HB 7
Fiscal Impact

HB 7 will have a significant fiscal impact to the Cabinet for Health and Family Services of $431.18 million in general fund dollars and at least a $104 million loss in federal fund dollars.

DCBS – at least $38.78 million + $104 million less received in federal funds to low-income households, retailers accepting SNAP, and those KY communities

DMS – at least $386 million in state general fund dollars + at least two new employees in a new DMS branch to monitor hospitals + loss in counties in Medicaid recipients + 500 additional employees to process applications

CSE – at least $2.4 million for staffing

OOAR – $4 million for 50 additional hearing officers and attorneys

DCBS: HB 7 would have an extreme detrimental impact on the budget of the Department for Community Based Services (DCBS). The costs associated with re-issuing current electronic benefit transfer (EBT) cards and providing new EBT cards for all other non-exempted cabinet-administered public assistance programs is estimated to be at least $5 million. DCBS is also charged $0.49 per card monthly for processing payments and the price increases with the number of programs on the card. DCBS would experience a monthly cost increase of at least $10,000 ($120,000 annually) just for processing cards for all the new EBT card recipients required by this bill. Section 3(5) of the bill requires programs not already using EBTs to use them if the programs include cash assistance. As of January 2022, there were 2,114,817 EBT cards in "active" status in Kentucky, and this does not include programs that would be on-boarded to EBT cards as a result of HB 7. Although Section 1(2) exempts foster care, kinship care, fictive kin care, or relative placements, there would still be new programs added to the EBT card including adoption subsidy payments; Women, Infant, and Children (WIC) assistance, Child Care Assistance Program (CCAP) payments; Low Income Home Energy Assistance Program (LIHEAP); state supplemental payments for the aged, blind, and disabled; Kentucky Transitional Assistance Program (KTAP) cash assistance; and Supplemental Nutrition Assistance Program (SNAP) transportation costs.

There are currently 13,223 adoption subsidy recipients in Kentucky. Pursuant to Section 3(5) of HB 7, these recipients would be required to receive this subsidy on an EBT card. There are items/activities that children need that cannot be purchased using a debit card. No school that DCBS is aware of accepts debit cards. The flexibility adoptive families currently have to purchase items through school, field trips, extracurricular activities, tutoring services, respite care, child care, and transportation would be significantly impacted. It would also require a technological change within the department's child welfare data system (TWIST) within payment screens. HB 7 would require a system change within iTWIST with a cost of approximately $1,000,000 or more.

An average of 20,673 children per month received child care subsidy from July through December 2021. This bill would require either these recipients or the 2,018 childcare programs operating in Kentucky to receive payments from the Child Care Assistance Program (CCAP) on an EBT card. Card scanners and the internet would be required for these providers to receive the payment. It is also important to note, many child care centers and family child care homes are in rural areas of the state with limited and unreliable access to the internet or a high cost for internet services. Therefore, not only are these centers looking at the increase of needing a card scanner but also a monthly bill for internet access. DCBS would have to collaborate with a card vendor and system programmers at kynect to implement. The DCBS Division of Child Care has spoken with Wisconsin and other states who have implemented an electronic benefit transfer card system for child care. They informed DCBS it was impossible to administer other public assistance programs on a single card, and therefore CCAP has a separate electronic card. It took three years to plan the new card system and six months to implement. Wisconsin shared that it took a significant amount of cost to plan state training sessions, instructional webinars, literature, and increased cost to train state employees. Lastly, they shared that implementation was initially expensive because all providers needed to be prepaid for the month in advance. Currently, CCAP is paid after services are rendered, and the card would require the client to pre-pay. EBT machines cost roughly $1,000 each and the state has 2,018 child care centers and in-home providers. Providing EBT machines to all child care providers throughout the state would cost approximately $2,018,000. Indiana's Conduent contract for ongoing EBT services is $12 per month per program on-going services, including call services supports. That cost is $330,000 per year for ongoing EBT machine services. DCBS would have to outline in regulation and policy how cards are to be used appropriately. It will take a significant amount of time and training. DCBS would have to coach all child care providers on how to use the card scanners. This would include planning to implement state training sessions, webinars, videos, and consumer education literature to inform recipients on how to use their cards correctly.

The loss of Broad Based Categorical Eligibility could impacts kids/childcare.

