ISSUE BRIEF

Health Care Access Fund Overview and Forecast Changes

December 2017 Update

The November 2017 state budget forecast projects a balance in the Health Care Access Fund (HCAF) of $712.9 6 million for FY 2017. For the upcoming biennium there are forecasted balances of $648.116 million for FY 2018 and $612.412 million for FY 2019. In the out years, there are projected balances of$610.158 million in FY 2020 and $87.278 million in FY 2021. For each year, the ending balance assumes the prior year balance carries forward. This Issue Brief discusses the HCAF fund balance statement, current (November 2017) forecast changes and recent legislation affecting the fund.

HCAF Overview

The Health Care Access Fund was established in statute in 1992[1]. The fund was enacted as part of the legislation which authorized the MinnesotaCare health insurance program to increase access to health care for lower income Minnesotans. MinnesotaCare financing remains a primary activity of the HCAF but other uses, including paying directly for a portion of the state Medical Assistance program, have been added to the fund's activities. (Note: See page 5 of this Issue Brief for information on the November 2017 HCAF statement.)

Fund Sources

Fund sources include the balance forward (if any) from the prior year, transfers in (if any) and revenues to the fund. Revenues come primarily from two taxes, the health care provider tax[2] and the gross premium tax[3]. There are also several smaller sources of revenue to the fund including MinnesotaCare premiums and investment income. In detail, sources of revenue to the fund are:

Health Care Provider Tax - The largest source of revenue to the HCAF is a 2 percent tax on gross revenues of health care providers, hospitals, surgical centers and wholesale drug distributors. For FY 2018, the provider tax is now projected to provide $663.063 million in revenue to the fund. Under current law, the provider tax will sunset on December 31, 2019.

[1] Minnesota Statutes chapter 16A.724
[2] Minnesota Statutes chapter 295.52
[3] Minnesota Statutes chapter 297I.05, subdivision. 5

Gross Premium Tax – The next largest source of revenue to the HCAF is a 1 percent tax on the gross premiums of health maintenance organizations, nonprofit health service plan corporations and community integrated service networks. For FY 2018 the gross premium tax is projected to account for $90.813 million in revenue to the fund.

MinnesotaCare Enrollee Premiums - Premiums and cost sharing revenue paid by MinnesotaCare enrollees is the third largest source of revenue to the fund. As of January 2015 MinnesotaCare became the state's Basic Health Plan (BHP) under the Affordable Care Act (ACA) and all premiums remain with the state. Prior to January 1, 2015, the state had a waiver agreement with the federal government where premium revenue was shared between the state and federal government. For FY 2018, MinnesotaCare premiums are projected to account for $37.987 million in revenue to the fund.

Federal Match on Administrative Costs - For FY 2018 (and all years) the federal government is projected to provide $10.966 million in matching funds to the HCAF.

Interest Income - By law interest on balances in the fund accrue to the fund. For FY 2018 there is projected to be $7.68 million in interest on the fund.

Non-add federal revenue – These (bracketed) lines are shown in both the revenues and uses sections. These funds total $442.77 million in FY 2018 and are not counted in HCAF totals but do affect HCAF expenditures. In the revenues section the figure indicates the amount of revenue received in the state Federal Fund from the state BHP needed for MinnesotaCare federally eligible enrollees. This revenue must be used for MinnesotaCare program and currently, combined with premium revenue, pays for 100 percent of the cost of federally eligible BHP enrollment. BHP funds received by the state in excess of the amount needed to fund current costs for BHP eligible enrollees, $82 million for FY 2018-19, are held in the BHP trust fund account in the state federal fund and can only be used for the federally eligible BHP population. In FY 2020-21 the trust fund account is projected to grow to $98 million. In the HCAF uses section the same (bracketed) figure indicates the amount of MinnesotaCare costs that are paid with these same federal funds.

