comprised of \$2,180,270 General Fund, \$439,445 cash funds, and \$21,372,157 federal funds.

Cumulatively, this request is for a funding increase for the period FY 2013-14 to FY 2016-17 of \$104,937,488 total funds, comprised of \$9,546,933 General Fund, \$1,922,997 cash funds, and \$93,467,558 federal funds.

Note that the Department intends for the combined ongoing operating cost of the new MMIS components to be no greater than the currently appropriated amounts for operations of current MMIS components.

### Problem or Opportunity:

When the current MMIS and Fiscal Agent services contract ends in FY 2015-16, it must be competitively bid and reprocured in order to meet certain federal fiscal agent contracting requirements. Furthermore, the current highly outdated MMIS creates significant operational inefficiencies, limitations to the Department's ability to implement policy changes, and risks losing federal approval and federal financial participation (FFP), making reprourement an opportunity to acquire a new, modern MMIS to address these problems.

### Brief Background:

#### MMIS Purpose and Requirements

The MMIS itself is the hardware, software, and business process workflows that have been 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's core function

is to adjudicate and process the Department's medical claims and capitations for payment; it also provides other important functions including provider enrollment and management, certain client management functions, and analytics and reporting. Since the MMIS electronically processes approximately 97% of the Department's claims, its capabilities (and limitations) play a pivotal role in how the Department administers the Medicaid program.

The MMIS must meet the federal requirements issued by the Centers for Medicare and Medicaid Services (CMS) to qualify as an approved system and receive the enhanced FFP rates of 90% on Design, Development, and Implementation (DDI) costs, and 75% on operational costs. These requirements are outlined in Chapter 11 of the State Medicaid Manual (SMM), and also now include the recently issued Seven Standards and Conditions. The Seven Standards and Conditions focus primarily on progressing toward new, modern systems and processes and were built upon work that CMS, states and private industry have done over the last six years under the Medicaid Information Technology Architecture (MITA) initiative.

#### Current MMIS Overview

The current MMIS and Fiscal Agent services contract has been with Affiliated Computer Services, Inc., now Xerox, since December 1998. During this period, the MMIS and Fiscal Agent services contract was competitively bid and reprocured once, in which the incumbent vendor won the bid. The current contract's operational phase began in July 2007 using the same MMIS software as the prior contract and it expires June 30, 2015; at that time, it will be an 8-year-old contract. After 8 years, CMS has historically required the MMIS and Fiscal Agent services contract to be competitively bid and reprocured (SMM Section 2080.4); therefore, the Department must reprocure the MMIS and Fiscal Agent services by the end of the current contract to satisfy federal requirements and maintain enhanced FFP for DDI and operations. Before the current vendor, Blue Cross Blue Shield was

the MMIS and Fiscal Agent services vendor for 12 years, using the same MMIS currently utilized by the Department.

The current MMIS is highly outdated, as it is over 20 years old (with some components being over 30 years old) and is based on a 1970's general mainframe design. Several of these components were modern when first designed (e.g. the MMIS is accessible by Department users through a Windows interface), but most interactions with outside parties (including providers) are now performed through outdated and difficult-to-configure processes. While the current MMIS is sufficient to process a high volume of claims, it lacks the enhanced capabilities of modern solutions. For example, modern MMIS solutions allow for system changes through configurable technology rather than long and costly programming efforts, allow for more effective web-based interfaces rather than mainframe file exchanges, and allow for alternative health benefit packages and provider reimbursement methodologies. Since the MMIS is central to administering the Medicaid program, the manual processes and workarounds that the Department has developed around these limitations create significant operating inefficiencies and restrictions to policy changes.

#### MMIS Reprocurement Preparation

To prepare for the competitive bid and reprocurement of the MMIS, the Department was appropriated \$439,153 total funds in FY 2010-11 and \$546,400 total funds in FY 2011-12 through the Department's FY 2010-11 BA-15 "MMIS Adjustments." (Note that the funding appropriated in BA-15 for FY 2010-11 was rolled forward to FY 2011-12 in the Department's FY 2010-11 Supplemental Bill, SB 11-139.) With the preparatory activities funded by BA-15 reaching completion, the Department now requests funding to proceed with the reprocurement.

