



**Colorado  
Legislative  
Council  
Staff**

**Amendment 69**

**FISCAL IMPACT  
STATEMENT**

**Date:** September 1, 2016

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**BALLOT TITLE:** STATEWIDE HEALTH CARE SYSTEM

<b>Fiscal Impact Summary*</b>	<b>FY 2016-2017 (Current year)</b>	<b>FY 2017-2018</b>	<b>FY 2018-2019</b>	<b>FY 2019-2020</b>
<b>ColoradoCare Revenue</b>	<b>\$0</b>	<b>\$2.0 billion</b>	<b>\$2.0 billion</b>	<b>Up to \$36.2 billion</b>
Tax Revenue	0	2.0 billion	2.0 billion	25.0 billion
State/Federal Funds**	0	0	0	up to 11.2 billion
<b>ColoradoCare Expenditures</b>	<b>\$0</b>	<b>Up to \$2.0 billion</b>	<b>Up to \$2.0 billion</b>	<b>Up to \$36.2 billion</b>
<b>State Revenue</b>		Potential increase or decrease.		
General Fund		See State Revenue section.		
<b>State Expenditures</b>	<b>\$4,273,989</b>	<b>\$19,535,972</b>	<b>\$24,629,508</b>	<b>(\$147,298,523)</b>
General Fund	3,860,204	9,344,305	12,060,108	(55,333,562)
Cash Funds	0	4,534,825	4,761,566	(44,471,187)
Federal Funds	126,532	5,162,160	7,157,040	(47,764,333)
Centrally Approp. Costs	287,253	494,682	650,794	270,559
<b>FTE Position Change</b>	<b>22.2 FTE</b>	<b>38.3 FTE</b>	<b>51.3 FTE</b>	<b>51.3 FTE</b>

\* Revenue and expenditure impacts for the state government and for ColoradoCare are shown separately.

\*\* State and federal funds transferred to ColoradoCare represent projected funding for Medicaid, various other state health care programs, and federal premium tax credits. FTE position change for state employees in FY 2019-20 does not include reductions in FTE for health program funding transferred to ColoradoCare.

**Summary of Measure**

Amendment 69, if enacted by voters, establishes ColoradoCare as a new political subdivision of the state to operate as a statewide system to finance health care services for Colorado residents. The measure establishes a board of trustees, initially appointed and then elected, to govern and oversee the operations of ColoradoCare. The board of trustees is required to seek federal waivers necessary to implement ColoradoCare and ColoradoCare operations may be terminated by the board if the federal government does not grant approval sufficient for its fiscally sound operation. Amendment 69 creates new taxes on most sources of income, redirects existing state and federal health funding to pay for the services and administration of ColoradoCare, and exempts ColoradoCare from constitutional limits on revenue. If fully implemented, ColoradoCare will pay for covered health care services for Coloradans who do not have other forms of health coverage and will provide supplemental coverage to persons who have other coverage.

## ColoradoCare Revenue

Total revenue to ColoradoCare is estimated to be **\$2.0 billion per year in FY 2017-18 and FY 2018-19, and \$35.6 billion in FY 2019-20**. The majority of this revenue is from new taxes on most forms of Colorado-based income. Once ColoradoCare is fully operational, it will also receive state and federal funds that are currently used to operate state and federally funded health programs. These revenue streams to ColoradoCare are summarized below.

**Tax revenue.** Amendment 69 establishes new taxes at initial tax rates beginning in FY 2017-18. New taxes will increase to the full rates 30 days before ColoradoCare assumes responsibility for health care payments in the state, which is assumed to be in FY 2019-20. The initial and full tax rates are summarized in Table 1 below.