The following populations are categorically eligible for CCAP:

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- Families involved with the Division of Protection and Permanency (P&P)
- Teen parents attending high school or GED classes
- KTAP recipients participating in the Kentucky Work Program + SNAP recipients participating in E&T

The following populations are categorically eligible for multiple public assistance programs, including CCAP:

- Kinship caregivers (note: only kinship situations recognized by the Cabinet; children in foster care are ineligible for CCAP)

Categorical eligibility allows SNAP families to be automatically eligible for USDA child nutrition programs, including CACFP.

- Without categorical eligibility, families would have to fill out a separate application to receive free and reduced meals through CACFP.
- Without Categorical Eligibility, many families would no longer be eligible for free or reduced meals through CACFP due to the SNAP asset limit test being raised.
- CACFP's reimbursement rate for free and reduced meals is significantly higher than the paid rate. Since most childcare centers do not charge families extra for meals, this would be a hit to a childcare center's already tight budget.

Additionally, BBCE allows families to have more than $2,250 in assets, such as a second car or a savings account. Due to the high cost of childcare, many families rely on savings to help cover the cost.

Over 150,000 households received utility assistance under the DCBS-administered Low-Income Home Energy Assistance Program and Water/Wastewater Utility Assistance Program in 2021. There were 310 utility providers who accepted payments from the program. Pursuant to HB 7, these payments would also have to be made via EBT card and providers would be required to have an EBT card reader and internet. This would cost the department or these providers $310,000 to implement with ongoing EBT machine services costs and internet services if not already obtained. Just as with child care providers, this would be extremely burdensome for utility providers.

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Section 2 refers to using unobligated Temporary Assistance for Needy Families (TANF) funds to prioritize prevention services and additional work supports and supportive services. There are occasionally remaining TANF funds in the fourth quarter report for each fiscal year reported on, but those funds will be spent and there are not ever unobligated TANF funds.

Section 3 of HB 7 includes restrictions on how public assistance benefits may be spent. Anyone who receives cash assistance via EBT under any public assistance program administered by the cabinet (with the exception of foster, kinship, fictive kin, and relative caregivers) would be subject to the purchasing and monitoring requirements of Section 3. Recipients of cash assistance programs would be prohibited from spending their assistance on alcoholic beverages, tobacco products, lottery tickets, etc., including withdrawing cash from their EBT card and using that to purchase the prohibited items. Section 3(4) includes penalties for these purchases, including recipients being permanently disqualified from receiving public assistance benefits for a period up to five (5) years. Section 3(5) states that the cabinet shall inform applicants and recipients of these restrictions and sanctions, monitor the use of EBT cards to withdraw cash and investigate cases in which it believes cash benefits may be being used in violation, and promulgate administrative regulations to implement this section. Requiring the cabinet to monitor the use of EBT cards of everyone receiving public assistance would require a tremendous increase in staff, and DCBS is already experiencing a dire staff shortage. Depending on the implementation of the monitoring provision, the cabinet would likely require an additional ten caseworkers to meet the child support verification requirements and review additional applications and an additional 60 case managers related to the additional SNAP requirements. Including fringe, the cost of these positions is approximately $69,000 per year and $88,000 per year, resulting in an annual cost of approximately $6M.

The additional requirements for applying and recertifying for SNAP are estimated to increase administrative workload by 75% - an increase in approximately 6,000 applications per month. The required SNAP monitoring provisions and the additional eligibility requirements for applications and recertifications are estimated to require 300 additional field support specialists statewide and 60 case managers related to the additional SNAP requirements. Including fringe, the cost of these positions is approximately $69,000 per year and $88,000 per year, respectively, resulting in an annual cost of approximately $25M - at a conservative estimate. These additional requirements relating to recertification are estimated to cause an annual reduction in SNAP benefits of $60M related to work program participants and $44M related to application processing/churn, totaling an approximate $104M less in federal funds coming into low-income households, retailers accepting SNAP, and those Kentucky communities. In addition to these losses retailers would experience, they would also have to assist in investigating all EBT cash withdrawals to ensure adherence to these provisions and the source of cash paid for these items. The required monitoring would result in the need for increased staff with SNAP-participating retailers. The cabinet is also required, through any means practical, to inform all applicants for and cash recipients of public assistance benefits of the restrictions and sanctions contained in this section. This may increase notices the department sends, awareness campaigns, additional staff to assist in person, by phone, and online to help recipients understand what the General Assembly intends to be "goods and services necessary for the welfare of the family." Other downstream impacts to the cabinet also includes that the more recertification requirements applied, the more chance there is of accidental overpayments and claims, increased cabinet hearings, and higher internal error rates associated with SNAP payments.

