

HF1795 - 0 - Hospital Claims Disallowed

Chief Author: **Liz Reyer**
 Committee: **Taxes**
 Date Completed: **3/9/2021 6:08:21 PM**
 Agency: **Revenue Dept**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology	X	
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	434	434	434	434	434
Restrict Misc. Special Revenue	-	172	157	157	157	157
Total	-	606	591	591	591	591
Biennial Total			1,197			1,182

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	-	-	-	-
Restrict Misc. Special Revenue	-	-	(1.41)	(1.41)	(1.41)
Total	-	-	(1.41)	(1.41)	(1.41)

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Joe Harney **Date:** 3/9/2021 6:08:21 PM
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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands	FY2021	FY2022	FY2023	FY2024	FY2025	
General Fund	-	434	434	434	434	434
Restrict Misc. Special Revenue	-	172	157	157	157	157
Total	-	606	591	591	591	591
Biennial Total			1,197			1,182
1 - Expenditures, Absorbed Costs*, Transfers Out*						
General Fund	-	-	-	-	-	-
Restrict Misc. Special Revenue	-	9	(6)	(6)	(6)	(6)
Total	-	9	(6)	(6)	(6)	(6)
Biennial Total			3			(12)
2 - Revenues, Transfers In*						
General Fund	-	(434)	(434)	(434)	(434)	(434)
Restrict Misc. Special Revenue	-	(163)	(163)	(163)	(163)	(163)
Total	-	(597)	(597)	(597)	(597)	(597)
Biennial Total			(1,194)			(1,194)

Bill Description

This bill changes the definition of claimant agency in Minnesota Statute 270A.03, subdivision 2. The change removes “a private nonprofit hospital that leases its building from the county or city in which it is located.”

This change removes the specified group from the list of claimants affected by revenue recapture.

Revenue recapture allows state and some local governments to collect certain debts by intercepting tax refunds. Under revenue recapture, a claimant agency submits the claim (debt) to the Department of Revenue (DOR) to offset. Tax refunds are used to offset unpaid taxes, interest, and penalties before revenue recapture takes effect to offset qualifying debt. A fee of \$15 per claim (per MS 270A.07, subd.1, 9 (b)) is deducted from the refund and the claimant agency receives the balance of the refund. From the \$15 fee, \$4 is dedicated to DOR’s revolving fund and the remainder goes to the state general fund.

The bill is effective the day following final enactment.

Assumptions

This bill will result in a loss of revenue to the General Fund and to the Restricted Misc. Special Revenue Fund, which directly impacts the Department of Revenue’s operating budget. DOR will incur some work on a one-time basis to implement the changes in this bill. That work is detailed below. DOR will also incur a reduction in workload and funding of the equivalent of approximately 1.36 FTE on a permanent basis, beginning in FY22 as a result of this bill. The FTE reduction is directly tied to the reduction in revenue to the revolving fund as a result of this bill language.

One-time impacts:

DOR will close 36 agencies’ claims as a result of this bill. Although the agencies are responsible for removing their own claims, DOR will verify that has been completed. The Integrated Tax System (GenTax) does not have an attribute to determine if an agency is private or public. We will need to manually review each agency to determine if they are impacted by the change.

DOR will communicate this change to all impacted agencies. We will create/update web content to reflect the changes in this bill.

DOR will engage in outreach and communication to inform taxpayers, businesses, tax preparers, tax software companies and DOR employees about the changes in this bill. For example, DOR may issue email and social media bulletins, and include information about the changes in press releases, conference calls, and other materials about new tax law changes.

DOR will need to terminate Service Level Agreements (SLAs) with the impacted agencies as they will no longer be able to submit claims for their debts.

DOR will need to verify all claims from these identified agencies are returned and are unable to be resubmitted.

DOR will need to update the Integrated Tax System (GenTax) and other computer systems, which includes analysis, gathering requirements, and system testing. The systems analysis and testing time to close 36 agencies' claims is assumed to take approximately 60 hours. It is estimated it will take approximately 8 weeks to complete data fixes. Migration will occur once per week and data fixes to five agencies will be completed in each migration. We will place hold codes on identified agencies to prevent any recaptures while we work through the data fixes.

There are 155 Health Care Revenue Recapture Agencies. Of those 155 Health Care Recapture Agencies, approximately 36 agencies are private non-profit hospitals. Since our system does not identify public versus private in the agency attributes, we will need to manually review all 155 cases to confirm whether they qualify as a claimant agency with this bill change.

