



ISSUE BRIEF

Health Care Access Fund Overview and Forecast Changes

December 2016 Update

The November 2016 state budget forecast projects a balance in the Health Care Access Fund (HCAF) of \$705 million for FY 2017. For the upcoming biennium there are forecasted balances of \$1.031 billion for FY 2018 and \$1.382 billion for FY 2019. In the out years, there are projected balances of \$1.532 billion in FY 2020 and \$1.21 billion 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 (February 2016) forecast changes and recent legislation affecting the fund.

HCAF Overview

The Health Care Access Fund was established in statute in 1992¹. 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 a copy of the February 2016 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 tax² and the gross premium tax³. 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 2017, the provider tax is projected to provide \$631.2 million in revenue to the fund.

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

¹ Minnesota Statutes chapter 16A.724

² Minnesota Statutes chapter 295.52

³ Minnesota Statutes chapter 297I.05, subdivision. 5

and community integrated service networks. For FY 2017 the gross premium tax is projected to account for \$88.5 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 2017, MinnesotaCare premiums are projected to account for \$45.7 million in revenue to the fund. Because of technical problems many MinnesotaCare enrollees did not received premium notices during 2015. The Department of Human Services says the billing issue was corrected during FY 2016, however, this problem has reduced actual premium collections and lowers the base line projection for premiums going forward in the HCAF. The forecast accounts for premium revenue changes.

Federal Match on Administrative Costs - For FY 2017 the federal government is projected to provide \$12.6 million in matching funds to the HCAF.

Interest Income - By law interest on balances in the fund accrue to the fund. For FY 2017 there is projected to be \$4.6 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 \$425.2 million in FY 2017 and are not counted in the HCAF totals but do affect HCAF expenditures. In the revenues section the figure indicates the amount of revenue to the state Federal Fund from the state Basic Health Plan federal match (and, for FY 2016 and earlier, reimbursement under the federal MinnesotaCare waiver that has now expired). This revenue must be used for MinnesotaCare program. In the HCAF uses section the same (bracketed) figure indicates the amount of MinnesotaCare costs that are paid with federal funds (reducing state MinnesotaCare net expenditures from the HCAF by the same amount).

Fund Uses

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

MinnesotaCare - The direct appropriation for MinnesotaCare operations. Projected to be \$9.4 million in FY 2017. The fund balance statement indicates the projected direct appropriated cost of the program (program costs less federal and premium revenue). The variance from the amount appropriated (Laws 2015, Chapter 71 for the FY 2016-17 biennium) 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, \$45.6 million for FY 2017.

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 2017 is \$240.7 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 - \$38 million in FY 2017 for program administration.

Department of Health - \$41.2 million in FY 2017 primarily for the Statewide Health Improvement Program (SHIP).

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

Department of Revenue - \$1.9 million in FY 2017 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 \$425.2 million in FY 2017 and are not counted in the HCAF totals but do affect HCAF expenditures. In the revenues section the figure indicates the amount of revenue to the state Federal Fund from the state Basic Health Plan federal match (and, for FY 2016 and earlier, reimbursement under the federal MinnesotaCare waiver that has now expired). This revenue must be used for MinnesotaCare program. In the HCAF uses section the same (bracketed) figure indicates the amount of MinnesotaCare costs that are paid with federal funds (reducing state MinnesotaCare net expenditures from the HCAF by the same amount).

General Fund Transfers

Medical Assistance - Minnesota Statutes⁴ requires that up to \$244 million per biennium (\$122 million for FY 2017) 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 incomes⁵. 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 original transfer appropriation. The (final) transfer amount for FY 2017 is forecast to be \$44.1 million.

Non General Fund Transfers

DHS IT Systems transfer - Statutory transfer to the Special Revenue Fund for DHS computer systems costs. Forecast to be \$12.75 million for FY 2017.

⁴Minnesota Statutes chapter 16A.724, subdivision 2(a)

⁵ Law of MN 2013 chapter 1

Current Forecast Changes

The December 2016 forecast shows improvement to HCAF balances, in both the current and next biennium, compared to projections from the February 2016 forecast. The HCAF is currently projected to have a balance of \$705 million at the end of the FY 2016-17 biennium, \$1.432 billion at the end of the FY 2018-19 biennium, and \$1.21 billion at the end of the FY 2020-21. Balances begin to decline in the FY 2020-21 biennium due to the repeal of the provider tax in FY 2020 (see below).