Section 16 requires DCBS to receive and review information from the Department of Revenue concerning individuals enrolled in SNAP that may indicate a change in circumstances affecting eligibility. The bill’s requirement that DCBS communicate with Department of Revenue and Department of Corrections systems is estimated to cost approximately $5M for those system integrations.

Section 16 of the bill also includes that the cabinet shall not seek, apply for, accept, or renew any waiver of work requirements related to SNAP without first obtaining specific authorization from the General Assembly to do so. Language allowing such waivers during economic downturns is proposed to be deleted.

Section 17 includes that categorical eligibility shall not be granted for any benefit unless expressly required by federal law and the cabinet shall not apply gross income standards for assistance higher than standards established in federal law. It also includes that self-attestation may not be used for the purpose of determining eligibility for medical assistance. Only the most recent income verification data available shall be used. This will require additional staff processing applications and renewals.

Section 17 includes optional penalties for trafficking, selling, giving, or otherwise transferring benefits including an individual being ineligible for all public assistance programs administered by the cabinet for up to six months or permanently ineligible because of a second offense.

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Section 20 includes that the cabinet may disqualify individuals from public assistance during any month in which the individual is delinquent in child support payments. These provisions could result in low-income households being deemed ineligible for SNAP, LIHEAP, CCAP, Medicaid, and many other cabinet programs serving vulnerable populations.

Implementation would cause a loss of benefit issuance to participants, which would cause a decrease in revenue from United States Department of Agriculture (USDA) for SNAP due to a loss in participation and food redemption. This would be a loss of federal dollars going to retailers and local communities for the purpose of helping low-income households purchase food. DCBS estimates that the restrictions and penalties contained in HB 7 could result in a loss of $104 million of federal dollars aiding those communities. SNAP benefits are funded 100% by the federal government. Failure by a state agency to adhere to the provisions of federal rules may result in penalties, including loss of federal funding.

In summary, the estimated cost of HB 7 would be at least $5 million for new EBT cards, $120,000 each year in new EBT card processing fees, over $1 million in system development relating to iTWIST relating to adoption services, $25 million in family support and child care staff to enforce the bill and include new requirements and trainings for providers, $2,330,000 to provide EBT machines to child care and utility providers throughout the state, $330,000 per year for ongoing EBT machine services, and at least $5M for system integrations with the Department of Revenue and Department of Corrections. This totals approximately $37M. DCBS estimates that the bill could cause an approximate $104M in federal SNAP funds being prevented from passing to Kentucky retailers and communities. DCBS could potentially realize costs associated with vulnerable populations losing access to these safety net economic supports and services through increased demand and workload for child protective services, foster care, and adult protective services. This is an indeterminable impact but could affect an already overwhelmed system.

DMS: The Department for Medicaid Services (DMS) anticipates administrative costs over the next three years of at least $386 million in state general fund dollars. Due to a clear directive from last year's HJR 57, DMS has already spent more than $512,000 in vendor and third-party contracts to implement a basic health plan (BHP) by January 1, 2023. As federal funds will not be available to implement a community engagement component, DMS would expect to spend at least $72 million per year in state funds to administer the program and at least $138 million to develop and implement it. An additional $12 million in state funds would be expected to be spent to meet the time limits for the eligibility redetermination deadlines, and $500,000 for increased resources for the call center.

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Section 6, community engagement/work requirements: U.S. Supreme Court case law clearly prohibits the Health and Human Services (HHS) Secretary from approving waivers that tie work requirements to Medicaid eligibility. If DMS is required to implement work requirements, it may only be funded through 100% state funds. DMS' administrative costs to develop and implement the Kentucky HEALTH waiver were about $138 million over three years. This included a blend of 50/50 and 90/10 matches. The total state spend to implement work requirements would be difficult to estimate, but DMS would anticipate a similar cost of $138 million to develop and implement at 100% state funds. DMS also anticipates a $72 million annual administrative state fund cost on an ongoing basis. In addition, if a community engagement requirement were ever implemented in Kentucky, DMS would expect to see several thousand people removed from the program. In Arkansas, a community engagement or work requirement resulted in 18,000 people losing coverage over seven months. This was about 25% of the individuals eligible for the work requirement. Most significantly, the vast majority of the people who lost coverage met eligibility but were simply removed due to the program's administrative burden. Kentucky is about 1/3 more populous than Arkansas. As a result, if 72,000 individuals were subject to the program in Arkansas, then up to 96,000 individuals might be impacted in Kentucky. At the same rate, this might result in 24,000 individuals losing coverage due to administrative requirements and not actually failing to meet a work requirement.

