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FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

Revised to update for the 2014 Session

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES **(See narrative for political subdivision estimates)**

	FY 2014-15		FY 2015-16	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	2,027,634		(4,079,616)	
CASH FUNDS				
FEDERAL FUNDS	161,268,004		371,755,813	
OTHER FUNDS				
TOTAL FUNDS	163,295,638		367,676,197	

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

This bill requires the Department of Health and Human Services to submit a state plan amendment to cover the new Medicaid adult group, commonly referred to as Medicaid Expansion. The bill directs the department to apply for an alternative benefit plan to include full Medicaid coverage and other coverage required by the Affordable Care Act (ACA), including non-emergency transportation, early and periodic screening (EPSDT), diagnostic and treatment program, family planning, habilitative services and services covered by the federal Paul Wellstone and Pete Domenici Mental Health Parity Act of 2008. As amended, the bill states that if the Federal Financial Participation Rate (FMAP) falls below 90%, the Legislature shall affirm, amend or repeal the Medicaid Expansion coverage. For purposes of this fiscal note, the implementation date of the Medicaid Expansion is assumed to be January 1, 2015.

The Department of Health and Human Services contracted with Milliman to project the costs of implementing the Affordable Care Act. Milliman provided a revised report in January 2013. Milliman provided two projection scenarios, full participation and what they call mid-range participation. The full participation assumes 100% of all eligible persons will apply for and utilize the services. The mid-range participation rates range from 80% to 85%; except of the category of “insured switchers” which are at 50%. The Milliman projections assume these will be the participation rates from the start and will continue at the same level throughout the seven years of their projections. Although Milliman provided the full participation scenario, in their report they state: “While we provided a full participation scenario, we do not expect full enrollment to occur.” The costs in the Department of Health and Human Services fiscal note are the midpoint between full and mid-range participation.

The Legislative Fiscal Office also studied the impacts of the ACA and included their projections in a report released in November 2012. The participation rate in this report is 60%; except of the category of “insured switchers” which is at 25% in the first year. By the fourth year, the participation rate is anticipated to reach 75%; except for the “insured switchers” who remain at 25%. Because by the time this bill would be implemented, the Affordable Care Act under which Medicaid Expansion is authorized, will have been in effect for a year, the first year participation rate is 65%, as there will be a greater awareness of the program than when the projections were initially done.

In this fiscal note, the aid costs are the midpoint between the mid-range estimates from the Milliman Report and the Legislative Fiscal Office projections. Administrative costs in this fiscal note are a combination of the original estimate provided by Department of Health and Human Services and the mid-range in the Milliman Report.

There is a great degree of uncertainty in projecting the cost of this provision. The Medicaid expansion covers a population that previously has never been covered by Medicaid. The pool of those potentially eligible coupled with assumptions regarding their behavior as to whether or not to participate and when, their health status and their decisions with regard to dropping insurance coverage and opting for Medicaid all make the impact difficult to project.

The Federal Medical Assistance Percentage (FMAP) is the percentage paid by the federal government for the aid costs of Medicaid. Initially the aid costs are fully funded by the federal government and are gradually phased down to 90% in 2020. The chart on the following page shows the federal match rates for the calendar years 2014 to 2020:

FMAP for Newly Eligible	
Calendar Year	FMAP
2014	100%
2015	100%
2016	100%
2017	95%
2018	94%
2019	93%
2020 and after	90%

The administration costs are 50% General and 50% federal. IT costs are at a 10-90% split with the federal government paying the higher percent.

This fiscal note shows projected costs through 2020. The projections beyond the next biennium are shown because of the changes in the FMAP and due to the assumption that participation will increase over time. If Medicaid is expanded per the provisions of this bill, the out-year projections will be revised based on the trends that occur in the initial years of implementation.

