

Health Care Access Fund

February 2018 Forecast Update

PURPOSE OF FUND The health care access fund (HCAF) was created to increase access to health care, contain health care costs, and improve the quality of health care services for Minnesotans.

PRIMARY REVENUE SOURCES Revenues to the fund come from a two percent tax on providers, which will sunset on December 31, 2019; a one percent gross premium tax; MinnesotaCare enrollee premiums; investment income earned on the balance of the fund; and federal match on administrative costs. Federal Basic Health Program (BHP) funding supports health coverage through MinnesotaCare. The BHP is a provision of the Affordable Care Act and is expected to pay \$818 million for MinnesotaCare coverage in FY 2018-19.

PRIMARY EXPENDITURES AND USES Historically, the provision of subsidized health care through MinnesotaCare has been the primary expenditure in the HCAF. After reductions in the cost of the program over recent years, MinnesotaCare is now expected to be 6.2 percent of HCAF spending in FY 2018-19.

program. This program is designed to stabilize premiums on the individual insurance market. In addition, \$244 million per biennium is statutorily transferred to the General Fund. Other expenditures in the fund support health care access, quality improvement initiatives, and administration.

FORECAST AND FUND BALANCE CHANGES The HCAF is projected to have a balance of \$604 million in FY 2019 and \$61 million in FY 2021. The balance of the fund has decreased in each biennium compared to the November 2017 forecast. This change is the result of lower tax revenues and higher state spending for MinnesotaCare.

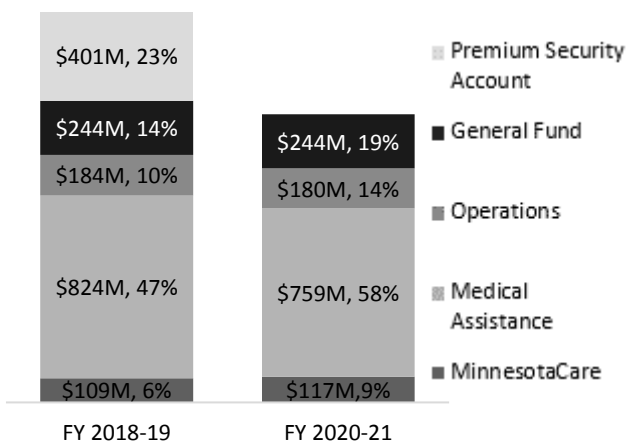
Tax Revenues Much of the change in the fund balance is the result of lower provider tax forecast. Lower than expected collections in calendar year 2017 decrease forecast provider tax revenues by \$5 million (0.4 percent) in FY 2018-2019 and \$12 million (2.5 percent) in FY 2020-21.

A pending lawsuit between Walgreens Specialty Pharmacy (WSP) and the Commissioner of Revenue represents an outstanding risk to HCAF revenues. WSP argues that the Department of Revenue misapplied statute and seeks a refund of \$14 million. The case is currently under appeal. The Department of Revenue estimated that if similarly-situated taxpayers successfully brought refund claims, the total exposure could exceed \$147 million. No impacts from this lawsuit are reflected in this forecast.

MinnesotaCare MinnesotaCare provides health coverage to adults in households with income between 138 and 200 percent of the federal poverty guidelines. MinnesotaCare is expected to cover approximately 82,000 enrollees in FY 2019. Of these, the costs for about 79,000 are covered by payments from the federal government. The remaining 3,000 are primarily elderly individuals who do not qualify for Medicare.

The state cost of MinnesotaCare increased by \$1 million (3.4 percent) in FY 2018-19 and \$5 million (9.5 percent) in FY 2020-21 compared to November 2017 estimates.

Health Care Access Fund Uses



Medical Assistance (MA) is forecast to make up 46.8 percent of spending in FY 2018-19. The portion of MA funded within the HCAF is determined by the legislature and offsets General Fund spending for the program. In FY 2018-19, the HCAF funds 7.6 percent of MA.

In FY 2018-19, the legislature transferred \$401 million from the fund to the Premium Security Account to fund a state-based reinsurance

HEALTH CARE ACCESS FUND OUTLOOK The provider tax sunsets on December 31, 2019. Following the sunset, the HCAF will have a structural deficit of more than \$500 million per year. Remaining revenues will not be sufficient to support existing expenditure levels beyond FY 2021.

