



NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

Legislative Fiscal Note

Short Title: Required Components/Medicaid Transformation.
Bill Number: House Bill 989 (Second Edition)
Sponsor(s):

SUMMARY TABLE

FISCAL IMPACT OF H.B. 989, V.2 (\$ in millions)					
	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>
State Impact					
General Fund Revenue	364.0	172.1	171.8	171.8	171.8
<u>Less Expenditures</u>	<u>426.4</u>	<u>234.5</u>	<u>234.2</u>	<u>234.2</u>	<u>234.2</u>
General Fund Impact	(62.4)	(62.4)	(62.4)	(62.4)	(62.4)
Special Fund Revenues	431.8	-	-	-	-
<u>Less Expenditures</u>	<u>609.3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Special Fund Impact	(177.5)	-	-	-	-
NET STATE IMPACT	(\$239.9)	(\$62.4)	(\$62.4)	(\$62.4)	(\$62.4)
STATE POSITIONS	30.00	30.00	30.00	30.00	30.00

FISCAL IMPACT SUMMARY

House Bill 989 provides a total of \$62.4 million in General Fund appropriations to the Division of Health Benefits (DHB), funds the Medicaid Transformation Fund (MTF) with a \$193 million transfer from the Medicaid Transformation Reserve in FY 2019-20, and authorizes spending from MTF for nonrecurring Medicaid transformation administrative project costs and claims run out resulting from transformation. In addition, the existing hospital assessments and physician supplemental payment program are revised to conform to Medicaid managed care requirements. Finally, a new Hospital Uncompensated Care Fund is established to hold federal Disproportionate Share Hospital receipts and distribute the funds to eligible institutions and hospitals.

The bill would be implemented in conjunction with the budget continuation procedures in G.S. 143C-5-4(b) and includes provisions that were ratified by the General Assembly in House Bill 966, the Current Operations Appropriations Act of 2019. Although Part II of the Act includes recurring General Fund appropriations, the bill is based on FY 2019-20 figures from House Bill 966.

FISCAL ANALYSIS

Part I of House Bill 989 states that the bill will be implemented in conjunction with the budget continuation procedures in G.S. 143C-5-4(b). There is no fiscal impact.

Part II of the bill appropriates \$33.8 million in recurring funds from the General Fund for the FY 2019-20 Medicaid and NC Health Choice (NCHC) rebase and \$28.6 million in recurring funds from the General Fund for projects related to administration of Medicaid transformation. The General Fund appropriations would also draw down additional federal Medicaid receipts that will be used to support Medicaid transformation and the Medicaid and NCHC programs during the transformation process. The transformation administrative costs include new contracts, new information technology systems, and 30 full-time equivalent (FTE) positions.

Table 1 shows the impact of Part II for FY 2019-20. The funding is recurring, so future years continue the General Fund spending and will draw federal funds based on future federal participation rates.

Table 1
Medicaid and NC Health Choice Rebase and Medicaid Transformation Projects
FY 2019-20

(\$ Millions)	Medicaid and NCHC Rebase	Transformation Projects	Total
Requirements (R)	\$330.0	\$96.4	\$426.4
Federal Receipts (R)	224.5	67.8	292.3
Federal Receipts (NR)	71.7	-	71.7
State GF Appropriations (R)	\$33.8	\$28.6	\$62.4
Additional FTE	-	30.0	30.0

Part III of the bill authorizes the transfer of \$193 million from the Medicaid Transformation Reserve in the General Fund to the Medicaid Transformation Fund (MTF). The funding will be used for the following 2 purposes.

- **Claims Run Out:** As Medicaid beneficiaries transition to managed care, fee-for-service claims from services they received prior to implementation of prepaid health plans will continue for several months. MTF would hold \$150.2 million to pay the projected FY 2019-20 cost for claims run out, as well as a 10% margin (\$15.0 million) in case actual run out costs exceed the estimate.
- **Nonrecurring Medicaid transformation administrative costs:** MTF would hold \$27.3 million that could be transferred to DHB to pay the State share of nonrecurring costs for projects

needed for Medicaid transformation, such as information technology upgrades and short-term contracts. DHB must request the transfer of funds from MTF, and the Office of State Budget and Management must verify that requested funds are to be used for a qualifying need before making a transfer.

Table 2 shows the estimated fund balance and the transfers into and out of MTF. MTF special fund spending is shown in Table 3 with an estimate of the federal receipts the spending will generate.

Table 2
Medicaid Transformation Fund
FY 2019-20
(\$ Millions)

MTF availability (transferred from Reserve)	\$193.0
Estimated transfer to DHB for claims run out	(150.2)
Transfer to DHB for NR transformation projects	<u>(27.3)</u>
MTF June 30, 2020 estimated balance	\$15.5

Table 3
Projected Special Fund Spending from Medicaid Transformation Fund
FY 2019-20

(\$ Millions)	Estimated Claims Run Out	Transformation Projects	Total
Requirements (NR)	\$472.7	\$136.6	\$609.3
Federal Receipts (NR)	322.5	109.3	431.8
MTF (special fund) Spending (NR)	\$150.2	\$27.3	\$177.5

Parts IV, V, and VI of the bill revise and update provider reimbursements and hospital assessments to conform with Medicaid managed care. To the extent that there is any net impact on General Fund appropriations from the provisions, the impact is reflected in the Medicaid rebase in 2.1.(a) of this bill.

- *Part IV* repeals a requirement that Medicaid and NCHC pay the same base claims rate to all hospitals and a prohibition on Medicaid reimbursement for graduate medical education (GME). The repeal of these provisions will allow Medicaid to reimburse hospitals for GME in Medicaid transformation.
- *Part V* revises the existing hospital assessments in a way that is allowable under Medicaid managed care. The assessment rates for 10/1/2019 to 9/30/2020 are set at 1.77% for the base assessment and 2.26% for the supplemental assessment with the goal of maintaining General Fund spending for Medicaid hospital services at current levels. The revised assessments will collect an estimated \$560.5 million from 10/1/2019 to 9/30/2020, somewhat more than the current assessments due to managed care adjustments that will also increase reimbursements to hospitals. Rates for future years will be set through a

process in which the Department of Health and Human Services (DHHS) calculates new rates, the Governor proposes the rates, and the General Assembly sets the rates.

- *Part VI* revises and updates the existing Medicaid supplemental payment program for eligible medical professional providers in a manner that conforms with Medicaid transformation. The program will become a directed payment program, with a limit on the total amount of directed payments. The cost of the program will continue at the FY 2018-19 spending level.

Part VII codifies the existing Medicaid Contingency Reserve. There is no fiscal impact.

Part VIII establishes a new Hospital Uncompensated Care Fund that will consist of a portion of the federal disproportionate share adjustment receipts. DHHS must adopt rules for determining eligibility for, and allocations of, payments from the Fund and is authorized to make payments to eligible institutions and hospitals from the Fund. This is the only provision in the bill that was not in House Bill 966, the Current Operations Appropriations Act of 2019.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Fiscal Research Division; Department of Health and Human Services; Office of State Budget and Management

LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

ESTIMATE PREPARED BY

Mark Collins

ESTIMATE APPROVED BY



Mark Trogdon, Director of Fiscal Research
Fiscal Research Division
July 23, 2019



Signed copy located in the NCGA Principal Clerk's Offices