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Laura Kelly, Governor

March 4, 2025

The Honorable Will Carpenter, Chairperson
House Committee on Health and Human Services
300 SW 10th Avenue, Room 112-N
Topeka, Kansas 66612

Dear Representative Carpenter:

SUBJECT: Fiscal Note for HB 2375 by House Committee on Appropriations

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2375 is respectfully submitted to your committee.

HB 2375 would enact the Healthcare Access for Working Kansans (HAWK) Act, which would expand eligibility for receipt of medical assistance benefits. The Secretary of Health and Environment would be required to adopt rules and regulations necessary to implement and administer the Act. The Secretary would also be required to submit to the U.S. Centers for Medicare and Medicaid Services (CMS) any state plan amendment, waiver request, or other approval request necessary to implement the provisions of the bill. At least ten calendar days prior to the submission to CMS, the approval request application would be required to be submitted to the State Finance Council. On and after January 1, 2026, eligibility determinations under the Kansas Program of Medical Assistance would be granted to any adult under 65 years of age who is not pregnant and whose modified adjusted gross income does not exceed 138.0 percent of the federal poverty limit, to the extent permitted under the provisions of 42 USC § 1396a, as in effect on the effective date of the Act, and subject to a 90.0 percent federal medical assistance percentage and all requirements and limitations established by the bill. Applicants for coverage under the Act would be required to provide employment verification as specified in the bill, and there would be exceptions to this requirement for certain individuals.

The bill would direct the Secretary to administer the benefits using a managed care delivery system and would detail requirements for contracts. The bill would also specify administration would be restricted to organizations subject to assessment of the privilege fee under KSA 40-3213, unless this was not allowed by CMS. The bill would require termination of coverage under the Act if the federal medical assistance percentage for the expansion population was lower than 90.0

percent and the provision with this requirement would be non-severable from the rest of the Act. The Secretary would be required to report to the Legislature each year on the costs of the Act, additional revenues generated during the preceding fiscal year, and cost savings, specifically those achieved by the state for the movement of certain covered populations in the KanCare Program to the expansion population, as well as cost savings achieved through other initiatives.

The Secretary of Health and Environment would be directed to coordinate with the Secretary of Corrections and county sheriffs in facilitating Medicaid coverage for eligible individuals in custody of county jails or correctional facilities and prior to release in some instances. The bill would also prohibit suspension of benefits for incarcerated individuals under 30 days and would prohibit termination but allow suspension for incarcerations over 30 days. The bill would establish a Rural Health Advisory Committee consisting of 15 members appointed by the Governor. The bill would include specifications for membership and duties of the Committee, which would advise the Governor and other state agencies on rural health issues. The bill would also allow for an additional meeting day in calendar years 2026 and 2027 for the Robert G. (Bob) Bethell Joint Committee on Home and Community Based Services and KanCare Oversight in order for the Committee to monitor implementation of the Act. The bill would specify that the Act would not provide coverage for abortion services, except in cases where coverage is mandated by federal law. The Act would take effect upon publication in the *Kansas Register*.

According to KDHE, enactment of HB 2375 would increase administrative expenditures necessary to prepare for implementation of the bill in FY 2025 by $400,000, including $200,000 from the State General Fund. For FY 2026, the bill would generate State General Fund savings totaling $78.3 million after all additional expenditures were accounted for. Expenditures for FY 2026 would total $797.8 million, with approximately $757.8 million for direct assistance and $40.0 million for administrative costs. For FY 2027, State General Fund savings would total $152.9 million after all additional expenditures are considered. Expenditures for FY 2027 are estimated at $1.7 billion with approximately $1.6 billion for direct assistance and $82.4 million for administrative costs. KDHE reports its analysis is calculated assuming an effective date of January 1, 2026, and uses the assumption of 150,000 new individuals eligible for Medicaid coverage in FY 2026 under provisions of the bill. The bill would have a fiscal impact on both KDHE and the Kansas Department for Aging and Disability Services (KDADS). The estimate provided by KDHE accounts for the impact to both agencies together; the allocation of costs between agencies would be determined at a later date, but prior to implementation.

