



NORTH CAROLINA GENERAL ASSEMBLY

2023 Session

Legislative Fiscal Note

Short Title: Access to Healthcare Options.
Bill Number: House Bill 76 (First Edition)
Sponsor(s): Rep. Lambeth, Rep. White, Rep. Wray, and Rep. Humphrey

SUMMARY TABLE

FISCAL IMPACT OF H.B. 76, V.1 (\$ in millions)

	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>	<u>FY 2026-27</u>
State Impact					
General Fund Revenue	1,262.3	5,759.7	9,840.7	10,472.8	10,486.4
<u>Less Expenditures</u>	<u>1,262.3</u>	<u>5,664.5</u>	<u>9,642.0</u>	<u>10,387.8</u>	<u>10,380.2</u>
General Fund Impact	-	95.2	198.7	85.0	106.2
Special Fund Revenues	-	657.3	1,299.1	1,036.0	754.0
<u>Less Expenditures</u>	<u>-</u>	<u>234.3</u>	<u>608.4</u>	<u>708.7</u>	<u>743.1</u>
Special Fund Impact	-	423.0	690.7	327.2	10.9
NET STATE IMPACT	-	\$518.2	\$889.4	\$412.3	\$117.1
Local Impact					
Local Revenue	-	28.0	59.0	62.0	65.0
<u>Less Local Expenditures</u>	<u>-</u>	<u>28.0</u>	<u>59.0</u>	<u>62.0</u>	<u>65.0</u>
NET LOCAL IMPACT	-	-	-	-	-

FISCAL IMPACT SUMMARY

The bill establishes a new NC Health Works initiative to extend Medicaid coverage to individuals ages 18 through 64 who are not already eligible for Medicaid and have household incomes equal to or less than 133% of the federal poverty level. (In 2023, 133% of the federal poverty level is an annual salary of \$19,391 for an individual or \$33,064 for a family of 3.) In addition, the bill requires the Department of Health and Human Services (DHHS) to request federal approval for a new directed payment program, the Healthcare Access and Stabilization Program (HASP), that will increase Medicaid hospital reimbursements. NC Health Works and HASP would be funded entirely with new receipts from hospital assessments and transfers, as well as increased gross premiums tax revenues resulting from the implementation of NC Health Works and HASP.

In addition to the new revenue and receipts that would fund the initiatives, the State would realize a total of approximately \$1.4 billion in Medicaid savings over 2 years due to a federal incentive for expanding Medicaid coverage. The State would also realize ongoing Medicaid savings of approximately \$20 million annually due to the elimination of an eligibility category that would be redundant with the implementation of NC Health Works. In addition, HASP would net an estimated \$60 million annually in gross premiums tax revenues that would not be used to fund the initiatives and would instead represent new General Fund revenue for the State.

A Health Advancement Receipts Special Fund is established to hold departmental receipts generated through a new hospital assessments structure (the Health Advancement Assessments) and would be used to pay the nonfederal share of all costs for NC Health Works. A second special fund, the ARPA Temporary Savings Fund, is established to hold Medicaid savings generated through the federal Medicaid expansion incentive.

County departments of social services, which perform Medicaid eligibility determinations, would incur additional costs with the implementation of NC Health Works, but a combination of federal Medicaid receipts and funds from the Health Advancement Receipts Special Fund would reimburse counties for these costs.

The bill is effective on the date the FY 2023-24 State budget is enacted. If a State budget is not enacted by December 31, 2023, the bill expires without taking effect.

FISCAL ANALYSIS

American Rescue Plan Act Medicaid Expansion Incentive

For a state that expands Medicaid after March 11, 2021, the federal American Rescue Plan Act (ARPA) offers an additional 5 percentage points on the state's federal Medicaid match to be applied to the existing Medicaid population for 2 years. Implementation of NC Health Works would qualify North Carolina for the higher federal match, which would result in \$900 million per year in additional federal Medicaid receipts for 2 years. The incentive would begin when NC Health Works begins, January 1, 2024, and would continue through December 31, 2026. The increased federal

receipts would be partially offset by a decrease of approximately \$200 million per year in receipts from other providers that pay a portion of the State’s non-federal Medicaid share.

