

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0821-02
Bill No.: SB 131
Subject: Medicaid; Social Services Department; Health Care
Type: Original
Date: January 31, 2013

Bill Summary: This proposal provides for the expansion of MO HealthNet services beginning on January 1, 2014.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	\$31,046,711	\$35,677,580 or \$71,355,159	\$0 or \$82,283,976
Total Estimated Net Effect on General Revenue Fund	\$31,046,711	\$35,677,580 or \$71,355,159	\$0 or \$82,283,976

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Other State Funds	\$15,109,173	\$19,194,390 or \$38,388,780	\$0 or \$47,992,960
Total Estimated Net Effect on <u>Other</u> State Funds	\$15,109,173	\$19,194,390 or \$38,388,780	\$0 or \$47,992,960

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Federal *	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

* Income and expenditures could exceed \$1.8 billion and net to \$0.

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on FTE	0	0	0

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Social Services (DSS) - Division of Finance and Administrative Services (DFAS)** state this proposal enacts the Medicaid expansion authorized by the federal Affordable Care Act (ACA). Beginning January 1, 2014, individuals with income up to 138% of the Federal Poverty Level (FPL) aged 19 up to 65 will be eligible for MO HealthNet benefits. The health benefits service package available to these individuals will be determined by the DSS under applicable federal guidelines and is subject to federal approval.

The federal government will pay 100% of the cost of the expansion for state fiscal years 2014 through 2016. Beginning in 2017, the state will have to pay an increasing percentage of the cost through 2021, when the state share levels off at 10%. In 2021 and beyond, the federal and state shares are split 90/10.

DSS has shown all costs and cost savings for the Medicaid expansion, including those for the Department of Mental Health (DMH) and the Department of Health and Senior Services (DHSS). Medicaid costs paid through the DMH and the DHSS, including Home and Community-Based Services (HCBS), are included in the per member, per month cost (PMPM).

The fiscal impact for FY 14 is shown for only six months because coverage for the expansion population is effective January 1, 2014. Costs and savings are shown in subsequent years assuming the Medicaid expansion program will be reauthorized on an annual basis. If the program is not reauthorized beyond the initial sunset date, the program would be effective for only one year (January 1, 2014 through December 31, 2014). If this were the case, the fiscal impact for FY 15 would be halved (July to December only) and there would be no fiscal impact in FY 16 and beyond.

The DSS estimates FY 14 General Revenue savings of \$31,046,711; FY 15 savings of \$71,355,159 and FY 16 savings of and \$82,283,976. The DSS further estimates FY 14 savings to all Other State Funds of \$15,109,173; \$38,388,780 for FY 15 and \$47,992,960 for FY 16. Additional revenues and expenditures of federal funds associated with the expansion in MO HealthNet services are estimated to be \$907,488,022 for FY 14; \$1,857,786,660 for FY 15; and, \$1,955,313,303 for FY 16.

MEDICAID EXPANSION - BUDGET KEY ASSUMPTIONS

- Population date for the number of uninsured in Missouri was obtained from the U.S. Census Bureau 2011 American Community Survey Table "Health Insurance Coverage Status and Type by Ratio of Income to Poverty Level";

ASSUMPTION (continued)

- Medically Frail estimate is based on the 2010 Census Bureau, Americans with Disabilities: Table 1, “Prevalence of Disability for Selected Age Groups: 2005 and 2010”;
- Take up rates by category were state determined based on an analysis of Missouri’s population, take up rates experienced with prior expansions, and take up rates experienced by other states following an expansion. Take up rates by category are:
 1. Parents - 70% 2014 - 2016; 75% 2017; 80% 2018 - 2021
 2. Childless Adults - 60% 2014; 65% 2015; 70% 2016; 75% 2017; 80% 2018 - 2021;
 3. Medically Frail - 95% all years; and,
 4. Crowd out rate of 10% for all categories.
- Other PMPM assumptions include:
 1. Commercial reimbursement payment levels with trend adjustments;
 2. Medically Frail population will also be eligible for a wrap around benefit, including in-home services and mental health services;
 3. The maximum permissible cost sharing for eligibles between 100% and 138% Federal Poverty Level (FPL).
 4. The Office of Administration (OA) has projected the potential revenue from increased income and sales tax as a result of the increased direct federal participation and the avoidance of High Insurance Pool (HIP) tax credits redeemed. These revenue increases will impact the General Revenue Fund, but will not directly impact the DSS. Therefore, estimated revenues resulting from Medicaid expansion are not shown in the DSS fiscal note. OA will supply this information.