	<b>Initial Tax Rates</b>	<b>Full Tax Rates</b>
<b>Wage Income</b>		
<i>Employee Tax Rate</i>	0.3%	3.33%
<i>Employer Tax Rate</i>	0.6%	6.67%
<b>Total</b>	<b>0.9%</b>	<b>10.0%</b>
<b>Non-wage Income</b>	<b>0.9%</b>	<b>10.0%</b>

At initial rates, the new taxes are expected to generate \$2.0 billion per year in FY 2017-18 and FY 2018-19. Assuming ColoradoCare begins health care payments on August 1, 2019, taxes will increase to the full rates on July 1, 2019, resulting in tax revenue of \$25.0 billion in FY 2019-20. These estimates are based on 2012 state individual income tax revenue data provided by the Colorado Department of Revenue, which were grown by projected Colorado population and income growth to arrive at revenue estimates for FY 2017-18 and beyond. Revenue estimates were adjusted to account for the assumed shift in taxable income resulting from businesses who are expected to no longer claim tax deductions for business expenses related to employee health insurance premiums. Adjustments were also made for the limits on taxable income for single- and joint-filers included in the measure (\$350,000 and \$400,000, respectively, grown by projected Denver-Boulder-Greeley consumer price index inflation).

These revenue estimates assume that ColoradoCare follows governmental accounting standards, where revenue is accrued to the period of time in which the income that is taxed was generated and weighted based on the tax rates at that time. The timing of revenue by fiscal year may differ from these estimates depending on the date that the full rates take effect, how the taxes are administered by the Department of Revenue, and any accounting adjustments made.

**State and federal funds.** Assuming full implementation in FY 2019-20, ColoradoCare will receive up to \$11.2 billion in state and federal funds that are currently used to pay for various health care programs, such as Medicaid. Of this amount, up to \$10.9 billion is from funding currently used for state health programs, and up to \$300 million is from redirecting federal funds currently used to provide premium tax credits to persons purchasing health insurance through the state health insurance exchange. Receipt of many of these funds and the exact amount of funding transferred to ColoradoCare are contingent upon Colorado receiving necessary federal waivers and approvals, including various Medicaid waivers and a Section 1332 State Innovation Waiver under the federal Patient Protection and Affordable Care Act (PPACA). Depending on the terms and conditions of the federal waivers, the amount of state and federal funds transferred to ColoradoCare will likely be between \$7.6 billion and \$11.2 billion.

Amendment 69 also establishes a maintenance of effort requirement for the state to transfer at least as much state funding for health care programs, after adjusting for inflation and population growth, as was appropriated in FY 2015-16. Table 2 shows the estimated maximum amount of state and federal funds that will be transferred to ColoradoCare if fully implemented in FY 2019-20. For state agency transfers, the amounts are based on FY 2016-17 appropriations, grown by 5 percent per year to account for population growth and inflation. For the premium tax credit, the amount is based on 2015 tax credits, adjusted for anticipated increases in allowable tax credits on the state health insurance exchange. This fiscal impact statement does not include an estimate of out-of-pocket expenses paid by persons receiving coverage through ColoradoCare, as this money does not flow through ColoradoCare and instead is paid to health care providers directly.

<b>Agency / Program</b>	<b>General Fund</b>	<b>Cash Funds</b>	<b>Reapprop. Funds</b>	<b>Federal Funds</b>	<b>Total Funds</b>
Department of Health Care Policy and Financing	\$3,080.0	\$1,140.3	\$14.4	\$6,253.2	\$10,487.9
Department of Human Services	156.9	15.8	11.1	60.7	244.5
Department of Public Health and Environment	13.9	6.3	5.2	81.8	107.1
Department of Corrections	91.2	0.3	0.0	0.0	91.5
Federal Premium Tax Credit Funds	300.0	0.0	0.0	0.0	300.0
<b>TOTAL</b>	<b>\$3,642.0</b>	<b>\$1,162.7</b>	<b>\$30.7</b>	<b>\$6,395.7</b>	<b>\$11,231.0</b>

## ColoradoCare Expenditures

Based on available revenue, ColoradoCare is projected to spend or place into reserve **up to \$2.0 billion in FY 2017-18 and future years until fully implemented**. Colorado will have expenditures **up to \$36.2 billion in FY 2019-20**, assuming full implementation in that year. The potential costs in the initial years and the costs following full implementation of ColoradoCare are described below.

