

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2017-18		FY 2018-19	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	5,541,304		12,704,547	
CASH FUNDS	181,846	1,818,462	2,783,526	4,639,210
FEDERAL FUNDS	170,706,479		431,161,394	
OTHER FUNDS				
TOTAL FUNDS	176,429,629	1,818,462	446,649,467	4,639,210

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

This bill requires the Department of Health and Human Services to submit a state plan amendment to cover the new Medicaid adult group, commonly referred to as Medicaid Expansion. The bill directs the department to apply for an alternative benefit plan to include full Medicaid coverage and other coverage required by the Affordable Care Act (ACA). For purposes of this fiscal note, the implementation date of the Medicaid Expansion is assumed to be January 1, 2018.

There is a great degree of uncertainty in projecting the cost of this provision. The Medicaid expansion covers a population that previously has never been covered by Medicaid. The pool of those potentially eligible coupled with assumptions regarding their behavior as to whether or not to participate and when, their health status and their decisions with regard to dropping insurance coverage and opting for Medicaid all make the impact difficult to project.

This fiscal note shows projected costs through FY 2020-2021. The projections beyond the next biennium are shown because of the changes in the FMAP and due to the assumption that participation will increase over time. If Medicaid is expanded per the provisions of this bill, the out-year projections will be revised based on the trends that occur in the initial years of implementation.

The Federal Medical Assistance Percentage (FMAP) is the percentage paid by the federal government for the aid costs of Medicaid. Initially the aid costs are fully funded by the federal government and are gradually phased down to 90% in 2020. The chart below shows the federal match rates for the calendar years 2018 and beyond:

Calendar Year	Fed. Match	State Match
January 2018 to December 2018	94%	6%
January 2019 to December 2019	93%	7%
January 2020 to December 2020	90%	10%
Thereafter	90%	10%

The aid costs by fund source are shown in the chart below along with the projected number of enrollees:

Fiscal Year	Total	General	Federal	Ave. Monthly
FY 17-18	181,846,182	12,328,285	169,517,897	53,201
FY 18-19	463,921,048	33,865,913	430,055,134	67,471
FY 19-20	601,508,636	55,047,640	546,460,996	85,779
FY 20-21	635,216,504	63,521,650	571,694,854	88,900

With the implementation of the Affordable Care Act, states projected currently eligible individuals would sign up for Medicaid. This is referred to as the “woodwork” effect. In 2013, both the LFO and the HHS contractor, Milliman, projected increases in the low-income parent group and children. Although the number of children on Medicaid and the Children’s Health Insurance Program (CHIP) increased, the opposite occurred in parent group. Beginning in September 2013 through November 2015, the number of low-income parents in the Medicaid Program declined from 31,296 to a low of 21,344. Since then the low-income parent group has trended up to 25,342 in January 2017. Since the adult “woodwork” population did not initially materialized and the low-income parents group is now increasing without Medicaid Expansion, the LFO included only minimal increases due to the “woodwork” effect.

The administration costs are 50% General and 50% federal. The HHS fiscal note indicates a need for 43 additional staff. Staff would be phase-in during FY 2017-18. The cost would be \$1,988,431 (\$994,216 GF and FF) in FY 2017-18 and \$1,978,235 (\$989,118 GF and FF) in FY 2018-19. IT costs are at a 10-90% split with the federal government paying the higher percent. IT costs are \$310,552 (\$31,055 GF and \$279,497 FF) in FY 2017-18 and (\$6,338 (\$634 GF and \$5,704 FF) in FY 2018-19. Contractual costs would \$87,004 (\$43,502 GF and FF) in FY 2017-18 and \$222,876 (\$111,438 GF and FF) in FY 2018-19 with additional increases in the out years.

The State Disability Program will be eliminated if Medicaid is expanded per this bill. The State Disability Medical Program covers individuals whose disability is expected to last not less than six month up through 12 months. After twelve months, if the disability continues Social Security and Medicare coverage begins. Although persons eligible under this program are considered disabled under the state’s definition, they are not considered disabled under federal law, so their medical care would be covered under the Medicaid expansion. LB 333 eliminates this program. If LB 333 passes, there would not be any savings attributed to this bill. If LB 333 does not pass, annual savings are \$3,766,035. In FY 2018, the savings would be \$2,196,852.