Oversight notes, per discussion with DSS personnel, the costs and savings reported for the expansion of MO HealthNet services for the fiscal note only includes direct client-related costs. No costs DSS, DHSS, or DMH might incur as a result of the expansion that would require additional state matching funds have been included, i.e. additional administrative, personnel, or equipment costs.

Oversight has, for fiscal note purposes, shown FY 15 and FY 16 savings, income, and expenditures as an “or” in case the proposal would not be reauthorized. FY 15 savings, income, and expenditures reflect 6 months (July through December only, if the proposal is not reauthorized) and for the whole year. If the proposal would not be reauthorized for FY 16, the savings, income, and costs would be \$0.

ASSUMPTION (continued)

Officials from the **Department of Health and Senior Services (DHSS)** state the fiscal impact of the proposal on the DHSS is unknown.

Division of Senior and Disability Services (DSDS):
Services for New Participants

The DHSS assumes the Department of Social Services will calculate the fiscal impact associated with determining eligibility under the new requirements, the cost of services for the new group of eligible recipients, and the cost of any administrative hearings regarding denial of eligibility. The appropriations for Medicaid Home and Community-Based Services (HCBS) are included in the DHSS/DSDS budget. DHSS estimates the average annual cost per participant at \$11,381 for FY 14.

Assessment and Reassessment Costs

Each new participant in HCBS would receive a prescreen, an initial assessment, and an annual reassessment in subsequent years. Each prescreen takes an average of one hour to complete. Each assessment takes an average of two hours to complete. DHSS will require additional staff to complete assessments and reassessments on the newly eligible individuals. DHSS estimates that 1 FTE is required to complete 2,080 prescreens, and 1 FTE is required to complete 1,040 assessments/reassessments per year.

For fiscal note purposes, DHSS assumed that the sunset provision will be renewed. If this is not the case, the proposed legislation would be for six months in FY 14 and FY 15.

Oversight assumes the number of new prescreening and assessments for HCBS the DHSS would be required to perform, as a result of the expansion in MO HealthNet, would be absorbable within their current appropriation level. However, if the number of new recipients of HCBS were to increase significantly, the DHSS could request additional funding through the appropriations process.

Officials from the **Department of Mental Health (DMH)** state the DMH serves 33,829 consumers (21,329 in Alcohol & Drug Abuse (ADA) and 12,500 in Comprehensive Psychiatric Services (CPS) programs) who are not currently eligible for MO HealthNet that would qualify in the new eligibility category. In SFY 12, DMH spent \$20,136,247 on services that would be covered by MO HealthNet for these ADA consumers and \$2,463,424 for the CPS consumers.

ASSUMPTION (continued)

Covering these costs under MO HealthNet would allow DMH to redirect the funds to meet maintenance of effort (MOE) requirements for various federal grants. DMH estimates that an additional 15,366 individuals with substance use disorders and serious mental illness who are not currently receiving DMH services would qualify in the new eligibility category.

Therefore, the proposal would have no net effect on the DMH. Funds currently spent would be used to expand services under various federal grants for clients who currently are not eligible to receive them.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** state the proposed legislation should not result in additional costs or savings to the BAP. The legislation will result in increased revenues to the state. Increasing the number of Missourians eligible for a federally funded health benefits services package will increase federal dollars spent on health care in Missouri by \$1.9 billion in calendar year 2014. This infusion of federal dollars will allow health care employers to increase their payrolls. For purposes of this fiscal note, BAP is assuming the legislation will be re-authorized in subsequent years.

BAP assumes health care providers will continue to spend the same percentage of revenues on salaries and is assuming an effective 4.5% rate of withholding for those employees. Because this legislation does not begin until January 1, 2014, BAP assumes that only 1/3 of income tax revenues will be realized in Fiscal Year 2014. BAP is assuming a full year of revenue growth in the subsequent fiscal years. See the chart below for a break-out of new revenues that result from increased income tax collections by Fiscal Year.

BAP assumes that those salary increases will result in 19.20% being spent on general revenue taxable goods at a three percent sales tax rate. See the chart below for a break-out of new revenues that result from these increased sales tax collections.

BAP also assumes that 6.9% of the non-salary revenue received by health care providers will be spent on general revenue taxable goods at a three percent sales tax rate. See the chart below for a break-out of the new revenues that result from these increased sales tax collections.