With funding appropriated under BA-15, the Department hired the management consulting firm Public Knowledge, LLC to help determine the most effective strategy for an MMIS and

Fiscal Agent services reprocurement. To this end, Public Knowledge produced the *MMIS Procurement Analysis Report* in March 2012, which led to the solution proposed in this request. The report evaluated a wide range of reprocurement strategies based on thorough research of 35 other states' recent MMIS and Fiscal Agent services reprocurement experiences, Department staff and stakeholder input, CMS input, an independent literature review, and vendor demonstrations and feedback. Of particular value in the report was the research of other states' experiences; this research has allowed the Department to incorporate the hard-won lessons of other states' reprocurement failures and successes. States indicated that failed and delayed procurements were due to unclear requirements, project management weaknesses, an inability of the state to negotiate the contract terms and conditions, underestimated project schedules and many other factors that the Department has been careful to mitigate throughout the reprocurement process. These lessons are discussed in more detail at relevant points throughout the request.

Public Knowledge has also assisted the Department in creating a Request for Proposals (RFP) to solicit bids for the MMIS. Public Knowledge facilitated over 70 hours of group sessions with staff across the Department to develop detailed requirements and priorities to include in the RFP. These efforts helped mitigate the risk of unclear requirements seen in other states and ensure that the Department gets exactly what it is asking for and needs in the RFP. Public Knowledge is in the process of writing and reviewing the RFP with the Department at the time of developing this request.

Throughout these preparatory activities for the MMIS reprocurement, the Department has been working through a transparent process and engaging potential vendors. This has included holding a vendor fair in December 2011, releasing a draft RFP on August 1, 2012 for vendor comment and allowing considerable time

for vendors to provide proposals prior to the scheduled April 1, 2013 award.

**Proposed Solution:**

To best meet the federal requirements to competitively bid and reprocure the MMIS and Fiscal Agent services contract and to address the substantial difficulties, inefficiencies, and risks posed by the current MMIS, the Department's proposed solution is to acquire a new, modern replacement MMIS. This proposed solution consists of a competitive bid and procurement for the MMIS and Fiscal Agent services to meet federal reprocurement deadlines, and replacing the current MMIS software with a modern MMIS, transferred and modified for use in Colorado, to address the current and future needs of the Department.

**Alternatives:**

In deciding upon the proposed reprocurement solution, the Department identified and considered four broad alternatives that aligned with the Department's visions and priorities, which were then researched and evaluated in the *MMIS Procurement Analysis Report* prepared by Public Knowledge. The four alternatives considered are:

1. Acquire a new MMIS (which ultimately became the Department's proposed solution);
2. Broker claims processing and administrator services through:
  - a. A competitive procurement process, or
  - b. An existing Department relationship;
3. Participate in a multi-state MMIS, and;
4. Keep the existing MMIS.

Each of the four identified alternatives encompasses a range of solutions and specific options. The following is a summary of the three alternatives that the Department ultimately did not recommend as the proposed solution. These three alternatives were deemed to be less effective, have higher long-term costs, and/or have higher risk than the proposed solution, as is discussed below.

Alternative two consists of contracting the services of vendors already processing claims in a commercial environment to process the Department's claims. While this approach could have very low implementation costs, long-term operational costs could be substantially higher than other alternatives and are at risk of not meeting CMS approval for enhanced FFP. To the Department's knowledge, CMS has never approved a broker claim approach, so the Department would need to investigate with CMS whether an enhanced match could be available. Alternative three consists of either leading or participating in a multi-state consortium to develop a multi-state MMIS. While this option would be encouraged by CMS due to its ability to leverage resources among states, it would be highly taxing to state resources and face prolonged implementation timelines and legal difficulties as a result of multi-state planning efforts. Finally, alternative four consists of a competitive bid and reprocurement of the MMIS and Fiscal Agent services, but keeping the same MMIS software currently used. This is what the Department did in its last MMIS reprocurement, and while this option would be the least expensive and resource-intensive to implement, it does not ameliorate the problems and risks associated with the current MMIS, including the risk of noncompliance with the Seven Standards and Conditions. Further, this option may still require costly system changes if the contract were to be transferred to a new vendor.