Sections 7 and 28, basic health plan: Based on recommendations from HJR 57 (2021 Regular Session), DMS spent funds on third-party contracts to begin implementing a basic health program. At this point, DMS has already spent more than $512,000. Joint Application Development (JAD) meetings are taking place for a January 1, 2023, implementation date. A great deal of time and resources were utilized to support the HJR 57 work group. Starting the process over with a new task force would result in additional costs of approximately $100,000 that may be 100% state general fund.

Sections 8 and 17, redeterminations/self-attestation:

This bill would pose significant costs to Kentucky's citizens who are eligible for Medicaid or currently receiving Medicaid. This, in turn, will fiscally impact providers and communities as individuals become less able to access healthcare. DMS anticipates that at least 300,000 individuals will be removed from Medicaid due to noncompliance with the additional documentary burdens. DMS' estimate includes about 180,000 individuals who will leave the program at the end of the public health emergency (PHE), and another 120,000 individuals who will be subject to additional verification and will be removed for noncompliance.

Utilizing a blended per member per month (PMPM) estimate of $704.67:

- If 180,000 individuals are removed from the program, this will be $1.52 billion over the course of a year.
- If 300,000 individuals are removed, that is $2.53 billion over the course of a year.
- This would be an average loss of 2,480 individuals covered by Medicaid and average fiscal impact per county of $20.9 million per year.

In addition, DMS would experience increased costs in processing redeterminations to meet the bill's deadline. If 300,000 individuals have to be intensively recertified, DMS estimates that the workforce would need to process 5,000 applications per day. Assuming that a worker could manage 100 applications per day, this would create a need for 500 additional employees.

The nursing home industry would also be severely impacted by the self-attestation requirements of the bill. New nursing home employees have not been fully trained due to the pandemic. As a result, there have been large increases in pending applications. Outside of the pandemic and going forward, processing of applications will take longer. This will result in nursing facilities having larger accounts receivable balances and greater financial risk. DMS estimates that up to 20% of our nursing home population may no longer be eligible due to the use of self-attestations. We can currently verify that this involves about 3,200 individuals out of the census of about 20,000 individuals. This would be significant as this care could be paid for by the nursing homes who would be at risk. It is also possible that the 3,200-4,000 individuals would be otherwise accommodated by hospitals at a higher cost or within community by friends or family. DMS estimates that this could cost the nursing home industry about $750,000 - $940,000 per day or about $273.7 - $343 million over the course of the year. If this cost was migrated to hospitals, the $273-$343 million could be substantially increased by hospital per diem costs.

DMS is also concerned about how the bill will impact individuals with mental health or substance use diagnoses. Traditional redeterminations and requests for additional information can already be burdensome on this population. This is one reason why a gradual and targeted administrative response as directed by the federal Centers for Medicare and Medicaid Services (CMS) was planned to be utilized at the ending of the public health emergency. A rapid process will be especially burdensome on this population. This would be likely to have additional care costs as individuals are brought back into coverage later.

Section 10, Hospital presumptive eligibility: DMS further anticipates additional departmental and external costs as a result of the provisions of the bill that relate to hospitals. The additional monitoring requirements in Section 10 of the bill alone would likely require DMS to employ at least two full time employees. Considering salary and fringe, this would be an additional $200,000+ annual expense to DMS. CMS approval may be needed to change the current presumptive eligibility model as there is no authority to penalize a hospital and remove their ability to perform presumptive eligibility.

The additional hospital regulatory requirements could pose grave risks to Kentucky's public and private hospitals. The increased administrative burden on hospitals will likely result in choosing to no longer conduct presumptive eligibility determinations. This will cause a lack in access to temporary Medicaid coverage and Medicaid recipients may be denied necessary and comprehensive care after the onset of an acute condition. This will also lead to an increase in charitable and uncompensated care. Since the onset of expanded Medicaid, uncompensated care has plummeted throughout the commonwealth. Federal disproportionate share funds (DSH) have been greatly reduced over the previous decade as a result, and other community funds have been depleted or otherwise discontinued with the availability of care for the most economically disadvantaged Kentuckians. If Medicaid funding is removed so aggressively from these hospitals and they are left to rely on uncompensated care recovery or DSH funds, it is likely that many Kentucky hospitals will fail. This legislation comes after Kentucky's public, private, urban, and rural hospitals have made substantial gains in institutional stability over the previous three years via the introduction of the Hospital Rate Improvement Program (HRIP). Because this legislation would strongly impact the volume of Medicaid recipients in hospitals and push them towards charity or uncompensated care models, the viability and sustainability of Kentucky's hospitals will be in doubt going forward.

