TO: CONNECT FOR HEALTH COLORADO FINANCE AND OPERATIONS COMMITTEE

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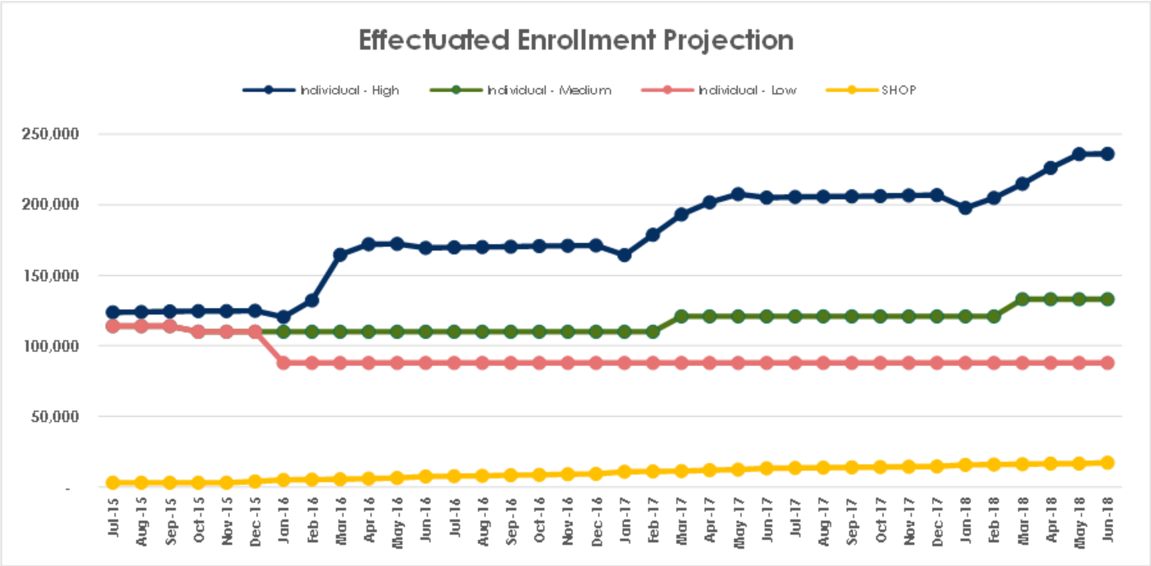
SUBJECT: REVENUE PROJECTIONS

DATE: 10/22/2015

To assist in long term planning efforts, this analysis focuses on the impact of different enrollment levels on expected revenues over the next 3 years and the resulting gap created between revenues and expenses.

For this analysis, three enrollment scenarios were developed and labeled Low, Medium and High:

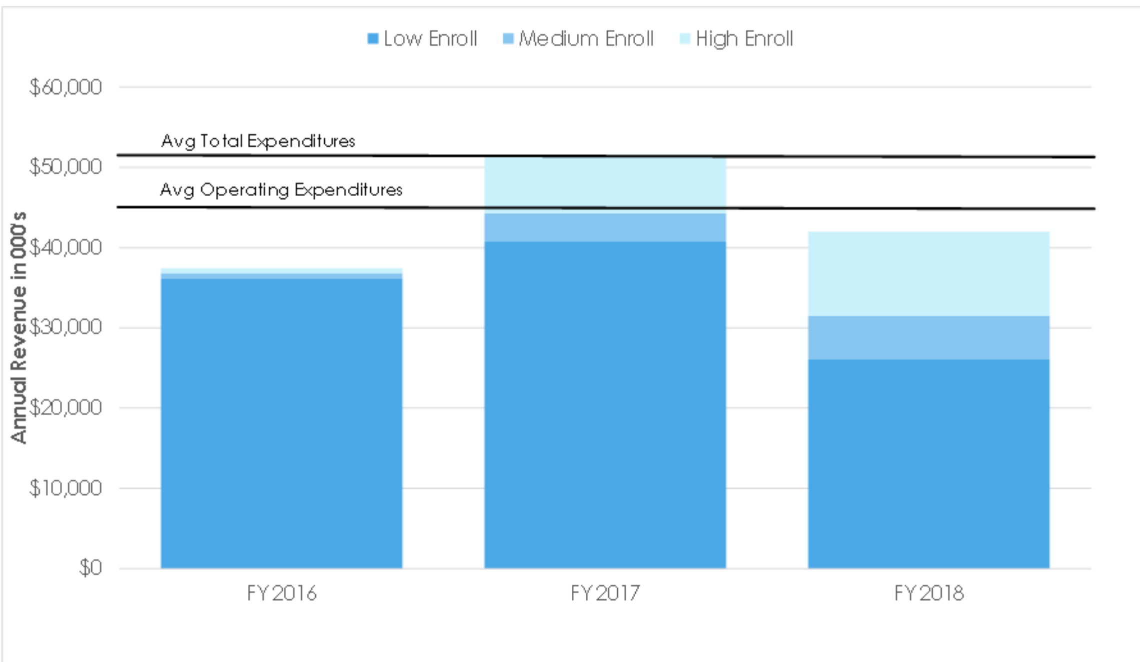
- Low – enrollment drops 20% after OE3 and remains at that level for all 3 years of the plan
- Medium – enrollment is assumed to remain flat for OE3 and increase 10% in future enrollment periods (5% CAGR over 3 years)
- High – enrollment levels used in the approved budget and strategic plan (24% CAGR over 3 years)