The aid costs by fund source are shown in the chart below along with the projected number of enrollees:

Fiscal Year	State	Federal	Total	# of Enrollees
FY 2014-15	-	301,672,058	301,672,058	53,640
FY 2015-16	-	354,205,813	354,205,813	63,091
FY 2016-17	7,353,752	360,333,834	367,687,586	64,824
FY 2017-18	18,958,585	360,213,120	379,171,705	65,209
FY 2018-19	23,463,109	367,588,702	391,051,811	65,597
FY 2019-20	32,264,442	371,041,088	403,305,530	65,989

In calendar year 2013 and 2014, the ACA requires states to pay primary care rates at the Medicare rates. The federal government is paying the full costs. After the expiration of the mandate, it is assumed the state would continue to pay at the higher rate. The impact of continuing those rates are included in this fiscal note. The FY 15 costs are $1,550,000 FF and $3,100,000 FF in FY 16. In later years the state will share in the costs at the enhanced Medicaid expansion match rate.

The administrative costs in FY 15 are the same as those in the original HHS fiscal note. Although their costs are based on much higher participation rates, the Milliman figures did not account for the need to hire and train staff earlier than the January 1, 2015 implementation date and the higher costs associated with the initial implementation of a new program of this magnitude. After the first year, the costs shown are those in the Milliman mid-range, as the initial startup costs will not be needed. First year costs are $11,700,000 ($5,850,000 GF and FF). In FY 16, the costs are $15,300,000 ($7,650,000 GF and FF). One-time IT costs are projected to be $257,750 ($25,775 GF and $231,750 FF) in FY 15.

The ACA established a new tax on insurers. The tax applies to managed care plans. Since the state contracts for managed care, it is anticipated that the cost of the contract will increase. The cost in FY 15 is $2,300,000 FF and $5,600,000 FF in FY 16.

The State Disability Program will be eliminated if Medicaid is expanded per this bill. The State Disability Medical Program covers individuals whose disability is expected to last not less than six month up through 12 months. After twelve months, if the disability continues Social Security and Medicare coverage begins. Although persons eligible under this program are considered disabled under the state's definition, they are not considered disabled under federal law, so their medical care would be covered under the Medicaid expansion. Savings in FY 14 would be $3,033,333 and $9,100,000 in FY 15. FY 14 costs assume a two-month lag in payments.

The state currently provides coverage for prescription drugs for low-income individuals who are HIV positive or have AIDS. These individuals would be eligible for drug coverage under the provision of this bill, so the state drug program will no longer be utilized. Savings in FY 14 would be $300,000 in FY 15 and $900,000 in FY 16. There is also a two-month lag in payments assumed in these savings.

The state provides behavioral health funding to the mental health regions to cover individuals who are not insured and services that not covered by insurance or Medicaid. Estimated savings, net of the costs that would not be covered by Medicaid, are up to $6 million annually for those who would be covered by Medicaid expansion. However, to avoid a disruption in services, the savings will be gradually captured and additional anticipated savings will be placed in a separate budget program and if needed available for the regional behavioral health providers. In FY 16 the appropriation will be reduced by $1 million and $2 million moved into the separate set-aside budget program. In FY 17, the savings and set-aside amount are equal at $2 million each. In FY 18, savings are $3 million with $1 million set aside. In FY 19 and thereafter, the savings are anticipated to be $4 million with no funds set aside.

The Department of Health and Human Services did not include an estimate of the costs for providing habilitative services and EPSDT nor has the LFO calculated the impact of those services. Those services likely will result in additional costs but additional study of the impact is needed to determine those costs.

Inmates of correctional facilities are not eligible for Medicaid; however, if inmates are hospitalized outside of the correctional facility, they are eligible for Medicaid for the services provided while in the hospital. Estimated savings of $364,808 are anticipated in FY 15 and full year savings would be $729,616. These savings are less than total inpatient hospital expenses due to the following reasons: some inmates may not be legal residents, some may not cooperate with the application process or the service provider may not accept Medicaid.

