



**Colorado
Legislative
Council
Staff**

Bill 2

FISCAL NOTE

FISCAL IMPACT: State Local Statutory Public Entity Conditional No Fiscal Impact

Drafting Number: LLS 16-0286
Prime Sponsor(s):

Date: October 23, 2015
Bill Status: Colorado Health insurance Exchange Oversight Committee Bill Request
Fiscal Analyst: Bill Zepernick (303-866-4777)

BILL TOPIC: FEDERAL WAIVER EMPLOYER-SPONSORED HEALTH INSURANCE

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018	FY 2018-2019
State Revenue	\$0	\$0	\$0
<i>State Diversions</i>			
General Fund	(106,644)	(218,382)	(103,085)
Cash Funds	106,644	218,382	103,085
State Expenditures	\$185,720	\$258,678	\$103,085
General Fund	65,892	33,332	0
Cash Funds	89,993	197,700	89,367
Centrally Appropriated Costs	29,835	27,646	13,718
FTE Position Change	2.2 FTE	2.0 FTE	1.0 FTE
Appropriation Required: \$ 155,885 - Multiple Agencies (FY 2016-17)			
Future Year Impacts: Ongoing increase in state expenditures and diversion of General Fund.			

Summary of Legislation

The bill, **requested by the Colorado Health Insurance Exchange Oversight Committee**, requires the Commissioner of Insurance in the Department of Regulatory Agencies (DORA) to apply for a waiver to the requirement of the federal Patient Protection and Affordable Care Act (PPACA) that mandates that certain employers offer health insurance coverage to their employees. In lieu of employer-sponsored health coverage, the waiver will allow employers to make a monetary contribution on behalf of their employees so that they can purchase health coverage for themselves on the Colorado health benefit exchange (known as Connect for Health Colorado).

The Commissioner of Insurance is required to develop a health insurance shared responsibility program through which employers of any size may opt to participate and provide a contribution for their employees to purchase health insurance. Participating large employers following the waiver program guidelines will not be subject to fines under the federal PPACA for failure to provide health coverage. The Department of Health Care Policy and Financing (HCPF) is required to assist in the development of the waiver and establishment of the program.

State Revenue

While the bill does not affect net revenue to the state, it does result in an ongoing diversion of General Fund revenue beginning in FY 2016-17, as discussed below.

State Diversions. This bill diverts \$106,644 from the General Fund in FY 2016-17, \$218,382 in FY 2017-18, and \$103,085 in FY 2018-19 and future fiscal years. These revenue diversions occur because the bill increases costs in the Division of Insurance in DORA, which is funded with premium tax revenue that would otherwise be credited to the General Fund.

State Expenditures

The bill increases costs in DORA and HCPF by a total of **\$185,720 and 2.2 FTE in FY 2016-17 and \$258,678 and 2.0 FTE in FY 2017-18.** Ongoing costs will be **\$103,085 and 1.0 FTE in FY 2018-19 and future years.** These costs are summarized in Table 1 and discussed below. Costs in DORA are paid from the Division of Insurance Cash Fund; costs in HCPF are paid from the General Fund. A significant portion of costs in FY 2017-18 and all costs in future years are conditional upon federal approval of the waiver to the employer mandate.

Table 1. Expenditures Under LLS 16-0286			
Cost Components	FY 2016-17	FY 2017-18	FY 2018-19
Department of Regulatory Agencies	<u>\$106,644</u>	<u>\$218,382</u>	<u>\$103,085</u>
Personal Services	\$81,798	\$96,275	\$63,417
FTE	1.2 FTE	1.5 FTE	1.0 FTE
Operating Expenses and Capital Outlay Costs	8,195	1,425	950
Information Technology Costs	0	100,000	25,000
Centrally Appropriated Costs*	16,651	20,682	13,718
Department of Health Care Policy and Financing	<u>\$79,076</u>	<u>\$40,296</u>	<u>\$0</u>
Personal Services	60,239	32,857	0
FTE	1.0 FTE	0.5 FTE	0
Operating Expenses and Capital Outlay Costs	5,653	475	0
Centrally Appropriated Costs*	13,184	6,964	0
TOTAL	<u>\$185,720</u>	<u>\$258,678</u>	<u>\$103,085</u>

* Centrally appropriated costs are not included in the bill's appropriation.