Fund Uses

Fund uses include appropriations and transfers out. In detail, expenditure items are:

MinnesotaCare - This direct appropriation is for MinnesotaCare operations. Projected to be $119.382 million in FY 2018. The fund balance statement indicates the annual projected state direct appropriated cost of the program (program costs less federal and premium revenue). Currently, this represents the cost of enrollees who do not qualify for federal funding through the BHP. The variance from the amount appropriated in the biennial budget is typically corrected through forecast adjustment legislation in the second year of the biennium.

MinnesotaCare Premiums - The same figure that is listed for premiums in the sources section of the fund balance statement which is appropriated to fund MinnesotaCare operations, $37.987 million for FY 2018.

Medical Assistance - Beginning in FY 2014 there have been direct appropriations out of the HCAF to fund a portion of the cost of the Medical Assistance program. This is part of the on-going cost of program operations rather than the effect of Medical Assistance expansion under the ACA (see General Fund Transfers). The forecast amount for this in FY 2018 is $385.159 million. Like MinnesotaCare appropriations, the actual appropriations for Medical Assistance are typically adjusted to match forecast numbers during the even year legislative session.

Department of Human Services - $36.344 million in FY 2018 for program administration.

Department of Health - $40.437 million in FY 2018 primarily for the Statewide Health Improvement Program (SHIP).

University of Minnesota - $2.2 million appropriated annually for primary care physician training.

Department of Revenue - $1.8 million in FY 2018 for administration of fund tax sources.

Non-add federal revenue – These (bracketed) lines are shown in both the revenues and uses sections. These funds total $442.77 million in FY 2018 and are not counted in HCAF totals but do affect HCAF expenditures. In the revenues section the figure indicates the amount of revenue received in the state Federal Fund from the state BHP needed for MinnesotaCare federally eligible enrollees. This revenue must be used for MinnesotaCare program and currently, combined with premium revenue, pays for 100 percent of the cost of federally eligible BHP enrollment. BHP funds received by the state in excess of the amount needed to fund current costs for BHP eligible enrollees, $82 million for FY 2018-19, are held in the BHP trust fund account in the state federal fund and can only be used for the federally eligible BHP population. In FY 2020-21 the trust fund account is projected to grow to $98 million. In the HCAF uses section the same (bracketed) figure indicates the amount of MinnesotaCare costs that are paid with these same federal funds.

General Fund Transfers

Medical Assistance - Minnesota Statutes[4] requires that up to $244 million per biennium ($122 million for FY 2018) is transferred to the general fund to pay for the cost of a rate increase in the Medical Assistance program first implemented in 2003. The biennial amount was increased from “up to $96 million” in the 2016 session. In practice half the total is transferred each year if fund balances allow.

Medical Assistance Expansion - In 2013 Medical Assistance eligibility was expanded under the Affordable Care Act to include both new populations and higher incomes[5]. The law included a transfer of funds from the HCAF to the General Fund in FY 2014-17 so that there was no General Fund cost for the expansion legislation during those years. The 2013 law included provisions to reduce these transfers in each forecast to the correct amount if it was less than the

[4]Minnesota Statutes chapter 16A.724, subdivision 2(a)
[5] Law of MN 2013 chapter 1

original transfer appropriation. The final transfer amount (actual FY 2017) was $44.1 million. There are no additional transfers to offset MA expansion

Non General Fund Transfers

DHS IT Systems transfer - Statutory transfer to the Special Revenue Fund for DHS computer systems costs. Forecast to be $12.6 million for FY 2018.

Current Forecast Changes

The November 2017 forecast shows substantial decreases to HCAF balances in both the FY 2018-19 and FY 2020-20 biennia compared to February 2017 but modest increases compared to the end of the 2017 legislative session. The HCAF is currently projected to have a balance of $612.4 million at the end of the FY 2018-19 biennium ($704 million below February, $94.8 million above the end of session), and $87.3 million at the end of the FY 2020-21($1.02 billion below February, $82.9 million above the end of session). Balances decline substantially in the FY 2020-21 biennium due to the sunset of the provider tax in FY 2020 (see below).

