

February 6, 2017

The Honorable Daniel Hawkins, Chairperson  
House Committee on Health and Human Services  
Statehouse, Room 521-E  
Topeka, Kansas 66612

Dear Representative Hawkins:

**SUBJECT:** Fiscal Note for HB 2065 by House Committee on Health and Human Services

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2065 is respectfully submitted to your committee.

HB 2065 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. HB 2065 would increase the privilege fee to 5.77 percent of premium revenue on January 1, 2018. 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 to make Medicaid medical assistance payments and could not be used for other purposes.

HB 2065 would also increase the annual assessments imposed on hospital providers of inpatient services. The rate imposed on each provider would increase from the current rate of 1.83 percent of a hospital's fiscal year 2010 net inpatient operating revenue to 4.65 percent of a hospital's fiscal year 2014 net inpatient operating revenue. All money would be deposited in the Health Care Access Improvement Fund administered by KDHE, and would be expended for the purpose of improving health care delivery and related health activities. The bill would make technical amendments regarding accounting procedures and allowable expenditures related to the annual assessments imposed on hospital providers.

The Kansas Department of Health and Environment indicates that enactment of the bill would increase both privilege fee and provider assessment rates. All recurring proceeds would be directed to fee funds for medical support needs.

Estimated State Fiscal Effect—Privilege Fee				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	--	--	(\$67,500,000)	\$144,500,000
Expenditure	\$27,900,000	\$62,000,000	(\$126,700,000)	\$189,580,000
FTE Pos.	--	--	--	--

Privilege Fee: HB 2065 would increase privilege fees effective January 1, 2018. 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 2019. At the rate of 5.77 percent, total privilege fee revenue is estimated to be \$212.0 million in FY 2019, 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. HB 2065 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, 2018, KanCare expenditures would be increased by \$62.0 million, including \$27.9 million in FY 2018. For FY 2019, KanCare expenditures would be increased by \$189.6 million, including \$85.3 million from the State General Fund. This increase would include funding for higher privilege fees and a restoration of the 4.0 percent provider rate reduction that was part of a FY 2017 allotment. Then, the additional privilege fee revenue of \$212.0 million can be used to offset State General Fund expenditures, making the net effect a reduction in State General Fund expenditures of \$126.7 million.

Estimated State Fiscal Effect—Provider Assessment				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	--	--	--	\$73,500,000
Expenditure	--	--	(\$20,300,000)	\$118,300,000
FTE Pos.	--	--	--	--

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Provider Assessment: HB 2065 would increase the provider assessment from 1.83 percent to 4.65 percent of 2014 net inpatient operating revenue. KDHE estimates additional assessment revenue of \$73.5 million in FY 2019. By statute, provider assessment revenue can only be expended for the purpose of improving healthcare delivery and related health activities. This additional revenue would be used to increase KanCare expenditures by \$118.3 million in FY 2019. The fiscal effect associated with HB 2065 is reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a long horizontal line extending to the right.

Shawn Sullivan,  
Director of the Budget

cc: Dan Thimmesch, Health & Environment