

# Proposed Fiscal Year 2023\* Budget

Connect for Health Colorado Finance and Operations Committee  
May 23, 2022



# Key Budget Assumptions

- American Rescue Plan is extended beyond 2022 at similar subsidy levels.
- Health Insurance Affordability Fee Enterprise qualified individual first year enrollment assumed to be 3,000. Costs assume completion of base level of the HIAE technology implementation for 2022 open enrollment period (plan year 2023).
- Average gross premium levels assumed to remain the same as 2022 premium levels.
- No enrollment impact from the IRS's family glitch proposed eligibility rule for families currently ineligible for ACA plan subsidies.
- No financial impacts assumed due to recent state legislative session:
  - SB 81 – Exchange Marketing and Outreach Campaign, provides for up to \$4 million per year for outreach activities – funding and expenses not included in Budget – will provide a budget supplement upon completion of outreach and marketing plan related to these funds.
  - HB 1289 – Cover all Coloradans
  - HB-1269 – Healthcare Cost Sharing Arrangements
- Easy Enrollment (Tax Time) impact assumed to be in line with original expectations of 1,000 enrollments.
- End of the Public Health Emergency assumed to be delayed until January 2023 – enrollment estimated to be 6,000 over the span of plan year 2023.

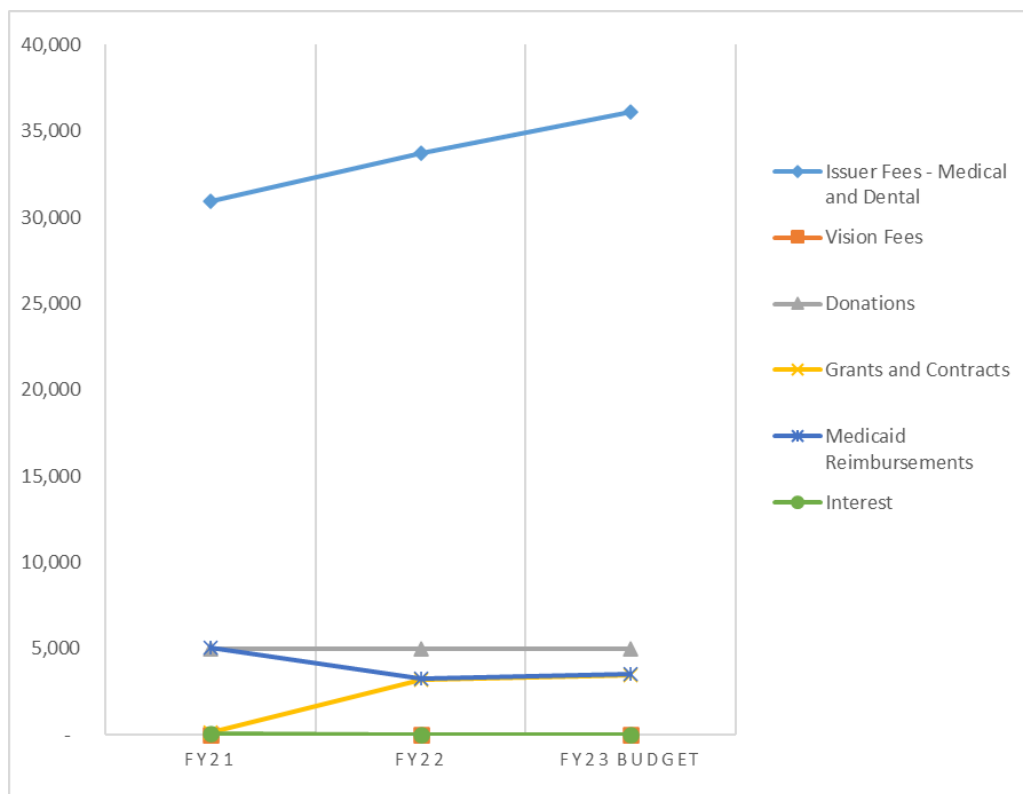
# Proposed FY23 Budget Overview

## Fiscal Year Comparisons (FY18 – FY23)

*\$'s in 000's*

	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023 Budget	% Change FY22 vs FY23
<b>Revenues</b>							
Issuer Fees	32,060	36,084	33,368	30,963	33,795	36,186	7%
Tax Credit Donations	5,000	5,000	5,000	5,000	5,000	5,000	0%
Grants/Contracts	2,500	1,300	500	175	3,174	3,500	10%
Cost Reimbursements	3,556	3,690	6,250	5,089	3,278	3,557	8%
Interest/Other	90	619	282	53	10	24	152%
<b>Total Revenue</b>	<b>43,206</b>	<b>46,694</b>	<b>45,400</b>	<b>41,281</b>	<b>45,257</b>	<b>48,267</b>	<b>7%</b>
