

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2024-25		FY 2025-26	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$113,005,000			
CASH FUNDS	\$352,995,000	\$466,000,000	\$466,000,000	\$466,000,000
FEDERAL FUNDS	\$1,021,867,178		\$1,021,867,178	
OTHER FUNDS				
TOTAL FUNDS	\$1,487,867,178	\$466,000,000	\$1,487,867,178	\$466,000,000

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

This bill would adopt the Hospital Quality Assurance and Access Assessment Act (Act) to be administered by the Division of Medicaid and Long-Term Care Services of the Department of Health and Human Services (DHHS). The Act requires DHHS to submit a state plan amendment to the Centers for Medicare and Medicaid Services (CMS) for approval to impose an assessment on hospitals to assure quality and access in the medical assistance program, Medicaid, and adopt and promulgate necessary rules and regulations.

The bill states legislative intent that General Fund appropriations for Medicaid rates for hospitals not be reduced from the FY24 amount. The bill also prohibits Managed Care Organizations from accounting for the new assessment payments under the act when setting, establishing, or negotiating reimbursement rates with the hospitals and health systems.

The Act requires DHHS to partner with a statewide association representing a majority of hospitals and health systems in Nebraska (1) regarding the development, implementation, and annual renewal of the assessments and the directed payment programs and (2) to aggregate inpatient, outpatient, and clinic claims data in order to establish Medicaid quality improvement metrics and track progress on identified metrics.

Each hospital pays an assessment based on net patient revenue quarterly. The total statewide assessment amount is to equal the state share of the payments authorized by CMS plus an administration fee. The fee for administration may not exceed 2% of the assessment and the assessment total may not exceed 6% of the total net patient revenue of all assessed hospitals. DHHS indicates 2% of the annual assessment would be approximately \$9,230,000 which would be sufficient to cover the administrative expenses of implementing the new program. Administrative expenses include costs of contracts and additional staffing, 1 FTE Fiscal Project Analyst starting in July 2024. An additional 1% or \$4,660,000 is permitted to be used on the partnership with the statewide association representing the majority of NE hospitals.

DHHS estimates the Act would yield \$466 million in cash funds from the hospitals paying the assessment. These funds would be put into the newly created Hospital Quality Assurance and Access Assessment Fund which would be invested by the State Investment Officer and administered by DHHS. The imposition of the assessment would yield significant new federal funding. DHHS estimates the state would receive over \$1 billion in federal funds. Both the new federal funds and cash funds from the assessment would be distributed via a directed payment program. The payments would be considered implementation and be subject to input and collaboration with the statewide association representing a majority of Nebraska hospitals.

The General Fund expenditures in FY25 represents the first quarter payments, which the bill requires before assessments are collected. Theoretically these funds could be reimbursed from the new cash fund back into the General Fund however the bill explicitly prohibits proceeds from the fund to be placed into the General Fund. The General Fund fiscal impact could be mitigated while maintaining the essence of the prohibition with a specific and time limited allowance for the total amount of the first quarter payments to be transferred back into the General Fund.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE				
LB:	1087	AM:	AGENCY/POLT. SUB: Nebraska Department of Health & Human Services	
REVIEWED BY:	Ann Linneman	DATE:	1-31-2024	PHONE: (402) 471-4180
COMMENTS: Concur with the Nebraska Department of Health & Human Services' assessment of fiscal impact.				

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

State Agency or Political Subdivision Name:(2) Department of Health and Human Services

Prepared by: (3) John Meals

Date Prepared 1-31-2024

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	<u>FY 2024-2025</u>		<u>FY 2025-2026</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	\$113,005,000			
CASH FUNDS	\$352,995,000	\$466,000,000	\$466,000,000	\$466,000,000
FEDERAL FUNDS	\$1,021,867,178		\$1,021,867,178	
OTHER FUNDS				
TOTAL FUNDS	\$1,487,867,178	\$466,000,000	\$1,487,867,178	\$466,000,000

Return by date specified or 72 hours prior to public hearing, whichever is earlier.

Explanation of Estimate:

LB1087 implements a hospital tax/assessment of up to 6% of their net patient revenue (to include inpatient and outpatient services). This bill also creates a new cash fund, the Hospital Quality Assurance and Access Assessment Fund. LB1087 requires Medicaid to consult with the Nebraska Hospital Association (NHA) to increase hospital payments through a managed care directed payment and seek federal financial participation (FFP) to match funds received via the assessment. This bill also establishes a “floor” for general fund appropriations intended for hospital rates that cannot be reduced now or in future budgets.

LB1087 allows the Department of Health and Human Services (DHHS) to retain up to 2% of the assessment collected, estimated to be \$9,320,000. This amount should be sufficient for the operational costs needed to implement and operationalize the new legislation. These operational costs include expenses for contracts and additional staffing. This bill also allows for the department to fund an external association with 1% of the assessment to carry out provisions in this bill, at approximately \$4.7 Million.

Medicaid estimates that the new assessment could generate up to \$466 million in new revenue to the state that will be placed in the cash fund established in this bill. DHHS proposes retaining the 3% allowed under the bill to pay for the administrative costs internal and external to the department, which amounts to approximately \$14 million. Staff hours would be needed to calculate and collect the assessment as well as calculate and distribute the directed payments. At least one new full-time employee (FTE) will be needed; this role would be a Fiscal Project Analyst. DHHS estimates needing to add new scope of work to existing contracts to implement this bill. These costs are estimated at \$500,000 in total funds per year for contract related costs. These are examples of costs that would be included in the estimated \$9.3 million administrative costs for the department collected via the tax.

The intent of LB1087 is to fully fund the program through the assessment dollars collected alongside the federal match. DHHS would need roughly \$466 million in new cash spending authority to pay out the additional funds proposed in this bill through a directed payment, as well as approximately \$1 billion of additional Federal Fund appropriations in Medicaid for the FFP associated with the non-federal share (cash).

A blended federal rate of 68.68% was used based on the mix of eligibility groups within the underlying hospital services utilization based on the client’s eligibility (Expansion, CHIP, Regular Medicaid, etc.).

LB1087 does not allow for any of the revenue from the assessment to be moved into the general fund, which conflicts with the requirement that the assessment be paid before receiving the tax. As written, this bill would result in the department paying the total fund amount from state general funds and federal funds in the initial quarter. Using the \$466 million estimated annual tax, the first quarter payment would be approximately \$113,005,000 and would be needed from the general fund. LB1087 contains prohibitive language that would not allow a transfer from the cash fund to the state general fund to offset this initial usage of the general fund.

PERSONAL SERVICES:

	POSITION TITLE	NUMBER OF POSITIONS		2024-2025	2025-2026
		24-25	25-26	EXPENDITURES	EXPENDITURES
K19850	DHHS Fiscal Project Analyst	1	1	\$55,725	\$58,512

Benefits.....				\$19,504	\$20,479
Operating.....				\$13,904,771	\$13,901,009
Travel.....					
Capital Outlay.....					
Aid.....				\$1,473,887,178	\$1,473,887,178
Capital Improvements.....					
TOTAL.....				\$1,487,867,178	\$1,487,867,178