The state currently provides coverage for prescription drugs for low-income individuals who are HIV positive or have AIDS. These individuals would be eligible for drug coverage under the provision of this bill, so the state drug program will no longer be utilized. Savings in FY 18 would be \$256,500 and \$855,000 in FY 19. There is also a two-month lag in payments assumed in these savings.

The state provides behavioral health funding to the mental health regions to cover individuals who are not insured and services that not covered by insurance or Medicaid. A report by the Nebraska Association of Regional Administrators states that 93.2% of the persons served by the Behavioral Health Regions are under 138% of FPL. Estimated savings, net of the costs that would not be covered by Medicaid, are up to \$37 million annually for those who would be covered by Medicaid expansion. However, to avoid a disruption in services, the savings will be gradually captured.

For pregnant women, Women with Cancer and 599 CHIP legal residents eligibility would shift from Medicaid or CHIP to Medicaid Expansion. Savings result from the higher match rate for Medicaid Expansion.

Inmates of correctional facilities are not eligible for Medicaid; however, if inmates are hospitalized outside of the correctional facility, they are eligible for Medicaid for the services provided while in the hospital. Based on information from 2015 inmate hospitalizations for those not currently eligible for Medicaid and assuming 10% would not cooperate in the application for Medicaid, the estimated savings to the Department of Corrections is \$63,500 for half of FY 18. Ongoing savings would be \$127,000 annually.

Counties would see a reduction in costs currently spent on covering individuals through General Assistance. The savings would vary from county to county; however county by county information is not available.

As noted above, inmates of correctional facilities are eligible for Medicaid coverage for inpatient hospital services. Counties will have savings for inpatient hospital services for jail inmates, but as with General Assistance, those costs would vary from county to county. No estimate is available at this time.

Enrollment of newly eligible individuals in insurance plans will increase premium tax revenue. Fifty percent is deposited into the Insurance Tax Fund. Of that amount, 60% is used to offset General Fund costs in TEOSA and 40% is divided between cities and counties. Of the remaining balance, forty percent is deposited into the General Fund and 10% into the Mutual Finance Assistance Fund. There is a lag in payments for TEEOSA and aid for cities and counties.

LB 441 Summary (State Only Impact)	FY 17- 18	FY 18-19	FY 19-20	FY 20-21	Four Fiscal Year
Aid					Total
New Eligibles and Woodwork	181,846,182	463,921,048	601,508,636	635,216,504	1,882,492,369
General Fund Aid	12,328,285	33,865,913	55,047,640	63,521,650	164,763,488
Federal Fund Aid	169,517,897	430,055,134	546,460,996	571,694,854	1,717,728,881
Administration					
General	865,583	989,118	989,118	989,118	3,832,936
Federal	865,583	989,118	989,118	989,118	3,832,936
Total	1,731,166	1,978,235	1,978,235	1,978,235	7,665,871
Contracts					
General	43,502	111,438	146,520	154,686	456,146
Federal	43,502	111,438	146,520	154,686	456,146
Total	87,004	222,876	293,040	309,372	912,292
IT					
General	31,055	634			31,689
Federal	279,497	5,704			285,201
Total	310,552	6,338			316,890
General Fund Admin	940,140	1,101,190	1,135,638	1,143,804	4,320,771
Federal Fund Admin	1,188,582	1,106,260	1,135,638	1,143,804	4,574,283
Total Admin	2,128,722	2,207,449	2,271,275	2,287,607	8,895,053
Subtotal Expansion Costs					
General Fund Total	13,268,425	34,967,103	56,183,278	64,665,454	169,084,259
Federal Fund Total	170,706,479	431,161,394	547,596,633	572,838,657	1,722,303,163
Total	183,974,904	466,128,497	603,779,911	637,504,111	1,891,387,422
Offsets	FY 17-18	FY 18- 19	FY 19-20	FY 20-21	Four Fiscal Year
Savings					
State Disability	(1,412,263)	(3,766,035)	(3,766,035)	(3,766,035)	(12,710,368)
AIDS Drugs	(256,500)	(855,000)	(855,000)	(855,000)	(2,821,500)
Behavioral Health	(2,400,000)	(10,000,000)	(18,000,000)	(24,000,000)	(54,400,000)
Pregnant Women	(2,481,960)	(4,904,042)	(4,904,042)	(4,757,819)	(17,047,863)
Women with Cancer	(375,233)	(736,676)	(695,145)	(666,006)	(2,473,060)
CHIP 599	(10,280)	(18,119)	(8,518)	(1,067)	(37,984)
Total HHS Savings	(6,936,236)	(20,279,872)	(28,228,740)	(34,045,927)	(89,490,775)
Corrections	(63,500)	(127,000)	(127,000)	(127,000)	(444,500)
Total GF Savings	(6,999,736)	(20,406,872)	(28,355,740)	(34,172,927)	(89,935,275)
Expansion with Offsets					
General	5,541,304	12,704,547	25,421,503	27,951,661	71,619,014
Cash	181,846	2,783,526	3,609,052	3,811,299	10,385,723
Federal	170,706,479	431,161,394	547,596,633	572,838,657	1,722,303,163
Total	176,429,629	446,649,467	576,627,188	604,601,617	1,804,307,901
Insurance Premium Tax	FY 17-18	FY 18- 19	FY 19-20	FY 20-21	Four-Year Total
To the General Fund	727,385	1,855,684	2,406,035	2,540,866	7,529,969
Mutual Aid	181,846	463,921	601,509	635,217	1,882,492
Cities and Counties		927,842	1,203,017	1,270,433	3,401,292
TEEOSA		1,391,763	1,804,526	1,905,650	5,101,939
Total	1,818,462	4,639,210	6,015,086	6,352,165	18,824,924

