



# 2015 FINANCIAL FORECAST & 2016 BUDGET PROCESS

Prepared for Finance Committee Meeting  
April 6, 2015

# Executive Summary

- Today's presentation is to share the current FY 2015 Financial Forecast and begin the budgeting process for FY 2016.
- Critical contextual factors to consider with the 2015 financial forecast:
  - Significant lessons learned after 2 open enrollment's allow better view on operational realities
  - Significant and unforeseeable impacts to revenue and costs
  - Most State-based exchanges experienced similar turbulence
  - Current 2015 Forecast is running close to the 2015 Adjusted Budget
- However, the final 2016 budget will require significant revenue and cost adjustment to attain and maintain financial sustainability
- Near-term (12+ mos.) firm cash management is critical
- Smart targeted investments are essential to improving customer enrollment experience for Open Enrollment 3.0

# Today's Goals

## Today's Meeting Goals:

- i. Review 2015 Impact Analysis & Financial Forecast
- ii. Input: Policy Guidance for Year-end Expense Management
- iii. Review 2016 Budget Process
- iv. Input: Policy & Assumptions Guidance for Budgeting

# 2015 FY Forecast: Hindsight Analysis

- Significant variables introduced this year, both planned AND unplanned from 2015's Critical Assumptions:
  - i. (+) No additional Federal Level I or II Grants pursued
  - ii. (+) Earned revenue collection
  - iii. (-) Shared Eligibility System fully functional
  - iv. (-) Complete-system testing
  - v. (-) Carrier EDI completion
  - vi. (+) First year for renewals & auto-renewals
  - vii. (+) Maintain Non-Financial Assistance Customer Volume
  - viii. (+) Decision Support Tools in place
  - ix. (-) Service Center efficiencies/capacity gained
  - x. (-) Sufficient CBMS access
  - xi. (-) Fully-staffed leadership & management teams
  - xii. (-) Stable plan pricing

**Takeaway:** Recognizing the many inter-dependent and complex assumptions is critical context for both the expected 2015 actuals and 2016 Budget reality.

# 2015 FY Forecast: Hindsight Analysis

Unforeseeable Operational Revenue Impacts	Financial Impact
Cover Colorado	Above forecast fund transfer (+\$5m)
No-cost Federal Grant Extension	Extended tech development into 2015
Medicaid member support	CMS matching funds N/A
APTC average amount decline	Affordability-impacted Volume/Revenue
Partial Supp. Federal Grant awarded, Cash Pending	\$6m received of \$8m requested
Broad Market Assessment Timing	Revenue delayed 1 Qtr
Carrier Assessment Timing	Revenue delayed 2 Qtrs
Ancillary Product Development	Development delayed
SHOP Fees	System-impacted Volume/Revenue
Plan pricing decrease	Assessment-basis lower than forecast

**Takeaway:** Nearly all revenue lines experienced unforeseeable challenges.

Red = Negative Impact

# 2015 FY Forecast: Hindsight Analysis

Unforeseeable Operational Expense Impacts	Financial Impact
Eligibility System (SES) functionality/complexity	Most revenue and expense areas impacted
Understaffing: turnover rate	Institutional knowledge, efficiency, productivity, recruiting
Medicaid support volume	Most revenue and expense areas impacted
Carrier interface complexity	Programming, reconciliation, case management
APTC Index decline of 20% > Net premium increase	Affordability, Channel Support, consumer confusion, call routing, customer communications
Inter-state & federal agency complexities	Opportunity Cost, 'speed-to-repair' rate, programming
High Yr.-over-Yr. Plan switch volume	Service Ctr, HCG's, Brokers
Audit & Oversight volume, depth, breadth	Opportunity Cost, staffing
Medicaid <> APTC Policy differentials	High case management levels
Complex family incomes, system interfaces	Service Ctr, HCG's, Brokers, Simultaneous Enrollments
SHOP Financial Management System defects	Manual processing