<b>Operating Expenses</b>							
Technology & Operations	11,811	13,724	12,101	12,432	12,315	12,517	2%
Customer Operations	15,027	14,899	16,143	9,195	8,472	8,740	3%
Marketing and Outreach	4,427	4,677	4,992	5,014	6,841	6,067	-11%
Support Services	9,100	7,739	10,560	10,937	13,230	15,711	19%
<b>Total Operating Expenses</b>	<b>40,364</b>	<b>41,039</b>	<b>43,796</b>	<b>37,578</b>	<b>40,857</b>	<b>43,035</b>	<b>5%</b>
<b>Net Income Before Depreciation</b>	<b>2,842</b>	<b>5,654</b>	<b>1,604</b>	<b>3,702</b>	<b>4,400</b>	<b>5,232</b>	<b>19%</b>
Depreciation	14,826	4,902	2,455	3,525	4,369	4,381	0%
<b>Net Profit/Loss</b>	<b>(11,984)</b>	<b>752</b>	<b>(852)</b>	<b>178</b>	<b>31</b>	<b>851</b>	<b>2619%</b>
<b>Capital Expenditures</b>	<b>3,267</b>	<b>2,661</b>	<b>8,488</b>	<b>6,723</b>	<b>6,357</b>	<b>8,752</b>	<b>38%</b>
<b>Average Cash Balance</b>	<b>22,992</b>	<b>24,410</b>	<b>19,467</b>	<b>13,291</b>	<b>12,870</b>	<b>12,964</b>	<b>1%</b>
<b>Average Effectuated Enrollments</b>	<b>142,000</b>	<b>139,217</b>	<b>145,196</b>	<b>156,988</b>	<b>170,000</b>	<b>180,860</b>	<b>6%</b>

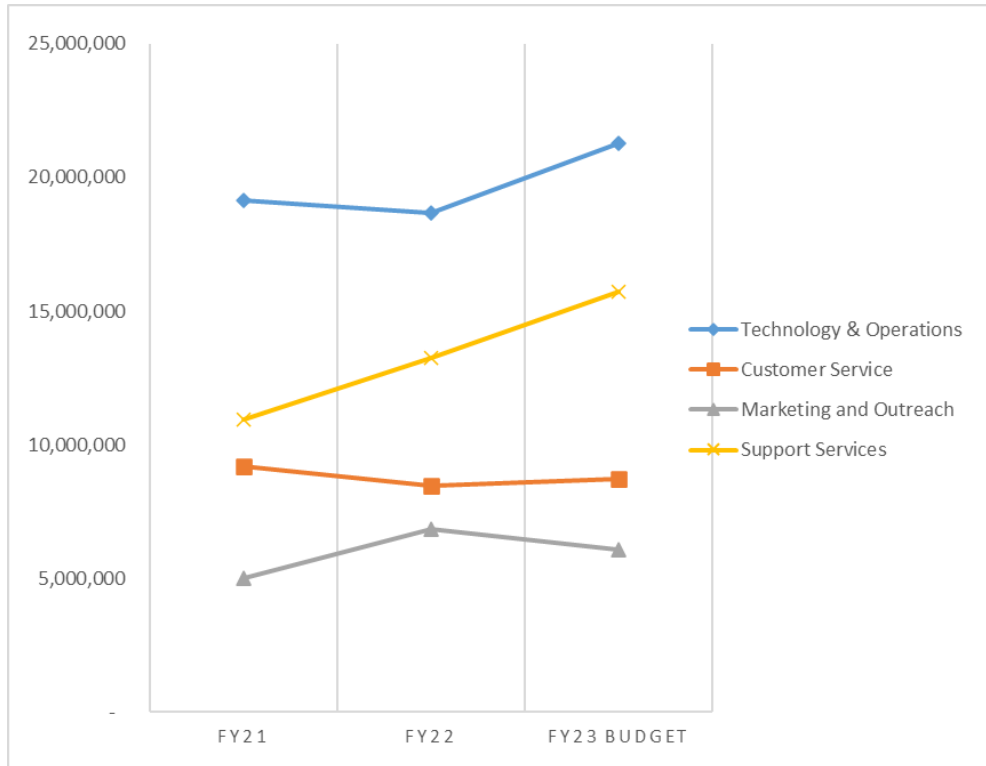
# Revenue - Summary Comparison FY21, FY22, FY23 Budget



REVENUE	FY21	FY22	FY23 Budget	% Change FY22 vs FY23
Issuer Fees - Medical and Dental	30,924	33,745	36,135	7%
Vision Fees	39	50	50	0%
Donations	5,000	5,000	5,000	0%
Grants and Contracts	175	3,174	3,500	10%
Medicaid Reimbursements	5,089	3,278	3,557	8%
Interest	53	10	24	152%
<b>Total</b>	<b>41,281</b>	<b>45,257</b>	<b>48,267</b>	<b>7%</b>

- Issuer fee revenue growth attributable primarily to assumed ARP extension beyond 2022 and impact on enrollments
- No change assumed in average premium level from 2022
- 3,000 enrollments assumed from HIAE program in 2023
- No SB 81 Marketing and Outreach funding – future budget supplement
- Funding from the HIAE program provided (Grants and Contracts) to cover portion of HIAE implementation costs
- Monthly average termination rate similar to historical rate of 2.6%

