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FISCAL NOTE

Drafting Number:	LLS 18-1077	Date:	March 28, 2018
Prime Sponsors:	Sen. Crowder Rep. Beckman	Bill Status:	Senate Health and Human Services
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Bill Topic: REQUEST SELF-SUFFICIENCY WAIVER MEDICAID PROGRAM

Summary of Fiscal Impact:

<input type="checkbox"/> State Revenue	<input type="checkbox"/> TABOR Refund
<input checked="" type="checkbox"/> State Expenditure	<input checked="" type="checkbox"/> Local Government
<input type="checkbox"/> State Transfer	<input checked="" type="checkbox"/> Statutory Public Entity

This bill requires the Department of Health Care Policy and Financing (HCPF) to prepare and submit a waiver to allow the state to institute a work requirement for able-bodied adults receiving Medicaid services, and upon receipt of the waiver, to institute the requirement. This bill increases state expenditures through FY 2020-21 and increases county expenditures on an ongoing basis. Beginning in FY 2021-22, this bill decreases state expenditures.

Appropriation Summary: For FY 2018-19, this bill requires an appropriation of \$781,110 to the Department of Health Care Policy and Financing.

Fiscal Note Status: The fiscal note reflects the introduced bill.

**Table 1
State Fiscal Impacts Under SB 18-214**

		FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Revenue		-	-	-	-
Expenditures	General Fund	\$255,931	\$407,610	\$5,371,752	(\$10,977,369)
	Cash Funds	\$134,624	\$214,410	\$1,552,919	(\$9,688,838)
	Federal Funds	\$390,555	\$622,020	\$6,087,883	(\$129,499,512)
	Centrally Appropriated	\$14,073	\$18,764	\$47,494	\$42,553
	Total	\$795,183	\$1,262,804	\$13,060,048	(\$150,123,166)
	Total FTE	2.3 FTE	3.0 FTE	9.0 FTE	8.0 FTE
Transfers		-	-	-	-

Summary of Legislation

No later than March 30, 2019, this bill requires the Department of Health Care Policy and Financing (HCPF) to prepare and submit a section 1115 demonstration waiver to the federal Centers for Medicare and Medicaid Services (CMS) to allow the state to institute a work requirement for able-bodied adults receiving Medicaid services. If the waiver is granted, able-bodied adults must become employed, actively seek employment, attend job or vocation training, or volunteer with a nonprofit for at least 20 hours per week in order to be eligible for Medicaid. The bill requires able-bodied adults to verify income monthly for eligibility redetermination, and establishes a lifetime limit of five years for Medicaid services.

These requirements do not apply if the individual receiving services is attending high school, pregnant, the sole caregiving for a family member under the age of five, or is receiving temporary or long-term disability benefits.

Beginning in 2018, and each year thereafter, HCPF must report on the status of this waiver to the health committees of the General Assembly.

Background and Assumptions

Section 1115 demonstration waivers. These waivers approve experimental, pilot, or demonstration projects to give states flexibility to design and implement programs. A Section 1115 demonstration waiver is required to implement this bill. Costs in the fiscal note are based on the waiver being approved by the federal government to allow implementation of the requirement on January 1, 2021.

Caseload impact. The current Medicaid caseload in Colorado is projected to be 1,376,429 persons in FY 2020-21. Of this population, it is estimated that 668,542 people in FY 2020-21 will be subject to the work requirements of this bill. This includes several eligibility groups, including expansion adults and parents/caretakers, non-expansion parents/caretakers, and former foster care youth.

Based on analysis done by the Kaiser Family Foundation using the U.S. Census Bureau's Current Population Survey for March 2017, it is estimated that approximately 13 percent of Medicaid recipients subject to the work requirements in this bill are both able-bodied and unemployed. It is assumed that 25 percent of this group would comply with the work or eligibility requirements of this bill. The remaining 75 percent of these Medicaid recipients, or approximately 4.74 percent of all Colorado Medicaid recipients.

State Expenditures

Under this bill, there will be a net increase in state General Fund, cash fund, and federal expenditures of \$795,183 in FY 2018-19, \$1.3 million in FY 2019-20, and \$13.1 million in FY 2020-21. There will be a net decrease in state General Fund, cash fund, and federal expenditures of \$150.1 million in FY 2021-22, and subsequent years.