**Takeaway:** significant cost driver impact potential from external forces and decisions.

Red = Negative Impact

# 2015 FY Forecast: Foresight Analysis

2015- 2016 Continuing Impacts	Financial Impact
SES 3.0 investment	Net impact +/- cost/savings neutral
Continuing Medicaid support volumes	Service Center, Brand confusion, Channel capacity>Enrollments prevented, Medicaid match
End-to-End review	TBD
Staffing additions required for OE3 prep	Initial twelve positions , with addl. 15-20 positions reqd.
Service Center Strategy	Efficiency Gains; Vendor re-negotiations; Sustaining case mgt. requirements; Reduce Service Levels
Alternative supplemental revenue sources	Staff capacity restricted
Staff recruiting	Recruiter costs
Agency/County/SC call routing strategy	Process alignment
Carrier Interfaces	Programming, reconciliation
Cash Management Critical	Utilize cash reserves to cover funding timing gap

**Takeaway:** Room for developing cost savings and revenue opportunity will require policy shifts, efficiency opportunities taken, discipline, and creativity.

# 2015 Financial Forecast

<u>Model Assumptions</u>					
Budget does not include additional major projects beyond SES and excludes depreciation/prepaid noncash amortization in excess of \$10 mil per year.					
		FY 2014	FY 2015	FY 2015 Approved	FY 2015
		Audited*	Budget	Budget	Est Cash
<u>Premium Assumptions</u>					
Admin Fee (Changes occur on January 1)			1.4%		1.4%
Special Broad Market Assessment			\$1.25		\$1.25
<u>Revenue Assumptions</u>					
Exchange Revenue from Admin Fees Health Plans		\$2,162,295	\$5,154,083		\$5,660,000
Special Broad Market Assessment		\$0	\$6,562,500		\$3,500,000
Revenue from Premium Tax Credit Donations		\$5,000,000	\$5,000,000		\$5,000,000
Revenue from Ancillary Products					
Vision		\$0	\$0		\$8,660
Sponsorship		\$0	\$0		\$20,000
SHOP		\$0	\$0		\$119,980
Foundation Grants - Actual & Estimated		\$1,478,655	\$2,500,000		\$2,500,000
<b>Total Sustainable Revenues</b>		<b>\$8,640,950</b>	<b>\$19,216,583</b>		<b>\$16,808,640</b>
Federal Grant Funding		\$86,163,238	\$62,614,664		\$56,645,852
Revenue from CoverColorado		\$14,992,000	\$8,500,000		\$14,035,553
Interest Income		\$31,377	\$0		\$46,051
Total Temporary Revenue Sources		\$101,186,615	\$71,114,664		\$70,727,456
<b>Total Income</b>		<b>\$109,827,565</b>	<b>\$90,331,247</b>		<b>\$87,536,096</b>
<u>Operating/Technology Budget FY14/15</u>					
Operating/Technology Budget FY14/15		\$88,679,099			
General & Administrative			\$6,983,464	\$7,066,894	\$7,324,642
Marketing			\$4,806,000	\$4,806,000	\$4,771,736
Assistance Network			\$6,050,000	\$6,050,000	\$6,039,501
Customer Service Center			\$13,639,902	\$16,814,902	\$21,280,206
Operations			\$2,322,821	\$2,322,821	\$2,632,834
Technology CAPEX			\$20,322,215	\$19,641,484	\$15,231,915
Technology Expense			\$9,214,027	\$16,266,006	\$15,848,649
Contingency					\$500,000
Total Expenditures			\$63,338,429	\$72,968,107	\$73,629,483
Implementation/Enhancement Costs/SES beginning in 2015					\$170,000
<b>Total Expenditures</b>		<b>\$88,679,099</b>	<b>\$63,338,429</b>		<b>\$73,799,483</b>
<b>Net Change in Cash/Net Income Accrued</b>		<b>\$21,148,466</b>	<b>\$26,992,818</b>		<b>\$13,736,613</b>
Excludes depreciation, revenue & expense of using prepaid licenses and anything beyond a limited IT maintenance budget					
* Used change in cash position in audit. Assumed all revenues were cash (included some receiveables) Payables on 6/30/14 \$9,019,879					
** \$3,175,000 increase in call center costs, \$4,289,000 in Oracle licenses and support, VM's \$182,000, \$83,000 in expanded office rent. Note - moved SES from Capex to Operating Expense					

