

STATE OF COLORADO FY 2009-10 BUDGET REQUEST CYCLE: DEPARTMENT OF HEALTH CARE POLICY AND FINANCING

Schedule 13											
Change Request for FY 2009-10 Budget Request Cycle											
Decision Item FY 2009-10 <input checked="" type="checkbox"/>		Base Reduction Item FY 2009-10 <input type="checkbox"/>			Supplemental FY 2008-09 <input type="checkbox"/>			Budget Amendment FY 2009-10 <input type="checkbox"/>			
Request Title:		Annual Medicaid Management Information System Cost Adjustment									
Department:		Health Care Policy and Financing			Dept. Approval by:		John Bartholomew <i>JB</i>		Date:		October 31, 2008
Priority Number:		DI-10			OSPb Approval:		<i>In M 3</i>		Date:		10-21-08
		1	2	3	4	5	6	7	8	9	10
		Prior-Year		Supplemental	Total	Base	Decision/	November 1	Budget	Total	Change
		Actual	Appropriation	Request	Revised	Request	Base	Request	Amendment	Revised	from Base
	Fund	FY 2007-08	FY 2008-09	FY 2008-09	FY 2008-09	FY 2009-10	FY 2009-10	FY 2009-10	FY 2009-10	FY 2009-10	FY 2010-11
Total of All Line Items	Total	0	24,094,147	0	24,094,147	23,489,449	290,117	23,779,566	0	23,779,566	290,117
	FTE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	GF	0	5,499,078	0	5,499,078	5,382,396	70,353	5,452,749	0	5,452,749	70,353
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	1,881,903	0	1,881,903	1,833,613	3,046	1,836,659	0	1,836,659	3,046
	CFE/RF	0	100,328	0	100,328	100,328	0	100,328	0	100,328	0
	FF	0	16,612,838	0	16,612,838	16,173,112	216,718	16,389,830	0	16,389,830	216,718
(1) Executive Director's Office; (C) Information Technology Contracts and Projects, Information Technology Contracts*	Total	0	24,094,147	0	24,094,147	23,489,449	290,117	23,779,566	0	23,779,566	290,117
	FTE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	GF	0	5,499,078	0	5,499,078	5,382,396	70,353	5,452,749	0	5,452,749	70,353
	GFE	0	0	0	0	0	0	0	0	0	0
	CF	0	1,881,903	0	1,881,903	1,833,613	3,046	1,836,659	0	1,836,659	3,046
	CFE/RF	0	100,328	0	100,328	100,328	0	100,328	0	100,328	0
	FF	0	16,612,838	0	16,612,838	16,173,112	216,718	16,389,830	0	16,389,830	216,718
*Prior to the reorganization of the Department's budget in the FY 2008-09 Long Bill HB 08-1375, funding for the Medicaid Management Information System contract was appropriated in Long Bill Group (1) Executive Director's Office; Medicaid Management Information System Contract.											
Non-Line Item Request:		None									
Letternote Revised Text:		Of the cash funds amount, \$246,126 shall be from the Children's Basic Health Plan Trust; \$1,303,749 shall be from the Colorado Cares Rx Program Fund; \$284,899 shall be from the Health Care Expansion Fund; and \$1,885 shall be from the Colorado Autism Treatment Fund.									
Cash or Federal Fund Name and COFRS Fund Number:				CF: Children's Basic Health Plan Trust Fund 11G, Colorado Cares Rx Program Fund 21M, Health Care Expansion Fund 18K, and Colorado Autism Treatment Fund 18A, FF: Title XIX.							
Reappropriated Funds Source, by Department and Line Item Name:				N/A							
Approval by OIT?		Yes: <input type="checkbox"/> No: <input checked="" type="checkbox"/>		N/A: <input type="checkbox"/>							
Schedule 13s from Affected Departments:				N/A							

CHANGE REQUEST for FY 2009-10 BUDGET REQUEST CYCLE

Department:	Health Care Policy and Financing
Priority Number:	DI-10
Change Request Title:	Annual Medicaid Management Information System Cost Adjustment

SELECT ONE (click on box):

- Decision Item FY 2009-10
- Base Reduction Item FY 2009-10
- Supplemental Request FY 2008-09
- Budget Request Amendment FY 2009-10

SELECT ONE (click on box):

Supplemental or Budget Request Amendment Criterion:

- Not a Supplemental or Budget Request Amendment
- An emergency
- A technical error which has a substantial effect on the operation of the program
- New data resulting in substantial changes in funding needs
- Unforeseen contingency such as a significant workload change

Short Summary of Request:

This request is for \$290,117 in total funds to fund an increase for the fixed-price portion of the Medicaid Management Information System contract. This amount represents the negotiated increase for the administrative functions performed by the Department's fiscal agent, Affiliated Computer Services, Inc.