Revenues

Compared to the February 2016 fund statement, tax revenues for the FY 2016-17 biennium are down by \$10.9 million and for the FY 2018-19 biennium are up by \$2.4 million.

Costs

Compared to February 2016, the November 2016 projection of the net state cost of MinnesotaCare for FY 2016-17 is lower by \$166.1 million. In FY 2018-19 MinnesotaCare forecast costs decrease by \$283 million from the February projection. The main reason for the substantial reduction in state costs is the increase in federal reimbursement for the BHP which is pegged to the (rising) cost of insurance policies sold through the state exchange.

Recent Legislation Affecting the HCAF

Several recent legislative changes have an impact, or potential impact, to the fund. In the 2011 session legislation was passed that ends the provider tax on December 31, 2019⁶. 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.

In addition, the 2011 session also passed legislation⁷ that 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 the November 2016 forecast the ratio of revenues to uses does not meet the greater than 125 percent test for the FY 2016-17 biennium so no rate reduction is currently anticipated.

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⁶ Laws 2011, First Special Session chapter 9, article 6, section 97

⁷ Minnesota Statutes chapter 295.52, subdivision 8

Health Care Access Fund
November 2016
(\$ in Thousands)

	Actual FY 16	Projected FY 17	Projected FY 18	Projected FY 19	Projected FY 20	Projected FY 21
Sources						
Balance Forward from Prior Year	662,387	495,604	704,986	1,031,696	1,381,973	1,531,653
Prior Year Adjustments	10,803	-	-	-	-	-
Adjusted balance forward	673,191	495,604	704,986	1,031,696	1,381,973	1,531,653
Revenues:						
2% Provider Tax	598,544	631,168	660,927	694,146	490,525	-
1% Gross Premium Tax	85,965	88,454	92,005	95,515	98,764	101,978
Provider and Premium Tax Refunds	(14,627)	(14,735)	(15,437)	(16,284)	(17,212)	(379)
MinnesotaCare Enrollee Premiums	29,994	45,690	47,497	46,560	46,946	47,453
Investment Income	5,149	4,630	6,670	9,230	11,090	10,350
MinnesotaCare: Federal Basic Health Program ¹ [Non-Add]	[334,004]	[425,157]	[473,018]	[490,476]	[511,340]	[534,019]
MinnesotaCare: Federal Medicaid Waiver ² [Non-Add]	[1,004]	-	-	-	-	-
Federal Match on Administrative Costs	12,648	12,648	12,648	12,648	12,648	12,648
Total Revenues	717,672	767,854	804,310	841,814	642,761	172,050
Total Sources	1,390,863	1,263,458	1,509,296	1,873,510	2,024,734	1,703,704
Uses						
Expenditures:						
MinnesotaCare: Direct Appropriation	114,843	9,394	9,665	10,238	10,783	11,360
MinnesotaCare: Federal Basic Health Program ¹ [Non-Add]	[334,004]	[425,157]	[473,018]	[490,476]	[511,340]	[534,019]
MinnesotaCare: Federal Medicaid Waiver ² [Non-Add]	[1,004]	-	-	-	-	-
MinnesotaCare: State Share of Enrollee Premiums	30,059	45,692	47,497	46,560	46,946	47,453
Medical Assistance	588,188	240,720	210,159	224,929	224,929	224,929
Department of Human Services ³	30,734	38,024	34,670	34,274	34,274	34,274
Department of Health ³	33,496	41,242	36,066	35,479	36,079	35,479
University of Minnesota	2,157	2,157	2,157	2,157	2,157	2,157
Legislature ³	67	253	128	128	128	128
Department of Revenue ³	1,597	1,901	1,749	1,749	1,749	1,749
Interest on Tax Refunds	432	231	242	253	266	-
Total Expenditures	801,572	379,614	342,333	355,767	357,311	357,529
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	12,745	13,267	13,770	13,770	13,770
International Med Revolving Loans: M.S. 144.1911 Subd 6	500	-	-	-	-	-
Total Transfers Out	93,687	178,858	135,267	135,770	135,770	135,770
Total Uses	895,259	558,472	477,600	491,537	493,081	493,299
Structural Balance	(177,587)	209,383	326,709	350,278	149,680	(321,249)
Balance	495,604	704,986	1,031,696	1,381,973	1,531,653	1,210,404

¹ For services beginning January 1, 2015, federal funding for MinnesotaCare is received through the Basic Health Program and is 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 FY 2017 figure includes funding carried forward from previous years.