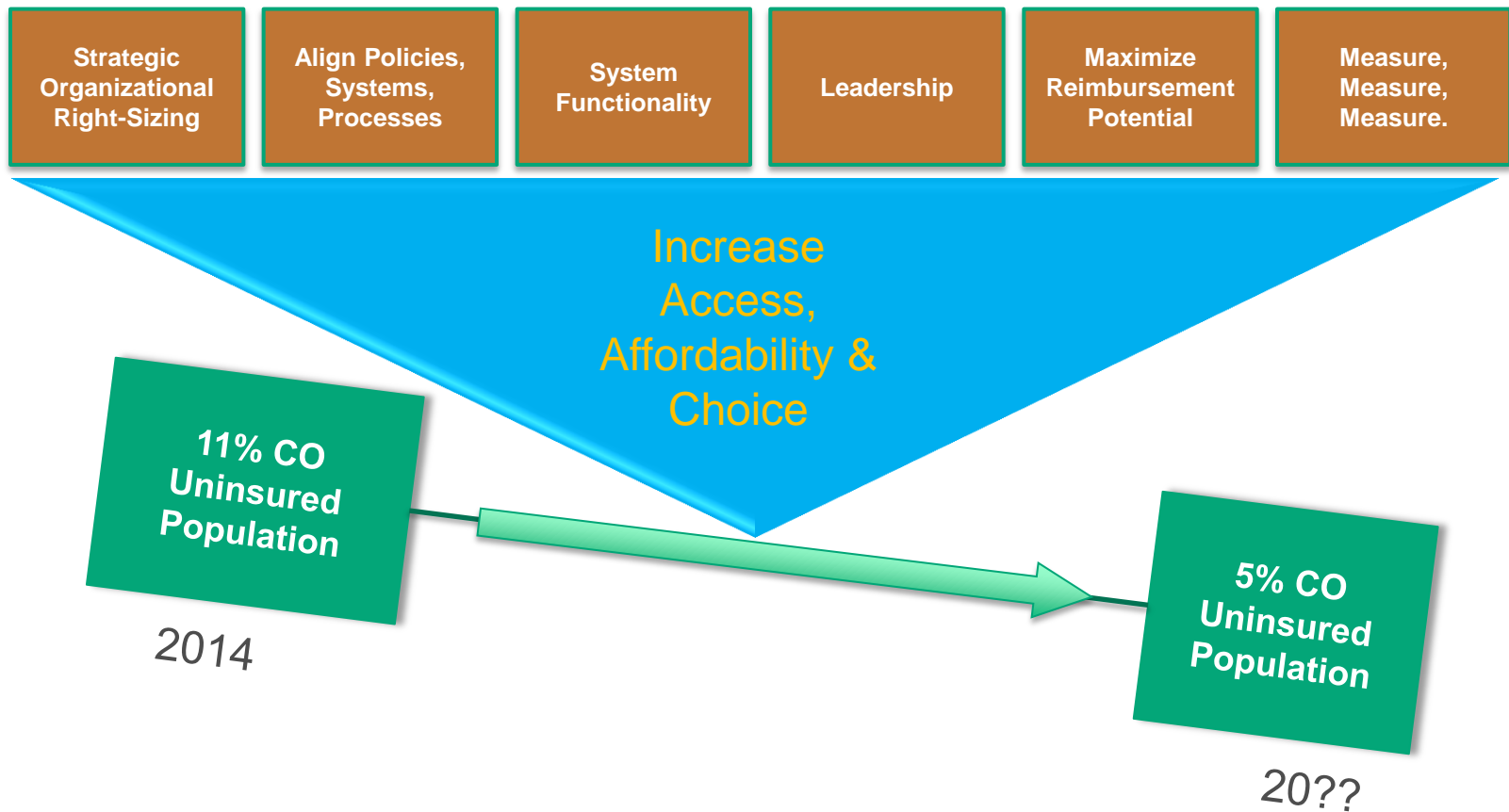
## Takeaways:

