STORAGE NAME: h0297a.hr.doc
DATE: November 28, 2001

HOUSE OF REPRESENTATIVES
COMMITTEE ON
HEALTH REGULATION
ANALYSIS

BILL #: HB 297

RELATING TO: Florida Healthy Kids Corporation

SPONSOR(S): Representative Littlefield

TIED BILL(S): None.

ORIGINATING COMMITTEE(S)/COUNCIL(S)/COMMITTEE(S) OF REFERENCE:
(1) HEALTH REGULATION YEAS 7 NAYS 2
(2) FISCAL POLICY & RESOURCES
(3) COUNCIL FOR HEALTHY COMMUNITIES
(4)
(5)

I. SUMMARY:

The Florida Healthy Kids Corporation was established in 1990 by the Florida Legislature as a public-private initiative to improve access to comprehensive health insurance for the state's uninsured children as set forth in section, 624.91, F.S., short title; "The Florida Healthy Kids Corporation Act."

Florida Healthy Kids Corporation (FHKC) insures over 219,500 children, as of November 2001. The prepaid nature of insurance means that FHKC must expend in excess of $20 million on the first of each month to cover insurance premiums for its enrollees. This expenditure is made in advance of the receipt of the state and federal matching funds. Federal funds are distributed on a reimbursement basis only. On average, it takes 23 days after the funds have been expended for FHKC to receive either the federal or state reimbursement. When cash is not available to meet premium costs or operational expenses, FHKC must exercise a line of credit.

Currently, it is FHKC's policy to maintain a reserve fund equivalent to the amount needed to continue premiums for enrollees for a thirty-day (30) notice period and to allow for a six-month dissolution of FHKC. However, questions have recently been raised questioning not the necessity of such a fund, but in what amount or format should such a fund be maintained.

HB 297 allows the Florida Healthy Kids Corporation to maintain an operating fund equal to 25% of the estimated annual expenditures. This will minimize the need to exercise its line of credit and the associated interest charges, thereby nominally decreasing expenditures. As specified in HB 297, upon the dissolution of the corporation, any remaining cash balances of state funds shall be returned to the state.

The bill provides for an effective date of July 1, 2002.

II. SUBSTANTIVE ANALYSIS:

A. DOES THE BILL SUPPORT THE FOLLOWING PRINCIPLES:

1. Less Government Yes [] No [] N/A [x]

2. Lower Taxes Yes [] No [] N/A [x]

3. Individual Freedom Yes [x] No [] N/A []

   This bill increases the allowable options of a private organization to conduct their own affairs.

4. Personal Responsibility Yes [] No [] N/A [x]

5. Family Empowerment Yes [] No [] N/A [x]

B. PRESENT SITUATION:

The Florida Healthy Kids Corporation (FHKC) was established in 1990 by the Florida Legislature as a public-private initiative to improve access to comprehensive health insurance for the state's uninsured children as set forth in section, 624.91, F.S., short title; "The Florida Healthy Kids Corporation Act." Upon creation of this program, it was the intent of the Legislature that it "finds that increased access to health care services could improve children's health and reduce the incidence and costs of childhood illness and disabilities among children in this state. Many children do not have comprehensive, affordable health care services available. It is the intent of the Legislature that the Florida Healthy Kids Corporation provides comprehensive health insurance coverage to such children. The corporation is encouraged to cooperate with any existing health service programs funded by the public or the private sector and to work cooperatively with the Florida Partnership for School Readiness."

The Florida Healthy Kids Corporation helps thousands of uninsured children gain access to affordable, quality health care. FHKC acts as a payor financing mechanism by aggregating local, state, federal and family funds to pay premiums to commercial health plans that assume the insurance risk for enrolled children. As of the November 2001 FHKC quarterly report, over 219,500 children were covered through FHKC and enjoy a benefit structure with broad coverage from immunizations to transplants. This program is designed to provide affordable access to the insurance market for middle class families and to assist, with premium subsidies, lower-income families not eligible for Medicaid, who would be unable to pay the full premium. Similar to a group health insurance, where eligibility to participate is based on employment, eligibility for the Healthy Kids program is based on a child being enrolled in school and family income.

Financing for FHKC is derived from a variety of sources, including federal, state and family contributions. These funds are used to provide comprehensive health and dental insurance coverage to children and to cover the operating expenses of FHKC.