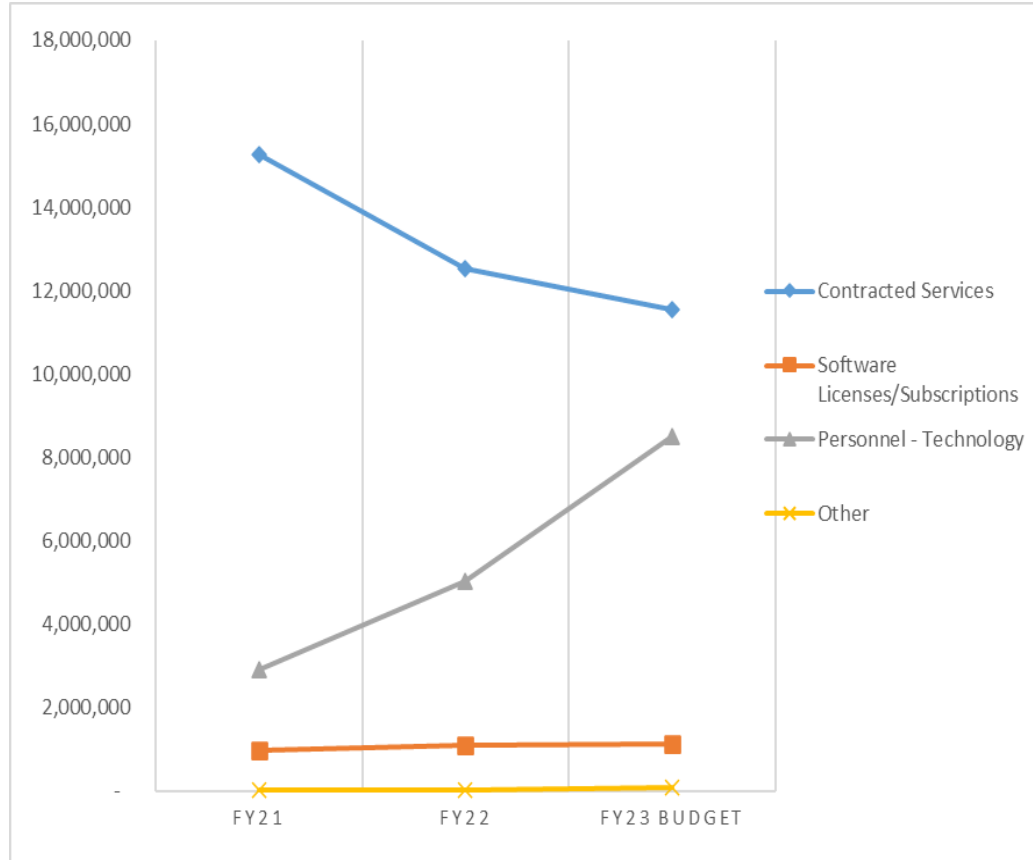
# Expenditures - Summary Comparison FY21, FY22, FY23 Budget



Expenditures (\$'s in 000's)	FY21	FY22	FY23 Budget	% Change FY22 vs FY23
Technology & Operations	19,155	18,672	21,269	14%
Customer Service	9,195	8,472	8,740	3%
Marketing and Outreach	5,014	6,841	6,067	-11%
Support Services	10,937	13,230	15,711	19%
<b>Total Expenditures</b>	<b>44,301</b>	<b>47,215</b>	<b>51,786</b>	<b>10%</b>
Without Capex	37,578	40,857	43,035	5%

- See more detailed explanations of budget lines on following slides
- Operating expenses (without capex) per member per month (PMPM) cost decreased from \$20 to \$19.8 (FY22 to FY23)
- Technology expenses include both operational costs and development costs (Capex), also includes plan operations