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSES

LB: 441 - Revised AM: AGENCY/POLT. SUB: Department of Health and Human Services (DHHS)

REVIEWED BY: Elton Larson

DATE: 3/6/2017

PHONE: [\(402\) 471-4173](tel:4024714173)

COMMENTS: DHH analysis and estimate of increased net General Fund spending of \$658,108,288 along with \$5,739,078,487 increased federal participation of over the next ten years due to implementation of the Medicaid expansion contained in LB 441 appears reasonable. Fiscal notes issued by the Legislature's Fiscal Office (LFO) for Medicaid expansion bills have traditionally contained projected costs beyond the two fiscal years provided on the fiscal note form.

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

State Agency or Political Subdivision Name:(2) Department of Health and Human Services

Prepared by: (3) Karen Gatherer

Date Prepared:(4) 1-17-17

Phone: (5) 471-6351

	<u>FY 2017-2018</u>		<u>FY 2018-2019</u>	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS	\$8,348,916		\$35,125,043	
CASH FUNDS				
FEDERAL FUNDS	\$176,134,359		\$441,617,294	
OTHER FUNDS				
TOTAL FUNDS	\$184,483,275		\$476,742,337	

Return by date specified or 72 hours prior to public hearing, whichever is earlier.

Explanation of Estimate:

LB 441 requires the Department of Health and Human Services to submit a Medicaid state plan amendment (SPA) to expand Medicaid eligibility to implement the optional adult category of the Affordable Care Act in Nebraska. This expansion would offer full Medicaid benefits to adults not previously eligible for Medicaid in Nebraska. While a January 1, 2018, implementation date is assumed, this would be dependent upon necessary approvals from Centers for Medicare and Medicaid Services (CMS) for the SPA and an amendment to Nebraska’s existing 1915(b) waiver.

The projected quantities of new enrollees and annual costs are based on Nebraska Medicaid data and program structure, Medicaid expansion statistics from other states, and managed care data for capitation rates. Expenditures for benefits are estimated at \$6.08 billion through state fiscal year (SFY) 2027. Assuming a January 1, 2018, implementation date, the Department estimates LB 441 will result in enrollment of an additional 99,747 new adults in Medicaid by SFY27, including 2,870 adults who are eligible for Medicaid under existing standards but not currently enrolled.

