

**COLORADO GENERAL ASSEMBLY  
JOINT BUDGET COMMITTEE**



**INTERIM SUPPLEMENTAL REQUESTS FOR  
FY 2014-15**

**DEPARTMENT OF HEALTH CARE POLICY AND  
FINANCING**

**(Executive Director's Office, Medical Services Premiums, Indigent Care Programs, and  
Other Medical Programs)**

**JBC Working Document - Subject to Change  
Staff Recommendation Does Not Represent Committee Decision**

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## Prioritized Interim Supplemental Requests

### INTERIM SUPPLEMENTAL REQUEST, DEPARTMENT PRIORITY #1 COUNTY ADMINISTRATION

	Request	Recommendation
Federal Funds	\$2,224,426	\$0

<p><b>Does JBC staff believe the request satisfies the interim supplemental criteria of Section 24-75-111, C.R.S.?</b> [The Controller may authorize an overexpenditure of the existing appropriation if it: (1) Is approved in whole or in part by the JBC; (2) Is necessary due to unforeseen circumstances arising while the General Assembly is not in session; (3) Is approved by the Office of State Planning and Budgeting (except for State, Law, Treasury, Judicial, and Legislative Departments); (4) Is approved by the Capital Development Committee, if a capital request; (5) Is consistent with all statutory provisions applicable to the program, function or purpose for which the overexpenditure is made; and (6) Does not exceed the unencumbered balance of the fund from which the overexpenditure is to be made.]</p>	<b>NO</b>
<p><b>Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?</b> [An emergency or act of God; a technical error in calculating the original appropriation; data that was not available when the original appropriation was made; or an unforeseen contingency.]</p>	<b>YES</b>
<p>JBC staff and the Department agree that this request meets the JBC's supplemental criteria as the result of data that was not available when the original appropriation was made. However, the JBC staff does not agree with the Department that this request meets the statutory interim supplemental criteria of being "<u>necessary</u>" due to unforeseen circumstances".</p>	

**Department Request:** The Department requests \$2.2 million additional federal funds spending authority in FY 2014-15 for County Administration, based on a revised estimate of activities eligible for an enhanced federal match. The County Administration line item reimburses counties for their work in determining Medicaid eligibility. Prior to the Affordable Care Act, eligibility determination activities received a 50 percent match. After the Affordable Care Act the federal government began reimbursing states for certain Medicaid eligibility determination activities at a 75 percent match rate. However, because the Department had not previously tracked the specific activities eligible for the enhanced match, there was some uncertainty about how much of the work by counties would qualify for the enhanced match. The Department originally estimated that 56 percent of county activities would qualify for the enhanced match, but the actual experience has been 65 percent. With additional spending authority from the JBC, the Department could draw more federal funds to reimburse counties with no increased General Fund cost.

Absent action by the JBC, the Department anticipates the state would still earn the additional federal funds based on county expenditures, but the General Fund spending authority would decrease by the amount of the increase in federal funds, due to the "(M)" note restriction on the line item. Pursuant to the headnotes to the Long Bill, a "(M)" note reduces the General Fund spending authority for a line item if the federal funds increases or decreases or the state matching requirement is reduced. The purpose of the "(M)" note is to preserve legislative authority in the

event of a change in the match rate from the assumptions used for the appropriation. The policy issue the Department is asking the JBC to decide can be boiled down to whether: (1) counties should be allowed to receive more funds for their eligibility determination work with no change in the General Fund cost; or (2) total reimbursement to the counties should remain the same but the General Fund should be reduced to account for the improved match rate.

When the Department first learned that enhanced federal funding would be available for eligibility determination activities, the Department proposed, and the General Assembly approved, several strategic initiatives. The enhanced federal funding for eligibility determinations resulted from a federal interpretation of provisions in the Affordable Care Act that the Department did not anticipate. The first proposal from the Department for how to spend the additional funding came through an interim supplemental request in September 2013 for FY 2013-14. It included funding to address data transfer issues between the Colorado Benefits Management System and Connect for Health Colorado, centralized contract staff to assist counties overwhelmed by spikes in applications as a result of the Affordable Care Act, and funding for counties to help process the additional applications. The second proposal came in R6 of the FY 2014-15 request and included continuing the second year costs of the supplemental plus funding for new initiatives that included: competitive grants for counties to improve their infrastructure for handling eligibility determinations; incentive payments for counties that meet performance objectives related to timely application processing; a study of the eligibility determination payment system; and beginning to reimburse Medical Assistance sites that perform similar work to counties for their help in processing applications. These strategic initiatives addressed identified weaknesses in the eligibility determination system and some components included performance measures and incentives.

