

May 31, 2022

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

Dear Representative Landwehr:

SUBJECT: Fiscal Note for HB 2675 by House Committee on Federal and State Affairs

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2675 is respectfully submitted to your committee.

HB 2675 would create the Kansas Innovative Solutions for Affordable Healthcare Act. Passage and enactment of the Act would constitute express consent from the Legislature to expand eligibility for receipt of benefits under the Kansas Program of Medical Assistance. The Secretary of Health and Environment would be required to adopt rules and regulations necessary to implement and administer the Act, to submit any approval request necessary to the Centers for Medicare and Medicaid Services (CMS) and the U.S. Department of Treasury, and to submit such approval request application to the State Finance Council at least ten calendar days prior to submission to the federal agencies. The Secretary would also be required to submit various reports to the Legislature regarding the cost of the Act, cost savings, and revenues.

Beginning January 1, 2023, the bill would allow eligibility for medical assistance benefits for any non-pregnant adult under 65 years of age with a modified adjusted gross income that does not exceed 138.0 percent of the federal poverty level, subject to a 90.0 percent federal medical assistance percentage (FMAP), and all other requirements and limitations established in the Act. If the FMAP for the newly eligible population became lower than 90.0 percent, the bill would require that coverage under the Act be terminated over a 12-month period beginning the first day of the lower FMAP. The bill would require medical assistance benefits to be administered using a managed care delivery system. The delivery system would be required to be with organizations subject to the privilege fee under KSA 40-3213, subject to approval by CMS.

Any non-disabled, unemployed adult that received coverage under the Act would be required to be referred to the Kansasworks program administered by the Department of Commerce. The Secretary of Commerce would be required to coordinate with the Secretary of Health and Environment to certify compliance with the program and would also be required to maintain a unique identifier for all participants to track employment progress and outcomes, which would be required to be reported to the Legislature each year. Full-time students enrolled in a postsecondary educational institution or technical college would be exempt from the requirement for each year

they were enrolled in such educational setting. HB 2675 would take effect upon publication in the *Kansas Register*.

Estimated State Fiscal Effect				
	FY 2022 SGF	FY 2022 All Funds	FY 2023 SGF	FY 2023 All Funds
Revenue	--	--	--	\$739,858,334
Expenditure	\$200,000	\$400,000	\$29,017,668	\$669,738,489
FTE Pos.	--	--	--	126.00

The Kansas Department for Aging and Disability Services and the Kansas Department of Health and Environment (KDHE) provided a joint estimate for changes to the current Medicaid program, with the allocation of costs between agencies to be determined at a later date. Because of the system changes required to implement Medicaid expansion, the earliest date to begin enrolling the newly eligible population would be January 1, 2023, assuming passage of the bill by March 2022. As a result, the fiscal effect estimates in this note are for one half of FY 2023. KDHE notes the agency would need at least nine months after passage of any Medicaid expansion bill to implement the new program. Estimates for the fiscal effect of HB 2675 assume the costs and offsets associated with an additional 150,000 individuals becoming eligible for Medicaid coverage in FY 2023. Member counts are projected to grow by 2.5 percent each year, resulting in a total expansion population of approximately 152,000 in FY 2024 and 156,000 in FY 2025.

KDHE estimates that there would be costs of approximately \$400,000, including \$200,000 from the State General Fund in FY 2022 related to contractual services necessary to implement provisions of the bill. The estimated cost of care for the newly eligible beneficiaries would be approximately \$562.5 million for half of FY 2023. The state share at 10.0 percent would be \$56.3 million. The onramp of newly eligible members would likely plateau after several months. The initial increase in members in FY 2023 would likely be parents and caretakers, which may have a corresponding capitation that is lower than the state average based on health statistics for this group. The member mix would eventually become more heavily weighted to the childless adult population. Based on data gathered from other states, KDHE reports this cohort tends to have increased costs associated with behavioral health and substance use treatment, which would increase the average cost for the expansion population in out years. If the member count increases at 2.5 percent as expected, this would put upward pressure on capitation rates in the future.

In addition to the cost for care, the state would also incur incremental administrative costs associated with expanding the program. KDHE would require the addition of 120.00 FTE positions, the majority of which would be eligibility staff. The Kansas Department for Aging and Disability Services would require the addition of 5.00 FTE positions for the same purposes. Additional space would also be needed to house the new positions. The cost of the current Medicaid support contracts would also increase as a result of system changes that would be implemented to account for the new rules, as well as handling the increased volume of encounter submissions. Total additional administrative costs are estimated at \$33.0 million, including the state share of approximately \$9.0 million in FY 2023. KDHE is uncertain of the exact cost for implementing the work referral program but estimates this would likely be negligible to the agency.

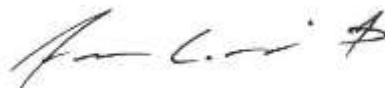
KDHE estimates additional revenue in FY 2023 of \$59.8 million from a 5.0 percentage point increase in the regular FMAP rate, an incentive established in the American Rescue Plan Act that would be in place for eight quarters following implementation of Medicaid expansion. The estimate does not include the additional 6.2 percent FMAP in place for the Public Health Emergency. The agency also estimates additional revenue of \$5.0 million from increased drug rebates and \$32.5 million from the 5.77 percent privilege fee. The additional revenue from both sources would be used to meet state share requirements and reduce State General Fund expenditures. KDHE would need to partner with managed care organizations to estimate the anticipated increase in population and capitation to ensure accurate payment of the full privilege fee in the first year of expansion as current practice is to estimate using the previous year's revenues. The state would realize healthcare cost savings totaling \$11.6 million for FY 2023 for certain populations that could be moved to the expansion population.

The Department of Corrections states that enactment of the bill would allow for eligible residents to be covered by Medicaid for inpatient hospitalizations over 24 hours. The agency estimates that 80.0 to 90.0 percent of the resident population would meet the new eligibility requirements under HB 2675. The State General Fund savings generated by utilizing Medicaid pricing for inpatient hospitalization are estimated to be \$1.3 million annually. In addition, the 90.0 percent FMAP would produce \$2.2 million in State General Fund savings each year, resulting in a total State General Fund savings of \$3.4 million. Total State General Fund savings in FY 2023 are estimated to be \$1.7 million. The bill would result in additional administrative costs that would reduce estimated savings. The agency currently has 1.00 Coordinator FTE position which works with KDHE to enroll hospitalized residents in Medicaid and process Medicaid payments. Increasing the number of residents who would be eligible would require the addition of 1.00 Coordinator FTE position at a cost of \$36,000 in FY 2023 and \$72,000 annually thereafter.

The Department of Commerce estimates that enactment of HB 2675 would result in additional expenditures of \$54,750, all from the State General Fund, in FY 2023 to modify the current Kansasworks program and implement provisions of the bill, including interface costs, annual maintenance, and scheduling platform costs.

The overall net cost in FY 2022 from the enactment of HB 2675 would be approximately \$400,000, including \$200,000 from the State General Fund. In FY 2023, the state would generate savings of \$70.1 million. *The FY 2023 Governor's Budget Report* included \$596.0 million, including State General Fund savings of \$68.5 million for Medicaid Expansion.

Sincerely,



Adam Proffitt
Director of the Budget

cc: Randy Bowman, Corrections
Dan Thimmesch, Health & Environment
Leigh Keck, Aging & Disability Services
Sherry Rentfro, Department of Commerce