



State Demonstrations Group

June 30, 2026

Adela Flores-Brennan
State Medicaid Director
Colorado Department of Health Care Policy and Financing
303 E. 17th Avenue, Suite 1100
Denver, CO 80203

Dear Director Flores-Brennan:

This letter is to inform you that the Centers for Medicare & Medicaid Services (CMS) has approved a temporary extension of the majority of the state's section 1115 demonstration, entitled "Colorado Expanding the Substance Use Disorder Continuum of Care" (Project No. 11-W-00336/8 and 21-W-00079/8), in order to allow the state and CMS to continue negotiations over the state's demonstration application submitted on December 23, 2024. This demonstration will now expire December 31, 2026.

Consistent with the letter CMS issued to states in July 2025 that indicates that CMS does not anticipate extending the existing section 1115 demonstration authority for expanded continuous eligibility¹, Colorado's continuous eligibility expenditure authority, along with associated special terms and conditions (STC) 4.2 - 4.9, will expire effective June 30, 2026. To date Colorado has not implemented the expenditure authority for the expanded continuous eligibility for children (including CHIP) up to age three and the expenditure authority for the expanded continuous eligibility for beneficiaries leaving incarceration.

CMS's approval is conditioned upon the state's continued compliance with the special terms and conditions (STC) defining the nature, character, and extent of anticipated federal involvement in the project. The current STCs, waivers, and expenditure authorities will continue to apply during the temporary extension of this demonstration. The state's current budget neutrality agreement will continue to apply as described in the STCs, until December 31, 2026, or until the demonstration is renewed, whichever is sooner. CMS acknowledges that section 71118 of subchapter C of chapter 1 of subtitle B of title VII of Public Law 119-21, which CMS refers to as the Working Families Tax Cut (WFTC) legislation, adds a new subsection (g) to section 1115 of the Social Security Act with budget neutrality requirements that will apply beginning January 1, 2027, to CMS approvals of section 1115 Medicaid demonstration project applications, renewals, or amendments.² CMS has released additional guidance in CMS SMDL #26-003³ on June 11, 2026 about the section 1115(g) requirements.

¹ <https://www.medicaid.gov/resources-for-states/downloads/contin-elig-ltr-to-states.pdf>

² <https://www.congress.gov/bill/119th-congress/house-bill/1/text>

³ <https://www.medicaid.gov/federal-policy-guidance/downloads/smd26003.pdf>

States are responsible for following all applicable federal law and regulations when they claim and use federal Medicaid funds and must fully comply with all applicable Medicaid statutes and regulations under a section 1115 demonstration, except where specific provisions have been expressly waived or identified as not applicable for that demonstration. This obligation includes all requirements in Title XIX of the Social Security Act and implementing regulations governing provider screening and enrollment activities, pre- and post-payment review claiming, payment methodologies and rate-setting, utilization controls, and program integrity including processes to identify, investigate, and refer suspected fraud, and methods to receive complaints and identify questionable practices. States must maintain effective systems and safeguards to prevent, detect, and address any fraud, waste, or abuse (FWA) in the delivery of and payment for Medicaid services, including referrals to law enforcement when appropriate.

States should have heightened monitoring and oversight mechanisms in place featuring robust internal controls to identify and remediate all vulnerabilities (including, but not limited to, FWA and beneficiary access issues) inherent in service areas approved as part of a demonstration. At any time, CMS may request that the state provide a plan detailing the state's systems and safeguards to prevent, detect, and address any FWA relative to this demonstration. Failure to meet program integrity obligations under federal statutes and regulations or under the terms and conditions of this demonstration approval may result in compliance actions or other enforcement measures that could include requirements to develop and implement corrective action plans, withholdings, deferrals, disallowances, and termination of demonstration authority.

The state must continue to monitor and evaluate its demonstration as stipulated in the STCs. The state may include the temporary extension periods within its Summative Evaluation Report for the current demonstration period, due 18 months after the end of the temporary extension period. Alternatively, if CMS approves a full demonstration renewal, the state may include the temporary extension period in the evaluation activities for the next full demonstration approval period.

Your CMS project officer for this demonstration is Laura Gray. Ms. Gray is available to answer any questions concerning your section 1115 demonstration and can be reached at laura.gray@cms.hhs.gov.

Sincerely,

Sarah Aker
Acting Director

Enclosure

cc: Keri Rosenbloom, State Lead, Medicaid and CHIP Operations Group