LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6100 **NOTE PREPARED:** Jan 7, 2009
BILL NUMBER: HB 1295 **BILL AMENDED:**

SUBJECT: Taxes on Alcoholic Beverages for Health Care.

FIRST AUTHOR: Rep. Brown T **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill increases the excise taxes on all alcoholic beverages. It establishes the Health Care Fund.

The bill requires the Family and Social Services Administration (FSSA) to use 75 percent of the new revenue to provide the nonfederal share of Medicaid payments made under the Disproportionate Share Hospital program (DSH), the Hospital Care for the Indigent program (HCI), and the Hospital Care for the Indigent Upper Payment Level program (HCI/UPL).

The bill specifies that 25 percent of the new revenue must be used to make payments to physician providers participating in Medicaid.

(The introduced version of this bill was prepared by the Select Joint Commission on Medicaid Oversight.)

Effective Date: July 1, 2009.

Explanation of State Expenditures: *Department of State Revenue (DOR)*: This bill will also increase administrative expenditures of the DOR in having to amend tax forms and update computer software to collect the Alcoholic Beverage Excise Tax (ABET) at the increased rates provided in the bill. It is estimated that the DOR will be able to implement the provisions of this bill with its existing level of resources.

Office of Medicaid Policy and Planning: This bill requires that 25% of the revenue attributable to the increased tax must be used to make payments to physicians participating in the Medicaid program. The bill would provide an estimated \$24.8 M in FY 2010 and \$26.6 M in 2011 for the state share of the Medicaid payment. Combined with the federal share of Medicaid reimbursement, this provision would result in total increased Medicaid physician payments of approximately $66.9 in FY 2010 and $71.8 M in FY 2011.

The remaining 75% of the revenue raised by the increased tax is to be used to provide the state match for DSH, HCI, and HCI/UPL supplemental hospital payment programs. The increased tax revenue would provide $74.2 M in FY 2010 and $79.7 M in FY 2011 in state matching dollars to leverage federal Medicaid payments made for DSH, payments made for HCI, and payments made for the HCI/UPL program.

The bill does not specify if the fund transfer to the Medicaid Indigent Care Trust Fund for the nonfederal share of DSH and HCI payments is made in addition to, or in place of, existing funding sources. Provisions of HEA 1001-2008 eliminated the HCI levy effective January 1, 2009. The HCI levy replacement cost for property tax reform was estimated at $108.3 M for FY 2010. The increased tax revenue provided in this bill could potentially provide a partial replacement of these monies. Alternatively, the new revenue could replace or supplement intergovernmental transfers. The disposition of the new revenue will ultimately be determined by the Indiana General Assembly.

Background Information on Intergovernmental Transfers: With the exception of DSH payments for state-operated facilities, nonfederal matching funds for the DSH program have been provided by intergovernmental transfers since the inception of the program. Marion County Health and Hospital Corporation, the Trustees of Indiana University, and other government-owned hospitals have provided the nonfederal share of the funds necessary to claim DSH and other hospital supplemental payments available within the Medicaid program. A federal rule currently under an implementation moratorium may, in the future, not allow the use of the intergovernmental transfers made by governmental entities that do not possess taxing authority.

Medicaid is a jointly funded state and federal program. Funding for direct services is reimbursed at approximately 63% by the federal government, while the state share is about 37%. Funding for administrative services is generally shared 50/50.

Explanation of State Revenues: *Impact on ABET Collections*: This bill will increase ABET collections by approximately $97.6 M in FY 2010 and $104 M in FY 2011. Due to the timing of ABET remittance, the estimate for FY 2010 is based on 11 months of ABET collections. The bill increases the ABET on the following beverages and requires that the entire amount of the increased rate be distributed to the Health Care Fund.

Beverage	Current Rate	New Rate
Beer & Hard Cider	$0.115	$0.41
Liquor (and Wine over 21% alcohol)	$2.68	$9.59
Wine (less than 21% alcohol), Mixed beverages (5% or less alcohol)	$0.47	$1.68
Liquid Malt or Wort	$0.05	$0.18

Increasing these rates will cause a decrease in alcohol sales, and therefore there will be a decrease in collections deposited in the other funds receiving distributions of the ABET. The table below shows the funds affected by the increase in the ABET rates.

Funds Receiving Distributions	FY 2010 (in millions)	FY 2011 (in millions)
General Fund	($0.55)	($0.88)
Post War Construction Fund	($0.61)	($0.97)
Enforcement & Administration Fund	($0.07)	($0.11)
Addiction Services Fund	($0.05)	($0.08)
Pension Relief Fund	($0.15)	($0.23)
Wine Grape Market Development Fund	($0.02)	($0.04)
Health Center Fund (established in the bill)	$99.00	$106.31
TOTAL	**$97.55**	**$104.0**

The estimates are based on the December 11, 2008, State Revenue Forecast.

Impact on Sales Tax Collections: Increasing the ABET rates will cause a decrease in alcohol sales, and therefore there would be a decrease in sales tax collections on alcohol. However, any impact on overall sales tax revenue is expected to be minimal.

Health Care Fund: The bill establishes the nonreverting Health Care Fund, which is to consist of the revenue from the increased ABET rates provided for in this bill and any appropriations to the fund. The bill specifies the timing for the deposit of revenue into the fund by the Treasurer and requires a quarterly transfer of money in the fund to the Medicaid Indigent Care Trust Fund.

See *Explanation of State Expenditures* regarding Medicaid revenue.

Explanation of Local Expenditures:

Explanation of Local Revenues: Of the revenues from the ABET rates that is distributed to the General Fund, 50% is required to be set aside for distributions to cities and towns calculated based on population. Therefore, this bill will cause a decrease in the total distributions to cities and towns of approximately $275,000 in FY 2010 and $440,000 in FY 2011.

State Agencies Affected: Office of Medicaid Policy and Planning, Family and Social Services Administration; Department of State Revenue.

Local Agencies Affected: Local government-owned hospitals; Cities and Towns.

Information Sources:

Fiscal Analyst: Diana Agidi, 317-232-9867; Kathy Norris, 317-234-1360.