BASIC HEALTH PROGRAM TRUST FUND The Basic Health Program Trust Fund is an account in the state’s federal fund. Federal BHP payments are deposited in the account and used to fund eligible MinnesotaCare expenses. BHP revenues vary based on a number of factors, including individual market premiums, enrollment, and the age and geographic distribution of program participants.

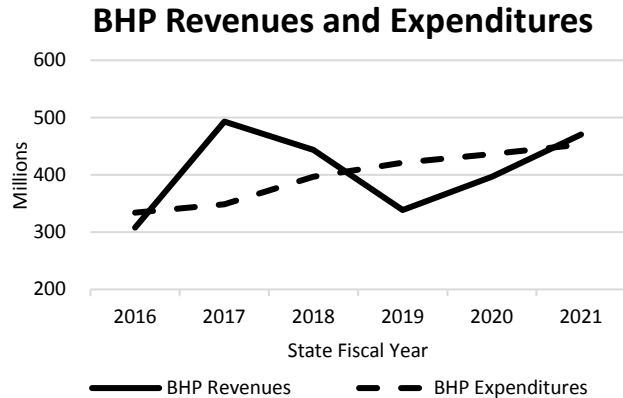
The following table illustrates changes in forecast revenues and expenditures in the BHP Trust Fund from the November 2017 forecast.

| Basic Health Program Trust Fund | | |
|--|------------|-----------|
| Change in Fund Balance | | |
| (\$ in millions) | FY | FY |
| | 2018-19 | 2020-21 |
| November 2017 Balance | 82 | 98 |
| Change in Revenues | (95) | (220) |
| Change in Expenditures | (121) | (181) |
| February 2018 Balance | 108 | 86 |

Anticipated revenues by are \$95 million lower than previous estimates in FY 2018-19 and \$220 million in FY 2020-21 due to lower MinnesotaCare enrollment. Expenditures are lower than previous estimates by \$121 million in FY 2018-19 and \$181 million in FY 2020-21. Of this change, \$146 million in FY 2018-19 and \$205 million in FY 2020-21 is due to lower enrollment. In addition, recent data indicates the cost of MinnesotaCare coverage is slightly more expensive than previously estimated, which increases forecast BHP expenditures by \$25 million in FY 2018-19 and \$23 million in FY 2020-21.

The BHP Trust Fund is projected to have a surplus in each year of the forecast period. The size of the surplus fluctuates based upon the volatility of program revenues. This volatility is primarily the result of two factors.

The chart below illustrates program revenues and expenditures by state fiscal year.



In October 2017, the federal government ceased making payments for cost-sharing reduction subsidies, a component of the formula driving Minnesota’s BHP payments. The forecast reflects these payments ceasing half way through FY 2018, causing revenues to fall each year from FY 2017 to FY 2019.

In addition, the operation of a state-based reinsurance program also reduces anticipated BHP payments. By lowering premiums on the individual market, the value of subsidies someone would be eligible for declines, thus reducing BHP funding. Minnesota requested that BHP payment calculations exclude premium reductions due to the reinsurance program. The federal government denied that request.

The reinsurance program is assumed to lower insurances rates in calendar years 2018 and 2019, which will impact three state fiscal years. During this time frame, BHP expenditures will exceed revenues, and the program will spend down the surplus. Following the end of the reinsurance program, individual market premiums are forecast to increase, which will cause BHP revenues to again exceed expenditures.