### **Anticipated Outcomes:**

#### Justification of Proposed Solution

Of all the alternatives discussed in the previous section, the Department's proposed solution of acquiring a new MMIS is the most effective way to meet the federal requirements to competitively bid and reprocure the MMIS and Fiscal Agent services contract and to address the substantial difficulties and risks posed by the current MMIS. Each alternative underwent a structured evaluation process described in the *MMIS Procurement Analysis Report* that consisted of a written assessment of each alternative based on Department priorities and Public Knowledge's

research, as well as a quantitative scoring process with Department staff and stakeholders using weighted criteria defined by the Department's procurement team. The solution now proposed in this request scored the highest of all other alternatives through this assessment process as shown in Figures 1A and 1B of the attached Appendix. After this assessment process, the solution was refined to best meet Department priorities and resource constraints using best practices and lessons learned from the 35 other states reported on by Public Knowledge, as well as feedback from vendors to the *Proposed Procurement Strategy*.

Although the proposed solution of acquiring a new, modern MMIS and Fiscal Agent services requires significant resources to implement, a modern MMIS will increase efficiencies, allow greater program flexibility, and ensure compliance with federal MMIS regulations. In addition to the technology implementation costs, the proposed solution also requires temporary staffing to assist the Department during the implementation phase to avoid the costs and delays of a failed procurement seen in other states. The temporary staffing is expected to be either at the Department or contracted out through a separate RFP process, provided through a temporary agency or a combination of both. The proposed solution is a proven approach and the traditional solution for most states in the past, meaning that unlike some alternatives, CMS approval of the solution is ensured along with the accompanying 90% FFP on Design, Development, and Implementation (DDI) costs, and 75% FFP on operational costs. The proposed solution also allows for great opportunity to meet modernization goals, addressing the limitations of the current MMIS and, based on Public Knowledge's research and vendor demonstrations, allows for faster and less costly system modifications (once the system is initially implemented) to accommodate future policy changes; such modern capabilities comply with CMS's Seven Standards and Conditions, and thus ensure continuing FFP in the future for the MMIS.

### Details of Proposed Solution

In procuring a new MMIS, the Department proposes separating the MMIS into three components - releasing three separate RFPs - and designing each RFP based on the best practices and lessons learned in other states reported in the *MMIS Procurement Analysis Report* to most effectively serve the Department's needs. Multiple RFPs encourage a "best of breed" solution by capitalizing upon vendor strengths that may specialize in one area of the overall system, as well as minimize implementation time by utilizing overlapping implementations of the components. The three components are:

1. Core MMIS and Fiscal Agent services, which will include the Provider Web Portal, currently administered by a separate vendor from the MMIS;
2. Pharmacy Benefits Management System, and;
3. Business Intelligence functions, which includes the Statewide Data and Analytics Contractor, currently administered by a separate vendor from the MMIS.

Each of the RFPs will be structured to be objectives-based (i.e. specifying the "what," not the "how) in order to encourage vendor innovations. All procurement decisions will be evaluated against the guiding principles shown in Figure 2 of the attached Appendix to ensure that risks are mitigated appropriately, the procurement is successful, and there is minimal impact to clients, the provider community and other stakeholders.

The proposed solution also requires adequate oversight and project management throughout the DDI phase, including Independent Verification and Validation (IV&V) and temporary staffing. During this phase, the Department proposes a contractor for IV&V to provide independent, technical oversight of the MMIS contractor. The Department also proposes contracting for temporary staff at the Department during the DDI phase in order to ensure adequate Departmental

oversight and resources for a successful procurement.

In addition to DDI, IV&V, and contracting costs, the Department also anticipates that certain commercial off-the-shelf products will be needed. These include, but are not limited to, analytics software, an electronic document management system, provider call center software, and project management software.

### Timeline of Proposed Solution

The Department's anticipated timeline for the proposed solution is shown in Figure 3 of the attached Appendix, and there are several important things to note. The DDI phase of the three components spans from FY 2013-14 to FY 2016-17, during which time an IV&V contractor and the temporary staff will work. For each component, the DDI is split in two phases and the component begins operating at the conclusion of the first DDI phase. Note that the first six months of the MMIS design is for business process re-engineering, a process to ensure that process changes best reflect the needs of the Department and not the MMIS contractor. The Department's solution also will require approval from CMS for an extension of the current MMIS operating contract to allow for adequate time to implement the new MMIS.