Counties would see a reduction in costs currently spent on covering individuals through General Assistance. The savings would vary from county to county; however county by county information is not available. The state's two largest counties Douglas and Lancaster provided projected cost savings. Douglas County estimates savings of $1,650,000 annually in reduced reimbursements to medical providers and $300,000 in payments for prescription drugs. They could have additional savings of $1,869,000, if their Primary Health Care Clinic is closed. Lancaster County projects savings of $2,500,000 annually in their General Assistance Program. Savings in FY 15 would be approximately one quarter of estimated annual savings.

As noted above, inmates of correctional facilities are eligible for Medicaid coverage for inpatient hospital services. Counties will have savings for inpatient hospital services for jail inmates, but as with General Assistance, those costs would vary from county to county. No estimate is available at this time.

The chart on the following page shows the state impact of the Medicaid expansion through FY 2019-20:

	Summary							
1		FY14-15	FY15-16	FY16-17	FY17-18	FY18-19	FY19-20	Total All Years
2	Aid Costs New Eligibles							
3	General	-	-	9,192,190	20,854,444	25,418,368	34,280,970	89,745,971
4	Federal	150,836,029	354,205,813	358,495,395	358,317,261	365,633,443	369,024,561	1,956,512,503
5	Total	150,836,029	354,205,813	367,687,585	379,171,705	391,051,811	403,305,531	2,046,258,474
6								
7	Primary Care to Medicare							
8	General	-		1,550,000	1,550,000	1,550,000	1,550,000	6,200,000
9	Federal	1,550,000	3,100,000	1,550,000	1,550,000	1,550,000	1,550,000	10,850,000
10	Total	1,550,000	3,100,000	3,100,000	3,100,000	3,100,000	3,100,000	17,050,000
11								
12	Administration							
13	General	5,850,000	7,650,000	7,750,000	7,800,000	7,900,000	7,950,000	44,900,000
14	Federal	5,850,000	7,650,000	7,750,000	7,800,000	7,900,000	7,950,000	44,900,000
15	Total	11,700,000	15,300,000	15,500,000	15,600,000	15,800,000	15,900,000	89,800,000
16								
17	IT							
18	General	25,775	-	-	-	-	-	25,775
19	Federal	231,975	-	-	-	-	-	231,975
20	Total	257,750	-	-	-	-	-	257,750
21								
22	ACA Managed Care Fee							
23	General	-	-	170,000	385,000	468,000	620,500	1,643,500
24	Federal	2,800,000	6,800,000	6,630,000	6,615,000	6,732,000	6,679,500	36,256,500
25	Total	2,800,000	6,800,000	6,800,000	7,000,000	7,200,000	7,300,000	37,900,000
26								
27	Program Savings (All General)							
28	State Disability	(3,033,333)	(9,100,000)	(9,100,000)	(9,100,000)	(9,100,000)	(9,100,000)	(48,533,333)
29	AIDS Drugs	(450,000)	(900,000)	(900,000)	(900,000)	(900,000)	(900,000)	(4,950,000)
30	Behavioral Health	-	(1,000,000)	(2,000,000)	(3,000,000)	(4,000,000)	(4,000,000)	(14,000,000)
31	Total	(3,483,333)	(11,000,000)	(12,000,000)	(13,000,000)	(14,000,000)	(14,000,000)	(67,483,333)
32								
33	Corrections							
34	General	(364,808)	(729,616)	(729,616)	(729,616)	(729,616)	(729,616)	(4,012,888)
35								
36	Grand Total							
37	General	2,027,634	(4,079,616)	5,932,574	16,859,828	20,606,752	29,671,854	71,019,025
38	Federal	161,268,004	371,755,813	374,425,395	374,282,261	381,815,443	385,204,061	2,048,750,978
39	Total	163,295,638	367,676,197	380,357,969	391,142,089	402,422,195	414,875,915	2,119,770,003