Background and Appropriation History:

Section 1903(r)(1) of the Social Security Act states that, to receive federal funding for use of automated data systems in administration of the Medicaid program, the State must have a mechanized claims processing and information retrieval system. The Centers for Medicare and Medicaid Services' State Medicaid Manual, Chapter 11, states that for Medicaid purposes, the mechanized system is the Medicaid Management Information System (MMIS). The MMIS is a system of software and hardware used to process Medicaid claims and manage information about Medicaid beneficiaries and services. The system may be operated by either a state agency or a fiscal agent, which is a private contractor hired by the state.

Section 1903(a) of the Social Security Act authorizes a 90% federal reimbursement rate for design, development, or installation of an MMIS and a 75% reimbursement rate for operation of an MMIS. The Centers for Medicare and Medicaid Services' State Medicaid Manual identifies the specific types of MMIS costs that are allowable for federal reimbursement. For such costs to be allowable at the enhanced rate of 75%, they must be related to the operations of the MMIS for ongoing automated processing of claims, payments, and reports.

In Colorado, the MMIS processes or adjudicates claims and capitations based on edits that determine payment or payment denial and performs prior authorization reviews for certain medical services and pharmacy prescriptions. Warrants are produced by the State based on the information electronically transmitted from the MMIS.

Beginning March 1, 2004, a portion of the MMIS contract was converted to a fixed-price contract. This move toward a fixed-price contract was the result of three managed care organizations leaving the Medicaid market in FY 2002-03 and the subsequent increase in claims processing for moving these clients into a fee-for-service environment. By moving to a fixed-price contract, the Department was able to contain costs related to claims processing, prior authorization reviews, and some administrative or operational functions. Any remaining functions provided by the fiscal agent, such as pharmacy prior authorization reviews, development costs, and postage that were more difficult to predict, were excluded from fixed-price and paid based on actual expenditures.

During the FY 2006-07 procurement process, the request for proposals submitted to the public specified that the Department wanted to continue the fixed-price arrangement but include more administrative or operational functions under the fixed-price portion. As a result of this procurement, on July 1, 2007, the MMIS fixed-price contract now covers:

- Base operations, including administrative costs;
- Regular Medicaid claims processing;
- Children's Basic Health Plan capitation payments processing;
- Breast and Cervical Cancer Prevention and Treatment claims processing;

- Nurse Home Visitor claims processing;
- SB 04-177 Autism claims processing and prior authorization reviews;
- Orthodontia prior authorization reviews;
- Old Age Pension State Medical Program claims processing;
- School Based Health claims processing;
- Health Care Expansion population claims processing and disk maintenance;
- Health Care Expansion population pharmacy prior authorization reviews;
- Drug Rebate Analysis and Management System, and;
- Regular Medicaid pharmacy prior authorization reviews.

The only two items that remain outside the fixed-price portion are development costs for systems or programming changes to implement new legislation and postage costs. Postage costs were excluded from the fixed-price portion due to the Department not being able to determine when the United States Post Office would increase postage rates.

During the bidding process to the request for proposals, the fiscal agent provided bids for FY 2007-08, FY 2008-09, and FY 2009-10. After the incumbent fiscal agent was reselected, the Department entered into negotiations with the fiscal agent to finalize the contract. Part of these negotiations included annual cost-of-living increases for administrative costs incurred by the contractor. Prior to the recent reprocurement process, the fixed-price agreements with Affiliated Computer Services, Inc. included a cost-of-living increase. The table below shows the contractual cost increases for cost-of-living adjustments agreed to by the Department and fiscal agent.

Fiscal Year	Fixed Price Amount	Percent Increase
FY 2007-08	\$21,136,463	N/A
FY 2008-09	\$21,446,002	1.46%
FY 2009-10	\$21,736,119	1.35%

General Description of Request:

During contract negotiations, the Department and fiscal agent agreed to \$21,736,119 for all services covered under the fixed-price portion in FY 2009-10. This amount represents an increase of \$290,117 over the FY 2008-09 fixed-price amount. While the increase would allow the fiscal agent to cover increases for their internal operating expenditures during FY 2009-10, the additional funding is not directly associated with any increase in operational responsibility or claims volume.

Benchmarking

The percent increase for FY 2009-10 is equal to 1.35%, and when compared to the forecasted Colorado inflation rates listed in the June 2008 Revenue Forecast, page 13, issued by the Office of State Planning and Budgeting, this amount is well below anticipated inflation rates for calendar years 2008 and 2009. The following table compares the requested percent increase to the forecasted inflation rates.

Calendar Year	OSPB inflation forecast	MMIS Contract period	Percent increase for fixed-price contract
CY 2008	3.0%	FY 2008-09	1.46%
CY 2009	3.2%	FY 2009-10	1.35%

Additionally, the requested fixed-price percent increase for FY 2009-10 is substantially less than the increases for fixed-price in prior fiscal years which assumed fewer administrative responsibilities for the fiscal agent.

Fiscal Year	Fixed-price percent increase
FY 2004-05	N/A
FY 2005-06	3.7%
FY 2006-07	3.1%
FY 2007-08	-3.4%
FY 2008-09	1.46%
FY 2009-10	1.35%

Data source: Percentage increases were calculated from negotiated contract amounts with fiscal agent, Affiliated Computer Services.

