



NORTH CAROLINA GENERAL ASSEMBLY

2025 Session

Legislative Fiscal Note

Short Title: Medicaid & HHS Adjust./Other Critical Needs.
Bill Number: House Bill 696 (Fourth Edition)
Sponsor(s): Rep. Potts, Rep. Reeder, and Rep. Campbell

SUMMARY TABLE

FISCAL IMPACT OF H.B. 696, V.4 (\$ in millions)

	<u>FY 2025-26</u>	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>	<u>FY 2029-30</u>
State Impact					
General Fund Revenue					
Gross Premiums Tax	-	11.4	9.6	7.0	4.5
Departmental Receipts	-	478.0	402.2	295.8	189.2
<u>Less Expenditures</u>	<u>-</u>	<u>478.0</u>	<u>402.2</u>	<u>295.8</u>	<u>189.2</u>
General Fund Impact	-	11.4	9.6	7.0	4.5
Special Fund Revenues	28.6	199.8	190.1	166.2	142.4
<u>Less Expenditures</u>	<u>28.6</u>	<u>199.8</u>	<u>190.1</u>	<u>166.2</u>	<u>142.4</u>
Special Fund Impact	-	-	-	-	-
NET STATE IMPACT	-	\$11.4	\$9.6	\$7.0	\$4.5
Local Impact					
Local Revenue	15.6	64.3	66.2	68.2	70.2
<u>Less Local Expenditures</u>	<u>15.6</u>	<u>64.3</u>	<u>66.2</u>	<u>68.2</u>	<u>70.2</u>
NET LOCAL IMPACT	-	-	-	-	-

FISCAL IMPACT SUMMARY

Part III-D of H.B. 696 (4th Edition) increases the Department of Health and Human Services' (DHHS's) total receipts from a combination of hospital assessments and hospital intergovernmental transfers (IGTs) by (1) collecting additional amounts for the next 10 State fiscal years to cover the State share of increased costs to administer the NC Health Works program due to provisions in H.R. 1, Public Law 21, 119th Cong., 1st sess., (July 4, 2025) requiring the State to implement community engagement (work) requirements and six-month eligibility redeterminations beginning January 1, 2027, and (2) adjusting the statutory hospital assessment formula to account for increased hospital IGTs.

Some of the costs of implementing work requirements and six-month eligibility redeterminations as required by H.R. 1 will be incurred by county departments of social services (DSSs), which perform Medicaid eligibility determinations. A combination of federal Medicaid receipts and proceeds from the hospital assessments and IGTs, which are transferred from the Health Advancement Receipts Special Fund (HAR SF) at DHHS, would support county eligibility determination functions.

As hospital assessments and IGTs are paid entirely by hospitals, Part III-D would lead to no new spending from the General Fund. However, the increased total hospital receipts from assessments and IGTs would allow the State to retain higher Medicaid directed payments to hospitals through the Healthcare Access and Stabilization Program (HASP) than could be retained without the changes made in the bill. Because HASP directed payments are subject to the gross premiums tax, the State would collect approximately \$32.4 million in additional gross premiums tax revenue between FY 2025-26 and FY 2029-30.

FISCAL ANALYSIS

Part III-D. Hospital Assessment Adjustments

Part III-D of H.B. 696 impacts hospital assessments that support the State Medicaid program and is intended to provide funding for the increased administrative costs of compliance with six-month eligibility redeterminations requirements and community engagement requirements from a permissible funding source under G.S. 108A-54.3B.

Increased NC Health Works Administrative Costs

H.R. 1 requires states to implement community engagement (work) requirements and six-month eligibility determinations (currently 12-months) beginning January 1, 2027, for beneficiaries of the NC Health Works program. NC Health Works provides Medicaid coverage to individuals aged 18-64 with incomes up to 133% of the federal poverty level. In North Carolina, the State share of the projected cost associated with implementing these new requirements is:

- \$7.8 million nonrecurring for county administrative costs in FY 2025-26.
- \$6.5 million nonrecurring for one-time State administrative costs in FY 2025-26.
- \$31.2 million recurring annually for county administrative costs (indexed annually) beginning in FY 2026-27.

- \$8.95 million in FY 2026-27 and \$13.2 million (indexed annually) recurring annually beginning in FY 2027-28 for State administrative costs.

Hospital assessments and hospital IGTs are permissible funding sources for NC Health Works costs under G.S. 108A-54.3B, and Sections 3D.3 and 3D.4 would generate the funding from those sources for these new costs.

Section 3D.3 generates new hospital receipts, through assessments and IGTs, of \$14.3 million in projected new administrative costs needed in the last quarter of the current State fiscal year (April-June 2026) through a 2026 one-time assessment on hospitals. The assessment would be effective when it becomes law and would be implemented on a timeline determined by DHHS in a manner consistent with existing statutory hospital assessments.

Section 3D.4 generates new hospital receipts, for the next ten State fiscal years, for projected new recurring administrative costs by adjusting the statutory hospital assessments formula to collect additional quarterly amounts, split between assessments and IGTs, of \$7.8 million (\$31.2 million annually, indexed annually) for county administrative costs and \$3.3 million (\$13.2 million annually, indexed annually) for State administrative costs.

Spending on Medicaid administration receives a 50% federal matching rate, meaning every nonfederal dollar spent generates a dollar in federal receipts. Pending federal approval, some nonfederal spending on system development and system operations could receive a higher federal matching rate than 50%, but this analysis assumes a 50% federal matching rate for all nonfederal Medicaid spending.