Health Care Access Fund

February 2018

| Sources | Actual FY 16 | Actual FY 17 | Projected FY 18 | Projected FY 19 | Projected FY 20 | Projected FY 21 |
|--|------------------|------------------|--------------------|--------------------|--------------------|--------------------|
| Balance Forward from Prior Year | 662,387 | 495,604 | 712,964 | 643,095 | 604,218 | 587,256 |
| Prior Year Adjustments | 10,803 | 1,176 | - | - | - | - |
| Adjusted balance forward | 673,191 | 496,780 | 712,964 | 643,095 | 604,218 | 587,256 |
| Revenues: | | | | | | |
| 2% Provider Tax | 598,544 | 635,473 | 658,889 | 692,014 | 477,616 | - |
| 1% Gross Premium Tax | 85,965 | 94,148 | 90,815 | 91,957 | 94,862 | 97,584 |
| Provider and Premium Tax Refunds | (14,627) | (22,087) | (16,389) | (17,654) | (18,573) | (330) |
| MinnesotaCare Enrollee Premiums | 29,994 | 36,003 | 33,490 | 32,950 | 32,582 | 32,883 |
| Investment Income | 5,149 | 7,766 | 7,930 | 7,000 | 6,930 | 3,790 |
| MinnesotaCare: Federal Basic Health Program ¹ [Non-Add] | [334,004] | [348,688] | [396,576] | [421,106] | [436,557] | [452,996] |
| MinnesotaCare: Federal Medicaid Waiver ² [Non-Add] | [1,004] | - | - | - | - | - |
| MinnesotaCare: State Share of Other Dedicated Revenues | - | 52 | - | - | - | - |
| Federal Match on Administrative Costs | 12,648 | 10,966 | 10,966 | 10,966 | 10,966 | 10,966 |
| Total Revenues | 717,672 | 762,322 | 785,701 | 817,233 | 604,383 | 144,893 |
| Transfers In: | | | | | | |
| General Fund: Laws of MN 2015, Ch. 71, Chronic Disease Spending Report | - | - | - | 50,000 | - | - |
| General Fund: Laws of MN 2017, Special Session, Ch. 1 | - | - | - | - | 7,200 | - |
| Total Sources | 1,390,863 | 1,259,101 | 1,498,665 | 1,510,328 | 1,215,801 | 732,149 |
| Uses | | | | | | |
| Expenditures: | | | | | | |
| MinnesotaCare: Direct Appropriation | 114,843 | 11,501 | 19,983 | 22,476 | 24,566 | 26,744 |
| MinnesotaCare: Federal Basic Health Program Expenditures[Non-Add] | [334,004] | [348,688] | [396,576] | [421,106] | [436,557] | [452,996] |
| MinnesotaCare: Federal Medicaid Waiver ² [Non-Add] | [1,004] | - | - | - | - | - |
| MinnesotaCare: State Share of Enrollee Premiums | 30,059 | 36,088 | 33,490 | 32,950 | 32,582 | 32,883 |
| MinnesotaCare: State Share of Other Dedicated Revenues | - | 52 | - | - | - | - |
| Medical Assistance | 588,188 | 240,720 | 385,159 | 438,848 | 358,943 | 399,929 |
| Department of Human Services | 30,734 | 35,451 | 36,502 | 36,106 | 36,106 | 36,106 |
| Department of Health ³ | 33,496 | 37,214 | 40,535 | 36,258 | 36,858 | 36,258 |
| University of Minnesota | 2,157 | 2,157 | 2,157 | 2,157 | 2,157 | 2,157 |
| Legislature ³ | 67 | 68 | 313 | 128 | 128 | 128 |
| Department of Revenue | 1,597 | 1,901 | 1,749 | 1,749 | 1,749 | 1,749 |
| Interest on Tax Refunds | 432 | 576 | 345 | 348 | 366 | - |
| Total Expenditures | 801,572 | 365,729 | 520,232.89 | 571,020.02 | 493,454.80 | 535,954 |
| Transfers Out: | | | | | | |
| To General Fund | | | | | | |
| Medical Assistance: M.S. 16A.724 Subd 2(a) | 48,000 | 122,000 | 122,000 | 122,000 | 122,000 | 122,000 |
| 2013 MA Expansion: Laws of MN 2013 Ch 1 | 30,841 | 44,113 | - | - | - | - |
| Legislature Carryforward Account: M.S. 16A.055 | 127 | - | - | - | - | - |
| Total General Fund Transfers | 78,968 | 166,113 | 122,000 | 122,000 | 122,000 | 122,000 |
| Special Revenue Fund: DHS Systems and Other | 14,219 | 14,295 | 12,587 | 13,090 | 13,090 | 13,090 |
| International Med Revolving Loans: M.S. 144.1911 Subd 6 | 500 | - | - | - | - | - |
| Premium Security Plan Account | - | - | 200,750 | 200,000 | - | - |
| Total Transfers Out | 93,687 | 180,408 | 335,337 | 335,090 | 135,090 | 135,090 |
| Total Uses | 895,259 | 546,137 | 855,570 | 906,110 | 628,545 | 671,044 |
| Structural Balance | (177,587) | 216,185 | (69,869) | (88,877) | (24,162) | (526,151) |
| Balance | 495,604 | 712,964 | 643,095 | 604,218 | 587,256 | 61,105 |

¹ For services beginning January 1, 2015, federal funding for MinnesotaCare is received through the Basic Health Program and is deposited in a Trust Fund within the state's Federal Fund for use for eligible expenditures.

² Amounts represent federal match on MinnesotaCare expenditures, which is accounted for in the state's Federal Fund.

³ FY 2018 figure includes funding carried forward from previous years.

