

February 6, 2017

CORRECTED

The Honorable Carolyn McGinn, Chairperson  
Senate Committee on Ways and Means  
Statehouse, Room 545-S  
Topeka, Kansas 66612

Dear Senator McGinn:

SUBJECT: Corrected Fiscal Note for SB 94 by Senate Committee on Ways and Means

In accordance with KSA 75-3715a, the following corrected fiscal note concerning SB 94 is respectfully submitted to your committee.

SB 94 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 January 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. SB 94 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 money in the Medical Assistance Fee Fund would be used first to restore any reductions initiated in calendar year 2016 to provider reimbursement rates for state Medicaid services, and then 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	--	\$103,900,000	(\$67,500,000)	\$144,500,000
Expenditure	\$1,500,000	\$239,500,000	(\$114,900,000)	\$220,700,000
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SB 94 would increase privilege fees effective January 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 calendar year 2017 rate from 3.31 percent to 5.77 percent is estimated to increase FY 2018 privilege fee revenue by \$103.9 million. Of this amount, the increase for non-KanCare MCOs is \$10.1 million. The original fiscal note stated that the increase for non-KanCare MCOs would be \$23.6 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. SB 94 would reduce the State General Fund revenue estimate 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 January 1, 2017, KanCare expenditures would be increased by \$141.8 million, including \$62.4 million from the State General Fund, in FY 2018. Because the KanCare mid-year rate adjustments cannot be implemented until July 1, 2017, the expenditure effect for the second half of FY 2017 would actually be paid retroactively in FY 2018. 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.

In order to restore the 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 \$103.9 million in FY 2018 and \$212.0 million in FY 2019 can be used to offset State General Fund expenditures, making the net effect an increase in State General Fund expenditures of \$1.5 million in FY 2018 and a reduction in State General Fund expenditures of \$114.9 million in FY 2019. The fiscal effect associated with SB 94 is not reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,



Shawn Sullivan,  
Director of the Budget

cc: Dan Thimmesch, Health & Environment  
Cody Gwaltney, Aging & Disability Services  
Jackie Aubert, Children & Families