**Initial costs.** Initially, ColoradoCare will have costs to seek federal approval and waivers, procure information technology systems, develop operating procedures, hire staff, lease office space, and conduct board elections. It is assumed these costs can be covered by tax revenue to ColoradoCare under the initial tax rates created by the measure, which will generate approximately \$2.0 billion per year. The initial spending by ColoradoCare is expected to be less than the total revenue available and it is assumed that a significant portion of revenue will be placed in capital and operating reserves, rather than spent, prior to full implementation of ColoradoCare. The exact spending levels will depend on numerous decisions made by the ColoradoCare board of trustees.

**Full implementation costs.** ColoradoCare will have costs of up to \$36.2 billion in FY 2019-20, assuming full implementation occurs in that year, based on estimated revenue available to ColoradoCare. Spending by ColoradoCare will include making health payments for covered Coloradans and administrative expenses. The amount of spending by ColoradoCare will

depend on numerous factors, including the terms and conditions of federal waivers, the availability of funds, the payment rates to health care providers, and the operational decisions made by the ColoradoCare board of trustees. In the event revenue is less than estimated in the ColoradoCare Revenue section above, ColoradoCare will be required to reduce its expenditures or increase tax revenue. Reductions in expenditures could be achieved by limiting benefits, increasing the share of health care costs paid by covered individuals, or lowering payments to health care providers. Increasing tax revenue will require a vote by ColoradoCare's membership.

## State Revenue

Amendment 69 may change state tax revenue, most of which is deposited into the state General Fund; however, the exact impact cannot be estimated at this time. This potential reduction comes from two sources. First, assuming most people covered by private health insurance discontinue private coverage when ColoradoCare coverage becomes available, insurance premium and corporate income taxes paid by health insurance carriers will decrease by at least \$100 million per year once ColoradoCare is fully implemented. Based on the assumed start of date of ColoradoCare coverage, this impact would occur beginning in FY 2019-20.

Second, Amendment 69 may affect the amount of individual and corporate income subject to the existing 4.63 percent state income tax in several ways, which could both increase and decrease state tax revenue. For individuals and businesses, the amount of ColoradoCare taxes paid may be claimed as a tax deduction, which could reduce state tax revenue. However, a shift away from employer-based health insurance following implementation of ColoradoCare may increase taxable income for both individuals and businesses by eliminating health insurance premium payments that currently do not count as taxable income for individuals and that may be claimed as a business expense deduction by employers. Additionally, the changes to health benefits under the measure could affect employee wages, which could increase or decrease income tax revenue. The net change from these various impacts to individual and corporate income tax revenue will depend on several factors unique to individual businesses and households, including the amount of ColoradoCare taxes owed and the current cost of health care premiums, the amount of tax deductions claimed in any given year, and the net change in employee wages.

## State Expenditures

Amendment 69 is estimated to increase state spending by **\$4.3 million in FY 2016-17, \$19.5 million in FY 2017-18, and \$24.6 million in FY 2018-19**. State agencies will have net **savings of \$147.3 million in FY 2019-20** if ColoradoCare is fully implemented. These costs and savings are summarized in Table 3 and discussed below.