Local Impact

County DSSs are responsible for conducting Medicaid eligibility determinations, and their costs will increase with the implementation of the changes in H.R. 1. The bill would direct DHHS to use \$7.8 million of the \$14.3 million from the 2026 one-time assessment and \$7.8 million (indexed annually) each quarter beginning in FY 2026-27 from the updated statutory hospital assessments formula to support county DSSs with these increased costs.

The anticipated impact of the bill on counties is shown in Table 1. The quarterly allotment for counties would be indexed annually beginning in FY 2026-27 based on changes to the Consumer Price Index: All Urban Consumers, and this analysis assumes an annual increase of 3%.

Table 1. NC Health Works County Impact

(\$ in millions)	FY26-27	FY27-28	FY28-29	FY29-30	FY30-31
Total new county expenditures	\$15.6	\$64.3	\$66.2	\$68.2	\$70.2
Less federal receipts	7.8	32.1	33.1	34.1	35.1
Less State receipts from HAR SF	7.8	32.1	33.1	34.1	35.1
Net County Impact	\$0	\$0	\$0	\$0	\$0

H.R. 1 Changes to State Medicaid Funding Mechanisms

H.R. 1 imposes new limits on Medicaid funding mechanisms, including hospital assessments and state directed payment (SDP) programs, that affect the State's ability to use hospital assessment funding for new administrative costs and to maximize allowable HASP directed payments.

Beginning October 1, 2026, provisions in H.R. 1 prohibit the State from increasing hospital provider assessments above the level in place as of July 4, 2025. In addition, the maximum allowable percentage of hospital assessment that may be used to draw a federal match will be reduced from the current level of 6% of net patient revenue. Provisions in H.R. 1 decrease this limit by 0.5% each year beginning in 2028 until reaching 3.5% in 2034.

Currently, administrative costs for the NC Health Works program are funded through the statutory hospital assessment formula. To increase the hospital assessment amounts to support H.R. 1's increased administrative costs without impermissibly increasing overall hospital assessments, hospitals would provide additional funding through IGTs. The replacement of assessments paid by public hospitals with IGTs from public hospitals creates capacity within these constraints for hospital assessments to serve as the funding source for projected new administrative costs.

Provisions in H.R. 1 prohibit the State from increasing SDPs above the level in place as of July 4, 2025, and eventually phase down SDPs. State Directed Payments (SDPs) are features of managed care contracts where states provide funding to managed care organizations (MCOs) and direct the MCOs to make payments to participating providers. The maximum total amount a State can make in SDPs decreases by 10% each year beginning in 2028 until the SDP is eliminated and the hospital reimbursement rate is reduced to 100% of the published Medicare payment rate. North Carolina's HASP program is an SDP that uses a portion of statutory hospital assessments to provide increased Medicaid hospital reimbursements. Funds for the additional reimbursements are allocated to Medicaid prepaid health plans (PHPs) to make directed payments to hospitals in their networks. While North Carolina's HASP program is subject to the limitations and phase-out of SDPs, it is also constrained by the limitations on provider assessments because it is funded with a mix of hospital assessment receipts and IGTs. Increased reliance on IGTs as a Medicaid funding source enables the State to fund a larger share of allowable HASP SDPs.

In the face of these funding constraints, Section 3D.2 of the bill amends the statutory modernized hospital assessments and hospital health advancement assessments to replace the amounts currently paid by public hospitals under those assessments with funds in the same amounts collected from public hospitals through intergovernmental transfers (IGTs).

Healthcare Access and Stabilization Program and the Gross Premiums Tax

HASP is a form of SDP that uses a portion of statutory hospital assessments to provide increased Medicaid hospital reimbursements. Funds for the additional reimbursements are allocated to Medicaid prepaid health plans (PHPs) to make directed payments to hospitals in their networks.

Federal law prohibits states from taxing providers more than 6% of net patient revenues for use in generating a federal Medicaid match. Provisions in H.R. 1 decrease this limit by 0.5% each year beginning in 2028 until reaching 3.5% in 2032, and HASP payments to hospitals will decrease due to this phaseout.

Adjusting the statutory hospital assessment formula to account for increased hospital IGTs would create additional space under the limitations imposed on states by H.R. 1 and allow larger HASP payments than what North Carolina would otherwise be able to make, even after the increased assessment amounts that would pay for the increased administrative costs of compliance with H.R.1 changes. The assessments, IGTs, and associated federal receipts that make up these larger HASP payments would lead to increased expenditures and departmental receipts, as well as increased General Fund revenue from gross premiums tax collections. Excluding the hospital assessments, IGTs, and associated federal receipts that pay for the new NC Health Works administrative costs, the additional expenditures, departmental receipts, and special fund revenues described in the Summary Table are attributable to these larger HASP payments. The HASP payments associated with the NC Health Works program are paid through the Special Fund, while all other HASP payments are paid through the General Fund.

Because the HASP directed payments pass through PHPs, they are subject to the State's 1.9% gross premiums tax. Additional gross premiums tax collections generated by HASP payments represent new General Fund revenue for the State. As HASP payments decrease in coming years due to the constraints described above, the added revenue from Part III-D of the bill would also decrease.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

DEPARTMENT OF HEALTH AND HUMAN SERVICES.

LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

ESTIMATE PREPARED BY

Luke MacDonald

ESTIMATE APPROVED BY

Brian Matteson, Director of Fiscal Research
Fiscal Research Division
April 29, 2026



Signed copy located in the NCGA Principal Clerk's Offices