

CHASE Cash Reserve Proposal Talking Points

The Colorado Department of Health Care Policy & Financing (the Department) requests the Colorado Healthcare Affordability & Sustainability Enterprise (CHASE) Board's approval of a 1.5% funding reserve balance (approximately \$75 million for FFY 2023) for the Healthcare Affordability Sustainability fee cash fund (HAS Fund). The HAS Fund is an enterprise fund, separate and independent from the State's General Fund. Revenue to cover expenditures comes entirely from fees collected from hospitals and federal matching funds with no General Fund revenue. To ensure the HAS Fund has adequate funds available to cover all its expenses without obligating the State's General Fund, a reserve is necessary.

Talking Points

Fund Reserve Balance Proposal

- Proposing a 1.5% fund reserve balance starting in federal fiscal year (FFY) 2023.
 - 1.5% fund reserve balance estimate for FFY 2023 is approximately \$75M.
- A 1.5% fund reserve balance is necessary due to:
 - Federally required three-day draw pattern, and
 - Variations in estimates and actual payments for expansion populations.
- Both occur concurrently and require separate fund reserve balances.
- The Department suggests the cash reserve target be reviewed annually by the CHASE board with the model presentation. During this review the CHASE Board may recommend readjustments to the cash fund reserve target if necessary.

Issue #1: Federally Required Three Day Draw Pattern

- Federal matching funds are received and deposited several business days following expenditures.
- CHASE is required to pay all expenses until federal funds are deposited.
- The three-day draw pattern means CHASE runs a negative average daily balance (ADB) for the majority of a month.
- The negative monthly ADB will range from \$40 million to \$50 million without an adequate fund reserve balance.
- This requires the General Fund to cover the negative fund balance, inconsistent with the conditions of an enterprise fund.
- CHASE also operates on a cash basis of accounting and cannot have a negative fund balance when the state fiscal year closes on June 30th.



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- There was a \$30 million negative fund balance at SFY 2020 close, due to the federal funds draw pattern. This required Office of State Controller (OSC) adjustments.
- Negative fund balance concerns were addressed at SFY 2020-21 close by delaying the transfer of \$140 million in General Fund provider fee dollars to the General Fund until after July 1, 2021.
- Without the current fund reserve balance, CHASE will also have a negative fund balance at SFY 2021-22 close. This will be a common issue every few years without an adequate fund reserve balance.

Issue #2: Variations in Expansion Expenditures

- Fees collected for CHASE's funding obligation of expenditures for expansion populations are set using estimated expenditures.
- Differences between estimated and actual expansion expenditures of 4% to 8% in the last five to seven years and are possible in the future.
- Since the creation of CHASE, expenditures for expansion populations have increased almost 3x, from \$160 million in FFY 2017 to \$440 million in FFY 2022.
- The increase is due to:
 - Reductions in the federal matching rates for expansion populations, and
 - Increases in expansion populations, particularly during the public health emergency (PHE).
- For FFY 2022, 7% of the estimated funding obligation for expansion expenditures equals approx. \$31 million.

General Notes

- Fees are set for the fiscal year necessary to fund expansion payments made weekly and supplemental payments made monthly. Changes to fees require CHASE Board recommendation, Medical Services Board rule adoption, and 30 day notice to hospitals. This means operationally and practically fees cannot be adjusted for changes in the funding obligation during the fiscal year. Therefore, the fund reserve balance is necessary to cover potential funding adjustments as they may occur.
- The fund reserved balance is calculated using a percentage and not a dollar amount. This allows for the fund reserve balance to adjust accordingly to changes in the total funding obligation. If there is a decrease in the estimated expenditures for expansion populations, for example, there will be a corresponding decrease in the required fund reserve balance.



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- There will be no retroactive adjustments to fees. An increase or decrease needed for the cash fund reserve will be made prospectively in the subsequent CHASE model or through a refund.
 - If additional funds are needed so the reserve balance is at the 1.5% target, the subsequent year's CHASE model will reflect a fee increase to replenish the cash fund reserve, subject to the 6% net patient revenue fee limit after administrative costs, supplemental payments, and expansion populations are funded. As always, the CHASE model is subject to CHASE Board approval.
 - If the fund reserve balance is more than 1.5% target, the excess reserve can be refunded to hospitals via a one-time payment or used to reduce the required fee collection for the upcoming CHASE model year. Refunding the excess reserve or offsetting the fee collection in a subsequent model is subject to the CHASE Board's recommendation.
- Moving forward, the Department suggests the cash reserve target be reviewed annually by the CHASE board with the model presentation. The annual review will also include monthly average daily balance, end of state fiscal year cash needs, and estimates compared to actuals for expansion populations. Based on this annual review, the CHASE Board may recommend readjustments to the cash fund reserve target if necessary. Additionally, variations between estimated and actual expansion expenditures have been around 4% to 8% in the last five to seven years. These variations have been less volatile, and more narrow than in previous years. Due to the narrowing of the estimated and actual expansion expenditures the Department feels comfortable lowering the fund reserve balance to 1.5% or (\$75 million) from the 2% or (\$100 million) originally proposed to the CHASE board.