The State savings generated by the incentive would be placed in an ARPA Temporary Savings Fund (ARPA Fund) and could only be expended through an appropriation by the General Assembly. *Table 1* estimates deposits into the ARPA Fund.

Table 1. ARPA Temporary Savings Fund

(\$ in millions)	FY23-24	FY24-25	FY25-26	Total
Federal Medicaid receipts	\$450	\$900	\$450	\$1,800
Provider receipts	(105)	(203)	(103)	(411)
Total Medicaid savings transferred to ARPA Fund	\$345	\$697	\$347	\$1,389

Healthcare Access and Stabilization Program

If approved by the federal Centers for Medicare and Medicaid Services (CMS), HASP would increase Medicaid hospital reimbursements in accordance with the approved limits. The additional reimbursements would be allocated to Medicaid prepaid health plans (PHPs) to make managed care “direct payments” to hospitals in their networks.

HASP reimbursements to hospitals can begin at the start of the fiscal quarter following the bill’s enactment if CMS has approved the State’s plan and the bill is in effect, so initial HASP payments would be based on hospital services provided to the State’s traditional Medicaid population. The bill requires DHHS to request at least \$3.2 billion in HASP reimbursement increases for FY 2023-24, but if the bill is enacted and DHHS has secured federal approval, HASP payments could begin in FY 2022-23 for hospital services provided to Medicaid managed care enrollees since July 1, 2022. HASP payments made for hospital utilization prior to the start of behavioral health and intellectual/developmental disabilities tailored plans (Tailored Plans) will likely be lower than the minimum of \$3.2 billion identified for FY 2023-24.

The nonfederal share of HASP reimbursements for the State’s current Medicaid program would be fully funded by a new HASP component in the State’s existing Modernized Hospital Assessments formula. Hospital receipts would be collected and matched with federal Medicaid receipts to make the reimbursements to hospitals. *Table 2* estimates HASP payments for the traditional Medicaid population.

Table 2. Healthcare Access and Stabilization Program/Current Medicaid Population

(\$ in millions)	FY22-23	FY23-24	FY24-25	FY25-26	FY26-27
Total Requirements					
HASP payments to hospitals	\$1,262	\$3,156	\$3,366	\$3,366	\$3,366
Receipts					
Federal Medicaid receipts	\$918	\$2,204	\$2,387	\$2,303	\$2,219
Additional hospital receipts	344	952	979	1,063	1,147
Net Appropriation	\$0	\$0	\$0	\$0	\$0

The figures in *Table 2* are based on the following assumptions.

- The bill is in effect and HASP is approved prior to the end of FY 2022-23.
- HASP reimbursements would be paid on a 2-quarter lag, whereby reimbursements delivered in one quarter would be based on utilization of hospital services in the second prior fiscal quarter.
- Tailored Plans begin as scheduled on April 1, 2023.
- HASP reimbursements for hospital utilization prior to the start of Tailored Plans are estimated at \$2.5 billion on an annualized basis. Once Tailored Plans are implemented, HASP reimbursements for the traditional Medicaid population will total \$3.3 billion annually.
- When making HASP payments to PHPs, 2% would be added to total hospital reimbursements. The additional 2% would be funded with hospital receipts and federal Medicaid receipts and would be retained by PHPs to pay the State’s gross premiums tax.

Because HASP reimbursements pass through PHPs, the payments are subject to the State’s 1.9% gross premiums tax. Additional gross premiums tax collections generated by HASP payments for the traditional Medicaid population represent new General Fund revenue for the State. Based on the assumptions described above, the additional revenue would level off at approximately \$64 million per year.

NC Health Works

The bill establishes NC Health Works, a new initiative that would provide Medicaid coverage to individuals ages 18 through 64 who are not currently eligible for full Medicaid benefits and have household incomes no more than 133% of the federal poverty level. County departments of social services must begin accepting applications for enrollment in NC Health Works no later than December 1, 2023, and Medicaid coverage for enrollees would begin January 1, 2024.