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<b>Table 3. State Agency Expenditures Under Amendment 69</b>				
<b>Cost Components</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>	<b>FY 2018-19</b>	<b>FY 2019-20</b>
<b>Department of Revenue</b>	<b><u>\$3,736,829</u></b>	<b><u>\$3,049,717</u></b>	<b><u>\$3,869,311</u></b>	<b><u>\$3,540,960</u></b>
Personal Services	1,014,536	1,571,803	2,152,935	2,152,935
FTE	18.7 FTE	31.3 FTE	44.3 FTE	44.3 FTE
Operating / Capital Outlay Expenses	164,969	29,735	42,085	42,085
Computer Programming / Software	1,520,000	200,000	200,000	200,000
Document Management	605,000	601,000	601,000	601,000
Legal Services	85,545	85,545	85,545	85,545
Leased Space	110,000	170,000	240,000	240,000
Centrally Appropriated Costs	236,779	391,634	547,746	219,395
<b>Department of Regulatory Agencies</b>	<b><u>\$248,183</u></b>	<b><u>\$404,978</u></b>	<b><u>\$404,978</u></b>	<b><u>\$390,154</u></b>
Personal Services	76,027	152,052	152,052	152,052
FTE	1.0 FTE	2.0 FTE	2.0 FTE	2.0 FTE
Operating / Capital Outlay Expenses	11,306	1,900	1,900	1,900
Legal Services	71,288	71,288	71,288	71,288
Contractors	75,000	150,000	150,000	150,000
Centrally Appropriated Costs	14,562	29,738	29,738	14,914
<b>Department of Health Care Policy and Financing</b>	<b><u>\$288,977</u></b>	<b><u>\$602,408</u></b>	<b><u>\$602,408</u></b>	<b><u>\$565,348</u></b>
Personal Services	184,402	368,803	368,803	368,803
FTE	2.5 FTE	5.0 FTE	5.0 FTE	5.0 FTE
Operating / Capital Outlay Expenses	25,890	4,750	4,750	4,750
Legal Services	42,773	85,545	85,545	85,545
Contractors	0	70,000	70,000	70,000
Centrally Appropriated Costs	35,912	73,310	73,310	36,250
<b>Office of Information Technology</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$3,500,000</u></b>	<b><u>\$0</u></b>
Computer System Modifications	0	0	3,500,000	0
<b>All State Agencies</b>	<b><u>\$0</u></b>	<b><u>\$15,478,869</u></b>	<b><u>\$16,252,811</u></b>	<b><u>(\$151,794,985)</u></b>
ColoradoCare Payroll Taxes	0	15,478,869	16,252,811	189,710,939
Employee Health Insurance	0	0	0	(341,505,924)
<b>TOTAL</b>	<b><u>\$4,273,989</u></b>	<b><u>\$19,535,972</u></b>	<b><u>\$24,629,508</u></b>	<b><u>(\$147,298,523)</u></b>

**Department of Revenue.** The Department of Revenue will have costs to implement and administer the new payroll and income tax created by Amendment 69 totaling \$3.7 million in FY 2016-17 (current fiscal year), \$3.0 million in FY 2017-18, \$3.9 million in FY 2018-19, and \$3.5 million in FY 2019-20 and future years. Initially, 18.7 FTE will be required in FY 2016-17, with the required staff increasing to 44.3 FTE in FY 2018-19 and beyond. As shown in Table 3, the Department of Revenue will also have costs to make computer system changes, purchase software

licenses, utilize document management services from the Department of Personnel and Administration, obtain legal services from the Department of Law, and lease office space for new staff. These costs will be paid from the General Fund.

**Department of Regulatory Agencies.** The Department of Regulatory Agencies will have costs totaling \$248,183 and 1.0 FTE in FY 2016-17, \$404,978 and 2.0 FTE in FY 2017-18 and FY 2018-19, and \$390,154 and 2.0 FTE in FY 2019-20 to assist in federal waiver applications and to oversee the transition of the state insurance market to ColoradoCare. Costs include additional staff in the Division of Insurance, legal services from the Department of Law, and contract consultant costs to conduct studies and facilitate stakeholder and rulemaking processes involving insurance companies, ColoradoCare, and consumers. In the long term, the Division of Insurance may require fewer staff once ColoradoCare is fully implemented, but any impact would depend on the state of the private health insurance market and required regulatory workload to oversee insurance carriers operating in the state. These costs will be paid from the Division of Insurance Cash Fund. However, for simplicity, this fiscal analysis shows the cost as General Fund expenditures given that spending from the Division of Insurance Cash Fund diverts moneys from the General Fund.