Revenue: Cover CO \$5m better than estimate; Market assessment & federal grant delays will catch up; revenue is on track with budget.

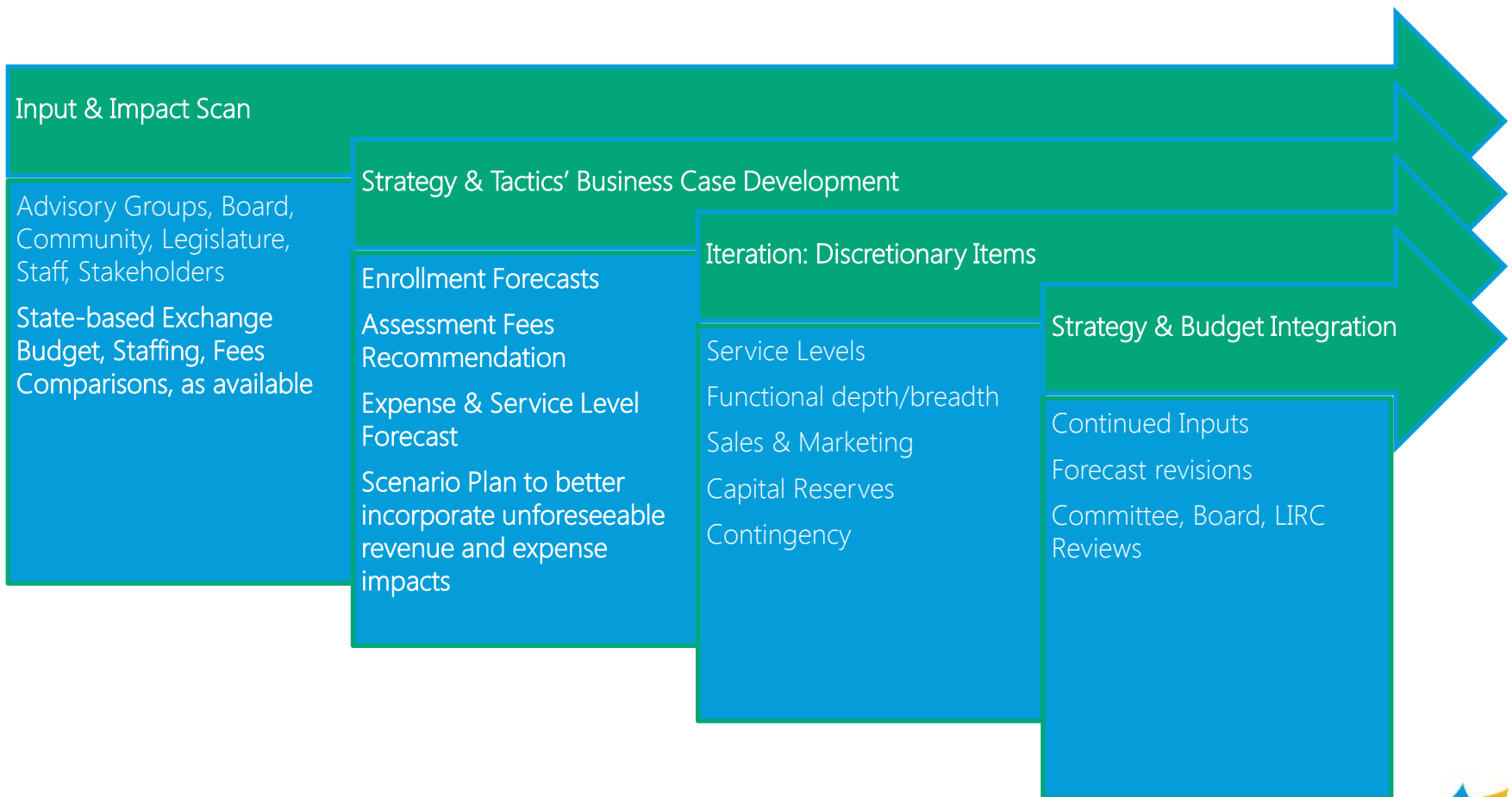
Expenses: Service Center over forecast; all other budget lines close to forecast, but masking lost opportunities.