# Technology and Operations Expense Comparison FY21, FY22, FY23 Budget



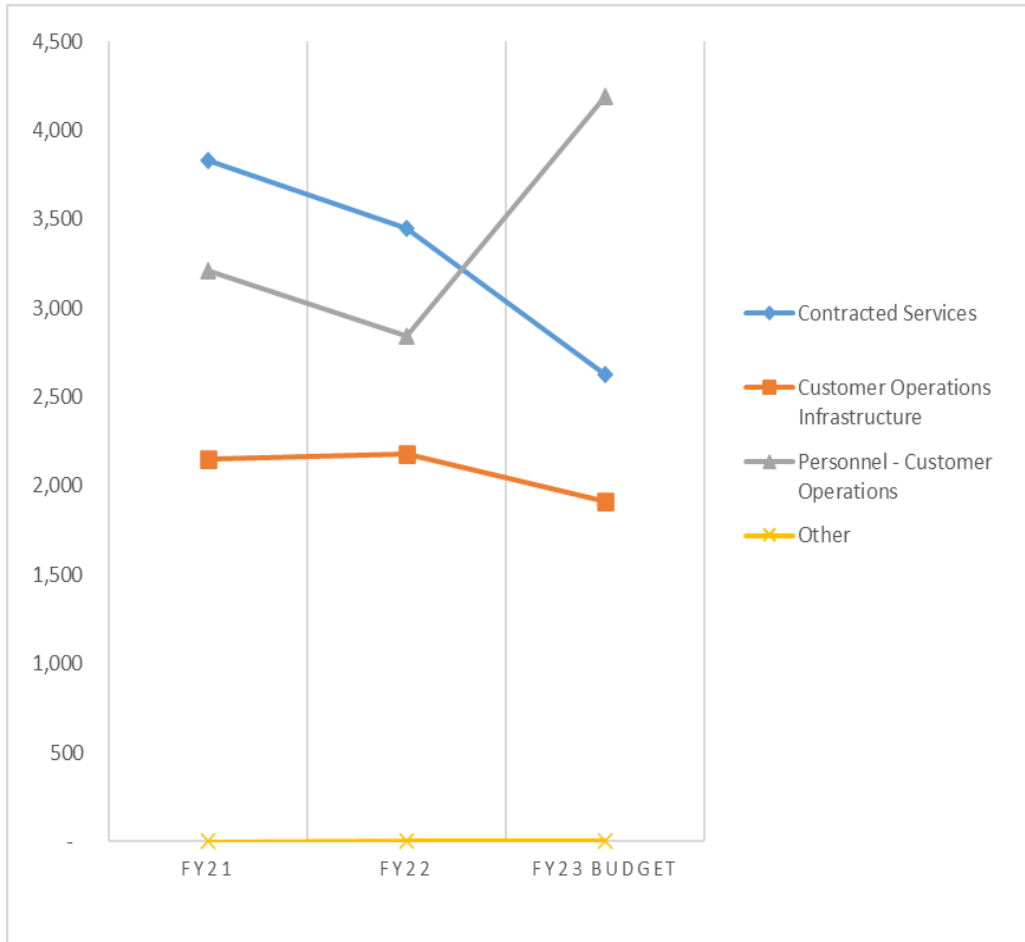
Technology and Operations (\$'s in 000's)	FY21	FY22	FY23 Budget	% Change FY22 vs FY23
Contracted Services	15,270	12,524	11,551	-8%
Software Licenses/Subscriptions	978	1,105	1,138	3%
Personnel - Technology	2,897	5,033	8,501	69%
Other	10	10	79	705%
<b>Total With Capex</b>	<b>19,155</b>	<b>18,672</b>	<b>21,269</b>	<b>14%</b>
CapEx	6,723	6,357	8,752	38%
<b>Total Without Capex</b>	<b>12,432</b>	<b>12,315</b>	<b>12,517</b>	<b>2%</b>

- Budget reflects continuation of internally staffing key technology positions – 69% increase in personnel expense line and 8% decrease in contracted services
- Capital expenditure increase due in part to deferral of FY22 work due to resource constraints
- 1<sup>st</sup> quarter of FY2023 will see extensive resources applied to open enrollment readiness and HIAE implementation
- See following page for list of current project priorities and estimated costs

# Technology Projects (July 2022-June 2023)

Estimated Project Spend FY '23	
Legacy Replacement	\$400,000
Health Insurance Affordability Enterprise – Phase 1 Renewals	\$50,000
Health Insurance Affordability Enterprise – Phase 2	\$4,250,000
Renewals Replacement	\$750,000
Standardized Plans	\$250,000
Compliance and Technical Upgrades	\$800,000
Projects to be Prioritized (Over 30 projects in queue – e.g., enhanced decision support tool, HIAE Phase 2 improvements, small business opportunities)	\$2,500,000
<b>Estimated Total Project Costs</b>	<b>\$9,000,000</b>