Costs for NC Health Works would include all Medicaid service costs, as well as State and county administrative costs. Assuming HASP is approved by CMS, the cost of NC Health Works would also include costs for the higher hospital reimbursements provided by HASP. *Table 3* estimates the costs of NC Health Works.

Table 3. Costs of NC Health Works

(\$ in millions)	FY23-24	FY24-25	FY25-26	FY26-27
<i>Average monthly enrollment</i>	475,900	556,300	650,200	667,500
Service costs (including HASP)	\$2,163	\$5,628	\$6,615	\$6,944
State start-up costs	15	-	-	-
State administrative costs	34	47	47	47
County eligibility checks	28	59	62	65
NC Health Works Costs	\$2,240	\$5,734	\$6,724	\$7,056

The figures in *Table 3* are based on the assumptions listed below.

- Enrollment in NC Health Works will ramp up over the first 2 years of implementation and will increase with North Carolina population growth in subsequent years.
- HASP reimbursements for NC Health Works will phase up with enrollment to reach \$1.2 billion annually.

Federal Medicaid receipts would cover 90% of the service costs and 50% to 75% of the administrative costs for NC Health Works. A one-time hospital assessment would be imposed in October 2023 to generate funds for the nonfederal share of State start-up costs and initial operational costs for DHHS and county departments of social services. The initial assessment would collect \$12.8 million, with \$8.8 million designated for State costs and \$4.0 million to be allocated to counties. Beginning January 1, 2024, the nonfederal share of NC Health Works costs would be paid from a new Health Advancement Receipts Special Fund (HAR SF) created to hold hospital receipts from the new Health Advancement Assessments established in the bill.

The Health Advancement Assessments structure will begin with the start of NC Health Works, and most of the receipts generated by the new structure would be deposited into HAR SF. A reconciliation component in the assessments realigns the amount collected each quarter to ensure that hospitals get credit for any overpayments or make additional payments to replace any shortfalls relative to the actual cost of NC Health Works. Once NC Health Works begins to generate additional gross premiums tax revenues, the bill states an intent to appropriate a portion of the new General Fund revenues resulting from NC Health Works to DHHS for deposit in HAR SF.

The Health Advancement Assessments formula is expected to initially over-collect hospital receipts, resulting in a balance being retained in the HAR SF. Estimates of deposits into HAR SF and spending from HAR SF are provided in *Table 4*.

Table 4. Health Advancement Receipts Special Fund

(\$ in millions)	FY23-24	FY24-25	FY25-26	FY26-27
Starting Balance	\$0	\$78	\$72	\$52
Deposits into HAR SF				
Hospital receipts	\$312	\$602	\$580	\$662
Gross premiums tax appropriation	0	0	109	92
Spending out of HAR SF				
NC Health Works-Nonfederal Share	(\$234)	(\$608)	(\$709)	(\$743)
FY Ending Balance	\$78	\$72	\$52	\$63

In addition to the financing structure for new NC Health Works costs, other changes to the current Medicaid program are made in the bill to align with NC Health Works. The changes are described briefly below and generate savings for the current Medicaid program.

- The cost of extending postpartum coverage, as enacted in S.L. 2021-180, would be reduced with the implementation of NC Health Works, and the bill makes a corresponding reduction in the hospital assessments used to fund the nonfederal share of the postpartum extension.

- A budget provision from S.L. 2021-180 that allows the parents of children placed in the foster care system to retain Medicaid benefits is repealed. The initiative would not be needed with implementation of NC Health Works.

With the savings generated by these changes, NC Health Works nets a small amount of savings for DHHS, as shown in *Table 5*.

