Governor Jared Polis
FY 2025-26 Long Range Financial Plan

Kim Bimestefer, Executive Director
Department of Health Care Policy & Financing
November 1, 2024

Department of Health Care Policy & Financing

Long Range Financial Plan
FY 2025-26

Department-Specific Budget Context

- HCPF's expenditures are primarily impacted by caseload, which entails 1) the number of people who qualify for and enroll in Medicaid and Child Health Plan Plus (CHP+); 2) the amount and mix of services utilized by members; and 3) state and federal policies on the required services and provider pay rates, which include wages, supplies, prescription drug costs, etc. As an entitlement program, HCPF cannot reduce services or disenroll members in Medicaid, and changes in the provider costs landscape are outside of HCPF's control. The Department therefore has statutory over-expenditure authority for Medicaid services, and the Joint Budget Committee (JBC) appropriates funding specifically for provider rate increases. This includes targeted rate increases recommended through the Department's statutorily required rate review process for most of the services paid on a fee-for-service basis.[1]
- Medicaid and CHP+ are both partnerships with the federal government. The Department receives at least a 50 percent federal match on Medicaid services and administrative costs, and at least a 65 percent federal match on CHP+.
- The Department administers several large cash-funded programs including the Colorado Healthcare Affordability and Sustainability Enterprise (CHASE), which collected $1,250.6M in fees from Colorado hospitals in federal fiscal year (FFY) 2023-24. Combined, the CHASE fees and matching federal funds account for approximately 34.4% of HCPF's overall budget.
- The largest portion of HCPF's budget in FY 2024-25 is allocated to Medical Services Premiums (MSP; $11,931.4M, 74.8%), which reimburses providers for Medicaid expenses. Other major contributors to HCPF's budget include: 1) Behavioral Health Community Programs (BHCP; $1,040.3M, 6.5%); and 2) Office of Community Living (OCL; $1,209.9M, 7.6%). The overall HCPF budget is expected to grow by an average annual rate of 5.7 percent in the next three years, with growth largely driven by Medical Services Premiums.

[1] Section 25.5-4-401.5, C.R.S.

Department Cost Drivers

Division	Cost Driver	Driving Factors	Forward-Looking Considerations	Caseload?
MSP, OCL	Long Term Care Services	Aging and disabled population, long term service utilization, health care costs	Very likely to increase as the aging population and minimum wage requirements (both local and statewide) continues to grow	Yes
MSP	Pharmacy	Prescription drug costs, rebates, and usage	Likely to increase as prices increase and more specialty drugs become available	Yes
Various	Other Medicaid Services (ACA Expansion, Traditional Adults, Medicare Modernization Act, Community-Based LTC)	Eligible population, enrollment, health care costs	Likely to decrease slightly in FY 2024-25 due to end of continuous coverage requirement; enrollment for Cover All Coloradans likely to grow with population	Yes
CHP+	Child Health Plan Plus (CHP+)	Low-income minor (<18) and pregnant population, income, insurance, eligibility	Likely to increase as the population and health care costs continue to grow; dependent on economic conditions and eligibility	Yes
BHCP	Multiple Behavioral & Mental Health Care	Population, utilization, health care costs	Likely to increase as the population and health care costs continue to grow	Yes

The Department's major expenditures are for Medicaid service costs. While there is downward pressure on overall enrollment in FY 2024-25 due to the end of the Public Health Emergency and continuous coverage requirement, per capita costs have increased significantly. These include long term care services for people with disabilities and older adults, and specialty drug costs. Health care costs increasing faster than enrollment fell has resulted in increasing total caseload expenditures.

The most meaningful impacts to the trends in HCPF expenditures would likely be through legislative changes to covered services, rates paid, or the populations eligible for coverage.

Department Revenue Drivers (Including Inflows of Federal Funding)

Revenue Source	Driving Factors	Forward-Looking Considerations
Federal Funding	Caseload, federal financial participation (FFP) formula	Federal funding is expected to increase with growing Medicaid and CHP+ programs
CHASE	Hospital and health care service utilization, net patient revenues, Medicaid costs, federal disproportionate share allotments	Very likely to increase as Medicaid costs and hospital net patient revenue increase

HCPF's primary revenues and funding come from cash fund revenues to the CHASE and federal matching funds. Because federal funding for Medicaid and CHP+ programs is based on actual expenditures, the Department expects to draw down more federal funds in future years as those programs grow over time.

