

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION**  
**Revision 1**

**May 12, 2003**

**TO:** Honorable John T. Smithee, Chair, House Committee on Insurance

**FROM:** John Keel, Director, Legislative Budget Board

**IN RE: HB3550** by Delisi (Relating to the applicability of certain premium, maintenance, and other insurance-related taxes to certain benefit plans.), **Committee Report 1st House, Substituted**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB3550, Committee Report 1st House, Substituted: a positive impact of \$50,246,000 through the biennium ending August 31, 2005.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

**General Revenue-Related Funds, Five-Year Impact:**

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	\$0
2005	\$50,246,000
2006	\$860,000
2007	\$0
2008	\$0

**All Funds, Five-Year Impact:**

Fiscal Year	Probable Revenue Gain from <i>GENERAL REVENUE FUND</i> 1	Probable Revenue Gain from <i>FOUNDATION SCHOOL FUND</i> 193
2004	\$0	\$0
2005	\$37,684,000	\$12,562,000
2006	\$645,000	\$215,000
2007	\$0	\$0
2008	\$0	\$0

**Fiscal Analysis**

The bill would tax gross premiums received from the State of Texas for insurance contracted for by the state or federal government for the purpose of providing welfare benefits to designated welfare recipients. The bill would also tax gross premiums paid by the issuer of a children's health benefit plan. These provisions only apply to gross premiums received on or before January 1, 2004, but before January 1, 2006.

The bill also allows the health plan providers to include any premium, maintenance and other taxes payable to the state as allowable expenses for purposes of determining the amount of experience rebate or profit-sharing.

## **Methodology**

According to the Comptroller of Public Accounts (CPA), the potential tax base was estimated by first compiling projected managed care recipient-months and monthly premium rates for relevant Medicaid strategies from the Texas Health and Human Services Commission's (HHSC) Legislative Appropriations Request and the Children's Health Insurance Program (CHIP) strategy in HB 1. Based on information from HHSC, it was assumed that approximately two-thirds of managed care recipients and premium payments were to (taxable) HMOs and one-third were to (exempt) preferred provider organizations. To estimate the ensuing premium tax revenues, the resulting total premium volume was multiplied by the 1.75 percent tax rate and then adjusted for the half-rate that is applicable to the first \$450,000 of an HMO's revenues. For the insurance maintenance tax, there would be no net effect, as any increase in the tax base would trigger a corresponding decrease in the tax rate so as to generate the same amount of revenue to meet Texas Department of Insurance's (TDI) regulatory costs. Because the bill does not provide that the insurance tax be included as an allowable cost for reimbursement under the state Medicaid and CHIP programs, this estimate does not include federal matching gains drawn with additional available state funds.

Potentially, the new expense to be incurred by CHIP and Medicaid providers could be claimed as a reimbursable expense through the CHIP and Medicaid programs and thus result in an increased cost to the state. However, HHSC indicates that such expenses would not be eligible for reimbursement under current rules. If rules were amended to allow for reimbursement of these expenses, the state share would be approximately 40 percent of Medicaid expenses and approximately 28 percent of CHIP expenses.

The provision allowing health plan providers to include state taxes as allowable expenses in the profit-sharing calculation could reduce the amount of revenue received by the state in fiscal years 2004 and 2005. However, it is anticipated that the amount would not be significant.

## **Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 304 Comptroller of Public Accounts, 454 Department of Insurance

**LBB Staff:** JK, JRO, WP, DLBe