Table 5. Impact of NC Health Works

(\$ in millions)	FY23-24	FY24-25	FY25-26	FY26-27
Total Requirements				
NC Health Works services	\$2,163	\$5,628	\$6,615	\$6,944
State administration	49	47	47	47
Transfer to counties	28	59	62	65
Other Medicaid changes	(76)	(155)	(158)	(134)
Requirements Total	\$2,164	\$5,579	\$6,567	\$6,922
Receipts				
Federal Medicaid receipts	\$1,939	\$5,016	\$5,908	\$6,225
Hospital receipts not deposited in HAR SF	(1)	(28)	(29)	(22)
Transfer from HAR SF	234	608	709	743
Receipts Total	\$2,172	\$5,596	\$6,588	\$6,946
Net Savings to State	\$9	\$17	\$21	\$24

Termination of NC Health Works

Section 1.2 of the bill requires termination of NC Health Works if the federal share of the cost of providing NC Health Works coverage drops below 90% or if the nonfederal share of the cost of NC Health Works cannot be fully funded through the sources identified in the bill. If either of these scenarios occur, then coverage would end as expeditiously as possible. DHHS would report to the Joint Legislative Oversight Committee on Medicaid and NC Health Choice annually on the nonfederal share of the cost of NC Health Works coverage compared to the funding available from sources identified in the bill.

Gross Premiums Tax Revenue

Separate from the budgetary impact on DHHS, HASP and NC Health Works would also impact General Fund revenue collected through the gross premiums tax. Medicaid payments to PHPs are taxed at 1.9%, the same tax rate used for the premiums paid to other insurance providers in the State. With the additional HASP directed payments and the new managed care population from NC Health Works, total Medicaid payments to PHPs would increase significantly. While the additional revenue collected from Medicaid PHPs would be partially offset by the loss of revenue from some commercial insurers who would lose clients to NC Health Works, an overall increase in gross premiums tax collections is anticipated. Some of the additional revenue would be allocated to DHHS to deposit in the HAR SF, but a portion of the revenue increase would represent unassigned General Fund availability. The projected net increase in General Fund revenue is shown in *Table 6*.

Table 6. Access to Healthcare Options Gross Premiums Tax Impact

(\$ in millions)	FY23-24	FY24-25	FY25-26	FY26-27
Gross Premiums Tax/GF Revenue	\$87	\$182	\$172	\$175
Approp. to DHHS to deposit in HAR SF	0	0	(109)	(92)
Net General Fund Increase	\$87	\$182	\$63	\$83

Disproportionate Share Hospital (DSH) Payments

Federal disproportionate share hospital (DSH) funding is used to support hospitals that serve higher proportions of uninsured and Medicaid patients. As a result of HASP and NC Health Works, hospitals in North Carolina will not be eligible for as much DSH funding as they currently receive. Any reduction in hospital DSH payments would be replaced with increased Medicaid funding, but the State would lose \$43 million that it currently uses to support the Medicaid program. In response, the Health Advancement Assessments collects an additional \$43 million annually from hospitals. Unlike other Health Advancement Assessments revenue, this funding would not be deposited in HAR SF and would instead be used by the Medicaid program in place of the federal DSH funds.

6% Medicaid Assessment Limit

Federal law prohibits states from taxing providers more than 6% of net patient revenues for use in generating a federal Medicaid match. The combination of hospital assessments used in this bill to fund HASP and NC Health Works would likely put the State very close to the 6% limit within a few years. If the combination of assessments would result in the State exceeding the cap, HASP payments to hospitals would be decreased to account for the amount of nonfederal funds available within the 6% limit. The State’s current Modernized Hospital Assessments and the assessments needed to fund the non-HASP costs of NC Health Works would remain unchanged.

Local Impact

County departments of social services are responsible for conducting Medicaid eligibility determinations, and their costs would increase with the implementation of NC Health Works. DHHS is directed to use \$4.0 million from the October 2023 one-time assessment, and all corresponding federal receipts, to reimburse the county departments for costs incurred due to NC Health Works. In subsequent years, factors in the Health Advancement Assessments produce receipts from hospitals that are placed in HAR SF for distribution to counties. The anticipated impact on counties is shown in Table 7. DHHS must report annually on the allocation of funds to county departments of social services.

Table 7. NC Health Works County Impact

(\$ in millions)	FY23-24	FY24-25	FY25-26	FY26-27
Total additional county expenditures	\$28	\$59	\$62	\$65
Federal receipts	14	29	31	33
State receipts from HAR SF	14	30	31	32
Net County Impact	\$0	\$0	\$0	\$0

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

DEPARTMENT OF HEALTH AND HUMAN SERVICES; NORTH CAROLINA HEALTHCARE ASSOCIATION

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

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