**Table 2
 Expenditures Under SB 18-214**

	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
Department of Health Care Policy and Financing				
Personal Services	\$154,126	\$205,500	\$520,141	\$466,041
Operating Expenses	\$16,294	\$2,850	\$41,471	\$7,600
Training and Outreach	\$135,690	\$135,690	\$100,000	-
Waiver Preparation and Evaluation	\$475,000	\$400,000	\$150,000	\$150,000
Information Technology	-	-	\$13,639,734	\$22,544,050
Administration Costs	-	-	\$40,718,621	\$91,878,437
Operational Workload Study	-	\$500,000	\$500,000	\$500,000
Medical Services Costs	-	-	(\$42,657,412)	(\$265,711,847)
Centrally Appropriated Costs*	\$14,073	\$18,764	\$47,494	\$42,553
FTE – Personal Services	2.3 FTE	3.0 FTE	9.0 FTE	8.0 FTE
Total Cost	\$795,183	\$1,262,804	\$13,060,049	(\$150,123,166)
Total FTE	2.3 FTE	3.0 FTE	9.0 FTE	8.0 FTE

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

Personal services. Beginning in FY 2018-19, this bill requires 3.0 FTE to oversee the implementation of the section 1115 demonstration waiver, conduct stakeholder outreach, implement eligibility determination systems, and to manage an increase in appeals. Costs for these positions are prorated to reflect a September 1, 2018, start date and the General Fund pay date shift.

Further, the department will require an additional 6.0 FTE in FY 2020-21 and 5.0 FTE in FY 2021-22 to manage increased call volume related to the new monthly eligibility determination requirements, develop and provide training for all eligibility determination and care management staff, including county departments and other eligibility sites, and study the implementation of county workload and operational processes. These positions are prorated in the first year to account for a July 1, 2021, start date and the General Fund paydate shift. Personal services costs are broken above out in Table 2. It is assumed that the need for these positions will decrease after FY 2021-22.

Training and outreach. HCPF will have costs of \$135,690 in FY 2018-19 and FY 2019-20, and \$100,000 in FY 2020-21 to overhaul existing training curriculum and deliver training materials in person to the approximately 4,500 eligibility determination and care management staff across the state. Additional training will be required to update staff in regional offices on the policy changes.

Waiver preparation and evaluation. Beginning in FY 2018-19, HCPF will have costs to contract with a consultant to write and submit the section 1115 demonstration waiver application and to develop evaluation methodology for data collection and review. This workload includes a creating comprehensive program description, an estimate of expenditures, and written

documentation of the state's compliance with public notice requirements. This analysis assumes that the department will require 2,000 hours of contracting at \$200 per hour, or \$400,000, in FY 2018-19 and FY 2019-20 to write and implement the waiver. Additionally, 750 hours at \$200 per hour, or \$150,000, will be required in future years to provide ongoing monitoring and compliance of the waiver.

Additionally, this bill will require the development of an actuarially sound cost analysis. In FY 2018-19 only, \$75,000 will be required to retain a contract actuary to develop actuarially sound rates and estimates prior to the submission of the waiver.

Information technology. This bill will increase Colorado Benefits Management System (CBMS) development costs by \$13.6 million in FY 2020-21 and \$22.5 million in FY 2021-22. These costs are explained below.

System development. This bill will require approximately 21,500 hours of computer programming at \$134 per hour, or \$2.8 million, to develop a new verification checklist and notice of action language for correspondence.

CBMS printing and mailing. Creating a system of income verification will increase correspondence to Medicaid recipients. This cost is estimated to be \$2.7 million in FY 2020-21 and \$6.1 million in FY 2021-22. Costs are adjusted in the first year to account for an implementation date of January 1, 2021. It is assumed that each letter costs \$0.80, with an estimated 685,688 subject to monthly verification.

Monthly income verification interface. The bill will increase costs by \$8.0 million in FY 2020-21 and \$16.5 million in FY 2021-22 to create an automated interface to check client eligibility monthly. Costs are prorated in the first year to account for an assumed January 2020 implementation date.