**Department of Health Care Policy and Financing.** The Department of Health Care Policy and Financing will have costs of \$288,977 and 2.5 FTE in FY 2016-17, \$602,408 and 5.0 FTE in FY 2017-18 and FY 2018-19, and \$565,348 and 5.0 FTE in FY 2019-20. As shown in Table 3, these costs are for additional staff to assist in Medicaid waiver applications to implement ColoradoCare, legal services, and contract consultant services. Cost may be higher than this estimate if the Department of Health Care Policy and Financing is required to conduct actuarial analyses as part of the waiver applications. At this time, it is assumed that ColoradoCare would pay any waiver costs beyond those listed here, but this assumption depends on implementing legislation, decisions by the federal government about waiver processes, and agreements with ColoradoCare. Reductions in FTE in FY 2019-20 following the transfer of health funding from the Department of Health Care Policy and Financing to ColoradoCare have not been estimated at this time and will be addressed through the budget process.

**Office of Information Technology.** The Office of Information Technology will have costs of \$3.5 million in FY 2018-19 to make modifications to the Colorado Benefits Management System (CBMS) associated with shutting down the health insurance exchange and transferring various function to ColoradoCare. This is a preliminary estimate and the exact costs will depend on the nature of any Medicaid waivers received and how duties and responsibilities concerning Medicaid client eligibility are allocated between the Department of Health Care Policy and Financing and ColoradoCare. Given the uncertain nature of the work required, this analysis assumes that information technology costs will be evenly split between General Fund and federal funds. However, a higher matching rate may be available with federal approval. This work is assumed to occur one year prior to ColoradoCare assuming responsibility for health care payments in Colorado.

**ColoradoCare payroll taxes.** As employers, all state agencies will be required to pay the new ColoradoCare payroll taxes created by Amendment 69. At the initial tax rate, costs for all state agencies are estimated to be **\$7.3 million in FY 2017-18** for a half-year impact and **\$15.0 million in FY 2018-19**. Once the full tax rate takes effect, costs for additional state agency payroll taxes will increase to **\$172.3 million in FY 2019-20**. These costs will be split between General Fund, cash funds, and federal funds based on each agency's existing sources of funding for personnel. In this analysis, the funding source for the payroll tax is estimated using the overall funding split for all state spending in the FY 2016-17 Long Bill.

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**State employee insurance.** When ColoradoCare is fully implemented, state agencies will have savings of up to **\$341.5 million in FY 2019-20** from eliminating state payments for employee health insurance. This estimate is based on FY 2016-17 employee insurance costs grown by 5 percent per year and prorated for 11 months in FY 2019-20 based on the assumption ColoradoCare coverage begins August 1, 2019. As with payroll taxes, the funding source for this reduction is estimated using the overall funding split for all state spending in the FY 2016-17 Long Bill.

**Department of Personnel and Administration.** Amendment 69 affects the Department of Personnel and Administration in several ways. The Division of Central Services will have document process costs associated with administration of the new tax that are paid using reappropriated funds from the Department of Revenue. In addition, the Office of Administrative Courts will likely have a significant reduction in caseload from eliminating Medicaid appeals if ColoradoCare is enacted. The number of workers' compensation appeals heard in the administrative courts may also decrease. Workload will also decrease in the Division of Human Resources once it is no longer required to manage state employee group health insurance. The exact staffing impacts cannot be estimated at this time and will be addressed through the annual budget process if ColoradoCare is enacted.

**Required transfers to ColoradoCare.** Beginning in FY 2019-20, assuming ColoradoCare is fully implemented, the state will be required to transfer up to \$10.9 billion to ColoradoCare in lieu of operating health programs, such as Medicaid. The exact amount transferred will depend on the terms of federal waivers granted and will likely range from \$7.3 billion and \$10.9 billion. As shown in Table 2, this funding will come primarily from the Department of Health Care Policy and Financing, as well as the various other departments. While these agencies will have reduced expenditures, the state will have an ongoing obligation to provide this funding to ColoradoCare. Thus, no direct savings result to the state from elimination of these programs. However, given the reductions in FTE associated with these programs, state agencies will likely have administrative savings in terms of human resource management, accounting, and other areas. It is assumed these savings will be identified and addressed in the budget process as they occur.

