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Memorandum

January 18, 2007

To: Senator Jack Hatch

From: Kerri Johannsen

Re: Affordable Health Care for Small Business and Families Bill

Description

This memo discusses the fiscal impact of the provisions in the proposed Affordable Health Care for Small Business and Families Bill (LSB 1043XS 8.3). The estimates were derived solely by the LSA without input from the affected State Departments. Fiscal estimates are subject to change as provisions in the Bill change or the Departments clarify specific fiscal impacts. The Bill establishes the Health Care Improvement Fund and makes appropriations from that fund. The Bill increases the Cigarette and Tobacco Tax and deposits the additional revenue into the Health Care Improvement Fund.

The FY 2007 fiscal impact of this Bill is estimated to be an increase in State expenditures of \$340,000 and an increase in county expenditures of \$68,000. The fiscal impact of this Bill is estimated to be an increase in FY 2008 State expenditures of \$55.7 million and an increase in county expenditures of \$2.9 million. The increased revenue from the cigarette and tobacco tax is estimated to be \$134.0 million and is deposited into the Health Care Improvement Fund.

The Bill appropriates a total of \$55.7 million from the Health Care Improvement Fund. Unless otherwise noted, all appropriations mentioned in this memo are made from this Fund.

Fiscal Impacts

Commission on Affordable Health Care

The Bill establishes a Commission on Affordable Health Care, composed of legislators, consumers and providers.

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The Commission is charged with reviewing and analyzing possible reforms to improve health care affordability. The Bill also establishes a Health Care Data Advisory Board made up of representatives from various medical education institutions.

The Bill appropriates \$500,000 to the Commission for carrying out the duties of the Commission and the Health Care Data Advisory Board.

Medicaid Expansion

The Bill expands Medicaid to parents with incomes up to 50.0% of the Federal Poverty Level (FPL), currently \$40,000 per year for a family of four. An estimated 6,141 parents would become eligible. The average cost for adults in Medicaid is \$3,817 per year. The total cost of covering this group would be \$23.5 million. The State share of the Federal Medical Assistance Percentage (FMAP) for FY 2008 is 38.21%. The total State cost would be an estimated \$9.0 million.

Hospital Reimbursement Rate

The Bill specifies that Medicaid is to reimburse hospitals at the Medicare rate starting in FY 2008 and going forward. The Iowa Hospital Association estimates that the cost would be \$20.0 million in State funds in FY 2008.

IowaCare

The Bill provides for the coverage of drugs under the IowaCare Program. Data provided by Broadlawns and the University of Iowa indicate that each will spend an estimated \$1.0 million to provide drugs to IowaCare patients in FY 2007. If a similar amount is spent in FY 2008 and drugs are covered in the Program, Iowa will be responsible for only the State share of the expenditures. The cost will be an estimated \$800,000.

The Bill also specifies that IowaCare clients with incomes below 100.0% of the FPL shall not pay premiums to the IowaCare Program. Approximately \$1.0 million in premiums was collected in FY 2006. Iowa keeps only the State share of this amount. This change will result in a loss to the State of premium income of an estimated \$382,000 in FY 2008.

The Department of Human Services (DHS) is directed in the Bill to aggressively pursue expanding the IowaCare provider network. Additional funds may be necessary to provide State matching funds to accomplish this, although the potential fiscal impact cannot be determined at this time.

Dental Home for Children

The Bill outlines a plan to establish a dental home for all children in the Medicaid Program. The plan includes:

- The purchase of portable dental equipment to provide dental care in non-traditional settings.
 - The Bill appropriates \$3.1 million to the DHS for this purpose.
- Increase Child Health Agencies' capacity to track children's dental health information.