KDHE estimates total capitation costs would be approximately $757.8 million for a half-year implementation in FY 2026. Because the expansion population would receive an enhanced federal match rate set at 90.0 percent, the state share would be $75.8 million. The enhanced federal match is expected to continue in out years. The State would also incur incremental administrative costs associated with expanding the Medical Assistance Program. The estimated state share of total administrative costs would be $16.4 million for staffing, overhead, and increased Medicaid support contracts due to system changes that would need to be implemented to account for the new rules, as well as, handling the increased volume of encounter submissions. Total expenditures would be offset with estimated savings of $12.0 million for a small portion of current Medicaid

populations that could be included in the new population, such as those enrolled in MediKan and certain correctional facility inmates.

The agency states that member counts are projected to grow by 2.5 percent each year, which would result in a FY 2027 estimate for direct assistance totaling $1.4 billion, with a state share of $157.7 million. Administrative costs are estimated at $82.4 million for FY 2027, with $34.1 million for the state share. These estimates would be for a full year and would again be offset by savings for current members that could be moved into the expansion population. These savings are estimated to be $24.3 million in FY 2027.

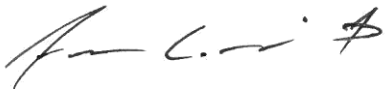
Estimated cost offsets and revenue related to the new population would total approximately $876.0 million, including $830.2 million in federal matching funds, $43.7 million in additional Privilege Fee revenue, and $2.2 million in additional drug rebate revenue in FY 2026. For FY 2027, total cost offsets and revenue related to the new population is estimated at $1.8 billion, including $1.7 billion in federal matching funds, $91.0 million in additional Privilege Fee revenue, and $4.4 million in additional drug rebate revenue. KDHE notes that they would need to partner with the KanCare Managed Care Organizations (MCOs) to estimate each of their anticipated increases in capitation so they can accurately pay the full privilege fee in the first year of Medicaid expansion. Current practice is to estimate current year revenues based on the previous year's actuals, so this would be a change in methodology for the first year. If the MCOs do not account for the expansion population when calculating their revenues, then the Privilege Fee would fall short of expectations in year one but would be adjusted for catch up payments in year two.

Total estimates for federal matching funds include the Division of the Budget estimate of $450.0 million over eight quarters for the federal incentive of an additional 5.0 percent in the federal medical assistance percentage for the current KanCare population, which is provided to states that have not yet expanded Medicaid eligibility. This equates to $112.5 million in State General Fund savings in FY 2026 and $225.0 million State General Fund savings in FY 2027.

The Kansas Department of Corrections (KDOC) estimates that approximately 80.0 to 90.0 percent of the resident population would be eligible for Medicaid with the enactment of HB 2375. Services for eligible residents could only be covered by Medicaid for inpatient hospitalization services when the stay was longer than 24 hours. For newly eligible residents, it is estimated that the savings generated by the bill for inpatient hospitalizations would be $3.6 million annually. Because the bill would take effect on January 1, 2026, the State General Fund savings in FY 2026 would be approximately $1.8 million. KDOC would have increased administrative costs that would reduce the net State General Fund savings. The agency currently has 1.00 FTE Coordinator position which works with KDHE to enroll hospitalized residents in Medicaid and process Medicaid payments. Increasing the number of eligible residents would require an additional 1.00 FTE Coordinator position at a cost of $39,600 in FY 2026 and $79,200 in FY 2027 and beyond. The agency notes that depending on interpretation of the bill, there could be additional administrative costs if KDOC is required to take responsibility for enrollment and claiming on behalf of the county jails. KDHE did consider savings from the eligible inmate population totaling $1.4 million in FY 2026 and $2.9 million in FY 2027 in the agency's estimates described above.

The overall total State General Fund savings from enactment of HB 2375 is estimated to be $78.6 million in FY 2026 and $153.6 million in FY 2027. The expansion of Medicaid is reflected within the FY 2026 KDHE budget in *The FY 2026 Governor's Budget Report*.

Sincerely,



Adam C. Proffitt
Director of the Budget

cc: Amy Penrod, Department of Health & Environment
Jennifer King, Department of Corrections