

Colorado Legislative Council Staff Fiscal Note
**STATE and STATUTORY PUBLIC ENTITY
 FISCAL IMPACT**

Drafting Number: LLS 13-0790 Prime Sponsor(s): Rep. McCann Sen. Steadman	Date: March 20, 2013 Bill Status: House Health, Insurance and Environment Fiscal Analyst: Bill Zepernick (303-866-4777)
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TITLE: CONCERNING FUNDING MECHANISMS FOR THE COLORADO HEALTH BENEFIT EXCHANGE.

Fiscal Impact Summary	FY 2013-2014	FY 2014-2015
State Revenue		
General Fund	(\$2.5 million)	(\$5.0 million)
State Expenditures		
FTE Position Change		
Effective Date: August 7, 2013, if the General Assembly adjourns on May 8, 2013, as scheduled, and no referendum petition is filed.		
Appropriation Summary for FY 2013-2014: None required.		
Statutory Public Entity Impact: See Statutory Public Entity Impact section below.		
Local Government Impact: None.		

Summary of Legislation

The bill creates two funding mechanisms to support the operations of the Colorado Health Benefit Exchange (health exchange), including:

- a fee assessed on health insurers operating in the individual and small group markets; and
- a premium tax credit to encourage contributions to the health exchange from insurance carriers.

Insurance assessment. The health exchange board of directors may assess a fee on small group and individual market health insurance carriers beginning on January 1, 2014. The fee is limited to \$1.80 per month per health benefit plan on carriers in the individual market and per month per policyholder on carriers in the small group market. The commissioner of insurance is required to promulgate rules for the collection and assessment of the fee on carriers.

Premium tax credit. The bill creates a tax credit against the premium tax owed by insurance carriers make a contribution of funds to the health exchange. The tax credit is not capped and may be claimed by a carrier against its quarterly premium tax payment beginning in the 2014 tax year. To claim the credit, a carrier must follow the rules promulgated by the Commissioner of Insurance and complete the specified process for becoming a qualified taxpayer.

Background

The Colorado Health Benefit Exchange was created by Senate Bill 11-200 to act as a state-based health insurance exchange under the federal Patient Protection and Affordable Care Act (federal health care reform). The health exchange is a market place for consumers to shop for and purchase health insurance, and is scheduled to begin operation in October 2013, with policies sold taking effect on January 1, 2014. Persons purchasing health insurance through the exchange may qualify for federal subsidies if their income is between 133 and 400 percent of the federal poverty level and they meet certain other requirements. The exchange is currently supported by federal grants and under federal law is required to be self-sufficient in funding its operations by 2015.

CoverColorado offers health insurance to individuals with preexisting conditions who are unable to qualify for health insurance in the private market. Under federal health care reform, health insurers must provide coverage to all persons applying for coverage regardless of any preexisting condition. Thus, CoverColorado will no longer be required to provide insurance to high-risk persons and will be repealed if House Bill 13-1115 becomes law. The tax credits and fees on health insurance carriers established in this bill are similar, but not exactly the same, as the those for CoverColorado which would be repealed under House Bill 13-1115.

State Revenue

The bill is expected to decrease General Fund revenue by about \$2.5 million in FY 2013-14 and \$5.0 million in FY 2014-15. This amount is based on the current amount of premium tax credits claimed annually by insurance carriers for contributions to CoverColorado under an expiring tax credit. However, the exact amount of tax credits claimed under the bill may differ from this amount for two reasons, as discussed below.

First, the existing CoverColorado tax credit is capped at \$5.0 million per year, claimed by carriers on a first-come, first-served basis. The premium tax credit in this bill is not capped, so the amount of tax credit claimed could be higher than under the current CoverColorado tax credit, which would result in a greater reduction in General Fund revenue per year. Currently, about 7 out of 800 carriers claim the CoverColorado tax credit. It is unknown how many more carriers will file and for what amount compared to the capped tax credit for CoverColorado.

On the other hand, insurance carriers may not have the same incentive to contribute to the health exchange as they previously did for CoverColorado. CoverColorado acted as an insurer of last resort for the industry and insured the most costly patients with preexisting conditions, whereas not all insurance carriers may participate in the exchange and may not view supporting the exchange to be in their interest. For this reason, the tax credit claimed amount could be lower than the amount claimed under the expiring CoverColorado tax credit, which could limit the annual reduction in General Fund revenue. Without additional information, the fiscal note uses the CoverColorado tax credit as the best available estimate of tax credits under the bill.

State Expenditures

The bill increases workload in the Department of Regulatory Agencies by a small amount beginning in FY 2013-14. Staff in the Division of Insurance will be required to promulgate rules about the premium tax credit and fee assessment on carriers. Also, creating a premium tax credit without a cap may increase the workload to process applications for carriers to become qualified taxpayers and claim the credit. Currently, only 7 carriers apply for the credit on average. If a significant number of the other 800 carriers in the Colorado filed to claim the credit, the division may require an additional 0.4 FTE. However, the fiscal note assumes a similar number of insurance carriers will file as under the expiring CoverColorado credit and any increase can be handled within existing appropriations.

Statutory Public Entity Impact

The bill increases revenue to the Colorado Health Benefit Exchange by approximately \$4.7 million in FY 2013-14 and \$9.4 million in FY 2014-15. This revenue is from contributions from insurance carriers claiming the premium tax credit and from fees assessed on health insurance carriers as summarized in Table 1 below. Ongoing operating expenses for the health exchange are estimated to be \$26 million per year. In addition to revenue generated by this bill, the health exchange anticipates revenue from fees on policies sold through the exchange and grants from private foundations.

Table 1. Revenue to the Colorado Health Benefit Exchange Under HB 13-1245		
Cost Components	FY 2013-14*	FY 2014-15
Assessment on Health Insurance Carriers		
Individual market (170,000 policies)	\$1,836,000	\$3,672,000
Small group market (34,000 groups)	367,000	734,400
Contributions under Premium Tax Credit	2,500,000	5,000,000
TOTAL	\$4,703,000	\$9,406,400

* Totals for FY 2013-14 reflect 6 months of revenue beginning on January 1, 2014.

Departments Contacted

Regulatory Agencies
Revenue

Health Care Policy and Financing
Governor

Law