- The Bill appropriates \$210,000 to the DHS for this purpose.
- Providing increased family education on children's oral health through Area Education Agencies.
 - The Bill appropriates \$1.0 million to the DHS for this purpose.
- Providing increased children's oral health education to providers.
 - The Bill appropriates \$120,000 to the DHS for this purpose.
- Contracting with a provider through the RFP process to provide dental care to all Medicaid children.
 - Currently, the DHS pays a rate of \$18.40 per child per month for dental coverage under *hawk-i* with Delta Dental. An estimated 1,888,560 months of services were covered by Medicaid in FY 2006. If children's enrollment in Medicaid for FY 2008 is 3.0% higher than FY 2006, 1,945,217 months will be covered in FY 2008. Delta Dental estimates an administrative need of \$1.8 million. Based on these assumptions, the total cost of providing care to all Medicaid children through Delta Dental would be an estimated \$37.6 million for FY 2008.
 - In FY 2006, the State paid \$11.7 million for dental coverage of children in Medicaid. Since Medicaid children would now be covered by the provider that DHS contracts with, this amount would not be spent in FY 2008, resulting in a net cost of \$25.9 million.
 - The State share of the FY 2008 cost would be an estimated \$9.9 million.
- Developing reimbursements under Medicaid for provision of fluoride applications and oral exams by non-dental providers and increasing existing reimbursements for these services. The I-Smile proposal documents include an estimated cost of \$3.5 million for this provision. The State share would be an estimated \$1.35 million. However, this is the total cost of providing fluoride applications and oral exams to Medicaid children, not just the increase over current spending. The actual necessary funding increase is likely to be less, but cannot be determined at this time.
- Reinstating periodontal services for adults in Medicaid.
 - The Department of Human Services estimated that this would cost \$276,000 for FY 2007. The Bill appropriates \$276,000 to the DHS for this purpose.
- Working with rural hospitals to develop dental clinics.
- Partnering with Special Supplemental Nutrition Program for Women Infants and Children (WIC) Agencies, Head Start, Migrant and Community Health Centers, local Boards of Health, Head Start Programs; preschools; and schools to provide oral health support to families.
- Establishing a dental hygienist as lead oral health care coordinator at all Maternal and Child Health Agencies, WIC Clinics, local Boards of Health, Head Start Programs, preschools and schools.
- Establishing a dentist recruitment initiative consisting of:
 - A Forgivable Loan Program targeted at dental students who agree to practice in an underserved area for a set amount of time.

- A Rural Community Loan Repayment Program targeted at dental students who agree to practice in an underserved rural community willing to provide matching funds for the loan.
- A Dentist Recruitment Revolving Fund within the State Treasury to allow for administration of loan funding.
- Establishing a dental hygienist recruitment initiative consisting of:
 - A Forgivable Loan Program targeted at dental hygiene students who agree to practice in an underserved area for a set amount of time.
 - A Rural Community Loan Repayment Program targeted at dental hygienists who agree to serve in an underserved rural community that is willing to provide matching funds for the loan.
 - A Dental Hygienist Recruitment Revolving Fund within the State Treasury to allow for administration of loan funding.
- The Bill appropriates \$275,000 to the College Student Aid Commission to fund the forgivable loan programs.
- The Bill appropriates \$275,000 to the DHS to fund the loan repayment programs.

Prescription Drug Retail Price Disclosure

The Bill specifies that the Department of Public Health (DPH) is to create and administer a searchable prescription drug retail price database via an internet site that will be accessible to the public. The Board of Public Health is required to compile a list annually of the 150 most commonly prescribed drugs and their most common dosages and to make the list available to all pharmacies in the State in both paper and electronic formats. All pharmacies are required to provide information on their usual and customary retail price for each drug on the list to the DPH on a weekly basis. Pharmacies are also required to post a notice that the information is available directly from them upon request.

The Bill appropriates \$500,000 to the DPH in FY 2008 for this purpose.

Personal Needs Allowance

The Bill requires the Department of Human Services to increase the personal needs allowance retained by all residents of institutions to \$50 per month. House File 2734 (FY 2007 Health and Human Services Appropriations Act) raised the personal needs allowance for residents of nursing facilities. This provision would apply this same increase to Intermediate Care Facilities for the Mentally Retarded (ICF/MRs), Intermediate Care Facilities for persons with Mental Illness (ICF/MIs) and Psychiatric Medical Institutions for Children (PMICS). The Centers for Medicare and Medicaid Services (CMS) are requiring that the personal needs allowance for residents of all facilities be increased as a prerequisite to their approval of the increase for nursing facility residents. The Bill specifies that this provision is retroactive to July 1, 2006.

