

# STATE OF KANSAS



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GOVERNOR JEFF COLYER, M.D.  
LARRY L. CAMPBELL, CHIEF BUDGET OFFICER

April 3, 2018

The Honorable Troy Waymaster, Chairperson  
House Committee on Appropriations  
Statehouse, Room 111-N  
Topeka, Kansas 66612

Dear Representative Waymaster:

SUBJECT: Fiscal Note for HB 2768 by House Committee on Appropriations

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2768 is respectfully submitted to your committee.

HB 2768 would expand Kansas Medicaid coverage to any adult under 65 years of age, who is not pregnant and whose income does not exceed 138.0 percent of the federal poverty level. The bill would impose a tax upon all cigarettes sold, distributed or given away within the State of Kansas. This would increase taxes on cigarettes from the current \$1.29 per pack of 20 to \$2.79 per pack of 20 and from \$1.61 per pack of 25 to \$3.49 per pack of 25. An inventory tax of \$1.50 per pack of 20 and \$1.88 per pack of 25 would be imposed on cigarettes on hand with each wholesale dealer, retail dealer and vending machine operator starting on July 1, 2018. Beginning July 1, 2018, the discount on cigarette tax stamps supplied to wholesale dealers would decrease from 0.55 percent to 0.25 percent. The amount of taxes attributed to the increase would be certified monthly and deposited in the newly created Medicaid Expansion Fund. This fund would be used only for purposes of expenditures for Medicaid expansion.

The Kansas Department of Health and Environment's (KDHE) analysis of enactment of HB 2768 accounted for both the costs associated with providing coverage to a larger number of beneficiaries, as well as the offsets provided through enhanced federal match rates for certain populations and increased revenue streams. The majority of the calculations are built on the assumption that 150,000 additional Kansans would be eligible for Medicaid coverage, if coverage is expanded. If that number changes, then every cost and offset would also change, except the cigarette revenue. For every 10,000 newly eligible members in excess of 150,000, there would be an incremental cost of \$4.9 million from the State General Fund.

Assuming an effective date of January 1, 2019, KDHE estimates a net savings for the state of \$80.5 million for FY 2019, and a net savings to the state of \$48.6 million for FY 2020. The

savings are a derivative of the cigarette tax; in the absence of the cigarette tax, there would be a net cost to the state. KDHE assumes that an additional 150,000 individuals would become eligible for Medicaid coverage upon enactment of the bill. The fiscal effect assumes six months of coverage for FY 2019, with a full 12 months of coverage for FY 2020. The Federal Medicaid Assistance Percentage rate for expansion populations is 93.0 percent for FY 2019 and reduces to 90.0 percent for FY 2020 and beyond. The state's share of the costs associated with providing coverage for this group is estimated at \$35.6 million for FY 2019 and \$102.9 million for FY 2020.

KDHE would also incur incremental administrative costs associated with expanding the program. KDHE estimates that the agency would require an additional 115.00 FTE positions. The cost of the current Medicaid support contracts would also increase. The net increase in administrative costs is estimated at \$22.9 million from all funding sources and \$5.7 million from the State General Fund for FY 2019 and \$37.2 million from all funding sources and \$9.3 million from the State General Fund for FY 2020.

KDHE assumes an increase in drug rebates from the expansion population, totaling \$2.2 million in FY 2019 and \$4.4 million in FY 2020. The Managed Care Organization Privilege Fee of 5.77 percent would also be applied to the expansion population, creating additional revenues for the state. KDHE estimates the increased revenue to be \$29.3 million in FY 2019 and \$59.0 million in FY 2020.

A portion of the currently covered Medicaid population would become eligible for enhanced federal matching under the bill, which would provide cost savings to the state. KDHE estimates the savings for this population to be \$14.4 million for FY 2019 and \$26.4 million for FY 2020.

The Kansas Department of Revenue (KDOR) estimates an increase in cigarette tax revenue generating \$76.0 million in FY 2019 and \$71.1 million in FY 2020. The Kansas Department of Revenue estimates that the administrative effect on agency expenditures with the enactment of HB 2768 would total \$13,704. Costs include updating forms, publications, agency filing systems, the agency's website and providing notifications to taxpayers for FY 2018.

**Additional Cigarette Tax Revenue**

FY 2019	\$75,960,000
FY 2020	\$71,050,000
FY 2021	\$69,350,000
FY 2022	\$67,680,000
FY 2023	\$66,060,000

The table below depicts a summary of the estimated additional revenues and expenditures associated with HB 2768. Any fiscal effect associated with HB 2768 is not reflected in *The FY 2019 Governor's Budget Report*.

**Estimated Cost/Savings for Kansas Medicaid Expansion**  
*Assumes a 1/1/2019 Effective Date*

	<u>FY 2019</u>	<u>FY 2020</u>
Medicaid Expansion		
Expansion Newly Eligibles	\$ 75,000	\$ 150,000
FMAP Rate for Expansion Population	93.0%	90.0%
 Cost of Medicaid Expansion		
Federal Funds	\$ 472,698,177	\$ 926,335,945
State Funds	<u>35,579,433</u>	<u>102,926,216</u>
Total Cost of Medicaid Expansion	\$ 508,277,610	\$ 1,029,262,161
 Incremental Administrative Costs		
Federal Share Incremental Administrative Costs	\$ 17,169,099	\$ 27,889,302
State Share Incremental Administrative Costs	<u>5,723,033</u>	<u>9,296,434</u>
Total Incremental Administrative Costs	\$ 22,892,132	\$ 37,185,736
 Additional Revenues		
Drug Rebate Increases	\$ (2,160,769)	\$ (4,429,576)
MCO Privilege Fee (5.77%) Increase to SGF	(29,327,618)	(59,021,831)
HB 2768 Cigarette Tax Revenue	<u>(75,960,000)</u>	<u>(71,050,000)</u>
Total additional revenues	\$ (107,448,387)	\$ (134,501,407)
 Net Cost/(Savings) from State Funds for Newly Eligibles	\$ (66,145,921)	\$ (22,278,757)
 State Funds Savings from Moving Current Members to Expansion Group		
Medically Needy / Spend Down	\$ (5,426,023)	\$ (9,761,487)
MediKan	(3,002,718)	(5,749,885)
Eligible Inmate Population	(500,000)	(1,000,000)
Pregnant Women	(2,776,239)	(4,994,490)
SSI Disabled	<u>(2,693,384)</u>	<u>(4,845,433)</u>
Current Member savings	\$ (14,398,364)	\$ (26,351,294)
 <b>Net Cost/(Savings) for the State</b>	<b>\$ (80,544,285)</b>	<b>\$ (48,630,051)</b>

Sincerely,



Larry L. Campbell  
 Chief Budget Officer

cc: Dan Thimmesch, Health & Environment  
 Lynn Robinson, Department of Revenue