In order to isolate the impact of these enrollment changes all other revenue assumptions were held constant and were based on the budget and strategic plan presented to the Board on June 6, 2015 – they include:

- Tax credit donations ($5 million annually)
- Health Foundation assistant network grants ($2.5 million annually)
- Medicaid cost recovery ($2 million annually)
- SHOP growing from 3,000 to 18,000 enrollees over 3 years
- Special fee assessment revenues at $1.80 per covered live (starting in CY 2016) – these fees were reduced from the budgeted level to account for self reported covered lives coming in lower than the budgeted levels

Based on the different enrollment assumptions, the following graph depicts the expected revenues over the next 3 fiscal years (July 1 thru June 30) compared to the expected average annual expenditures as reported in the budget/strategic plan presented to the Board on June 6, 2015.

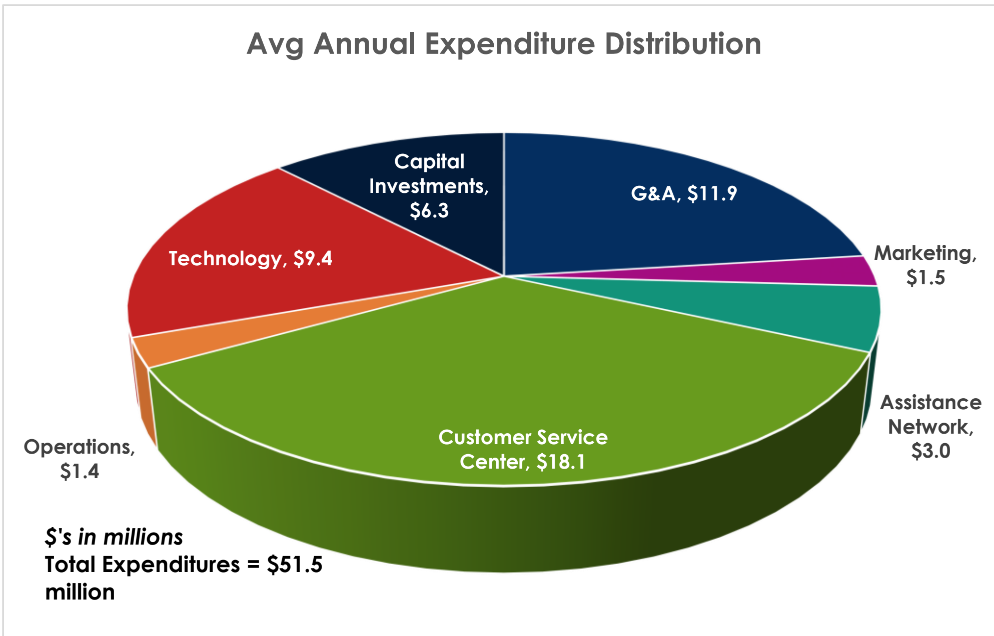


The differences between the three enrollment scenarios in FY 2016 are small since the three scenarios only start to deviate significantly as the result of OE3. The gap between expenditures and revenues in FY 2016 was anticipated in the budget with the expectation that it would be funded through excess cash reserves. As depicted in the graph the differential widens in FY 2017 and FY 2018. All three scenarios show a gap between revenues and expenditures in FY 2016 and FY 2018. FY 2017 shows smaller gaps as the result of the special fee assessment revenue increasing in CY 2016 and ending that same year.