The current request is to increase payments for counties for eligibility determinations based on a projection of actual allowable costs. The county employees who work on Medicaid eligibility determinations also work on eligibility determinations for other public assistance programs, such as food stamps, adult financial assistance, child support enforcement, and the Low-income Energy Assistance Program. A random moment sampling system allocates county worker time to each public assistance program. Section 24-75-106, C.R.S., allows transfers between the various line items funding the county administration of different public assistance programs, if the random moment sampling shows a distribution of time that varies from the appropriation. Counties are responsible for paying a portion of eligibility determination costs for the public assistance programs, which amount varies by program. The county match offsets the need for General Fund and creates a disincentive for counties to simply increase costs to draw more funding. After accounting for the expected county contribution, Medicaid has been able to fully fund counties for their allowable costs for the last couple years. However, the total state funding for county administration for all public assistance programs combined has routinely been less than the actual allowable costs. It is important to note that actual allowable costs are not the same as minimum necessary costs and some counties make decisions to increase expenditures knowing they may not receive full reimbursement from the state.

**Staff Recommendation:** Staff does not recommend approval of the request for several reasons:

1. The Department did not provide sufficient arguments for why county funding should increase
2. The Department does not have a coherent strategy for how to reimburse for eligibility determination services
3. Relative to the total funds provided for county administration, the requested funding is a small adjustment
4. The request does not meet the statutory criteria for interim supplementals

First, the Department did not provide sufficient arguments for why county funding should increase. The Department projects that in FY 2014-15 allowable county expenditures for Medicaid will exceed the appropriation, but when all county administration expenses are considered the total state appropriations are frequently less than the allowable expenditures, and so this is not new or unusual. Counties have discretion over their expenditures. The Department has not presented evidence that counties are being efficient in their expenditures or that the county expenditures are proportional to the increased caseload volume or that county expenditures are appropriate for the work required. As noted above, previous proposals for spending the enhanced federal match either: (1) addressed specific identified shortcomings in the system, such as correcting data transfers with Connect for Health or providing a contingency for backlogs created by ACA implementation; or (2) included performance elements, such as the competitive grants for infrastructure improvement or the incentive payments for timely processing applications. This proposal just provides more money for counties without targeting it to a specific purpose or tying it to performance.

Second, the Department does not have a coherent strategy for how to reimburse for eligibility determination services. The Department touts the plethora of ways to gain eligibility for Medicaid as a positive for access, indicating "there is no wrong door" for eligibility. However, there are currently significant variations in the Department's reimbursement for different eligibility service providers per application processed and not all of the variations are easily explained by factors such as economies of scale, the complexity of applications processed, or the adequacy of the physical and technological infrastructure. In R6 of the FY 2014-15 request the Department promised a study of the different ways of reimbursing for eligibility determination services. However, the scope of the completed study was narrower than what the JBC staff expected (it focused on the development of a reimbursement method for Medical Assistance sites) and it did not provide recommendations for reforming the payment system for eligibility determinations. Despite the lack of a comprehensive analysis of the reimbursement system for eligibility determinations, the Department has decided to transfer the administration of applications through the on-line Program Eligibility and Application Kit (PEAK) from a statewide contractor to the county of residence. According to the Department, incomplete or problematic applications were getting transferred from the statewide contractor to counties, resulting in a duplication of effort and expense. The JBC staff is concerned that decisions like this are being made without consideration for what should be the reasonable cost per application, how improved technology and automation have changed the eligibility determination process in recent years, or whether applications could be handled more efficiently with a centralized model. Perhaps there was duplication of effort with PEAK, but maybe more work should have been

done centrally instead of distributed to the counties. This supplemental proposal seeks to increase funding for counties because there are allowable costs and federal funding is available, but it does not answer long-standing questions about whether the amount the state is paying to counties is the correct amount or whether the work could be done more efficiently centrally.

Third, relative to the total funds provided for county administration the requested supplemental is a small adjustment. In addition to the \$51.4 million for Medicaid county administration, counties were appropriated in FY 2014-15 \$57.4 million in the Department of Human Services for the administration of food stamps, child support enforcement, adult financial assistance, and the Low-income Energy Assistance Program (LEAP). Also, portions of the child welfare and child care grants may be used for administration. The people who determine eligibility for these programs are all the same county staff. The projected shortfall in funding for the Medicaid program is relatively small compared to the total funding provided by the state from all sources for all forms of county administration.

Fourth, the JBC staff does not believe the request meets the statutory criteria for interim supplementals. The statutory criteria require that a supplemental be, "necessary due to unforeseen circumstances." The term "necessary" is open to interpretation, but failure to approve this supplemental request would not prevent the Department from performing its duties, and so the JBC staff does not view this request as "necessary." The Department is projecting a shortfall in funding for Medicaid county administration, but as noted above Medicaid county administration is only a portion of total county administration. The General Assembly has routinely underfunded total county administration relative to allowable costs. The JBC might decide that increasing county administration funding is good policy, but if so, the JBC staff believes that policy would be better implemented through the regular budget process than an interim supplemental.

If the JBC adopts the staff recommendation, then the JBC staff expects the "(M)" note would cause a restriction on the General Fund for the County Administration line item and the Department would revert \$1,260,543 General Fund at the end of the fiscal year. The "(M)" note does not apply to the Hospital Provider Fee County administration line item, so counties can keep any additional federal funds earned through that line item. The JBC staff projection of the General Fund reversion from the County Administration line item is less than the Department's requested increase in federal funds. This is because the Department's request included a small technical error that made it appear there was excess General Fund, and the Department assumed that counties would use all the available General Fund to maximize the federal funds. After correcting the technical error, there is no projected excess General Fund to draw an additional federal match.