# Sustainability



# 2016 Budget Process



# Financial Scenario Planning

Financial Scenario Planning							
Model Assumptions							
Assumes year-to-year premium revenue growth of 20% (mix of members and premium increases) , cash collections dip in 1st and 2nd calendar quarters 15%/10% respectively from yearend revenues							
Budget does not include additional major projects beyond SES and excludes depreciation/prepaid amortization in excess of \$10 mil per year.							
	FY 2014	FY 2015	FY 2016	FY2017	FY 2016	FY 2017	FY2018
Premium Assumptions							
	Audited*	Cash Forecast	Previous Forecast	Previous Forecast	Draft-Cash Basis	Draft-Cash Basis	Draft-Cash Basis
December of Fiscal YR Medical Premium		39,000,000			46,800,000	56,160,000	67,392,000
Effectuated Enrollments		111,429	105,677	122,375	133,714	160,457	192,549
Average Estimated Premium pmpm		\$350	\$363	\$381	TBD	TBD	TBD
Admin Fee (Changes occur on January 1)		1.4%	1.4% - 1.8%	1.8% - 2.8%	1.4% - 3.5%	3.5%	3.5%
Special Broad Market Assessment		\$1.25	\$1.60	\$1.60	\$1.80	\$1.80	\$1.80
Revenue Assumptions							
Total Income	\$109,827,565	\$87,536,096	\$27,321,619	\$26,262,740	\$37,031,000	\$44,134,000	\$34,539,000
Total Expenditures	\$88,679,099	\$73,629,483	\$26,000,000	\$26,000,000	\$37,031,000	\$44,134,000	\$34,539,000
Implementation/Enhancement Costs/SES		\$170,000			\$5,290,000	\$750,000	\$750,000
Savings from SES Fix					(\$2,611,000)	(\$3,100,000)	(\$3,100,000)
Total Expenditures	\$177,358,198	\$73,799,483	\$26,000,000	\$26,000,000	\$39,710,000	\$41,784,000	\$32,189,000
Net Change in Cash/Net Income Accrued	(\$67,530,633)	\$13,736,613	\$1,321,619	\$262,740	(\$2,679,000)	\$2,350,000	\$2,350,000

## Takeaways:

- i. Draft Financial Scenario Tool to model rates/revenues/costs/enrollments/unforeseens
- ii. Expenses currently matched to revenue modelling to illustrate goals
- iii. Full-cycle OE completed: better informed for financial planning, rate-setting, expense goals
- iv. Capital Budget included in 2015; 2016 and beyond forecasts not comparable to early years
- v. Original forecast included rate increases, and minimal/optimal costs planned
- vi. Significant expense planning is now key

# Critical Budget Assumptions

## Input: Policy & Prioritization Guidance:

1. Customer Service Levels: TBD
2. Medicaid Support levels: % TBD
3. Medicaid Reimbursement: \$ TBD
4. CBMS Access
5. Assessment Fees' increases
6. Assistance Network financial support
7. Utilize Cash Reserves for funding Revenue timing gap
8. Marketing breadth/depth

# Next Steps: 2016 Budget Process