Consequences if Not Funded:

If the request for additional funding is denied, then the Department would need to stop claims processing five days before the end of the fiscal year in order to manage expenditures under the existing appropriation. Consider the total requested fixed-price amount of \$21,736,119 for FY 2009-10 divided by 365 days. This yields an average daily rate of claims processing costs of \$59,551. Dividing the requested increase amount of \$290,117 by the average daily rate of \$59,551 equates to five days. Also, if prior authorization reviews needed to cease during those five days of stoppage, clients awaiting authorization for prescription drugs would need to be provided with three-day emergency supplies until the next fiscal year rather than a normal full prescription. This would require clients to make additional trips to receive their medications, and require the State to pay additional dispensing fees for filling these small prescriptions.

Additionally, if the Department does not honor the contractual obligations with the fiscal agent, then the Department risks future litigation costs that could exceed the requested General Fund amount of \$70,353.

Calculations for Request:

Summary of Request FY 2009-10	Total Funds	General Fund	Cash Funds	Federal Funds
Total Request	\$290,117	\$70,353	\$3,046	\$216,718
(1) Executive Director's Office; (C) Information Technology Contracts and Projects, Information Technology Contracts	\$290,117	\$70,353	\$3,046	\$216,718

Table A: Funding Splits Between Medicaid and Children's Basic Health Plan for FY 2009-10

Program Splits	Total Percentage	Total Costs	General Fund	Cash Funds	Federal Funds
Total Costs	100%	\$290,117	\$70,353	\$3,046	\$216,718
Medicaid Percentage	97%		25%	0%	75%
Medicaid Costs		\$281,413	\$70,353	\$0	\$211,060
Children's Basic Health Plan Percentage	3%		0%	35%	65%
Children's Basic Health Plan Costs		\$8,704	\$0	\$3,046	\$5,658

Cash Funds Projections:

Cash Fund Name	Cash Fund Number	FY 2007-08 Expenditures	FY 2007-08 End of Year Cash Balance	FY 2008-09 End of Year Cash Balance Estimate *	FY 2009-10 End of Year Cash Balance Estimate *	FY 2010-11 End of Year Cash Balance Estimate *
Children's Basic Health Plan Trust	11G	\$120,907,223	\$9,231,077	\$5,463,582	(\$21,746,716)	(\$28,734,729)

* Cash Balance Estimates do not incorporate the impact of any Change Requests.

Assumptions for Calculations:

The Department assumes that the requested increase for Medicaid would be funded with 75% federal financial participation for regular operations of the MMIS. The 75% federal financial participation is applied to the 97% Medicaid portion of the total funding for the request.

For this request, the Children’s Basic Health Plan contribution to the total cost is assumed to be 3%. Historically, this percentage has been determined by the ratio of capitations paid for the Children’s Basic Health Plan in the MMIS compared to the total forecasts of claims and capitations paid. Federal financial participation for Title XXI, the Children’s Basic Health Plan, is 65%.

Impact on Other Government Agencies:

None.

Cost Benefit Analysis:

FY 2009-10 Cost Benefit Analysis	Benefits	Costs
Request	The Department avoids any legal expenses associated with disputing the contractual cost increase for the fixed-price portion. Requested increase is fiscally conservative as the cost-of-living adjustment is less than half of the forecasted local inflation rate. The fixed-price agreement continues to place much of the risk onto the fiscal agent for any changes in caseload and utilization.	\$290,117 total funds including \$70,353 in General Fund
Consequences if not funded	No additional General Fund expenditure.	The Department risks non-payment of Medicaid claims during the last five days of the fiscal year in order to manage expenditures within the existing appropriation. If the Department disputes the cost adjustment, the Department risks paying future litigation costs which could exceed the \$70,353 General Fund being requested.

Based on the above analysis, the requested increase brings about the greatest benefit by ensuring that the MMIS continues to operate the entire fiscal year.

Statutory and Federal Authority:

25.5-4-204 (3), C.R.S. (2008) *The executive director of the state department shall develop and implement an automated system through which medical assistance claims and payments and eligibility determinations or other related transactions may be processed. The system shall provide for the use of automated electronic technologies. The automated system may be implemented in phases if deemed necessary by the executive director. The automated system shall be implemented only after the executive director determines that: (b) Adequate financing is available to facilitate the implementation and maintenance of the system. Financing may include, but is not limited to, federal funds, appropriations from the general fund, provider transactions fees, or any other financing mechanisms which the state department may impose, and grants or contributions from public or private entities.*

§1903 (a) of the Social Security Act [42 U.S.C. 1396b] (a) *...the Secretary...shall pay to each State which has a plan approved under this title...(3) an amount equal to –... (B) 75 per centum of so much of the sums expended during such quarter as are attributable to the operation of systems (whether such systems are operated directly by the State or by another person under a contract with the State)... which are approved by the Secretary....*

Performance Measures:

Increasing funds for the fixed-price portion of the Medicaid Management Information System contract will help the Department achieve its performance measure to “sustain claims system processing timelines to meet requirements and increase system user satisfaction.”