



Fiscal Note
Legislative Council Staff
Nonpartisan Services for Colorado’s Legislature

SB 25-314: RECOVERY AUDIT CONTRACTOR PROGRAM

Prime Sponsors:

Sen. Kirkmeyer; Bridges
Rep. Bird; Sirota

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Fiscal note status: The revised fiscal note reflects the reengrossed bill, which was recommended by the Joint Budget Committee.

Summary Information

Overview. The bill places several requirements on vendors hired by the Department of Health Care Policy and Financing to conduct recovery audits and the audits they conduct.

Types of impacts. The bill is projected to affect the following areas on an ongoing basis:

- State Revenue
- State Expenditures
- State Diversions

Appropriations. For FY 2025-26, the bill requires and includes a net zero change in appropriations to the Department of Health Care Policy and Financing.

Table 1
State Fiscal Impacts

| Type of Impact ¹ | Budget Year FY 2025-26 | Out Year FY 2026-27 |
|-----------------------------|---------------------------|------------------------|
| State Revenue | \$0 | \$0 |
| State Expenditures | \$0 | \$0 |
| Diverted Funds | \$20,900,588 | Not Calculated |
| Change in TABOR Refunds | \$0 | \$0 |
| Change in State FTE | 0.0 FTE | 0.0 FTE |

¹ Fund sources for these impacts are shown in the tables below.

Table 1A
State Diversions/Expenditures

| Fund Source | Budget Year FY 2025-26 | Out Year FY 2026-27 |
|--|-----------------------------------|--------------------------------|
| General Fund, Cash Funds, & Federal Funds | -\$20,900,588 | Not Calculated |
| Recovery Audit Contractor Recoveries Cash Fund | \$20,900,588 | Not Calculated |
| Net Diversion | \$0 | \$0 |

Summary of Legislation

The bill places several requirements on vendors hired by the Department of Health Care Policy and Financing (HCPF) to conduct recovery audits (RAC vendors) and the audits they conduct including contracting requirements, disclosure requirements, audit limitations, and review requirements.

Contracting Requirements

The bill requires RAC vendor compensation to be contingent on the money they recover. For the next audit, this contingency fee must not exceed 16 percent of recoveries and for subsequent audits must be tiered based on required work, if allowed by federal regulations.

Disclosure Requirements

The bill requires HCPF to issue notices of adverse action within 120 days of an informal reconsideration meeting or forfeit the state share of the recovery.

Audit Limitations

The bill imposes the following limits on audits, if allowed by federal regulations:

- audits are restricted to claims made in the last three years;
- providers may be audited no more than three times per calendar year;
- audits must be grouped across providers;
- the number medical records an RAC vendor can request is capped and tiered by provider size; and
- for providers with an audit denial rate of 40 percent or higher, audits are restricted to 25 percent of claims per audit type.

Review Requirements

The bill requires HCPF to:

- review all RAC vendor audit proposals and regularly review all vendor work;
- notify providers of preliminary findings and the associated rationale and methodology;

- establish a process for providers to request an exit conference, informal, and formal reconsideration process; and
- issue an exit interview determination within 30 days.

The bill requires providers to request an informal reconsideration before submitting a formal appeal.

Recoveries Cash Fund

Finally, the bill requires all recoveries to be credited to the newly created Recovery Audit Contractor Recoveries Cash Fund. Subject to available appropriations, HCPF may use the cash fund to offset the need for appropriations for medical services and to pay the RAC vendor.

State Diversion

Currently, overpayment recoveries are credited to HCPF based on the funds that paid the initial provider claims. The bill diverts these funds—\$20.9 million in FY 2025-26—into the newly created Recovery Audit Contractor Recoveries Cash Fund. Recoveries for future years have not been estimated. These funds will continue to offset HCPF's need for General Funds, cash funds, and federal funds based on the funds that paid in the initial claims.

State Revenue and Expenditures

The bill impacts HCPF revenue and expenditures in several ways, which will be adjusted through the annual budget process.

Contingency Fees

The bill will decrease HCPF's expenditures for contractor contingency fees in FY 2026-27 only. The RAC vendor contingency fee is currently 18 percent of recoveries. The bill requires it to be lowered to 16 percent for the next audit only. If recoveries remain consistent, this may lower HCPF's contract costs by about \$400,000, approximately one third of which would be state funds. However, recoveries are not historically consistent and the lowered rate may decrease recovery revenue if RAC vendors are less incentivized to identify overpayments. Thus, the fiscal note has not estimated savings.

Forfeited Recoveries

The bill's disclosure requirements may decrease HCPF revenue by requiring notices of adverse action to be issued within 120 days of an informal reconsideration meeting. The fiscal note assumes HCPF will comply with the deadline and there will be no fiscal impact from forfeited recoveries.

Audit Limitations

The bill's audit limitations may decrease HCPF revenue. Audits are currently being conducted within the audit limitations specified in the bill. If substantial evidence arises to indicate that overpayments were made on claims outside of these limitations, the fiscal note assumes that federal regulations will require HCPF to conduct audits to recover these funds and, per the bill, HCPF would not be bound by the limitations and no recoveries would be lost.

Workload Impacts

The bill may decrease workload for HCPF if the requirement that providers request an informal reconsideration before submitting a formal appeal results in fewer formal appeals.

The bill requires HCPF to review all RAC vendor audit proposals and regularly review all vendor work. This codifies current practice and therefore does not impact workload.

All other requirements of the bill minimally increase workload for HCPF to promulgate rules, conduct provider outreach, and prepare reports. This work can be accomplished within existing resources.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State Appropriations

For FY 2025-26, the bill requires and includes a net zero change in appropriation to the Department of Health Care Policy and Financing that includes an increase in appropriations of \$20,900,588 from the Recovery Audit Contractor Recoveries Cash Fund and a corresponding decrease in General Fund, cash funds, and federal funds appropriations from recoveries and recoupments.

State and Local Government Contacts

Health Care Policy and Financing

Joint Budget Committee Staff

The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit the [General Assembly website](#).