Assumptions. The fiscal note makes the following assumptions:

- DORA and HCPF will begin preparing the waiver application in July 2016 and the waiver will be submitted by January 2017;
- a federal decision on the waiver application will be given by January 2018; and
- the program will be developed and operational by September 2018, in time for the open enrollment for calendar year 2019.

Waiver application process. The fiscal note estimates that 1.2 FTE in DORA and 1.0 FTE in HCPF in FY 2016-17 will be required to develop the waiver application and work with the federal government throughout the application process. For DORA, this staff will conduct policy, rate, and actuarial analysis; staff in HCPF will provide expertise in navigating the waiver application process and ensure that the employer mandate waiver program aligns with the Medicaid program requirements and other aspects of PPACA. The waiver application process will continue into FY 2017-18, which accounts for 0.7 FTE in DORA and 0.5 FTE in HCPF in the second year.

Program development and operations. Assuming federal approval of the waiver is received, staff in DORA will be required to develop rules and operating guidelines for the program. This work will require 0.8 FTE in FY 2017-18 and 1.0 FTE in future years. Staff will regularly interact with Connect for Health Colorado, health insurers, and participating employers to ensure that employer contributions are sufficient, processed correctly, and in compliance with waiver requirements. Staff will also be required to certify participation in the program by large employers so that they are not fined for failure to provide insurance coverage directly to employees.

Information technology costs. DORA will have costs of \$100,000 in FY 2017-18 to develop a computer system to track participating employers, employer contributions, and other program details. Ongoing maintenance and development of the system will cost an estimated \$25,000 per year. This system will likely be required to interact with computer systems at Connect for Health Colorado to ensure that funds are available and properly credited to employees. These information technology cost estimates are preliminary and may be revised if new or additional information is received.

Operating expenses and capital outlay costs. Based on the staffing levels discussed above, DORA and HCPF will have standard operating expenses and capital outlay costs as shown in Table 1. Ongoing costs are contingent upon federal approval of the waiver.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 2.

Table 2. Centrally Appropriated Costs Under LLS 16-0286			
Cost Components	FY 2016-17	FY 2017-18	FY 2018-19
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$17,681	\$16,075	\$8,035
Supplemental Employee Retirement Payments	12,154	11,571	5,683
TOTAL	\$29,835	\$27,646	\$13,718

Statutory Public Entity Impact

If federal waiver approval is received, Connect for Health Colorado will have increased costs beginning in FY 2017-18. Under the bill, Connect for Health Colorado will be required to raise additional fee revenue to implement the requirements of the bill if federal approval is granted. These costs and fee impacts are discussed below.

Information technology costs. If the federal waiver is approved, Connect for Health Colorado will have costs to develop new information technology systems to receive, track, and distribute employer contributions made on behalf of employees, and properly use these funds to make payments to health insurers when employees purchase health coverage on the exchange. These costs are estimated to be about \$3.0 million, including project management, business analyst, and programming costs. Based on the assumed implementation schedule described in the State Expenditures section, this work will be conducted and costs incurred during FY 2017-18 and FY 2018-19.

Fee impact on consumers. Connect for Health Colorado will be required to raise its fees on policies sold through the exchange in FY 2017-18 if federal approval is given and the employer contribution program is implemented. Assuming all required fee revenue is raised during FY 2017-18 and 150,000 policies are sold through the exchange, each policy will need to be assessed an annual fee of \$20, on average, to generate the required \$3.0 million in revenue to cover the costs of the bill.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

The bill requires the following appropriations for FY 2016-17:

- \$89,993 from the Division of Insurance Cash Fund and an allocation of 1.2 FTE to DORA; and
- \$65,892 General Fund and an allocation of 1.0 FTE to HCPF.

State and Local Government Contacts

Regulatory Agencies
Law
Health Benefit Exchange

Health Care Policy and Financing
Office of Information Technology