Administration costs. Medicaid administrative costs will increase by \$40.7 million in FY 2020-21 and \$91.9 million in FY 2021-22. Of this, 90 percent will be sent to counties and 10 percent will be retained by HCPF to be used as a contingency to ensure access for members that are erroneously terminated from their coverage. This increase is driven by the requirement to verify client income requirements and work requirements monthly, and to reenroll persons who regain Medicaid eligibility after a period of unemployment.

Under current law, it is estimated that approximately 33 percent of expenditures are used for eligibility determination, which is estimated to be approximately \$16.8 million in FY 2020-21. This analysis assumes that eligibility determination is conducted monthly instead of annually, and 49.82 percent of Medicaid recipients will be subject to the work requirements in this bill. It is assumed that any additional expenditures beyond this estimate will be addressed in the budget process. Costs are prorated in the first year to account for a January 2021 implementation date.

Operational workload study. Beginning in FY 2019-20, expenditures will increase by \$500,000 per year for three years to study the impacts of this bill to county workload and consult with counties on operational process implementation. This study will also include updated fiscal estimates to county administration funding and a detailed workload study.

Medical services costs. This bill will decrease medical services costs by \$42.7 million in FY 2020-21 and \$265.7 million in FY 2021-22. This decrease is described below.

Medical services premiums. This bill will decrease medical services premiums by \$37.0 million in FY 2020-21 and \$229.3 million in FY 2021-22. It is assumed that approximately 4.74 percent of Medicaid recipients, or 65,183 recipients in FY 2020-21, will lose Medicaid coverage due to the work requirements in this bill. The FY 2020-21 impact assumes an average per capita expenditure of approximately \$3,410, with disenrollments beginning April 1, 2021. The impact in FY 2021-22 represents the first full year of this bill's implementation.

Behavioral health expenditures. This bill will decrease behavioral health spending by \$5.6 million in FY 2020-21 and \$36.4 million in FY 2021-22. It is assumed that approximately 9.75 percent of Medicaid recipients subject to the work requirements in this bill, or 65,183 recipients, will lose Medicaid coverage due to the work requirements in this bill. The FY 2020-21 impact assumes an average per capita expenditure for behavioral health of approximately \$517, with disenrollments beginning April 1, 2021. The impact in FY 2021-22 represents the first full year of this bill's implementation.

Office of Administrative Courts. To the extent that more individuals are determined ineligible for Medicaid services, workload in the Office of Administrative Courts in the Department of Personnel and Administration may increase to hear potential cases related to these benefits. It is assumed that the need for any additional funding will be addressed in the budget process.

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. These costs, which include employee insurance and supplemental employee retirement payments, are estimated to be \$14,073 in FY 2018-19 and \$18,764 in FY 2019-20.

Local Government

This bill will increase revenue, workload, and expenditures for county governments. Specifically, this bill will increase county expenditures of state administrative funds by \$36.6 million in FY 2020-21 and \$82.7 million in FY 2021-22. Costs in the first year are adjusted to account for an assumed January 2021 waiver implementation date. This workload and expenditure increase is attributed to checking income verification and work requirements monthly.

Statutory Public Entity

Revenue, workload and expenditures will increase for Connect for Health Colorado, which is the state's health insurance exchange that was established in response to federal health care reform under the Affordable Care Act. Assuming 20 percent of individuals who are determined ineligible for Medicaid services enroll through the exchange, revenue will increase for Connect for Health Colorado by approximately \$3.5 million. Additionally, expenditures will increase for Connect for Health Colorado by approximately \$100,500 for marketing and technology costs.

Effective Date

The bill takes effect August 8, 2018, if the General Assembly adjourns on May 9, 2018, as scheduled, and no referendum petition is filed.

State Appropriations

For FY 2018-19, the bill requires the following appropriations to the Department of Health Care Policy and Financing:

- \$225,931 General Fund;
- \$134,624 Healthcare Affordability and Sustainability Fee Cash Fund; and
- \$390,555 federal funds.

State and Local Government Contacts

Counties	Health Care Policy and Financing
Human Services	Information Technology
Personnel	Colorado Health Benefit Exchange