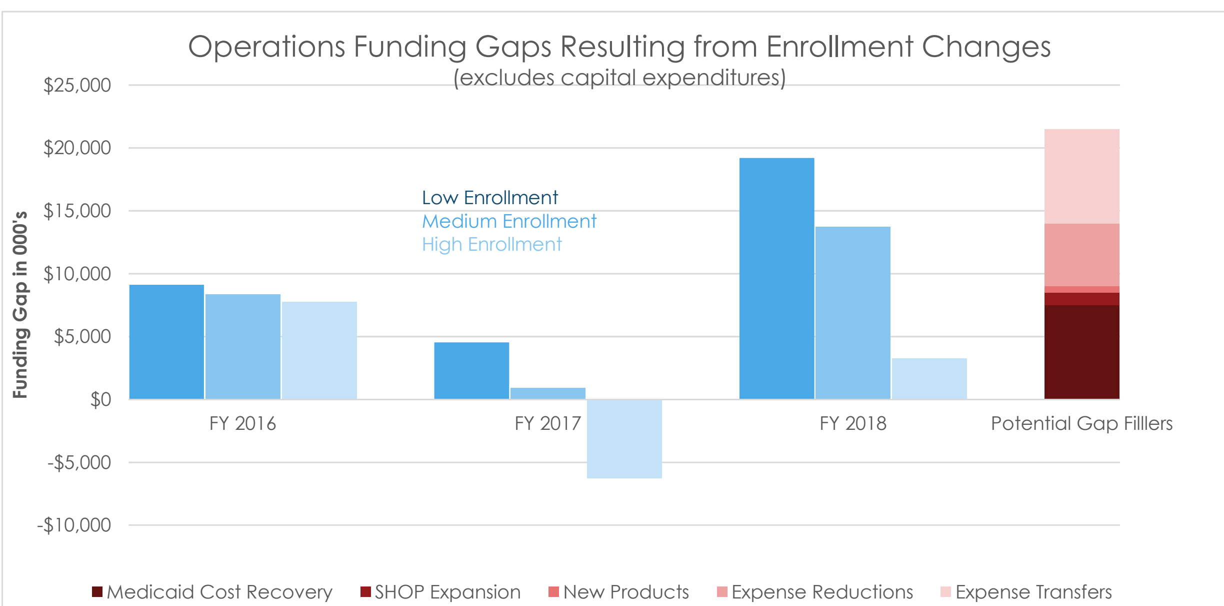
Expenditures are depicted in the graph as two straight lines. Operating expenditures were broken out in a separate line to show the ongoing maintenance and operations costs for the organization. The difference between the total expenditures and operating expenses are the expected capital expenditures - primarily for technology improvements/enhancements.

Expenditures remained relatively flat over the three-year period according to the plan – for simplicity the annual average was used for all three years.

The largest areas of expenditures in the budget were for the Customer Service Center, Technology and G&A (primarily staffing costs).



The resulting gaps between revenue and operating expenses from this analysis is depicted below for each enrollment scenario.



Funding gaps range from a positive gap of $6 million for the high enrollment scenario in FY 2017 to a gap of nearly $20 million in FY 2018 for the low enrollment scenario. The average funding gap between operating expenses and revenues for all years and scenarios is $6.7 million.

On the far right side of the graph is a preliminary estimate of the possible annual additional revenues and expense reductions that could make up the funding gap. They include:

- Medicaid cost recovery – a CMS program that provides funding for state based exchanges for costs that intersect with the States Medicaid program. C4 is working closely with HCPF on seeking this ongoing funding.
- SHOP expansion – the current forecast assumes a relatively modest increase in enrollment from the SHOP program. The potential exists to exceed these forecasts through some technology investments and business community outreach.
- Expense reductions – work is currently underway in reviewing the budgeted expenditure levels for additional savings. More emphasis will be placed on driving efficiencies and cost monitoring going forward as the means for cost reductions.
- Expense transfers – where feasible C4 will look to other State programs to transfer some of the expenditures for activities that can be done more efficiently elsewhere and are not part of the organizations core business.
- New products – efforts are underway to determine other products that could be offered by the exchange.

Not taken into account in this list of gap fillers are any changes to the current carrier fee and special assessment fee. These options are being evaluated by the Policy Committee.

Going forward C4 will be aggressively exploring the above solutions further and refining long-range projections as more information becomes available.