



07 - 0782

ISSUE BRIEF

Health Care Access Fund (HCAF) Transfer Issues

June 4, 2004

As the 2004 legislative session came to close without a supplemental budget agreement in place, the Governor began to examine options for addressing the projected \$160 million budget deficit for the FY 2004-05 biennium. One of the options selected was to reduce an anticipated one-time transfer of \$114.6 million to just \$4.6 million from the General Fund to the Health Care Access Fund (HCAF). This action realigned \$110 million within the General Fund for immediate, alternative uses. However, while the reduced transfer helps with the state's immediate need for General Fund, the resulting void in the HCAF has repercussions for the FY 2006-2007 biennium.

A number of questions have been asked about the HCAF, the origin of the \$114.6 million transfer, the Governor's authority to adjust the transfer, and the impact on the HCAF. The following summary provides background on these issues.

Question 1. What is the Health Care Access Fund (HCAF)? How are HCAF moneys used?

The Health Care Access Fund (HCAF) is one of the state's 32 special revenue funds. Specifically, the HCAF receives its revenues from 1) provider taxes (including hospitals, surgical centers and other health care providers), 2) premiums on behalf of MinnesotaCare enrollees and, 3) to a lesser extent, other funds. This self-supporting fund, established in 1992 and currently governed by Minnesota Statutes 2002, Chapters 16A.724 and 295.50-295.59, was created to help manage the MinnesotaCare program, the program to provide low-cost health care to Minnesotans (MinnesotaCare) and to promote certain activities related to health care access through five state agencies and the University of Minnesota. Detail of these uses can be found in the table included in the response to question 4.

Question 2. What is the origin of the anticipated FY 2004 transfer of \$114.6 million into the HCAF?

The origin of this funding is the federal Jobs and Growth Tax Relief Reconciliation Act of 2003. The federal Act provided states with fiscal relief in the form of Flexible Grants and FMAP Grants (for health care). FMAP (federal medical assistance percentage) Grants were distributed through state medical programs using a temporary increase in the federal matching component. Minnesota's share of this increased funding was projected to total \$197.5 million over 15 months, of which \$189.6 million would pay for state-funded activities and \$7.9 million for county and school district expenditures. The FMAP

increase spanned five fiscal quarters with \$34.6 million received during the last weeks of FY 2003 and \$155 million received in FY 2004.

The presence of these federal funds eased the pressure for certain budget reductions to take place in the FY 2004-2005 biennium. However, when these new federal funds and their maintenance of effort (MOE) requirements were combined with the cost savings decisions of the 2003 legislative session, state appropriation adjustments were made to maintain federal compliance. Cost savings implementation dates for four budget-decision items were delayed one year, from FY 2004 to FY 2005, and payment shifts for three budget items were delayed until FY 2006. After accounting for these changes, the total amount of FY 2004 FMAP funding was reduced to just under \$127 million.

Another legislative action mitigated by the presence of these federal moneys was the increase in the cap on outpatient services (from \$2,000 to \$5,000) for some MinnesotaCare adults without children, for fiscal years 2004-2007. An end of session cost estimate for this provision, covering the four-year period, was \$93.4 million. However, this amount was soon updated in the November 2003 Forecast to be \$121.5 million. When added to other HCAF activities in FY 2004, the amount projected as a general fund transfer was \$114.6 million.

Question 3. The transfer of \$114.6 million in FY 2004 to the HCAF has been published in Minnesota's two most recent budget forecasts. How can the Governor change this transfer now?

The 2003 Health and Human Services Budget Act (Laws of 2003, First Special Session, Chapter 14, Article 13C, Section 2, Subdivision 1) the paragraph entitled, "Federal Contingency Appropriation" gives guidance to the commissioners of human services and finance on reporting the availability of these federal funds to the Legislative Advisory Committee. Regarding the moneys available for the increase in the cap on outpatient services, the act further states, "Funds may be transferred from the general fund to the health care access fund as necessary to implement this provision." While the budget forecast showed that the transfer of \$114.6 million from the general fund to the health care access fund occurring in FY 2004, the transfer had not yet been implemented.

Question 4. How does the absence of \$110 million in moneys transferred impact the HCAF?

The changes in HCAF revenues, expenditures and balances are best presented in table format. Please see the table at the end of this narrative.