# Customer Operations Expense Comparison FY21, FY22, FY23 Budget

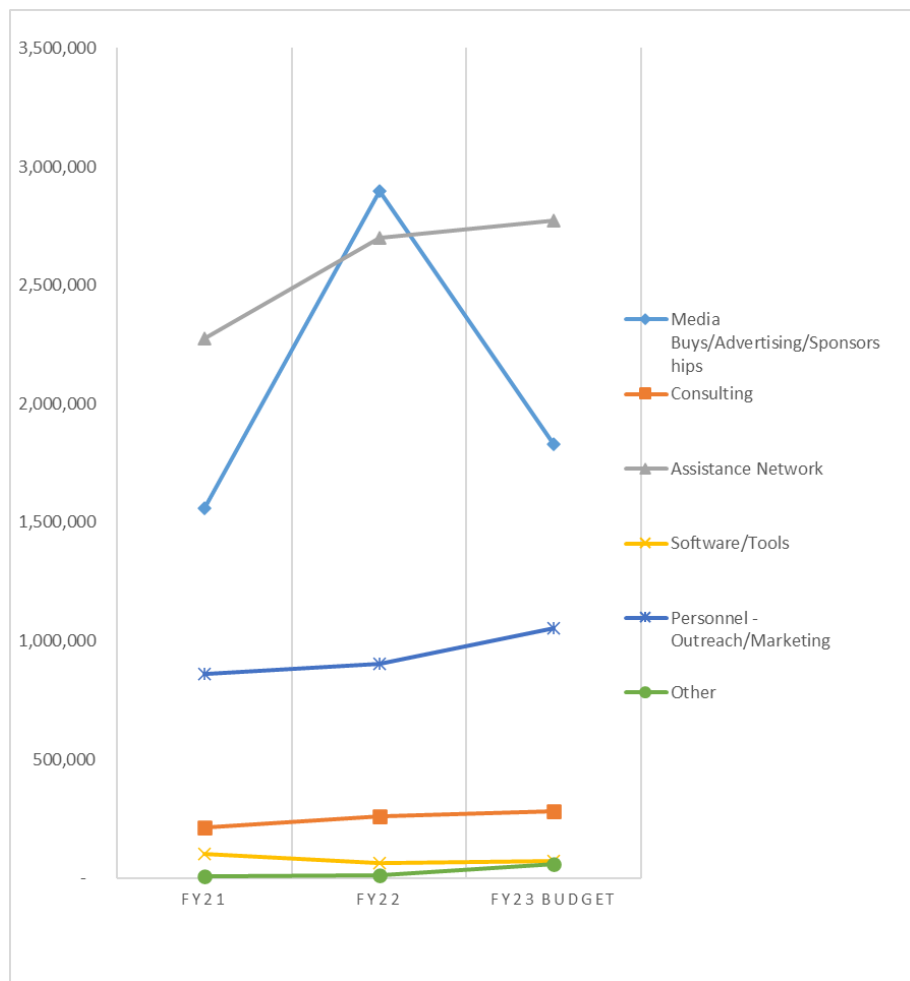


Customer Operations (\$'s in 000's)	FY21	FY22	FY23 Budget	% Change FY22 vs FY23
Contracted Services	3,834	3,449	2,627	-24%
Customer Operations Infrastructure	2,148	2,179	1,915	-12%
Personnel - Customer Operations	3,212	2,841	4,192	48%
Other	1	2	5	124%
<b>Total</b>	<b>9,195</b>	<b>8,472</b>	<b>8,740</b>	<b>3%</b>

- Service center contracted operations decrease of 24% due to continued internalization of key customer operations functions
- Personnel cost increase reflects continued staff internalization effort – this effort included a restructuring of internal teams in FY22 to improve operational effectiveness and ultimately efficiencies
- Infrastructure cost decrease is primarily the result of end of amortization of Faneuil service center implementation costs in March 2023



# Marketing and Outreach Expense Comparison FY21, FY22, FY23 Budget



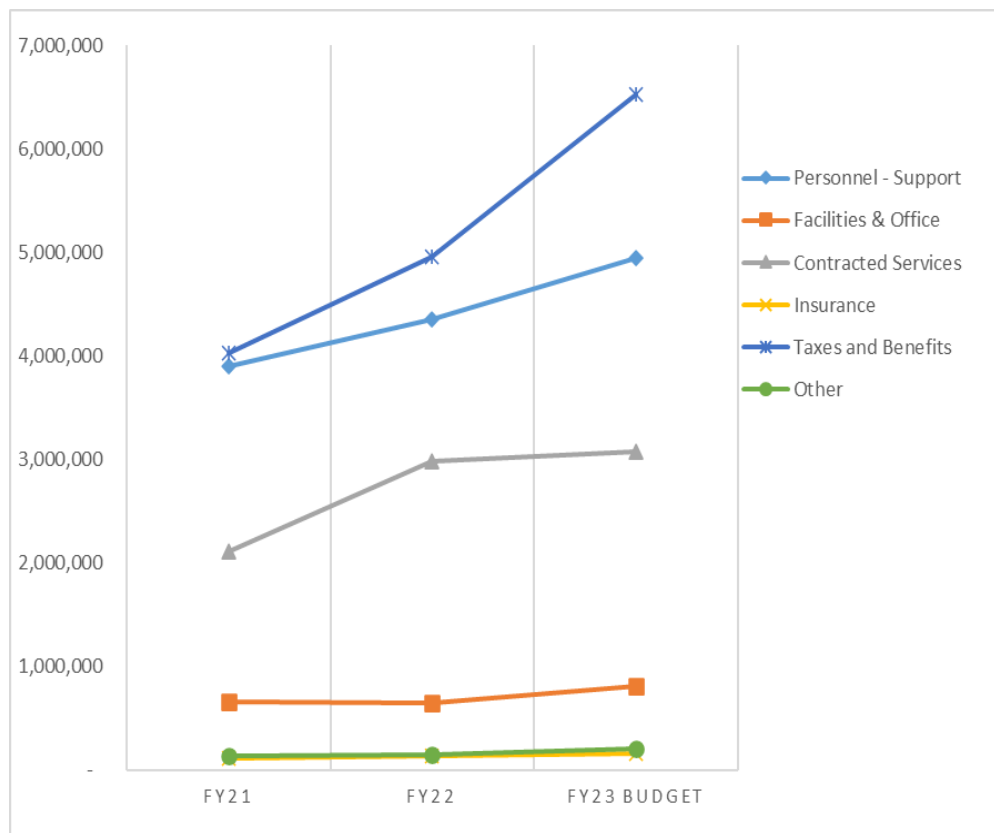
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Marketing and Outreach (\$'s in 000's)	FY21	FY22	FY23 Budget	% Change FY22 vs FY23
Media Buys/Advertising/Sponsorships	1,561	2,897	1,830	-37%
Consulting	213	260	281	8%
Assistance Network	2,275	2,701	2,774	3%
Software/Tools	101	65	70	8%
Personnel - Outreach/Marketing	859	903	1,052	16%
Other	6	14	59	333%
<b>Total</b>	<b>5,014</b>	<b>6,841</b>	<b>6,067</b>	<b>-11%</b>