This change will take approximately 15 minutes per agency to research and follow up to ensure claims have been stopped and agency removed from the process. This will take time up front, but over the long term will save time of not having to handle training and Service Level Agreements with these agencies as well as reducing phone calls from customers asking about these Revenue Recapture claims and provide equity with the process.

With each case taking approximately 15 minutes to research and complete follow up, we would need 38.75 hours of Revenue Recapture Program time. (calculation below)

15 min*155 cases for review= 2,325 minutes

2,325 min/60 min/hour= 38.75 hours

On-going impact:

The total Health Care Recapture fees make up 20% of all Revenue Recapture fees. The Collection Division has a Revenue Recapture Program group, which is a group of employees dedicated to working everything Revenue Recapture related including but not limited to:

- Monitoring Service Level Agreements (SLAs)
- Terminating SLAs when appropriate
- Assisting Revenue Recapture Agencies

The reduction in DOR Revenue Recapture workload in the Collection Division is reflected in the loss of revenue and FTE on an ongoing basis.

In addition, DOR's Taxpayer Rights Advocate office (TRA) assumes a reduction in taxpayer calls requesting bypass/offset beginning in FY22. This will result in 80 hours of savings per year. The employee time savings is determined as follows: 25% of 635 closed recapture hardship cases (159) at .5 hours each = 80 hours per fiscal year.

Expenditure and/or Revenue Formula

Revenue Recapture Fee Impact, projected from FY2020 information as noted below.

Fund Impact	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025

Fund 1000: General Fund		-433,992	-433,992	-433,992	-433,992
Fund 2000: Restricted Misc. Special Revenue		-162,888	-162,888	-162,888	-162,000
Total Fund Impact		-596,880	-596,880	-596,880	-596,880

Revenue Recapture Fee Analysis

This bill changes the definition of claimant agency in Minnesota Statute 270A.03, subdivision 2. This change removes “a private nonprofit hospital that leases its building from the county or city in which it is located”.

This change removes the specified group from the list of claimants affected by revenue recapture.

Revenue recapture allows state and some local governments to collect certain debts by intercepting tax refunds. Under revenue recapture, a claimant agency submits the claim (debt) to the Department of Revenue (DOR) to offset. Tax refunds are used to offset unpaid taxes, interest, and penalties before revenue recapture takes effect to offset qualifying debt. A fee of \$15 per claim (per MS 270A.07, subd.1, 9 (b)) is deducted from the refund and the claimant agency receives the balance of the refund. From the \$15 fee, \$4 is dedicated to DOR’s revolving fund and the remainder goes to the state general fund.

We have identified approximately 36 agencies which will be impacted by claims already submitted with DOR. 100% would be impacted as the bill removes private nonprofit hospitals that leases its building from the county or city in which it is located.

The total Health Care Recapture claim fees received for Fiscal Year 2020 are as follows:

Health Care Recapture Claims Fees Collected	FY2020
Fund 1000: General Fund	564,720
Fund 2000: Restricted Misc. Special Revenue (Revolving Account)	212,760
Total	777,480

There are approximately 36 impacted agencies from whom we received the following fees in **Fiscal Year 2020**:

Health Care Recapture Claims Fees Collected from agencies impacted by this bill	FY2020
Fund 1000: General Fund	433,992
Fund 2000: Restricted Misc. Special Revenue (Revolving Account)	162,888
Total	596,880

The amounts in the revolving account and the general fund do not add up to their corresponding amounts: \$4 per fee to the revolving account and \$11 per fee to the general fund. This is because when an intercept results in an over payment at the agency the agency refunds the intercepted amount to the customer and DOR refunds the fee to the customer. Since the agency is refunding the intercepted amount there is not a transaction in the system reversing the Revenue Recapture

transaction, however there is a transaction reversing the fee.

This bill does not impact state tax revenues.

Administrative Impact

Administrative Costs (Savings)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Employees		--4,905	-5,606	-5,606	-5,606
Systems Analysis & Testing		4,204			
Systems Development		10,000			
Total Administrative Costs (Savings)		9,299	-5,606	-5,606	-5,606

Long-Term Fiscal Considerations

The reduction in Revenue Recapture fees and the corresponding reduction to the general fund and to agency's funding through the Special Revenue fund will be ongoing.

The Taxpayer Rights Advocate Office reduction in taxpayer calls will be ongoing.

Local Fiscal Impact

References/Sources

Agency staff provided information for this fiscal note.

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