Legislative actions during the 2003 Special Session anticipated two kinds of General Fund transfers involving the HCAF. The first transfer was the receipt of \$114.6 million in federal FMAP moneys from the General Fund into the HCAF, found on line 17. The second type of transfer was the end-of-year balance transfers from the HCAF to the general fund of \$192,442,000 in FY 2005, \$ 52,943,000 in FY 2006, and \$ 59,105,000 in FY 2007, found on line 36. The reduced transfer of \$4.6 million from the General Fund keeps the HCAF solvent in FY 2005, but the available balance is reduced, from \$135.9 million to \$23.7 million. The fund appears to operate in the red during FYs 2006 and 2007, with deficits of -\$7.9 million and -\$44.3 million respectively. However, because current law allows only the transfer of *available* year-end funds to the General Fund, only \$45.2 million in FY 2006 and \$22.8 million in FY 2007 can be transferred to the General Fund instead of the projected \$52.9 million in FY 2006 and \$59.1

million in FY 2007. Thus, by the end of FY 2007, there will be a zero balance in HCAF and receipts in the General Fund will be \$44.3 million lower than expected.

Health Care Access Fund - FY 2004-2007

Sources/Expenditures	All Numbers in Thousands							
	February 2004 Forecast				Feb 2004 Forecast + Gov's Actions			
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2004	FY 2005	FY 2006	FY 2007
Estimated Resources								
Balance Forward from prior year	177,224	268,047	135,930	107,689	177,224	158,047	23,686	(7,922)
Revenues								
2% Provider Tax	261,423	360,609	389,635	424,097	261,423	360,609	389,635	424,097
1% Gross Premium Tax	21,932	61,017	65,127	69,188	21,932	61,017	65,127	69,188
State share MnCare enrollee prem	25,542	28,501	37,862	39,461	25,542	28,501	37,862	39,461
State share of prescription rebates	0	2,987	6,110	6,208	0	2,987	6,110	6,208
Investment Income	1,972	4,049	3,510	2,757	1,972	1,805	143	0
Federal match on admin costs	4,080	3,008	3,008	3,008	4,080	3,008	3,008	3,008
Revenue-funds	(12,000)	(9,000)	(9,500)	(10,000)	(12,000)	(9,000)	(9,500)	(10,000)
Total Revenues	302,949	451,171	495,752	534,719	302,949	448,927	492,385	531,962
Transfers In:								
GF: cost of incrs cap \$2000 to \$5000 ¹	114,600	0	0	0	4,600	0	0	0
Total Resources Available	594,774	719,218	631,682	642,408	484,774	606,974	516,071	524,040
Actual and Estimated Uses								
Expenditures:								
MinnesotaCare direct appropriation	253,370	281,938	346,645	379,823	253,370	281,938	346,645	379,823
State/Federal share of MnCare enrollee prem	25,542	28,501	37,862	39,461	25,542	28,501	37,862	39,461
State share of prescription rebates	0	2,987	6,110	6,208	0	2,987	6,110	6,208
Federal Medicaid and S-CHIP offsets	[163,257]	[171,963]	[98,853]	[101,235]	[163,257]	[171,963]	[98,853]	[101,235]
Department of Human Services	20,352	20,333	20,333	20,333	20,352	20,333	20,333	20,333
Interest on tax refunds	600	450	475	500	600	450	475	500
University of MN (TF out)	2,157	2,157	2,157	2,157	2,157	2,157	2,157	2,157
Department of Health	6,273	6,273	6,273	6,273	6,273	6,273	6,273	6,273
Board of Dentistry	64	64	0	0	64	64	0	0
Legislature	128	128	128	128	128	128	128	128
Department of Revenue	1,654	1,654	1,654	1,654	1,654	1,654	1,654	1,654
DOR payment of claims issue	0	39	0	0	0	39	0	0
Total Expenditures	310,140	344,524	421,637	456,537	310,140	344,524	421,637	456,537
Transfers out:								
Gen. Fund: Available balance transfer at end	0	192,442	52,943	59,105	0	192,442	52,943	59,105
General fund: Prov and gross prem tax expnsion	16,587	46,322	49,413	52,659	16,587	46,322	49,413	52,659
Total Transfers Out	16,587	238,764	102,356	111,764	16,587	238,764	102,356	111,764
TOTAL USES	326,727	583,288	523,993	568,301	326,727	583,288	523,993	568,301
Balance including reserves	268,047	135,930	107,689	74,107	158,047	23,686	(7,922)	(44,261)

Note 1: On May 13th and then on May 17th, 2004, the Governor gave notice that \$80 million and another \$30 million (respectively) in federal funding would not be transferred to the General Fund as originally planned.

Note 2: Only balances that are available at the end of FYs 2005, 2006 and 2007 can be transferred to the General Fund. Thus, any transfer that is less than the projected GF transfer amount contributes to a deficit in the General Fund.

Source: Minnesota Department of Finance, May 2004

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