

Department of Planning and Budget

2014 Fiscal Impact Statement

1. Bill Number: HB292

House of Origin	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
Second House	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

2. Patron: Sickles, M.D.

3. Committee: Commerce and Labor

4. Title: Virginia Health Benefit Exchange.

5. Summary: Creates the Virginia Health Benefit Exchange, which will be established and operated by a new division within the State Corporation Commission (SCC). The Exchange shall facilitate the purchase and sale of qualified health and dental plans to qualified individuals and employers by January 1, 2016, unless the SCC determines postponement is necessary, and may be funded by assessments on health insurers. The SCC is authorized to review and approve accident and sickness insurance premium rates applicable to health benefit plans in the individual and small group markets and health benefit plans providing health insurance coverage in the individual market through certain non-employer group plans as well as certify Navigators. A health plan will not be required to cover any state-mandated health benefit if federal law does not require it to be covered as part of the essential benefits package. The essential health benefits are items and services included in the benchmark health insurance plan, which is the largest plan in the largest product in the Commonwealth's small group market as supplemented in order to provide coverage for the items and services within the statutory essential health benefits categories. The bill authorizes the SCC to contract with other eligible entities and enter into memoranda of understanding with other agencies of the Commonwealth to carry out any of the functions of the Exchange, including agreements with other states or federal agencies to perform joint administrative functions. Such contracts are not subject to the Virginia Public Procurement Act (§ 2.2-4300 et seq.).

6. Budget Amendment Necessary: Yes. See Item 8.

7. Fiscal Impact Estimates: Fiscal impact estimates are indeterminate. See Item 8.

8. Fiscal Implications: The fiscal impact of this bill is indeterminate; however, a study prepared in March of 2012 by Price Waterhouse Coopers for the Virginia Health Reform Initiative estimated the annual operating cost of a Virginia state exchange to range from \$24.6 million to \$39.9 million based on an estimated enrollment of 408,000. The bill authorizes operations of the established Virginia Health Benefit Exchange to be funded through several sources: (i) special fund revenues generated by assessment fees on all health carriers, including carriers offering plans through the Exchange and outside the Exchange, (ii)

federal funds or grants from nongovernmental organizations, or (iii) such funds as the General Assembly may from time to time appropriate.

Although the cost of implementing and maintaining a health benefit exchange are uncertain, implementation costs are expected to be substantial and a budget amendment will be necessary to facilitate the development and implementation of an exchange before any revenue from fees assessed to health carriers is available. The State Corporation Commission estimates its responsibilities to administer the exchange will cost approximately \$11 million per year, exclusive of information technology services. In addition to this expense, the Secretary of Health and Human Resources (HHR) and the Department of Medical Assistance Services estimate information technology development costs of approximately \$40 million over a two year period with \$4.3 million in annual maintenance costs for its role in providing information technology infrastructure for the exchange required by the bill.

The bill prohibits the SCC from using any special fund revenues dedicated to its other functions and duties to fund activities or operating expenses of the Exchange. Therefore, a budget amendment appropriating general fund dollars for this purpose will likely be necessary to provide the SCC with initial funding to implement the provisions of this bill until such a time that stable sources of funding are available to operate the Exchange, which may include fees assessed on health carriers and any available grants. The federal government provides grants for the costs of developing and implementing state exchanges. Therefore, the estimated \$40 million development cost for information technology services provided by HHR is expected to be funded with federal grants. If this is the case, federal funds will need to be appropriated for this purpose as well.

State Corporation Commission:

This bill creates a division within the State Corporation Commission (SCC) to establish and administer the Virginia Health Benefit Exchange to facilitate the purchase and sale of qualified health and dental plans to qualified individuals and employers within the Commonwealth pursuant to the requirements of the Patient Protection and Affordable Care Act (PPACA). The State Corporation Commission estimates its annual administrative costs to be approximately \$11 million, exclusive of the costs of the technological services the bill requires HHR to provide. These costs are expected to be supported by fees charged to health carriers; however, the SCC reports that it will initially need general fund appropriation to fund its initial establishment of the exchange prior to its receipt of such fees. Currently, the bill does not establish that any such general fund amounts expended for the exchange be refunded following the collection of assessed fees. The bill also authorizes the Secretary of Health and Human Resources to bill the Commission for the technological services it provides for the exchange.