Revenues
Compared to the end of the 2017 session, total revenues for the FY 2018-19 biennium are up by $21.5 million and for the FY 2020-21 biennium are down by $(.5) million. Within those totals are higher tax revenue and lower MinnesotaCare premium revenue in each biennium. In addition, in FY 2019 there is a transfer on $50 million into the HCAF from the general fund required Minnesota Statute[6] each time the Minnesota Department of Health certifies savings to the general fund on spending for chronic diseases.

Costs
The only significant change in projected HCAF fund costs in the November forecast is in the MinnesotaCare program. Compared to the end of the 2017 session, the projection for the net state cost of MinnesotaCare for FY 2018-19 is up by $15.8 million. In FY 2020-21 MinnesotaCare forecast costs are up $18.6 million from the end of session projection.

Legislation Affecting the HCAF

The 2017 legislature took several actions that had significant impact on HCAF balances over the long term compared to February of 2017. $475 million is transferred in FY 2018-19 to the Premium Security account to reimburse a portion of premiums for persons buying insurance coverage in the individual market. The 2017 legislature also increased the amount of Medical Assistance costs paid by the HCAF. Compared to February 2017, MA expenditures from the HCAF increase by $389 million in FY 2018-19 and $309 million in FY 2020-21.

[6] Minnesota Statutes chapter 62U.10, subdivision 8

Several legislative changes in previous years have an impact, or potential impact, on the solvency of the HCAF. In the 2011 session legislation was passed that ends the provider tax on December 31, 2019[7]. The provider tax is collected on a calendar year basis, however, state fiscal years begin on July 1 and end on June 30. Thus, the last full year of tax collections is calendar 2019 and the date the tax is repealed is halfway through FY 2020. Tax receipts for that fiscal year are more than half the annual total because the final year's receipts will catch up with all billing and payment delays.

Finally, legislation[8] enacted in 2011 requires an analysis of fund revenues and uses each December. If the analysis shows that, on a biennial basis, the ratio of revenues to uses is greater than 125 percent then the provider tax must be reduced. The law requires that the tax rate would be adjusted down in increments of one-tenth of one percent until the biennial revenues would no longer exceed the 125 percent standard. The law further specifies that any reduction under this provision would expire at the end of each calendar year and would be subject to annual redetermination by the Commissioner of Minnesota Management and Budget. As of December 2017 the ratio of revenues to uses did not meet the greater than 125 percent test for the FY 2018-19 biennium so no rate reduction will occur.

Structural Balance

The November forecast shows a pending structural deficit in the HCAF. As of January 1, 2020, under current law, there will no longer by a provider tax and that revenue source will no longer be available. As of FY 2021, total uses in the HCAF will be greater than total revenues and transfers by $522 million. In addition, a pending lawsuit in regard to provider tax collections from certain pharmacies has the potential to reduce fund revenue in excess of $147 million, possibly making the structural problem worse. After FY 2021 the HCAF will not have sufficient revenue to support current law spending levels.

For more information, contact Doug Berg, at 651-296-5346 or *doug.berg@.house.mn*
\

November 2017 HCAF data recreated on next page or see:

Minnesota Management & Budget February 2017 Forecast HCAF fund balance statement:
https://mn.gov/mmb/assets/hcaf-nov17fcst_tcm1059-319801.pdf

[7] Laws 2011, First Special Session chapter 9, article 6, section 97
[8] Minnesota Statutes chapter 295.52, subdivision 8

