



# CHASE

Colorado Healthcare Affordability and  
Sustainability Enterprise

## Proposed Healthcare Affordability and Sustainability Cash Fund Reserve for Board Consideration

APRIL 26, 2022

The Colorado Department of Health Care Policy & Financing (the Department) requests the Colorado Healthcare Affordability & Sustainability Enterprise (CHASE) Board's approval of a 2% funding reserve balance (approximately \$100 million) for the Healthcare Affordability Sustainability (HAS) fee cash fund (the Fund). The fund is an enterprise fund, separate and independent from the State's General Fund. Revenue to cover CHASE's expenditures comes entirely from HAS fees collected from hospitals and federal matching funds with no General Fund revenue. To ensure the Fund has adequate funds available to cover all its expenses without obligating the State's General Fund, a reserve is necessary.

This proposal is well below the allowed cash fund reserve of 16.5%, or approximately \$780 million. In addition, the proposed reserve is appropriate with the size of payments moving through the Fund. One-third of all Medicaid claims payments occur through the Fund. The Fund is responsible for \$4.6B of the total \$13B Medicaid payments, or approximately 35% of all Medicaid payments.

The estimated FFY 2021-22 Fund balance is expected to be adequate to cover the proposed reserve amount for the FFY 2022-23.

### History

In 2017, the General Assembly adopted Senate Bill 17-267 creating CHASE as an enterprise and establishing the Fund. This legislation also repealed the former hospital provider fee and its cash fund. As an enterprise, CHASE's funding must be separate and distinct from the Department. Therefore, in consultation with the Office of the State Controller, all revenue including HAS fees and federal funds are deposited into the Fund and all expenditures are made from the Fund.<sup>1</sup>

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<sup>1</sup> Under the former hospital provider fee, expenditures for expansion populations were made from the General Fund and the provider fee reimbursed the state. Also, federal funds were expended from the Department's fund 1000, not the hospital provider fee cash fund. This practice ended with the establishment of the enterprise. At that time, a smaller reserve was maintained to ensure adequate fees for expansion expenditures, as those are estimated and actuals are not known until after the fact.



## Issues

A 2% reserve is necessary because of the timing of drawing down federal funds to ensure the Fund's average daily balance and end of year balance do not require expenditure of the General Fund.

The Department's approved draw pattern under the Federal Cash Management Improvement Act (CMIA), federal matching funds are received and deposited approximately three business days following expenditures. Payments are made on Tuesday and federal funds are received on Friday.

The timing of drawing down federal funds means the Fund is required to pay all expenses until the federal funds are deposited. Without an adequate reserve, the Fund runs a negative average daily balance (ADB) for most of the week which means the General Fund is covering the negative Cash Fund balance. Based on the Loan and Advance statute and Office of the State Controller (OSC) and Treasury policy, the Fund can be charged interest if the month has a total negative ADB. Section 24-75-203(2), C.R.S. allows the OSC and Treasury to advance the funding without interest if the amount is less than \$12 million and is related to federal funds. OSC has stated that since any negative ADBs would be due to the required CMIA draw pattern, interest would not be charged if the amount was under the \$12 million threshold. It is anticipated that the proposed reserve would prevent this from occurring.

A second issue is the need to have adequate funds at the end of the state fiscal year. The State of Colorado including its enterprises operates on a cash basis of accounting. This means there must be adequate revenue for all expenditures made when the state fiscal year closes on June 30th.

A negative balance at year end requires the OSC to adjust annual financial statements, removing the deficit cash balance to comply with necessary accounting standards and will likely require the submission of a Loan and Advance form signed by the Department's Executive Director. In the past two state fiscal years this has occurred due to the timing of the final financial cycle. In these cases, the expenditures for the financial cycle hit one state fiscal year but the CMIA draw pattern means the cash from the federal funds are received after June 30 and are recorded in the next fiscal year. For SFY 2020, there was a \$30 million negative balance due to the federal funds delay that required OSC adjustments. For SFY 2021, we were able to cover any cash flow concerns by delaying the transfer of \$140 million in General Fund provider fee dollars to the General Fund until after July 1, 2021.

## Reserve Proposal

The reserve will equal two percent (2.0%) of the total CHASE funding obligation for a given year starting in federal fiscal year (FFY) 2023. Every year, the 2.0% reserve limit will be compared to the prior year's ending reserve. If the 2.0% reserve limit is less than the previous year's ending reserve, fees will be adjusted in the subsequent CHASE model to replenish the reserve. If the 2.0% reserve limit is more than the previous year's ending



reserve, the CHASE Board will recommend whether to refund the excess reserve or reduce fee collection in the subsequent CHASE model. Provided below are two example calculations.

Row	Description	Number	Notes
A	Total CHASE Funding Obligation	\$ 4,600,000,000	
B	Reserve Limit Percent	2.0%	
C	Reserve Limit	\$ 92,000,000	Row A * Row B
D	Prior-Year Ending Reserve	\$ 98,000,000	
E	Change to Available Funds	\$ 6,000,000	Row D - Row C

In the example above, the prior year’s ending reserve is \$6M more than the 2.0% reserve limit. The \$6 million would be refunded or added to the available funding for HAS supplemental payments, decreasing the reserve, as directed by the CHASE Board.

Row	Description	Number	Notes
A	Total CHASE Funding Obligation	\$ 4,600,000,000	
B	Reserve Limit Percent	2.0%	
C	Reserve Limit	\$ 92,000,000	Row A * Row B
D	Prior-Year Ending Reserve	\$ 88,000,000	
E	Change to Available Funds	\$ (4,000,000)	Row D - Row C

In the example above, the prior year’s ending reserve is \$4M less than the 2.0% reserve limit. The \$4 million would be added to the fee obligations for the subsequent CHASE model, increasing the reserve.

**FFY 2021-22 Reserve Estimate**

The estimated FFY 2021-22 ending reserve will equal approximately \$105 million. Assuming a 10% CHASE funding obligation increase, the FFY 2022-23 reserve limit will be near that amount. When the Department presents the FFY 2022-23 model for CHASE Board consideration, we will include the FFY 2021-22 ending reserve and estimated reserve needed for FFY 2022-23 so the Board may make its recommendation regarding refunding excess reserve, if it exists.