According to the DHS, this increase would cost an estimated \$340,000 in State funds and \$68,000 in county funds in FY 2007.

Residential Property Tax Rates for Assisted Living Facilities

The Bill would classify assisted living facilities as residential property, with the effect that these facilities would be taxed at a lower rate than the commercial rate they currently pay. The Bill specifies that this provision is retroactive to July 1, 2007.

In FY 2006, the Iowa State Association of Counties (ISAC) estimated a total valuation of \$160.8 million for assisted living properties in the State. Taxed commercially, this valuation would result in property tax revenues of an estimated \$5.4 million in FY 2008. The residential rollback specifies that residential property is to be taxed on 45.9956% of its valuation for FY 2008. Allowing assisted living facilities to take advantage of the residential rollback would result in property tax revenues of \$2.5 million. The total fiscal impact of this change would be a \$2.9 million reduction in county property tax revenues.

Home and Community-Based Services (HCBS) Waiver Waiting Lists

The Bill appropriates \$1.5 million to reduce waiting lists for the HCBS Medicaid Waivers. The number of Waiver slots that can be purchased with this funding depends upon how it is distributed across the various Waivers.

Uncompensated Care Reporting

The Bill requires hospitals to collect the employment information of uninsured persons receiving care at a facility and to report this data in a compiled format to the DHS on an annual basis beginning January 1, 2008. The Bill also requires the DHS to collect the employment information of Medicaid and IowaCare applicants and parents applying for *hawk-i* for their children. The specific employment information to be collected is as follows:

- The individual's employer(s).
- Whether employment is full-time or part-time.
- Number of hours worked per week.
- If not employed, the health care recipient must identify the employer of any person responsible for providing support to him or her.

The DHS is required to report to the Legislature and Governor annually by January 15, beginning in 2008. The Bill specifies that the DHS is to include in the report all employers that have 25 or more employees receiving uncompensated care or applying for State health care benefits as identified in the reports above. The following specific information is to be included:

- Employer's name.
- Employer's location.
- Number of employees or employees' dependents who are applying for or receiving State-sponsored or uncompensated health care services.
 - Number in category above working full time.
 - Number in category above working part time.
 - Average number of hours worked by employees in category above per week.

- Total cost incurred by the State to provide services to individuals identified in the various reports.

There would very likely be costs to the DHS in the form of FTEs to implement this reporting. However, the cost cannot be determined at this time.

Safety Net Providers

The Bill requires the Iowa Collaborative Safety Net Provider Network to develop a pharmaceutical infrastructure for safety net providers, including:

- Identifying the most effective drug therapies.
- Creating a list of affordable pharmaceuticals.
- Purchasing pharmaceuticals for patients.
- Identifying therapies for an expanded list of pharmaceuticals.
- Identifying most appropriate therapies to provide patients through manufacturer assistance programs.
- Educating safety net patients, providers and pharmacists on findings.
- Identification of a pharmacy benefits manager.
- Expanding use of collaborative practice agreements between medical providers and pharmacists to most effectively utilize their expertise.
- The Bill appropriates \$1.0 million to the DPH for Pharmaceutical Infrastructure for Safety Net Providers.

The Bill requires the Iowa Collaborative Safety Net Provider Network to implement specialty care pilot projects in three Iowa communities that are underserved in the area of specialty care. This provision specifies that the projects are to include partnerships between hospitals, specialists, primary care providers, human services providers and community partners. The Bill also requires the projects to have an evaluation component in order to collect data to be used to further develop specialty care in underserved areas of the State.

- The Bill appropriates \$1.0 million to the DPH for the implementation of the three specialty care pilot projects.

The Bill appropriates \$500,000 to the DPH to develop, in conjunction with the Iowa Collaborative Safety Net Provider Network, a statewide recruitment program for primary care providers.