The estimated timeline is largely based on the research of other state's experiences and is structured to ensure a realistic and adequate length of time is given to development activities. Many states have had delayed implementations or have severely underestimated the time required to implement. For instance, the recent Wisconsin MMIS implementation required 46 months instead of the 24 months originally estimated, the recent Washington implementation required 64 months instead of the 30 months originally estimated, and the recent Maine implementation required 30 months instead of the 24 months originally estimated.

### **Assumptions for Calculations:**

All calculations and figures are included in the attached Appendix. The Department anticipates the total cost of the proposed solution to be \$104,937,488 over four fiscal years, based on other states' recent MMIS procurements that were reported by Public Knowledge; this cost is shown itemized by fiscal year in Figure 4. For details of the anticipated temporary staffing needs, see Figures 5A and 5B. Note that the Department intends for the combined ongoing operating cost of the new MMIS components to be no greater than the currently appropriated amounts for operations of current MMIS components.

To finance the proposed solution, a number of assumptions have been made regarding federal matching rates and state financing. The Department anticipates that CMS will support all DDI costs with 90% FFP and commercial-off-the-shelf software products and training at 75% FFP and 50% FFP, respectively. The Department intends to house this request's funding in two new line items in order to keep the funding separate from current MMIS operating appropriations and to reflect the temporary nature of the funding. The Department assumes all funding to be financed with 97% Medicaid FFP and 3% CHP+ FFP (which is 65%) pursuant to the Department's approved cost allocation methodology with CMS. In addition, state funds will utilize Hospital Provider Fee Cash financing to reflect the proportion of HB 09-1293 expansion caseload under each program. See Figures 6A through 6D for an itemized summary of the financing across fiscal years and Figures 7A through 7F for an overall summary of the request by fiscal year.

### **Consequences if not Funded:**

Without the funding presented in this request, the Department would likely have to pursue one of the alternative solutions presented above, all of which were assessed to be less effective, have higher long-term costs, and/or have higher risk than the proposed solution, as discussed in the *Alternatives* and *Anticipated Outcomes* sections.

In particular, although the alternative of keeping the current MMIS (possibly transferring to another vendor through the bidding process) is likely to be significantly less expensive to implement, it does nothing to address the substantial difficulties and risks posed by the current MMIS. For instance, the current MMIS is unable to implement Alternative Benefit Plans; thus, with the current MMIS, the Department would have to give any potential expansion populations under the federal Affordable Care Act full Medicaid benefits instead of alternative packages deemed appropriate by policy-makers. These alternative benefit packages are intended to be designed more like a commercial insurance plan, with limits on amount, duration, and scope of services. Such alternative benefit packages could better align benefits with health care needs of the population served at lower costs. Also, the current MMIS puts the Department at risk of losing enhanced FFP for MMIS operations because keeping a highly outdated MMIS contradicts the "MITA" condition of the Seven Standards and Conditions, which requires states to make measurable progress in maturity for business, architecture, and data.

If this request is not adequately funded, the state risks the high costs and lost investments of a failed or severely delayed procurement. In particular, although funding for temporary staff costs are high, Public Knowledge's research indicates that inadequate Department staff resources, either through a direct increase in staff or temporary, contract resources, are a key factor in failed or delayed MMIS procurements. The majority of all states directly contacted in Public Knowledge's study reiterated the importance of solid project governance, with a strong Project Management team and adequate staffing resources being a key factor. Maine, for example, recently implemented a new MMIS and cited its most fundamental lesson learned was the need for a strong, competent Project Management Team, both at the state and at the vendor. Arkansas was recently forced to cancel an MMIS procurement and is now beginning a new procurement citing

the need for fewer RFPs (their initial had 20), and a stronger project management approach using dedicated staff and a Project Management Office.

**Impact to Other State Government Agency:**

Not applicable.

**Cash Fund Projections:**

This request includes Cash Funds from the Children’s Basic Health Plan Trust 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 this Budget Request.

**Relation to Performance Measures:**

*Federal mandate.*

**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].