The expanded population would have an average per member per month (PMPM) cost as shown in the “PMPM Cost” table below:

PMPM Cost	
SFY18	\$564.33
SFY19	\$572.99
SFY20	\$584.36
SFY21	\$595.44
SFY22	\$606.74
SFY23	\$618.25
SFY24	\$629.98
SFY25	\$641.93
SFY26	\$654.11
SFY27	\$666.51

The year-by-year analysis and breakdown by State Funds and Federal Funds is set out in the “Benefits & Enrollment” table below. This assumes an escalating increase in enrollment from the implementation through SFY 2019. The calculations do not assume any increase in provider rates for ensuring access to services for this new population.

Benefits & Enrollment	Total Funds	State Funds	Federal Funds	Additional Enrollees
SFY18	\$181,845,053	\$12,086,331	\$169,758,722	53,706
SFY19	\$472,983,237	\$46,062,435	\$426,920,802	68,789
SFY20	\$611,571,295	\$67,137,079	\$544,434,216	87,214
SFY21	\$635,216,504	\$69,615,556	\$565,600,949	88,900
SFY22	\$659,793,897	\$72,189,300	\$587,604,597	90,620
SFY23	\$685,318,248	\$74,859,825	\$610,458,423	92,374
SFY24	\$711,844,878	\$77,632,692	\$634,212,186	94,163
SFY25	\$739,407,686	\$80,511,328	\$658,896,358	95,987
SFY26	\$768,037,252	\$83,498,818	\$684,538,433	97,848
SFY27	\$797,794,177	\$86,601,254	\$711,192,923	99,747
Total	\$6,263,812,227	\$670,194,618	\$5,593,617,609	

In order to handle the new adult population expected to enroll in Nebraska Medicaid, the Department would need 27 eligibility staff during eight months of SFY18. By SFY27, the Department would need up to 23 more eligibility FTE in addition to the eligibility positions added in SFY18, for a total of 50 eligibility FTE. This staff is needed to determine eligibility and administer Medicaid requirements.

In addition to the eligibility staff increases, 16 further positions beginning in SFY18 will be needed to administer the various requirements of the expanded Medicaid eligibility population. These 16 total staff members are required for the following:

- Eligibility / Data Analytics Team – 1 Program Specialist to assist in the development and administration of the SPA; 1 Business Analyst and 1 Office Manager to assist in the identification, design, and development of IS&T changes due to the SPA; 1 Program Accuracy Specialist, 2 Statistical Analyst II, 1 Staff Assistant I, and 1 Program Specialist to facilitate quality measurement development, data gathering, and additional reporting.
- Special Investigative Unit (SIU) Team – 1 Quality Control Specialist and 1 Fraud Investigator to investigate possible abuse and fraud.
- Program Team – 2 Program Specialists for quality and financial oversight of the managed Care vendors in relation to the new population; 3 Program Specialists manage additional Managed Care contracts and financial oversight.
- CMS 64 Reporting – 1 Program Analyst for additional CMS 64 reporting requirements.

A total of 66 staff positions will be needed to be added through SFY27. The fiscal impact of staffing increases are estimated in the "Staff" table below and include all expenditures for salary, benefits, and facility/office overhead expenses.

Staff	Total Funds	State Funds	Federal Funds	Positions
SFY18	\$2,240,667	\$1,120,334	\$1,120,334	43
SFY19	\$3,529,887	\$1,764,943	\$1,764,943	50
SFY20	\$4,188,697	\$2,094,348	\$2,094,348	60
SFY21	\$4,188,697	\$2,094,348	\$2,094,348	60
SFY22	\$4,254,578	\$2,127,289	\$2,127,289	61
SFY23	\$4,320,459	\$2,160,229	\$2,160,229	62
SFY24	\$4,386,340	\$2,193,170	\$2,193,170	63
SFY25	\$4,452,221	\$2,226,110	\$2,226,110	64
SFY26	\$4,518,102	\$2,259,051	\$2,259,051	65
SFY27	\$4,583,983	\$2,291,991	\$2,291,991	66
Total	\$40,663,631	\$20,331,816	\$20,331,816	

Information systems and technology (IS&T) changes would be necessary to meet business requirements for supporting the new Medicaid population. The cost of required systems changes is estimated at \$316,890 through SFY19. System changes are reflected in the IS&T table below.

