LEGISLATIVE SERVICES AGENCY

OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7497 **NOTE PREPARED:** Feb 3, 2005
BILL NUMBER: HB 1440 **BILL AMENDED:**

SUBJECT: Medicaid Coverage of Pregnant Women and Children.

FIRST AUTHOR: Rep. Brown T **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
DEDICATED
X FEDERAL

Summary of Legislation: This bill requires the Office of Medicaid Policy and Planning to apply for a State Medicaid Plan amendment that would provide: (1) certain medical coverage for pregnant women who have been residents of Indiana for at least 12 months; and (2) health care services for children living in Indiana who are less than 13 years of age; regardless of their family income. The bill increases the corporate income tax rate to fund the additional coverage. The bill also provides for a refund of the amount set aside for Medicaid if the federal government does not approve the plan amendment.

Effective Date: July 1, 2005; January 1, 2006.

Summary of Net State Impact: If the required waiver is implemented, the provisions of this bill are estimated to have a net General Fund impact of approximately $398.8 M in FY 2006 and $407.5 M in FY 2007 in increased expenditures. If the waiver is not implemented, the net General Fund impact is approximately $59.25 M in FY 2006 and $39.3 M in FY 2007 in decreased revenue.

Explanation of State Expenditures: The bill would require the Office of Medicaid Policy and Planning to apply for a waiver to extend Medicaid coverage to pregnant women and children under the age of 13 without regard to family income. A gross estimate of the cost of this provision is $1,108.7 B; requiring $421.3 M in additional state funding and $687.4M in federal funding in the first year. Indiana Medicaid expenditures were reported to grow by 9.5% in FY 2003 and 8% in FY 2004. If the estimate for the expenditures from the state General Fund for these purposes is inflated by 8%, the increased waiver population would require $455.0 M in the second year. This estimate uses projected capitated costs for managed care projected for FY 2006. No savings offset is included for the removal of these insureds from the state employees' health insurance plans, nor is any increase in provider payment factored into the estimate.

The bill provides that the Office may not implement the waiver until it has been approved by the U.S. Department of Health and Human Services. If the State Budget Agency determines the waiver has not been approved, funds collected from the corporate tax on adjusted gross income and set aside for the Medicaid account must be refunded to each corporation having any tax liability in proportion to the total tax liability of all corporations with taxable years ending in that year. Refunds would consist of the 10.52 % of the Adjusted Gross Income Tax imposed on corporations: more than is collected under the provisions of the bill. (See *Explanation of State Revenues*.)

The State Plan amendment and waiver application processes are not without opportunity costs. Waiver applications and State Plan amendments are developed and submitted by the existing staff in OMPP. Amendments and applications must be developed and adequately justified. If CMS has questions or requests additional information, staff must be available to respond within specified time lines or requests are considered expired. If the amendments or waivers are subsequently approved, OMPP must implement the reimbursement for services, or changes to services, and fulfill waiver reporting requirements, including the critical fiscal neutrality reports. OMPP is now operating eight waivers.

Department of State Revenue (DOR): In the event the waiver would not be approved, each year, the DOR would incur an undetermined level of cost associated with the issuance of refunds for an unknown number of returns. (In tax year 2001, approximately 21,600 corporate returns were filed.)

Explanation of State Revenues: This bill increases the corporate income tax rate by 1%, to 9.5% of adjusted gross income. The increase in the corporate tax rate is estimated to raise additional revenue of $22.5 M in FY 2006 and $47.5 M in FY 2007. The bill further allocates 10.52% of all revenue derived from the Corporate Adjusted Gross Income Tax imposed on corporations for the purpose of providing the state matching share of the cost of providing Medicaid services for all pregnant women and all children under 13 years of age. The amount allocated to Medicaid from the corporate income tax and placed into the special account is estimated to be $81.75 M in FY 2006 and $86.8M in FY 2007.

Each year, the State Budget Agency is to make a determination as to whether the waiver has been approved. If the waiver is not approved, funds in the special account that were designated for Medicaid from the Corporate Adjusted Gross Income Tax must be refunded to each corporation having any tax liability in proportion to the total tax liability of all corporations with taxable years ending in that year. Since the amount designated for Medicaid and refunded are more than the increased collections, this provision would have a net General Fund impact of $59.25 M in FY 2006 and $39.3M in FY 2007.

Explanation of Local Expenditures: The removal of all pregnancy-related insurance coverage and that of children under the age of 13 years should result in some cost savings for local governmental units and school corporations.

Explanation of Local Revenues:

State Agencies Affected: Office of Medicaid Policy and Planning, Family and Social Services Administration; Department of State Revenue.

Local Agencies Affected: Local Units of Government; Schools.

Information Sources:

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