ASSUMPTION (continued)

	FY 14	FY 15	FY 16
Income Tax	\$9,872,846	\$30,537,382	\$32,412,653
Sales Tax - Function of Income Tax	\$3,829,468	\$4,069,823	\$4,309,206
Sales Tax - Non-Salary Portion Health Care Providers	\$1,824,320	\$1,938,822	\$2,052,086
TOTAL	\$15,526,633	\$36,546,028	\$38,774,721

The growth in taxes is due solely to the growth in federally funded health benefit services (no multipliers were used).

Additional sales tax revenue will also be generated for education (1%), Conservation (.125%) and Department of Natural Resources (0.1%). See below for increases sales tax estimates.

Additional Sales Tax Impacts

	FY 14	FY 15	FY 16
Prop C - Function of Income Tax	\$1,276,489	\$1,356,608	\$1,436,402
Prop C - Non-Salary Portion Health Care Providers	\$608,107	\$646,274	\$684,287
Prop C TOTAL	\$1,884,596	\$2,002,882	\$2,120,689

ASSUMPTION (continued)

Additional Sales Tax Impacts			
	FY 14	FY 15	FY 16
Conservation - Function of Income Tax	\$159,561	\$169,576	\$179,550
Conservation - Non-Salary Portion Health Care Providers	\$76,013	\$80,784	\$85,536
DNR - Function of Income Tax	\$127,649	\$135,661	\$143,640
DNR - Non-Salary Portion Health Care Providers	\$60,811	\$64,627	\$68,429
TOTAL	\$424,034	\$450,648	\$477,155

Oversight assumes the tax revenue projections provided by BAP are an indirect result of expanding MO HealthNet services and, therefore, will not present these revenues in the fiscal impact segment of the fiscal note.

Officials from the **Department of Revenue** assume the proposal would not fiscally impact their agency.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (6 Mo.)	FY 2015	FY 2016
GENERAL REVENUE FUND			
<u>Savings - DSS, DHSS, DMH</u>			
Expansion in MO HealthNet costs covered by the federal government	\$31,046,711	\$35,677,580 or \$71,355,159	\$0 or \$82,283,976
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	<u>\$31,046,711</u>	<u>\$35,677,580 or \$71,355,159</u>	<u>\$0 or \$82,283,976</u>

<u>FISCAL IMPACT - State Government</u>	FY 2014 (6 Mo.)	FY 2015	FY 2016
OTHER STATE FUNDS			
<u>Savings - DSS, DHSS, DMH</u>			
Expansion in MO HealthNet costs covered by the federal government	<u>\$15,109,173</u>	\$19,194,390 or <u>\$38,388,780</u>	\$0 or <u>\$47,992,960</u>
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	<u>\$15,109,173</u>	\$19,194,390 or <u>\$38,388,780</u>	\$0 or <u>\$47,992,960</u>
FEDERAL FUNDS			
<u>Income - DSS</u>			
MO HealthNet program income	\$907,488,022	\$928,893,330 or \$1,857,786,660	\$0 or \$1,955,313,303
<u>Expenses - DSS</u>			
MO HealthNet program payments	<u>(\$907,488,022)</u>	<u>(\$928,893,330)</u> or \$1,857,786,660	<u>(\$0 or \$1,955,313,303)</u>
ESTIMATED NET EFFECT ON FEDERAL FUNDS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2014 (6 Mo.)	FY 2015	FY 2016
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small business Home and Community Based Service (HCBS) providers may see an increase in the number of Medicaid recipients they service, thereby, increasing the amount of Medicaid reimbursement they receive. Costs may also increase if the number of clients served increase to the point the HCBS provider has to hire additional employees.

FISCAL DESCRIPTION

Beginning January 1, 2014, this proposal extends benefits under the MO HealthNet program to persons aged 19 or older, but younger than 65, who are not otherwise eligible for MO HealthNet services, who qualify for MO HealthNet services under the provisions of the Affordable Care Act (ACA) of 2010, and who have income at or below 133 percent of the federal poverty level plus 5 percent of the applicable family size.

The Medicaid Expansion program shall sunset one year from the effective date of the proposal, unless re-authorized by the General Assembly. If re-authorized, the program shall sunset one year from the re-authorization, unless the General Assembly re-authorizes it a second time. If re-authorized a second time, the program shall sunset one year from such re-authorization.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration -
 Division of Budget and Planning
Department of Mental Health
Department of Health and Senior Services
Department of Revenue
Department of Social Services -
 Division of Finance and Administrative Services



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