IS&T	Total Funds	State Funds	Federal Funds
SFY18	\$310,552	\$31,055	\$279,497
SFY19	\$6,338	\$634	\$5,704
SFY20	\$0	\$0	\$0
SFY21	\$0	\$0	\$0
SFY22	\$0	\$0	\$0
SFY23	\$0	\$0	\$0
SFY24	\$0	\$0	\$0
SFY25	\$0	\$0	\$0
SFY26	\$0	\$0	\$0
SFY27	\$0	\$0	\$0
Total	\$316,890	\$31,689	\$285,201

The expanded eligibility would result in increased expenditures under the existing enrollment broker contract, which is invoiced on a PMPM basis. Below is the estimated contract cost analysis based on the enrollment increases.

Contracts	Total Funds	State Funds	Federal Funds
SFY18	\$87,003	\$43,502	\$43,502
SFY19	\$222,875	\$111,438	\$111,438
SFY20	\$293,039	\$146,520	\$146,520
SFY21	\$309,372	\$154,686	\$154,686
SFY22	\$326,232	\$163,116	\$163,116
SFY23	\$343,631	\$171,816	\$171,816
SFY24	\$361,586	\$180,793	\$180,793
SFY25	\$380,109	\$190,055	\$190,055
SFY26	\$399,220	\$199,610	\$199,610
SFY27	\$418,937	\$209,469	\$209,469
Total	\$3,142,004	\$1,571,002	\$1,571,002

The state could see savings when certain population categories funded currently through 100 percent General Funds could move to the expansion population. Or if newly eligible adults would become pregnant, the higher FMAP would create a savings through the lower state funding required.

Potential limited savings also exist outside of Medicaid for the state disability program, which incurs roughly \$2 million in state fund expenditures annually, as well as savings within behavioral health funding. The HIV/AIDS prescription program could also possibly see some degree of savings.

Approximate savings for the women with cancer Medicaid category, pregnant woman Medicaid category, 599 CHIP, state disabled, and behavioral health are reflected in the "Savings" table below.

Savings	Total Funds	State Funds	Federal Funds
SFY18	\$0	-\$4,932,305	\$4,932,305

SFY19	\$0	-\$12,814,407	\$12,814,407
SFY20	\$0	-\$12,604,042	\$12,604,042
SFY21	\$0	-\$12,499,134	\$12,499,134
SFY22	\$0	-\$12,749,117	\$12,749,117
SFY23	\$0	-\$13,004,099	\$13,004,099
SFY24	\$0	-\$13,264,181	\$13,264,181
SFY25	\$0	-\$13,529,465	\$13,529,465
SFY26	\$0	-\$13,800,054	\$13,800,054
SFY27	\$0	-\$14,076,055	\$14,076,055
Total	\$0	-\$123,272,858	\$123,272,858

Total of all anticipated Medicaid expenditures that can be estimated:

Total	Total Funds	State Funds	Federal Funds
SFY18	\$184,483,275	\$8,348,916	\$176,134,359
SFY19	\$476,742,337	\$35,125,043	\$441,617,294
SFY20	\$616,053,031	\$56,773,905	\$559,279,126
SFY21	\$639,714,573	\$59,365,457	\$580,349,118
SFY22	\$664,374,707	\$61,730,588	\$602,644,119
SFY23	\$689,982,338	\$64,187,771	\$625,794,567
SFY24	\$716,592,804	\$66,742,474	\$649,850,330
SFY25	\$744,240,016	\$69,398,028	\$674,841,988
SFY26	\$772,954,574	\$72,157,425	\$700,797,148
SFY27	\$802,797,097	\$75,026,659	\$727,770,438
Total	\$6,307,934,752	\$568,856,266	\$5,739,078,487

MAJOR OBJECTS OF EXPENDITURE

PERSONAL SERVICES:	POSITION TITLE	NUMBER OF POSITIONS		2017-2018	2018-2019
		17-18	18-19	EXPENDITURES	EXPENDITURES
Staff		43	50	\$1,237,262	\$1,949,920
Benefits.....				\$444,920	\$700,146
Operating.....				\$956,040	\$1,109,034
Travel.....					
Capital Outlay.....					
Aid.....				\$181,845,053	\$472,983,237
Capital Improvements.....					
TOTAL.....				\$184,483,275	\$476,742,337