Included in the SCC's estimated \$11 million annual administrative expenses not related to technological services is approximately \$7.6 million for 76 additional positions. The remainder includes funding for supplies, equipment, and office space needed to accommodate the additional staff. This estimate is based on staffing requirements estimated within the

Price Waterhouse Coopers report and uses the high range of the report's estimated staffing level needs.

As introduced, the 2014 budget bills HB29 and HB30 provide the SCC with \$1.2 million from the general fund each year to fund the SCC's existing plan management functions related to the Federal Health Benefit Exchange in items 476.10 and 476, respectively. The budget bill also provides that the SCC reimburse the general fund for those funds that have been reimbursed by the U.S. Department of Health and Human Services for plan management activities. A budget amendment will be needed to appropriate additional funds necessary for the SCC to develop and implement the state exchange and the language will need to be adapted to allow such funds to be spent for the purposes of the state as opposed to the federal health benefit exchange.

Secretary of Health and Human Resources:

This bill provides that the Secretary of Health and Human Resources shall provide the infrastructural development, implementation, and support of the technological systems necessary for the exchange and bill the SCC for such services. Staff within the Office of the Secretary of Health and Human Resources (HHR) and the Department of Medical Assistance Services involved with the HHR eligibility modernization efforts provided information for this fiscal impact statement. The initial costs to develop and implement these technological services are estimated to be approximately \$40.0 million over a two year period, exclusive of the SCC's estimated \$11 million in annual administrative expenses discussed above. This estimate is based on a proposal from an outside vendor for an exchange system. The one-time vendor costs are estimated at \$28.6 million. Based on the experience with the HHR eligibility modernization project, state implementation costs (project management, etc.) are estimated at \$11.4 million. These estimates are based on contracting with a vendor; however, if the exchange is hosted by the Virginia Information Technologies Agency, the costs could be higher or lower. These estimates also assume the existing Federal Health Insurance Marketplace Account Transfer interface will be used for the exchange, providing continuity as the state moves from the federal to a state exchange.

Some or all of the estimated \$40.0 million in implementation costs may be funded with federal Exchange Establishment grants through the Centers for Medicare and Medicaid Services. Currently, the last deadline to apply for establishment grants is November 14, 2014, and the awarded funds must be used within 24 months of approval. To the degree that federal funds do not fully cover implementation costs, state funding would be necessary. A budget amendment in Item 304 would be necessary to facilitate development and implementation of the technological services provided by HHR.

Additionally, the annual costs of maintenance and support for the technological services provided by HHR for the exchange is estimated at \$4.3 million per year, which is based on industry standards. It is assumed that the fees generated by the SCC through the exchange would cover the annual maintenance costs of the system and the bill provides that HHR bill the SCC for such services.

Virginia Department of Health

The Virginia Department of Health (VDH) is also expected to continue its current role in plan management that involves providing certificates of quality assurance, which are required for health plans to be considered qualified health plans eligible to participate in the federal or state exchange. As introduced, HB30 provides a total of \$190,050 from the general fund to VDH in fiscal years 2015 and 2016 for its existing plan management functions related to the Federal Health Benefit Exchange in Item 288. The agency reports this amount is sufficient to support its role in the state exchange resulting from the bill. However, the item's language would need to be adapted to refer to the state as opposed to the federal exchange.

- 9. Specific Agency or Political Subdivisions Affected:** State Corporation Commission; Secretary of Health and Human Resources; Virginia Department of Health; Department of Medical Assistance Services.

- 10. Technical Amendment Necessary:** No.

- 11. Other Comments:** This bill is similar to SB45.

Date: 2/3/2014

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