*JBC Staff Interim Supplemental Recommendations: FY 2012-13*  
*Staff Working Document – Does Not Represent Committee Decision*

	<b>County Administration</b>				
	<b>TOTAL</b>	<b>General Fund</b>	<b>Local</b>	<b>HPF</b>	<b>Federal</b>
Appropriation	<u>\$51,442,144</u>	<u>\$10,572,620</u>	<u>\$5,707,810</u>	<u>\$3,208,371</u>	<u>\$31,953,343</u>
County Administration	41,718,342	10,572,620	5,707,810	0	25,437,912
Hospital Provider Fee County Administration	9,723,802	0	0	3,208,371	6,515,431
Grant set asides	<u>3,853,905</u>	<u>2,853,905</u>	<u>0</u>	<u>500,000</u>	<u>500,000</u>
Incentive payments for timely processing	2,853,905	2,853,905	0	0	0
Infrastructure improvement grants	1,000,000	0	0	500,000	500,000
Appropriated non-grant funds to counties	<u>47,588,239</u>	<u>7,718,715</u>	<u>5,707,810</u>	<u>2,708,371</u>	<u>31,453,343</u>
County Administration	38,864,437	7,718,715	5,707,810	0	25,437,912
Hospital Provider Fee County Administration		0	0	2,708,371	6,015,431
Projected non-grant allowable expenditures	<u>49,591,137</u>	<u>7,718,715</u>	<u>6,153,439</u>	<u>2,708,371</u>	<u>33,010,612</u>
County Administration	40,570,609	7,718,715	6,153,439	0	26,698,455
Hospital Provider Fee County Administration	9,020,528	0	0	2,708,371	6,312,157
Difference	<u>2,002,898</u>	<u>0</u>	<u>445,629</u>	<u>0</u>	<u>1,557,269</u>
County Administration	1,706,172	0	445,629	0	1,260,543
Hospital Provider Fee County Administration	296,726	0	0	0	296,726
JBC Staff projected (M) note restriction	(1,260,543)	(1,260,543)	0	0	0

*The rules governing interim supplementals in Section 24-75-111 (5), C.R.S., require the Committee to introduce all interim supplementals that it approves.*

	FY 2013-14	FY 2014-15	Fiscal Year 2014-15 Interim Supplemental		
	Actual	Appropriation	Requested Change	Recommended Change	New Total with Recommendation
<b>DEPARTMENT OF Health Care Policy and Financing</b>					
<b>Executive Director - Susan Birch</b>					
<b>Interim Supplemental #1 - County Administration</b>					
<i>(1) Executive Director's Office</i>					
<i>(D) Eligibility Determinations and Client Services</i>					
County Administration	<u>34,733,208</u>	<u>41,718,342</u>	<u>2,224,426</u>	<u>0</u>	<u>41,718,342</u>
General Fund	8,558,486	10,572,620	0	0	10,572,620
Local Funds	4,460,662	5,707,810	0	0	5,707,810
Federal Funds	21,714,060	25,437,912	2,224,426	0	25,437,912
Hospital Provider Fee County Administration	<u>4,654,643</u>	<u>9,723,802</u>	<u>0</u>	<u>0</u>	<u>9,723,802</u>
Hospital Provider Fee	1,752,329	3,208,371	0	0	3,208,371
Federal Funds	2,902,314	6,515,431	0	0	6,515,431
<b>Total for Supplemental #1</b>	<u>39,387,851</u>	<u>51,442,144</u>	<u>2,224,426</u>	<u>0</u>	<u>51,442,144</u>
General Fund	8,558,486	10,572,620	0	0	10,572,620
Cash Funds	6,212,991	8,916,181	0	0	8,916,181
Federal Funds	24,616,374	31,953,343	2,224,426	0	31,953,343



	FY 2013-14	FY 2014-15	Fiscal Year 2014-15 Interim Supplemental		
	Actual	Appropriation	Requested Change	Recommended Change	New Total with Recommendation
<b>Totals</b>					
DEPARTMENT OF HEALTH CARE POLICY AND FINANCING					
TOTALS for ALL Departmental line items	6,380,769,096	7,931,705,080	2,224,426	0	7,931,705,080
FTE	<u>363.7</u>	<u>390.9</u>	<u>0.0</u>	<u>0.0</u>	<u>390.9</u>
General Fund	2,084,486,244	2,352,444,300	0	0	2,352,444,300
Cash Funds	883,457,087	899,805,052	0	0	899,805,052
Reappropriated Funds	7,232,284	6,104,791	0	0	6,104,791
Federal Funds	3,405,593,481	4,673,350,937	2,224,426	0	4,673,350,937

Key:

"N.A." = Not Applicable or Not Available