- Decrease in media buys of 37% is the result of HIAE funding only available for first year of program (FY22). No additional funding was available for FY23. Budget reflects pre HIAE funding levels.
- Personnel increase reflects full staffing carried over from current year – no new position hires anticipated next year in this budget
- Assistance network funding remains the same as prior year excluding special HIAE funding in FY22
- Additional marketing and outreach expenditures being evaluated as the result of SB81 passage – future budget supplement.



# Support Services Expense Comparison FY21, FY22, FY23 Budget



Support Services (\$'s in 000's)	FY21	FY22	FY23 Budget	% Change FY22 vs FY23
Personnel - Support	3,899	4,358	4,939	13%
Facilities & Office	655	654	817	25%
Contracted Services	2,108	2,986	3,072	3%
Insurance	110	133	157	18%
Taxes and Benefits	4,023	4,953	6,523	32%
Other	143	145	202	40%
<b>Total</b>	<b>10,937</b>	<b>13,230</b>	<b>15,711</b>	<b>19%</b>

- Support services personnel include corporate functions (HR, training, Finance, Legal, Facilities, Admin), Policy and Research, Internal IT, Privacy and Security.
- Support personnel increase is the result of full year cost of staffing hires carried over from FY22 and the moving of the quality assurance team to the training department (from customer operations), no new support positions are funded in the FY 23 budget.
- Taxes and Benefits reflects fringe costs for all C4HCO staff – increase is in line with increase in total C4HCO staff (due to internalization efforts with technology and customer operations).
- Facility increase result of rent escalations for current corporate office space – before straight-line rent adjustment

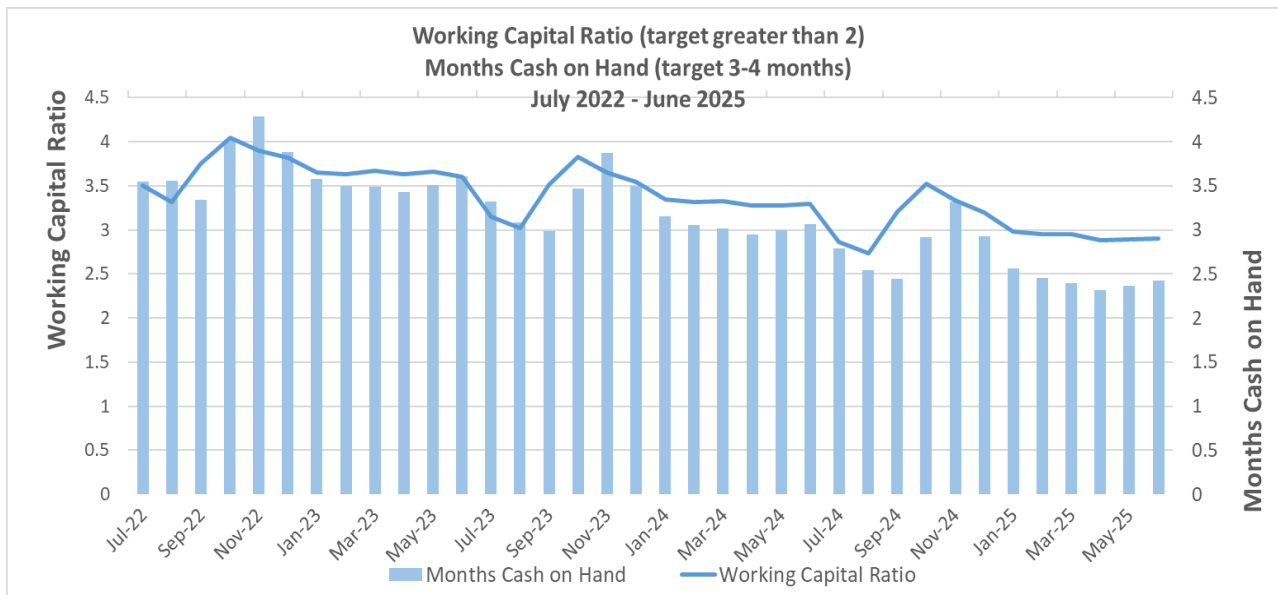
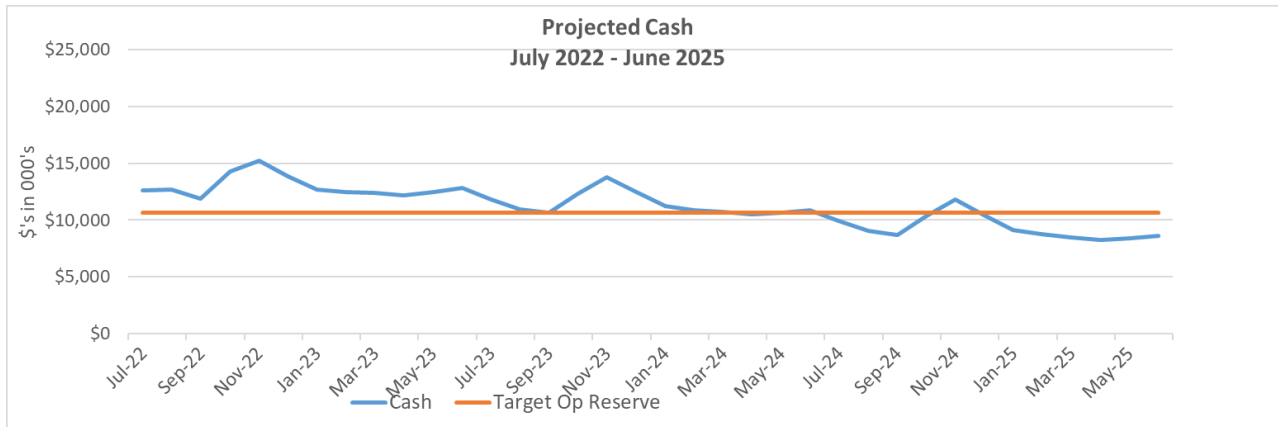
# 3 Year Projections