Funding from the CHASE and matching federal dollars are primarily determined by net patient revenues and care days at Colorado hospitals and the federal matching formulas. These revenue sources are based on trends within the Medicaid and CHP+ program; they are not fixed sources. According to CMS's National Health Expenditure Data projections, from 2025 through 2029, hospital patient revenues are projected to grow an average of 5.34% per year. HCPF assumes the HAS fee will grow by a similar amount during this time period.

Creative Ideas for Department Action to Mitigate Future Expenditure Pressures and/or Revenue Risks

- The Department is in the process of designing and negotiating the third stage of the Accountable Care Collaborative (ACC 3.0) with the Regional Accountable Entities (RAEs). This program is intended to improve member health care outcomes by measuring outcomes and implementing policy interventions. Because the Department does not directly furnish care to members, RAE accountability is a critical strategy to improving health care outcomes and reducing costs.
- The Department is implementing several value-based payment methodologies to reduce preventable Medicaid costs by partnering with providers to deliver higher quality of care, improve outcomes, and utilize more affordable prescription drugs, to reduce preventable use of hospitals.
- One of the most effective options in HCPF to free up budget space is to reduce Medicaid provider rates. From FY 2009-10 to FY 2011-12, rates for most Medicaid providers were reduced by approximately 6.1 percent. In FY 2020-21, provider rates were reduced by 1 percent across the board, along with additional targeted rate reductions during budget balancing.
- Another way to mitigate future pressures is by changing Medicaid benefits in a way that ensures members receive the right level of care in the most appropriate

setting, such as expanding coverage in lower cost settings in order to shift utilization away from higher cost settings, such as hospitals or skilled nursing facilities.
- The Department is also exploring ways to leverage existing cash funds to help reduce the pressure on General Fund expenditures.

Recent State Legislative Items, Federal Policy Considerations, and Ballot Measures

Legislative Items

- H.B. 22-1289 *Health Benefits for Colorado Children and Pregnant Persons*[2]
    - This bill expands comprehensive health insurance coverage for low-income children and pregnant persons who would be eligible for Medicaid or CHP+ if not for their immigration status. The expansion of health care access to reduce health disparities will likely impact spending. As with Medicaid, the Department has over-expenditure authority for these populations to ensure eligible individuals have appropriate access to care.
- H.B. 23-1300 *Continuous Eligibility Medical Coverage*[3]
    - This bill extends continuous eligibility coverage for children under 3 years of age and extends eligibility coverage for 12 months for adults who have been released from a Colorado Department of Corrections facility, regardless of any change in income during that time. This eligibility expansion will reduce member churn and increase spending as members remain enrolled in Medicaid for longer.
- H.B. 24-1322 *Medicaid Coverage for Housing and Nutrition Services*[4]
    - This bill requires the Department to study and potentially apply for a federal waiver to provide nutrition, housing, and tenant supportive services to address Medicaid members' health-related social needs (HRSN). The cost of the study and application is minimal but if the waiver application is approved, it will lead to an increase in federal revenue. By expanding the services for which the state's Medicaid program can be billed, novel services (such as nutrition, housing, and tenant supportive services) will now be eligible for federal financial participation.
- H.B. 24-1045 *Treatment for Substance Use Disorders*[5]
    - This bill requires the Department to apply for a federal waiver to provide reentry services to individuals exiting carceral settings. The cost of the waiver application is minimal but if approved, it will lead to an increase in federal revenue. By expanding the eligibility of individuals in carceral settings 30 days prior to their release, service provision that had been paid for by the Department of Corrections will now be billable to the state's Medicaid program and eligible for federal financial participation.

[2] https://leg.colorado.gov/bills/hb22-1289
[3] https://leg.colorado.gov/bills/hb23-1300
[4] https://leg.colorado.gov/bills/hb24-1322
[5] https://leg.colorado.gov/bills/hb24-1045

Scenario Analysis

- An economic downturn would likely lead to an increase in eligibility for and enrollment into the Medicaid and CHP+ programs, increasing pressure on the State budget at a time when General Fund revenues are likely dampened.
- In the past, Colorado has relied on increases in federal funds to offset the need for program and provider cuts during an economic downturn. During the pandemic, the increase in FMAP had the effect of reducing the State's cost for Medicaid, thereby creating General Fund relief. In the event of another economic downturn or pandemic scenario, the Department would maximize federal funding opportunities.
- Historically, economic downturns have reduced funding for state-only and cash-funded programs. The Department administers several non-Medicaid programs, such as the Primary Care Fund, the State-Only Supported Living Services Program, the Senior Dental program, and the Old Age Pension Health and Medical program. In the past, funding has been diverted money away from these programs to fund Medicaid programs during economic downturns.