

Ballot Proposition I-24-2020
Stop Surprise Billing and Protect Patients Act
Fiscal Analysis

Estimated Impact

A.R.S. § 19-123E requires the Joint Legislative Budget Committee Staff to prepare a summary of 300 words or less on the fiscal impact of voter-initiated ballot measures. Proposition ___ would expand the definition of surprise out-of-network bills, prohibit insurers from imposing any preexisting condition exclusions, increase the base wage for direct care workers at private hospitals by 5% each year for 4 years, and require private hospitals to meet national standards associated with hospital-acquired infections.

Wage increases for private hospital workers would likely increase private hospital labor costs. Since public hospitals are exempt from the wage increase requirement, there is no direct impact on state expenditures. State agencies, however, have third-party contracts to provide health care coverage, including private hospital services, to individuals enrolled in Medicaid or state employee health insurance. Private hospital labor cost increases could therefore indirectly result in cost increases for the state's third-party health coverage contracts. Any such increase would, however, be at the discretion of state government. The base wage rate increases could potentially increase the General Fund cost of the third-party health contracts by \$10 million in the first year and \$45 million in the fourth year.

Due to uncertainties in the calculation of the impacts, these specific estimates are speculative and subject to change.

Wage increases for hospital workers could increase state income and sales tax collections by an undetermined amount.

The proposition would also create a new fund to monitor hospital-acquired infections. The fund is projected to receive approximately \$180,000 in revenue in the first year.

Analysis

The proposition does not impose a direct impact on state agencies. However, the proposition may result in several indirect impacts.

Direct Care Hospital Worker Wage Increase

The proposition may have a fiscal impact on the state's low-income health program, the Arizona Health Care Cost Containment System (AHCCCS). AHCCCS contracts with health plans to provide services to qualifying residents. The federal government participates in the financing of this program, known as Medicaid. Federal law stipulates that Medicaid agencies must establish provider rates that are "consistent with efficiency, economy, and quality of care" and "sufficient to enlist enough providers so that care and services are available under the plan at least to the extent they are available to the general population in the geographic area." By extension, the federal government requires that Medicaid capitation rates be actuarially sound, which means that payments to Medicaid health plans must be sufficient to meet the access to care standards outlined above. Given these federal requirements, the state would usually have to increase its funding to cover the higher cost of health care.

To calculate the impact of a 5% wage increase in each of 4 years, we used Bureau of Labor Statistics (BLS) data regarding the labor composition of hospitals as well as the median hourly wage for different categories of workers.

(Continued)

According to BLS statistics, the hospital workforce in Arizona was 115,000 as of September 2019. Based on national BLS data, we estimate approximately 84% of the 115,000 could be classified as a direct health care worker and therefore eligible for a wage increase.

We applied a 5% increase to the current median wages of the applicable job classifications, which resulted in a total cost impact to all private hospitals of \$248.6 million in the first year of implementation. AHCCCS has traditionally represented approximately 18% of the state's hospital expenses. If that same percentage applies to any marginal wage increase, AHCCCS costs would increase by \$45.7 million in the first year. Based on projected federal match rates, the state would contribute \$11.2 million, with \$8.5 million from the state General Fund and \$2.7 million from other state funds such as the hospital assessment. Federal Funds would contribute the remaining \$34.5 million. In the fourth year of implementation, AHCCCS costs would rise to \$197.1 million above the current year, including \$36.7 million General Fund, \$11.6 million Other State Funds, and \$148.8 million Federal Funds.

The 5% wage increase would also affect the Arizona Department of Administration's (ADOA) Health Insurance Trust Fund (state employees' insurance plan). ADOA's state health plan represents approximately 2.3% of the state's hospital expenses. Using the same methodology above, ADOA costs would increase by \$5.7 million in the first year, including \$1.9 million from the state General Fund. In the fourth year, ADOA costs would rise to \$24.6 million above the current year, including \$8.1 million from the General Fund. Please see *Table 1* for projected out-year increases relative to the current year.