## Fiscal Year FY23 – FY25

	Fiscal Year 2022	Fiscal Year 2023 Budget	Fiscal Year 2024 Forecast	Fiscal Year 2025 Forecast
<i>\$'s in 000's</i>				
<b>Revenues</b>				
Issuer Fees	33,795	36,186	37,663	38,443
Tax Credit Donations	5,000	5,000	5,000	5,000
Grants/Contracts	3,174	3,500	-	-
Cost Reimbursements	3,278	3,557	3,682	3,814
Interest/Other	10	24	24	24
<b>Total Revenue</b>	<b>45,257</b>	<b>48,267</b>	<b>46,369</b>	<b>47,281</b>
<b>Operating Expenses</b>				
Technology & Operations	12,315	12,517	10,694	10,929
Customer Operations	8,472	8,740	8,002	8,349
Marketing and Outreach	6,841	6,067	6,130	6,197
Support Services	13,230	15,711	17,105	17,625
<b>Total Operating Expenses</b>	<b>40,857</b>	<b>43,035</b>	<b>41,930</b>	<b>43,099</b>
<b>Net Income Before Depreciation</b>	<b>4,400</b>	<b>5,232</b>	<b>4,439</b>	<b>4,182</b>
Depreciation	4,369	4,381	4,199	3,798
<b>Net Profit/Loss</b>	<b>31</b>	<b>851</b>	<b>239</b>	<b>384</b>
<b>Capital Expenditures</b>	<b>6,357</b>	<b>8,752</b>	<b>6,232</b>	<b>6,403</b>
<b>Average Cash Balance</b>	<b>12,870</b>	<b>12,964</b>	<b>11,404</b>	<b>9,328</b>
<b>Average Effectuated Enrollments</b>	<b>170,000</b>	<b>180,860</b>	<b>188,297</b>	<b>192,224</b>

