

March 24, 2017

The Honorable Troy Waymaster
Statehouse, Room 111-N
Topeka, Kansas 66612

Dear Representative Waymaster:

SUBJECT: Fiscal Note for HB 2180, as Amended

In accordance with your request, the following fiscal note concerning HB 2180, as amended, is respectfully submitted.

HB 2180, as amended by the House Committee on Appropriations, would amend current law regarding privilege fees imposed on health maintenance organizations (MCOs). Under current law the privilege fee is set at 3.31 percent of premium revenue and the fees are deposited into the Medical Assistance Fee Fund of the Kansas Department of Health and Environment (KDHE). On July 1, 2018, the privilege fee will be reduced to 2.00 percent of premium revenue and the fees will be deposited into the State General Fund. HB 2180 would increase the privilege fee to 5.77 percent of premium revenue on January 1, 2017. The bill would direct the State Treasurer, beginning in FY 2019, to deposit the fee revenue in the Medical Assistance Fee Fund instead of the State General Fund and would eliminate the sunset date of July 1, 2018 for the Medical Assistance Fee Fund. The bill would also establish the Community Mental Health Center Improvement Fund in the state treasury. All moneys credited to the new fund would be used by the Kansas Department for Aging and Disability Services only for purposes related to community mental health centers. The money in the Medical Assistance Fee Fund would be subject to the following priorities: First, to restore any reductions initiated in calendar year 2016 to provider reimbursement rates for state Medicaid services; second, on July 1, 2017, or as soon as moneys are available, the Director of Accounts and Reports would transfer the sum of \$3.5 million to the Community Mental Health Center Improvement Fund, and on each subsequent July 1st \$15.0 million would be transferred to the new fund; and third to make Medicaid medical assistance payments.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	--	\$58,100,000	(\$67,500,000)	\$144,500,000
Expenditure	\$33,100,000	\$202,800,000	(\$99,900,000)	\$235,700,000
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HB 2180, as amended, would increase privilege fees effective July 1, 2017. Privilege fees are based on the premium revenue of managed care organizations for the calendar year and are paid in March of the following calendar year. As a result, additional revenue resulting from this bill will not be realized until FY 2018. Increasing the rate from 3.31 percent to 5.77 percent for half of calendar year 2017 is estimated to increase FY 2018 privilege fee revenue by \$58.1 million. Of this amount, the increase for non-KanCare MCOs is \$4.6 million. At the rate of 5.77 percent, total privilege fee revenue for FY 2019 is estimated to be \$212.0 million, which is an increase of \$144.5 million over current projections. The bill further provides that these revenues will be deposited in KDHE's Medical Assistance Fee Fund, instead of the State General Fund. The State General Fund Consensus Revenue Estimate made in November 2016 includes \$67.5 million from the privilege fee in FY 2019. The bill would reduce the State General Fund revenue estimate for FY 2019 by the \$67.5 million and increase revenues to all funding sources by the \$144.5 million.

To reflect that KanCare MCOs would be paying higher privilege fees beginning July 1, 2017, KanCare expenditures would be increased by \$101.6 million in FY 2018, including \$44.7 million from the State General Fund. To reflect the increased privilege fee for FY 2019, KanCare expenditures would be increased by \$123.0 million, including \$54.1 million from the State General Fund.

Expenditures for community mental health centers would increase by \$3.5 million in FY 2018 and \$15.0 million in FY 2019 and subsequent years. In order to restore the FY 2016 provider reimbursement rate reductions, KanCare expenditures would be increased by \$97.7 million, including \$43.0 million from the State General Fund, in both FY 2018 and FY 2019.

Then, the additional privilege fee revenues of \$58.1 million, less the \$3.5 million that would be transferred to the new fund and expended for community mental health centers, can be used to offset State General Fund expenditures in FY 2018, making the net effect an increase in State General Fund expenditures of \$33.1 million. For FY 2019 the additional privilege fee revenues of \$212.0 million, less the \$15.0 million that would be transferred to the new fund and expended for community mental health centers, can be used to offset State General Fund expenditures in FY 2018, making the net effect an increase in State General Fund expenditures of \$33.1 million, making the net effect a reduction in State General Fund expenditures of \$99.9 million in FY 2019.

In order for the bill not to increase FY 2018 State General Fund expenditures, only half of the provider rate reduction could be restored beginning January 1, 2018.

Sincerely,



Shawn Sullivan,
Director of the Budget