

Fiscal Analysis Department

Minnesota House of Representatives



ISSUE BRIEF

Health Care Access Fund Overview and Forecast Changes

March 2018 Update

The February 2018 state budget forecast projects an ending balance in the Health Care Access Fund (HCAF) of \$712.96 million for FY 2017. For the upcoming biennium there are forecasted balances of \$643.095 million for FY 2018 and \$604.218 million for FY 2019. In the out years, there are projected balances of \$587.256 million in FY 2020 and \$61.105 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 (February 2018) 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 6 of this Issue Brief for information on the February 2018 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 2018, the provider tax is now projected to provide \$658.889 million in revenue to the fund. For FY 2019 provider tax revenue is projected to be \$692.014 million. Under current law, the provider tax will sunset on December 31, 2019. For the FY 2020-21biennium, the provider tax is projected to raise \$477.616 million.

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 \$90.815 million in revenue to the fund. In FY 2019 the gross premium tax is projected to raise \$91.957 million.

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 \$33.490 million in revenue to the fund. In FY 2019 premiums are projected at \$32.950 million.

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 \$7.93 million in interest on the fund. For FY 2019 the interest is projected at \$7 million.

Non-add federal revenue – These (bracketed) lines are shown in both the revenues and uses sections. These funds total \$396.576 million in FY 2018, and \$421.106 million in FY 2019. These figures 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, \$191.117 million for FY 2018 are held in the BHP trust fund account in the state federal fund and can only be used for the federally eligible BHP population. By the end of FY 2021 the balance of the trust fund account is projected to be \$85 million. In the HCAF uses section the same (bracketed) figure indicates the amount of MinnesotaCare costs that are paid with these same federal funds. While the balance declines, it shows that the MinnesotaCare program have greater revenues than expenditures at the end of the current forecast horizon.

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 \$19.983 million in FY 2018 and \$22.476 million in FY 2019. 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. This is forecast to be \$33.49 million for FY 2018 and \$32.95 million in FY 2019.

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 item is \$385.159 million in FY 2018 and \$438.848 million in FY 2019. 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 - \$36.502 million in FY 2018 and \$36.106 million in FY 2019 for program administration.

Department of Health - \$40.535 million in FY 2018 and \$36.258 million in FY 2019 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 appropriated annually 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 \$396.576 million in FY 2018, and \$421.106 million in FY 2019. These figures 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, \$191.117 million for FY 2018 are held in the BHP trust fund account in the state federal fund and can only be used for the federally eligible BHP population. By the end of FY 2021 the balance of the trust fund account is projected to be \$85 million. In the HCAF uses section the same (bracketed) figure indicates the amount of MinnesotaCare costs that are paid with these same federal funds. While the balance declines, it shows that the MinnesotaCare program have greater revenues than expenditures at the end of the current forecast horizon.

General Fund Transfers Out

Medical Assistance - Minnesota Statutes⁴ 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

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

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.

General Fund Transfers In

\$50 million in FY 2019 triggered by savings projected in the Chronic Disease Spending Report

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 and \$13.1 million in FY 2019.

Current Forecast Changes

The February 2018 forecast shows decreases to HCAF balances in both the FY 2018-19 and FY 2020-21 biennia compared to November 2017. This is due to a combination of lower tax revenue and higher spending on MinnesotaCare. The HCAF is currently projected to have a balance of \$604 million at the end of the FY 2018-19 biennium (\$8 million below November 2017), and \$61 million at the end of the FY 2020-21 (\$26 million below November 2017). 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 November 2017 forecast, revenues from the provider tax for the FY 2018-19 biennium are down by (\$5) million and for the FY 2020-21 biennium are down by (\$12) million. Unchanged from the November 2017 forecast, is a FY 2019 transfer of \$50 million into the HCAF from the general fund required by Minnesota Statute⁵ each time the Minnesota Department of Health certifies savings to the general fund greater than \$50 million in spending for treatment of chronic diseases.

Costs

The only significant change in projected HCAF fund costs in the February forecast is in the MinnesotaCare program. Compared to the November 2017 forecast, the projection for the net state cost of MinnesotaCare for FY 2018-19 is up by \$1 million. In FY 2020-21 MinnesotaCare forecast costs are up \$5 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

⁵ Minnesota Statutes chapter 62U.10, subdivision 8

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.

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, 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. 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, legislation⁷ 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 February forecast shows a pending structural deficit in the HCAF. As of January 1, 2020, under current law, there will no longer be 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 \$526 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

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 2018

	Actual FY 16	Actual FY 17	Projected FY 18	Projected FY 19	Projected FY 20	Projected FY 21
Sources						
Balance Forward from Prior Year	662,387	495,604	712,964	643,095	604,218	587,256
Prior Year Adjustments	10,803	1,176	-	-	-	-
Adjusted balance forward	673,190	496,780	712,964	643,095	604,218	587,256
Revenues:						
2% Provider Tax	598,544	635,473	658,889	692,014	477,616	-
1% Gross Premium Tax	85,965	94,148	90,815	91,957	94,862	97,584
Provider and Premium Tax Refunds	(14,627)	(22,087)	(16,389)	(17,654)	(18,573)	(330)
MinnesotaCare Enrollee Premiums	29,994	36,003	33,490	32,950	32,582	32,883
Investment Income	5,149	7,766	7,930	7,000	6,930	3,790
MinnesotaCare: Federal Basic Health Program ¹ [Non-Add]	[334,004]	[348,688]	[396,576]	[421,106]	[436,557]	[452,996]
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	785,701	817,233	604,383	144,893
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	1,498,665	1,510,328	1,215,801	732,149
Uses						
Expenditures:						
MinnesotaCare: Direct Appropriation	114,843	11,501	19,983	22,476	24,566	26,744
MinnesotaCare: Federal Basic Health Program Expenditures [Non-Add]	[334,004]	[348,688]	[396,576]	[421,106]	[436,557]	[452,996]
MinnesotaCare: Federal Medicaid Waiver ² [Non-Add]	[1,004]	-	-	-	-	-
MinnesotaCare: State Share of Enrollee Premiums	30,059	36,088	33,490	32,950	32,582	32,883
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	36,502	36,106	36,106	36,106
Department of Health ³	33,496	37,214	40,535	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	345	348	366	-
Total Expenditures	801,573	365,728	520,233	571,020	493,455	535,954
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	855,570	906,110	628,545	671,044
Structural Balance	(177,587)	216,185	(69,869)	(88,877)	(24,162)	(526,151)
Balance	495,603	712,965	643,095	604,218	587,256	61,105

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 FY2018 figure includes funding carried forward from previous years