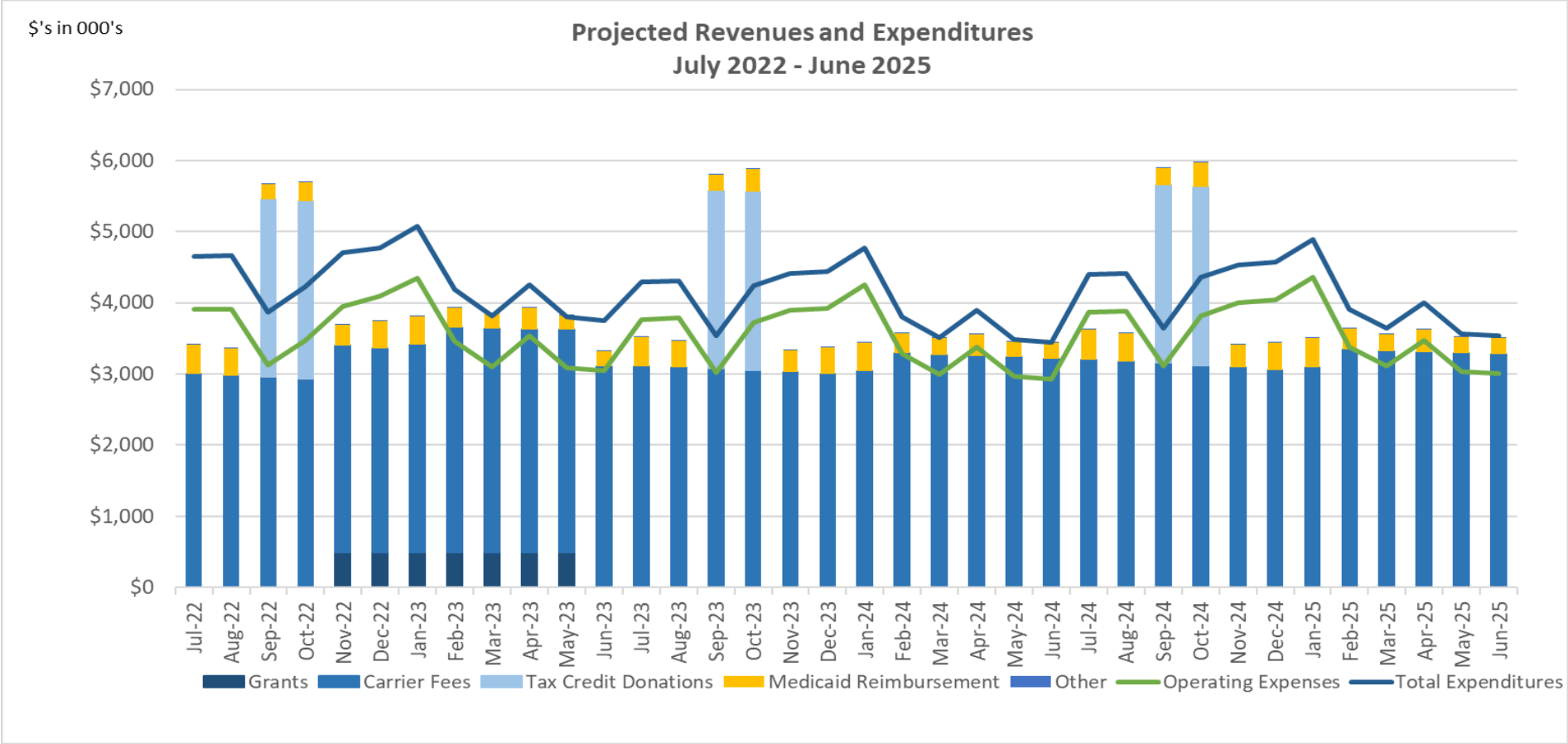
- PMPM operating expenses decrease from \$20 in FY 22 to \$18.7 in FY 25
- Technology design and development costs are expected to decrease to more sustainable levels in FY24 and FY25 due to internalization of staff
- Issuer fee revenue growth is due to continuation of ARP, HIAE enrollment growth and end of Public Health Emergency – average premium levels are assumed to remain unchanged over the 3 years
- No additional funding is assumed for implementation of state or federally legislated projects beyond FY23
- Growth in support service costs due primarily to overall growth in C4HCO staffing (technology and customer operations) fringe benefits
- Average cash balance decreases to below acceptable level in FY25 in these projections

# Cash and Liquidity Metrics 3 Year Projection



- Cash levels for the period range from \$9 to \$15 million.
- Working capital (cash and accounts receivable less payables) reflects our ability/buffer to cover near term financial obligations – projection shows working capital in the range of \$10 to \$17 million – with decreases occurring in FY24 and 25.
- Working capital ratio is the ratio of cash & accounts receivable to payables – target is to exceed a ratio of 2. Budget/forecast range is a high of 4 in FY23 to a low of 2.3 in FY25.
- Months cash on hand is the number of months of operating expenses the cash balance will cover. Target range is 3-4 months. Budget/forecast range is a high of 4.3 in FY23 to a low of 2.7 in FY25.
- General trend over the 3 years is negative on liquidity measures.

# Projected Revenues and Expenditures – 3 years



Depicted in the graph is the variation in the revenue streams (bars) and expenditures (lines) which results in fluctuations in cash balances and demands

# 3 Year Financial Goals and Strategies

**Goal:** Maintain targeted operating reserves and build capital reserves

**Proposed Targets:**

- Maintain average operating cash balance of 3 months of average operating expenses (\$10.5 million)
- Grow capital fund reserve by net inflow of \$1 million per year – ultimate fund target of \$10 million to fund future major platform replacement/enhancements

**Potential Strategies:**

- Revenue Growth
  - Expand efforts in capturing enrollments from Medicaid transitions
  - Focus additional efforts on potential new individual market enrollments (e.g., family glitch, small business/HRA enrollments, COBRA)
  - Expanded marketing efforts for year-round outreach and awareness
  - Improvements to the shopping and enrollment experience (e.g., enhanced decision support, improved issuer, assister & broker tools, enhanced integration/API capabilities) that makes C4HCO the platform of choice by customers, issuers, brokers and administrative vendors for individual plan shopping and enrollment
  - Leverage Colorado Connect flexibility in providing additional products & services (e.g., consulting, small business, ancillary benefits).
- Expense Management
  - Continuous improvement in processes/products that improves efficiencies without detriment to customers
  - Insourcing of resources for key strategic areas of service/product delivery and customer interaction
  - Increase diligence on evaluating new projects balancing compliance with ROI
  - Build a flexible cost structure that can economically flex up for unexpected demands