

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL MEMORANDUM

SB 326 – HB 369

May 4, 2011

**SUMMARY OF AMENDMENTS (004383, 004429, 004818, 007597):** Deletes the language of the original bill. Requires Tennessee to join a health care compact with other states to retain regulatory authority over health care in member states. Requires member states to seek the consent of Congress to this compact. Consent would authorize states to enact laws that supersede all federal laws regarding health care within member states. Permits member states to receive federal funding for health care, unconditioned on any action or policy by the member states. The funding would be based on the actual federal spending on health care in the member state during federal fiscal year 2010, adjusted for population changes in the state and inflation. Creates an Interstate Advisory Health Care Commission empowered to study health care regulatory issues and to make nonbinding recommendations to the legislatures of the member states. Requires the Tennessee portion of the funding for the Commission to be earmarked from federal funds received by the state for administrative costs. Authorizes the state to decline participation in the Commission. Prohibits the Commission from taking any actions within a member state that contravene any laws of that state. Subjects the Health Care Compact to sunset review and schedules the Compact to terminate on June 30, 2013.

CORRECTED FISCAL IMPACT OF ORIGINAL BILL:

Increase State Expenditures - \$52,000/FY12-13 and Subsequent Years

Increase Federal Expenditures - \$1,232,742,500/FY12-13 and Subsequent Years

Other Fiscal Impact – Beginning in FY12-13, the state will take over the administration of and benefits provided through the Medicare program reflecting a total shift to Tennessee of approximately \$11,505,596,700 in federal funds. Of this amount, \$10,272,854,200 is for services currently provided to Tennessee citizens and \$1,232,742,500 is for administrative costs currently incurred by the federal government that will be redirected to Tennessee for administrative purposes (shown as Increased Federal Expenditures above). This shift will not change the total amount of federal funds being spent on the program. The total amount of services and covered benefits that enrollees are receiving will remain unchanged. The program will remain 100 percent federally funded.

## **FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:**

### **Increase Federal Expenditures – \$1,232,742,500/FY12-13 and Subsequent Years**

**Other Fiscal Impact – Beginning in FY12-13, the state will take over the administration of and benefits provided through the Medicare program reflecting a total shift to Tennessee of approximately \$11,505,596,700 in federal funds. Of this amount, \$10,272,854,200 is for services currently provided to Tennessee citizens, and \$1,232,742,500 is for administrative costs currently incurred by the federal government that will be redirected to Tennessee for administrative purposes (shown as Increased Federal Expenditures above). Of the amount provided for administrative costs, \$52,000 will be earmarked for funding of the Interstate Advisory Health Care Commission. Administrative services will be reduced by \$52,000 from the amount currently provided by the federal government. Covered benefits that enrollees receive will remain unchanged. Medicare will remain 100 percent federally funded.**

Assumptions applied to amendments:

- The effective date of the Compact is the latter of the date it is adopted by the member state or the date the Compact receives the consent of Congress after at least two states have adopted the Compact. It is assumed that adoption of the compact by member states and consent by Congress will take at least a year, therefore, the estimated fiscal impact will begin in FY12-13.
- The bill requires federal and state law regarding health care to remain in effect unless a member state expressly invokes its authority under the compact. Member states would receive federal funds at a level adequate to cover the current federal expenditures on health care in each state, adjusted for population growth and inflation.
- The CoverKids program will continue to provide the same level of services and benefits to the same number of Children’s Health Insurance Program (CHIP) enrollees and receive the same amount of federal funding.
- The Bureau of TennCare will continue to provide the same level of services and benefits to the same number of Medicaid enrollees and receive the same federal funding.
- The Bureau will take over administration of Medicare from the federal government. There were approximately 1,031,204 Medicare enrollees in the state in calendar year 2010.
- The per capita costs of Medicare services are estimated to be \$9,962. The cost for the state to provide benefits under the Medicare program will be \$10,272,854,248 (1,031,204 enrollees x \$9,962). The Medicare program will continue to be 100 percent federally funded.
- It is assumed that an additional 12 percent ( $\$9,962 \times 12\% = \$1,195.44$ ) per enrollee will be for administrative costs to contract with a third-party administrator to administer the claims and payments and for state infrastructure to pay for the costs of enrollment, cost-sharing collections, notices, appeals, and other administrative functions. The amount of

administrative federal funds currently incurred by the federal government that will be shifted to the state will be \$1,232,742,509 (1,031,204 enrollees x \$1,195.44).

- Member states are required to fund the Interstate Advisory Health Care Commission. Tennessee's share will depend on the number of states that join the compact and as the member states agree. It is assumed that the cost of hiring staff, consultants, holding meetings, performing research, collecting information and data, office space, travel, etc., will be at least \$1,000,000. While the number of member states is unknown, it is estimated that 20 states will join the compact. Tennessee's proportional share of the cost will be \$50,000 (\$1,000,000 / 20 states).
- The Commission will meet at least once per year and each state can appoint two members. Each meeting will last at least two days at an estimated cost of \$500 per day for travel costs which includes flights, hotels, and meals resulting in an increase in expenditures of \$2,000 (2 members x \$500 per day x 2 days).
- Funding of \$52,000 for the Commission will be deducted from federal administrative funds resulting in a reduction in administrative services of this amount. There will be no increase in federal administrative funding for this cost. No state funds will be allocated for this cost.
- The total additional cost for the state to take administrative and program control of the Medicare program and fund the Interstate Advisory Health Care Commission will be \$11,505,596,757 (\$1,232,742,509 + \$10,272,854,248).
- Any member state may withdraw from the health care compact by adopting a law to that effect, provided that six months has passed after the Governor of the withdrawing member state has given notice of the withdrawal to the other member states.
- A withdrawing member state will be held liable for any obligations incurred prior to the effective date of the withdrawal.
- The Compact will be renewed after sunset review. Sunset review will not result in a significant fiscal impact to the state.

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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