The Bill appropriates \$75,000 to the DPH for data collection by the Iowa Collaborative Safety Net Provider Network focusing on providing safety net patients with a medical home. The Bill also appropriates the following amounts to the DPH to be distributed as specified for infrastructure, statewide coordination, provider

recruitment, service delivery, and provision of assistance to patients in obtaining a medical home:

- Rural Health Clinics: \$150,000
- Free Clinics: \$250,000 of which \$50,000 is required to be used to establish a statewide association for free clinics.
- Maternal and Child Health Centers: \$100,000.
- Local Boards of Health: \$100,000.
- Family Planning Council of Iowa Agencies: \$100,000.
- Iowa-Nebraska Primary Care Association: \$100,000.

Community Health Centers

The Bill provides an appropriation of \$650,000 to the DPH to continue funding of the Community Health Centers Incubation Grant Program.

Children's Healthy Development Initiative

The Bill appropriates \$1.5 million to the Department of Education (DOE) to expand the federally-created early ACCESS Program and to provide incentives for collaboration with health care practitioners.

The Bill appropriates \$250,000 to the School Ready Children's Grants Account of the Iowa Empowerment Fund within the Department of Education for grants to local Empowerment Boards to establish local resources to address healthy child development needs.

The Bill appropriates \$750,000 to the DPH to continue existing pilot projects and begin to expand the healthy mental development initiative.

Health Care Provider Access

The Bill allows health care providers to deduct from their income taxes the difference between the Medicaid, *hawk-i* or Medicare reimbursement rate and the actual cost of providing the service. The Bill also allows health care providers to deduct the actual cost of uncompensated care, provided that documentation shows that the provider's income is reduced by 10.0% or more due to uncompensated care.

This provision is expected to have a significant fiscal impact, though the exact cost cannot be determined at this time.

Cigarette Tax

The Bill authorizes a cigarette tax increase of \$1.00 per pack of cigarettes, bringing to the total tax to \$1.36 per pack, a 278.0% increase. The Bill also authorizes an increase in taxes on other tobacco products from 22.0% to 55.0% - a 150.0% increase. The LSA estimates that the total tobacco tax increase would generate an

additional \$134.0 million.

Summary

See attached.

Fiscal Impact Summary: Affordable Health Care for Small Business and Families Bill

Expenditures - State	FY 2008
Interim Commission Appropriation	\$500,000
Department of Human Services	
Hospital Reimbursement; Medicaid Expansion;	
IowaCare Drug Coverage;	\$30,100,200
Expanding IowaCare Network	N/A
Mobile Dental Equipment	\$3,179,430
Dental Home Database	\$210,000
Public Education for Dental Home	\$1,044,855
Provider Training for Dental Home	\$120,000
Dental Home for Children	\$9,900,000
Oral Health Screenings	\$1,350,000
Periodontal Coverage in Medicaid	\$276,000
Dental Revolving Loan Programs	\$275,000
Reporting of Employment Status	N/A
Reduce HCBS Waiver Waiting Lists	\$1,500,000
Total Department of Human Services	\$47,955,485
College Student Aid Commission	
Dental Revolving Loan Programs	\$275,000
Department of Public Health	
Retail Drug Price Disclosure	\$500,000
Pharmaceutical Infrastructure: Safety Net Providers	\$1,000,000
Specialty Care Pilots: Safety Net Providers	\$1,000,000
Provider Recruitment Program	\$500,000
Data Collection: Medical Home	\$75,000
Rural Health Clinics: Medical Home	\$150,000
Free Clinics: Medical Home	\$250,000
Maternal and Child Health Centers: Medical Home	\$100,000
Local Boards of Health: Medical Home	\$100,000
Iowa-Nebraska Primary Care Association	\$100,000
Community Health Center Incubator Grants	\$650,000
Healthy Mental Development Initiative	\$750,000
Total DPH	\$5,175,000
Department of Education	
ACCESS	\$1,500,000
Empowerment Grants	\$250,000
Total Education	\$1,750,000
Department of Revenue	
Tax Deductions for Uncompensated Care	N/A
Total State Expenditures	\$55,655,485
Revenues	
	FY 2008
\$1.00 Per Pack Tobacco Tax Increase	\$134,000,000
Total Revenues	\$134,000,000
Net Impact	
Total Revenues	\$134,000,000
Total Expenditures	\$55,655,485
Net General Fund Impact	\$78,344,515

*Several Provisions of the Bill have an unknown fiscal impact. More information will be provided as it is received.