**Centrally appropriated costs.** Pursuant to a Joint Budget Committee policy, certain costs associated with this measure are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills. The centrally appropriated costs subject to this policy are summarized in Table 4.

<b>Table 4. Centrally Appropriated Costs Under Amendment 69</b>				
<b>Cost Components</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>	<b>FY 2018-19</b>	<b>FY 2019-20</b>
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$178,150	\$307,167	\$411,207	\$30,972
Supplemental Employee Retirement Payments	109,103	187,515	239,587	239,587
<b>TOTAL</b>	<b>\$287,253</b>	<b>\$494,682</b>	<b>\$650,794</b>	<b>\$270,559</b>

## Statutory Public Entity Impact

Amendment 69 most directly affects three statutory public entities - ColoradoCare, the newly created entity under the measure; Connect for Health Colorado, the state's health insurance exchange; and Pinnacol Assurance, the state-chartered workers' compensation insurer-of-last-resort. The revenue and expenditure estimates for ColoradoCare are discussed above. The impact on Connect for Health Colorado, Pinnacol Assurance, and all statutory public entities generally are described below.

**Connect for Health Colorado.** When ColoradoCare becomes fully operational, Connect for Health Colorado will no longer operate as the state's health insurance exchange under the PPACA, assuming a State Innovation waiver is received. This will eliminate expenditures of approximately \$40 million per year by Connect for Health Colorado, which is funded through fees assessed on health insurance carriers, tax-deductible donations by insurance carriers, and grants. Connect for Health Colorado does not receive any General Fund appropriations. In addition, Connect for Health Colorado will have costs between \$5 million and \$10 million over a two-year period to wind down operations and fulfill various contractual obligations, which will be paid out of existing revenue streams to Connect for Health Colorado, unless legislation is enacted to assist in paying for these costs.

**Pinnacol Assurance.** Pinnacol Assurance is the state-chartered insurer-of-last-resort for workers' compensation insurance and provides coverage to over half of Colorado employers. Under Amendment 69, Pinnacol Assurance will no longer be required to provide medical coverage through its workers' compensation policies. This will reduce its obligations to pay for workers' medical claims. The indemnity portion of workers' compensation policies, which pays for lost wages and other benefits, will remain under the purview of Pinnacol Assurance.

**All statutory public entities.** As employers, all statutory public entities created in Colorado law will initially have increased costs due to the new payroll tax created under Amendment 69. If ColoradoCare is fully implemented and statutory public entities choose to discontinue payments for employee health insurance through private insurance carriers, net savings may result. Among the many statutory public entities affected by the measure, examples include the Public Employee Retirement Association (PERA), the Colorado Housing and Finance Authority, and Pinnacol Assurance.

## Local Government Impact

Spending by cities, counties, special districts, and other local governments in Colorado will initially increase under the measure due to the new payroll tax created under Amendment 69. If ColoradoCare is fully implemented and local governments choose to discontinue payments for employee health insurance through private insurance carriers, net savings may result. County departments of human services may have decreased workload for processing Medicaid enrollments once ColoradoCare is fully implemented; however, any savings will depend on how ColoradoCare enrollment is implemented and the nature of Medicaid waivers received.

## Effective Date

If approved by voters, the measure takes effect upon proclamation of the Governor within 30 days of the official canvas of the vote being completed.



## State and Local Government Contacts

Connect for Health Colorado  
Corrections  
Governor  
Higher Education  
Labor  
Municipalities  
PERA  
Personnel  
Regulatory Agencies

Counties  
Education  
Health Care Policy and Financing  
Human Services  
Law  
Information Technology  
Pinnacle Assurance  
Public Health and Environment  
Revenue