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BILL ANALYSIS

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Senate Bill 616 (Substitute S-1, Draft 1)
Sponsor: Senator Roger Kahn, M.D.
Committee: Appropriations

Date Completed: 7-15-14

CONTENT

The bill would provide supplemental appropriations for fiscal year (FY) 2013-14 due to the expansion of the State's Use Tax on April 1, 2014, to cover Medicaid managed care organizations and the reduction in the Health Insurance Claims Assessment (HICA) rate from 1.0% to 0.75% on July 1, 2014. The bill proposes appropriations for only one department, the Department of Community Health (DCH).

The FY 2013-14 budget assumed $400.0 million in HICA revenue. Actual revenue, prior to the rate reduction, was forecast at $285.5 million. The rate reduction is projected by the State Budget Office to lower revenue by another $18.8 million in the final quarter of FY 2013-14. That would lead to an overall HICA shortfall of $133.3 million.

The supplemental would cover the HICA shortfall with $101.2 million in GF/GP revenue and $32.1 million from the Roads and Risks Reserve Fund.

The implementation of the Use Tax raised costs for Medicaid managed care organizations as they must pay an estimated $260.4 million in tax during the latter half of FY 2013-14. The State is required by the Federal government to pay actuarially sound rates to Medicaid managed care organizations. Therefore, the State effectively has to cover their cost of the Use Tax, by spending $260.4 million Gross and $72.3 million GF/GP, which is reflected in the bill. Table 1 summarizes the appropriations in the bill.

Table 1

FY 2013-14 Supplemental Appropriations				
Department	**Adjusted Gross**	**Federal**	**Restricted**	**GF/GP**
Community Health	$260,356,700	$188,017,600	($101,233,600)	$173,572,700
Total	**$260,356,700**	**$188,017,600**	**($101,233,600)**	**$173,572,700**

FISCAL IMPACT

The bill would increase GF/GP appropriations by $173.6 million to cover most of the remaining FY 2013-14 HICA shortfall and the cost to ensure that capitation rates to Medicaid managed care organizations remain actuarially sound. The $260.4 million in Use Tax revenue is split between the General Fund (two-thirds) and the School Aid Fund (one-third). Thus the amount of Use Tax going to the General Fund is two-thirds of $260.4 million or $173.6 million, which is equal to the amount of GF/GP revenue in Senate Bill 616 (S-1). This means that the GF/GP cost increase in the bill is equal to the GF/GP raised by the expanded Use Tax, so there would be no direct impact on the availability of GF/GP revenue for other priorities in the State budget.

The bill also reflects use of $32.1 million in Roads and Risks Reserve Fund revenue. This would reduce the amount available in that Fund from $115.0 million to $82.9 million. A further $60.9 million was allocated from the Fund to offset GF/GP costs in the FY 2014-15 DCH budget. There would be $22.0 million remaining unallocated in the Fund.

Table 2 summarizes the details of those appropriations.

Table 2

Senate Bill 616 (S-1) Draft 1: FY 2013-14 Supplemental Recommendations

	Governor's Recommendation		Senate Recommendation	
Department/Program	**Adj. Gross**	**GF/GP**	**Adj. Gross**	**GF/GP**
Community Health				
Offset HICA Revenue Shortfall	$0	$101,233,600	$0	$101,233,600
Cover Actuarial Soundness Use Tax Costs	260,356,700	72,339,100	260,356,700	72,339,100
Total Community Health	**$260,356,700**	**$173,572,700**	**$260,356,700**	**$173,572,700**

BOILERPLATE LANGUAGE SECTIONS

Sec. 201. General. Records amount of total State spending and payments to local units of government.

Sec. 202. General. Subjects appropriations and expenditures in the bill to the provisions of the Management and Budget Act.

Enacting Section 1. Use of Roads and Risks Reserve Fund. Repeals Section 305 of the FY 2013-14 supplemental (Public Act 34 of 2014), which directed that any HICA shortfall as of September 30, 2014, be filled with available Roads and Risks Reserve Fund revenue. The direct appropriations in the bill would eliminate the need for this previously enacted section.

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