Table 1				
Potential Fiscal Impact of 5% Wage Increase (\$ in Millions)^{1/}				
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>
<u>AHCCCS</u>				
State				
<i>General Fund</i>	8.5	17.5	26.9	36.7
<i>Other</i>	<u>2.7</u>	<u>5.5</u>	<u>8.5</u>	<u>11.6</u>
Subtotal - State	11.2	23.0	35.3	48.3
Federal Funds	<u>34.5</u>	<u>70.8</u>	<u>108.9</u>	<u>148.8</u>
Total - AHCCCS	45.7	93.8	144.2	197.1
<u>ADOA</u>				
State				
<i>General Fund</i>	1.9	3.9	5.9	8.1
<i>Other</i>	<u>2.9</u>	<u>6.0</u>	<u>9.2</u>	<u>12.6</u>
Subtotal - State	4.8	9.8	15.1	20.7
Federal Funds	<u>0.9</u>	<u>1.9</u>	<u>2.9</u>	<u>3.9</u>
Total - ADOA	5.7	11.7	18.0	24.6
General Fund	10.4	21.3	32.8	44.9
Other State Funds	5.6	11.5	17.7	24.1
Federal Funds	35.4	72.7	111.7	152.8
Total Impact	\$ 51.4	\$ 105.5	\$ 162.3	\$ 221.7
^{1/} Numbers may not total due to rounding.				
^{2/} Estimates represent the cumulative annualized impact of each incremental 5% minimum wage increase required by the initiative. Given that the first 5% increase occurs upon the effective date of the initiative and the second increase occurs in January 1 st of the next calendar year, the first 5% increase would likely be implemented in December 2020 and the second 5% increase on January 1 st , 2021.				

(Continued)

AHCCCS has estimated that the initiative would cost \$15 million Total Funds in the first year before increasing to \$130 million Total Funds by the fourth year. ADOA has not yet provided an estimate of the cost of the proposition to its state health plan. Both AHCCCS' and our estimates are speculative in nature. For example, there is some uncertainty due to ambiguity regarding which occupation categories would be affected.

Tax Revenue Impacts

Increases in private hospital wages could also impact state tax collections, but the magnitude of such changes is unknown. Higher wages for hospital workers may generate increased individual income tax and sales tax collections to the General Fund from these individuals. Higher hospital labor costs may increase hospital charges to private health plans, potentially resulting in higher health insurance premiums. Insurance companies pay a premium tax to the General Fund based on their level of premiums. In contrast, increased health insurance premiums may reduce disposable income and result in corresponding individual income tax and sales tax collections reductions for workers.

Arbitration Proceedings

We anticipate that changes to arbitration proceedings could result in an impact to the Department of Insurance and Financial Institutions (DIFI), as the expansion of the surprise billing definition and the process change for dispute resolution would require update of health insurer policy documents and DIFI's online dispute resolution portal. DIFI states the change would result in an increased demand on DIFI staff and resources due to more policy form and rate filings by health insurers as well as an increase in the number of dispute resolution requests. DIFI, however, does not have an estimated dollar impact of these workload issues.

Hospital-Acquired Infections Regulations

Private hospitals would be required to pay a \$2,000 fee for DHS implementation of the Hospital-Acquired Infections Standard in the first year. Based on the number of private hospitals in the state, we approximate this would generate roughly \$180,000. The proposition permits DHS to update the fee in subsequent years based on the actual cost of administration.

Surprise Billing Changes

While the proposition redefines surprise out-of-network bills and imposes different requirements for the classification of such bills, the provision is not expected to result in a fiscal impact to either AHCCCS or the Health Insurance Trust Fund administered by ADOA. The proposition explicitly states the changes do not apply to the state's health insurance plan. Furthermore, federal requirements prevent AHCCCS from imposing cost-sharing requirements greater than 5% of an enrollee's income. As such, most AHCCCS enrollees pay little in out-of-pocket expenses under current law.

Pre-Existing Conditions Provisions

While the proposition precludes health insurers from imposing preexisting condition exclusions, this provision is not expected to generate additional health insurance costs for either AHCCCS or ADOA's Health Insurance Trust Fund. This provision is already mandated by the federal Affordable Care Act (ACA), and AHCCCS and ADOA both meet ACA requirements.

Local Government Impact

The base wage increase for direct care hospital workers would likely result in additional costs for local government insurance plans. In addition, any AHCCCS rate increase in the Arizona Long Term Care System would result in

(Continued)

additional county costs, as counties pay 50% of the annual growth of long-term care costs. Valleywise Health, a public health care system formerly known as Maricopa Integrated Health System, would not be directly subject to the health care provisions for its public hospital since the proposition's requirements regarding direct care worker wages and Hospital-Acquired Infection Control only apply to private hospitals.

8/6/20