ISSUE BRIEF

Health Care Access Fund Overview and Forecast Changes

February 2017 Update

The February 2017 state budget forecast projects a balance in the Health Care Access Fund (HCAF) of $685 million for FY 2017. For the upcoming biennium there are forecasted balances of $989 million for FY 2018 and $1.316 billion for FY 2019. In the out years, there are projected balances of $1.446 billion in FY 2020 and $1.11 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 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 a copy of the February 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 projected to provide $651.6 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 2018 the gross premium tax is projected to account for $80.6 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 $43.4 million in revenue to the fund.

Federal Match on Administrative Costs - For FY 2018 (and all years) 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 2018 there is projected to be $7.4 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 $399.6 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 ($41.5 million for FY 2018) are held in the BHP trust account in the state federal fund and can only be used for the federally eligible BHP population. 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 $12.2 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, $43.4 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 $210.2 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 - $34.7 million in FY 2018 for program administration.

Department of Health - $36.1 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 $399.6 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 ($41.5 million for FY 2018) are held in the BHP trust account in the state federal fund and can only be used for the federally eligible BHP population. 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 original transfer appropriation. The final transfer amount (in FY 2017) is projected in this forecast to be $44.1 million.

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

Non General Fund Transfers

DHS IT Systems transfer - Statutory transfer to the Special Revenue Fund for DHS computer systems costs. Forecast to be $13.3 million for FY 2018.

Current Forecast Changes

The February 2017 forecast shows decreases to HCAF balances in every biennium compared to November 2016. The HCAF is currently projected to have a balance of $685 million at the end of the FY 2016-17 biennium, $1.316 billion at the end of the FY 2018-19 biennium, and $1.11 billion at the end of the FY 2020-21. Balances begin to decline in the FY 2020-21 biennium due to the sunset of the provider tax in FY 2020 (see below).

Revenues
Compared to November 2016, the February 2017 projection of revenues for the FY 2018-19 biennium is down by $42 million and down by $31 million for the FY 2020-21 biennium.

Costs
Compared to November 2016, the February 2017 projection of the net state cost of MinnesotaCare for FY 2018-19 is up by $5 million. In FY 2020-21 MinnesotaCare forecast costs are up $6 million from the February projection. The drivers for these costs are increased enrollment of individuals over 65 who do not qualify for Medicare and the addition of Deferred Action for Childhood Arrival (DACA) cases.

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, 2019[6]. 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.

In addition, legislation[7] 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 2016 the ratio of revenues to uses did not meet the greater than 125 percent test for the FY 2016-17 biennium so no rate reduction occurred for the 2017 calendar year.

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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

February 2017 Forecast

Sources	Actual FY 16	Projected FY 17	Projected FY 18	Projected FY 19	Projected FY 20	Projected FY 21
Balance Forward from Prior Year	662,387	495,604	685,055	989,444	1,316,433	1,445,670
Prior Year Adjustments	10,803	-	-	-	-	-
Adjusted balance forward	673,191	495,604	685,055	989,444	1,316,433	1,445,670
Revenues:						
2% Provider Tax	598,544	625,711	651,640	684,265	483,965	-
1% Gross Premium Tax	85,965	74,981	80,614	83,689	86,536	89,352
Provider and Premium Tax Refunds	(14,627)	(14,544)	(15,222)	(16,066)	(17,013)	(332)
MinnesotaCare Enrollee Premiums	29,994	44,964	43,410	43,043	42,678	43,133
Investment Income	5,149	5,210	7,350	10,070	12,000	10,990
MinnesotaCare: Federal Basic Health Program [1] [Non-Add]	[334,004]	[363,651]	[399,644]	[411,176]	[423,125]	[441,464]
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	748,970	780,440	817,649	620,814	155,791
Total Sources	**1,390,863**	**1,244,574**	**1,465,495**	**1,807,093**	**1,937,247**	**1,601,461**
Uses						
Expenditures:						
MinnesotaCare: Direct Appropriation	114,843	11,204	12,241	12,917	13,588	14,294
MinnesotaCare: Federal Basic Health Program [1] [Non-Add]	[334,004]	[363,651]	[399,644]	[411,176]	[423,125]	[441,464]
MinnesotaCare: Federal Medicaid Waiver [2] [Non-Add]	[1,004]	-	-	-	-	-
MinnesotaCare: State Share of Enrollee Premiums	30,059	44,964	43,410	43,043	42,678	43,133
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	196	204	214	225	-
Total Expenditures	801,572	380,661	340,784	354,890	355,807	356,143
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**	**559,519**	**476,051**	**490,660**	**491,577**	**491,913**
Structural Balance	(177,587)	189,451	304,389	326,989	129,237	(336,122)
Balance	**495,604**	**685,055**	**989,444**	**1,316,433**	**1,445,670**	**1,109,548**

[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.

Source Minnesota Management & Budget February 2017 Forecast: https://mn.gov/mmb/assets/feb17fcst-hcaf_tcm1059-281977.pdf