Health Care Access Fund

November 2017

Sources	Actual FY 16	Actual FY 17	Projected FY 18	Projected FY 19	Projected FY 20	Projected FY 21
Balance Forward from Prior Year	662,387	495,604	712,964	648,116	612,412	610,158
Prior Year Adjustments	10,803	1,176	-	-	-	-
Adjusted balance forward	673,190	496,780	712,964	648,116	612,412	610,158
Revenues:						
2% Provider Tax	598,544	635,473	663,063	693,383	489,424	-
1% Gross Premium Tax	85,965	94,148	90,813	92,172	95,085	97,813
Provider and Premium Tax Refunds	(14,627)	(22,087)	(16,120)	(16,793)	(17,664)	(331)
MinnesotaCare Enrollee Premiums	29,994	36,003	37,987	38,719	38,843	39,622
Investment Income	5,149	7,766	7,680	6,750	6,700	3,700
MinnesotaCare: Federal Basic Health Program[1] [Non-Add]	[334,004]	[348,688]	[442,770]	[496,201]	[518,583]	[530,787]
MinnesotaCare: Federal Medicaid Waiver[2] [Non-Add]	[1,004]	-	-	-	-	-
MinnesotaCare: State Share of Other Dedicated Revenues	-	52	-	-	-	-
Federal Match on Administrative Costs	12,648	10,966	10,966	10,966	10,966	10,966
Total Revenues	**717,673**	**762,321**	**794,389**	**825,197**	**623,354**	**151,770**
Transfers In:						
General Fund: Laws of MN 2015, Ch. 71, Chronic Disease Spending Report	-	-	-	50,000	-	-
General Fund: Laws of MN 2017, Special Session, Ch. 1	-	-	-	-	7,200	-
Total Sources	**1,390,863**	**1,259,101**	**1,507,353**	**1,523,313**	**1,242,966**	**761,928**
Uses						
Expenditures:						
MinnesotaCare: Direct Appropriation	114,843	11,501	19,382	21,616	22,685	23,769
MinesotaCare: Federal Basic Health Program Expenditures [Non-Add]	[334,004]	[348,688]	[442,770]	[496,201]	[518,583]	[530,787]
MinnesotaCare: Federal Medicaid Waiver[2] [Non-Add]	[1,004]	-	-	-	-	-
MinnesotaCare: State Share of Enrollee Premiums	30,059	36,088	37,987	38,719	38,843	39,622
MinnesotaCare: State Share of Other Dedicated Revenues	-	52	-	-	-	-
Medical Assistance	588,188	240,720	385,159	438,848	358,943	399,929
Department of Human Services	30,734	35,451	36,344	35,948	35,948	35,948
Department of Health[3]	33,496	37,214	40,437	36,258	36,858	36,258
University of Minnesota	2,157	2,157	2,157	2,157	2,157	2,157
Legislature[3]	67	68	313	128	128	128
Department of Revenue	1,597	1,901	1,749	1,749	1,749	1,749
Interest on Tax Refunds	432	576	372	388	407	-
Total Expenditures	**801,573**	**365,728**	**523,900**	**575,811**	**497,718**	**539,560**
Transfers Out;						
To General Fund						
Medical Assistance: M.S. 16A.724 Subd 2(a)	48,000	122,000	122,000	122,000	122,000	122,000
2013 MA Expansion: Laws of MN 2013 Ch. 1	30,841	44,113	-	-	-	-
Legislature Carryforward Account: M.S. 16A.055	127	-	-	-	-	-
Total General Fund Transfers	78,968	166,113	122,000	122,000	122,000	122,000
Special Revenue Fund: DHS Systems and Other	14,219	14,295	12,587	13,090	13,090	13,090
International Med Revolving Loans: M.S. 144.1911 Subd 6	500	-	-	-	-	-
Premium Security Plan Account	-	-	200,750	200,000	-	-
Total Transfers Out	**93,687**	**180,408**	**335,337**	**335,090**	**135,090**	**135,090**
Total Uses	**895,260**	**546,136**	**859,237**	**910,901**	**632,808**	**674,650**
Structural Balance	(177,587)	216,185	(64,848)	(85,704)	(9,454)	(522,880)
Balance	**495,603**	**712,965**	**648,116**	**612,412**	**610,158**	**87,278**

[1] For services beginning January 1, 2015, federal funding for MinnesotaCare is received through the Basic Health Program andnis deposited in a Trust Fund within the state's Federal Fund for use for eligible expenditures

[2] Amounts represent federal match on MinnesotaCare expenditures, which is accounted for in the state's Federal Fund

[3] FY2018 figure includes funding carried forward from previous years

Data from MMB November 2017 HCAF fund balance statement