Statutorily, the State appropriates funds to FHKC through the Agency for Health Care Administration's budget. Annually the Agency executes a contract between the parties, thereby releasing the state funds and associated matching federal Title XXI funds to FHKC.

The prepaid nature of insurance means that FHKC must expend in excess of $20 million on the first of each month to cover insurance premiums for its enrollees. This expenditure is made in advance of the receipt of the state and federal matching funds. Federal funds are distributed on a reimbursement basis only. On average, it takes 23 days after the funds have been expended for FHKC to receive either the federal or state reimbursement. When cash is not available to meet premium costs or operational expenses, FHKC must exercise its established line of credit.

Currently, it is FHKC's policy to maintain a reserve fund equivalent to the amount needed to continue premiums for enrollees for a thirty (30) day notice period and to allow for a six-month dissolution of the Corporation. However, questions have recently been raised questioning not the necessity of such a fund, but in what amount or format should such a fund be maintained. Both the Agency for Health Care Administration and the Florida Healthy Kids Corporation recommend that the operating fund be maintained at an amount equal to 25% of the estimated annual expenditures and agree this is sufficient to meet the Corporation's fiscal management needs. As stated, the proposed accounting method is currently operational to a degree and seeks legislative authority to continue this practice, and further enhances this practice by placing limits on the actual amount that may be kept in reserve.

C. EFFECT OF PROPOSED CHANGES:

HB 297 allows the Florida Healthy Kids Corporation to maintain an operating fund equal to 25% of the estimated annual expenditures. This will minimize the need to exercise FHKC's line of credit and the associated interest charges, thereby nominally decreasing expenditures.

As specified in HB 297, upon the dissolution of the corporation, any remaining cash balances of state funds shall be returned to the state.

D. SECTION-BY-SECTION ANALYSIS:

Section 1. Amends section 409.818, F.S., to establish and manage an operating fund for the purposes of addressing the corporation's unique cash flow needs and to allow for the fiscal management of the corporation. The corporation may accumulate and maintain a cash balance of no more than 25 percent of annualized operating expenses at any given time in the operating fund. Upon the dissolution of the corporation, any remaining cash balances of state funds shall be returned to the state.

Section 2. Provides for an effective date of July 1, 2002.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

According to the Agency for Health Care Administration, there is no fiscal impact on state revenues.

2. Expenditures:

According to the Agency for Health Care Administration, there is no fiscal impact on state expenditures.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

The proposed statutory change is current operational practice, therefore, according to FHKC, if the effective date of the bill is changed to June 30, 2002, the end of fiscal year 2001-2002, it would allow the corporation to return any excess funds of the specified percentage rate to the state this fiscal year.

This bill allows, but does not require, FHKC to maintain an operational account up to 25% of their operating budget. Therefore, it is not required that the state fund such account, but the account be funded exclusively from any remaining quarterly funds that FHKC receives from the state.

The current contract between FHKC and AHCA allows equal quarterly advances, at the beginning of each quarter, for the state share of FHKC appropriations while the federal share of expenditures for premiums is reimbursed each month based on invoices submitted to the federal government. It is reported that the federal share of premiums is 69%, the state share is 31%, and up to 20% of the state share may come from local match dollars. Any surplus accumulated by FHKC must be non-federal funds since federal regulations restrict federal cash advances.

According to the Agency for Health Care Administration, $224,043,283 was appropriated for FHKC for fiscal year 2001-2002. Twenty-five percent of that funding equals $2,319,119, with the amount of the reserve operating fund estimated to be capitated at $56,590,601. During the November 27, 2001, committee meeting on Health Regulation, testimony was received which estimates that the reserve operating fund is now at approximately $40 million.

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require a city or county to expend funds or to take any action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill does not reduce the authority that municipalities or counties have to raise revenues in the aggregate.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

This bill does not reduce the percentage of a state tax shared with counties or municipalities.

V. COMMENTS:

A. CONSTITUTIONAL ISSUES:

None.

B. RULE-MAKING AUTHORITY:

None.

C. OTHER COMMENTS:

The Committee on Health Regulation heard HB 297 on November 27, 2001. The bill passed favorably. Concerns were raised during debate that by continuing the existence of a reserve fund, that this may create a disincentive for FHKC to expand the enrollment base of insured children.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

None.

VII. SIGNATURES:

COMMITTEE ON HEALTH REGULATION:

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