This information is preliminary and subject to additional research and analyses.

CSE/DIS: A portion of the proposed legislation would reduce the child support agency's revenue, causing a reduction in funds needed to operate the program. When an individual is receiving Kentucky Transitional Assistance Program (KTAP) or kinship care benefits and there is a deprivation for the child, the child support agency receives a referral from the IV-A agency to establish paternity, if necessary, and child support. Once established, the Kentucky child support agency retains the state share of child support collected on the case, and these sums are used to operate the program.

The proposed changes under KRS 205.725(3)(c) would allow an exemption for not sending a child support referral if the custodial parent is the child's mother, and she did not identify a father on the child's birth certificate at the time of birth. The number of public assistance referrals received by the child support agency will drastically reduce if this legislation is passed, thereby reducing the number of orders established, support collected, and state share of child support collections retained to fund the program.

The child support agency categorizes child support cases involving children receiving KTAP and kinship care benefits in the same way and retains the state share of child support collected on these cases. If kinship care is no longer included in the definition of public assistance, this may impact the agency's ability to retain the child support collections in child support cases involving a child receiving kinship care benefits.

To implement the proposed changes under KRS 205.725(1), specifically the requirement to enforce 7 CFR Section 273.11(o) and (p), would require an increase in the child support agency's budget. The child support agency currently receives child support referrals only for children receiving KTAP or kinship care benefits. If the intent is to require the state agency to implement the requirements contained in the CFR, DCBS would be required to complete a child support referral when the custodial or noncustodial parent applies for SNAP. This will significantly increase the child support agency's caseload. Without additional funding, the child support agency would be unable to process these cases timely and meet federal timeframes.

The child support agency estimates it would need to hire one additional staff person per 500 additional child support referrals. The estimated cost per employee $60,000 (entry level salary of $28,000 plus fringe). Additionally, the child support agency would incur additional costs for computer equipment, furniture, and telephones of approximately $2,000 per employee. For example, if the cabinet determines this legislation would cause the child support agency to receive child support referrals for an additional 20,000 children receiving SNAP benefits, this will result in child support agency receiving an additional 20,000 child support cases at a minimum (if the person receiving SNAP benefits is not the mother or father of the child, two referrals would be sent, one against the mother and another against the father). The child support agency would need to hire 40 new caseworkers and increase the contracting official budget by $2,400,000 to hire these additional staff ($60,000 per employee x 40 new employees). This projection does not include the additional costs that would be incurred by the county attorney having to bill more time or hire additional attorneys to handle the increased caseload.

OOAR: HB 7 is expected to have an impact on the budget of the Cabinet for Health and Family Services' (CHFS) Office of the Ombudsman and Administrative Review (OOAR). This bill requires the OOAR to administer hearings regarding the disqualification categories for public assistance programs. The OOAR will need to hire additional hearing officers and administrative staff to administer the anticipated increase in appeals and within the timeframe outlined in the federal regulation. Additionally, administrative costs related to mail would increase. The review of Supplemental Nutrition Assistance Program (SNAP) for able-bodied adult without dependents (ABAWD) and with employment and training (E&T) requirements will necessitate OOAR to hire additional specialists to complete case reviews. The bill's requirements that a percentage of SNAP benefits to be used towards healthy foods, Medicaid participants complete 80 hours of qualifying activities, and requirements regarding ABAWD waivers will require OOAR to hire additional specialists to field complaints an identify eligible resources for referral. The bill has the potential to increase the case error rates for the agency, which will increase the work for OOAR.

BHDID: The proposed legislation does not have an immediate fiscal impact upon Department for Behavioral Health, Developmental & Intellectual Disabilities (DBHDID). However, if significant numbers of individuals are disenrolled from Department of Medicaid Services coverage, DBHDID could experience increased costs by providing or funding increased substance use disorder (SUD) and mental illness services (e.g., crisis services, psychiatric hospitalization, residential SUD treatment) to address a likely increase in overdoses and relapses.

DPH: As written, HB 7 will not impact the Department for Public Health budget.

OIG: HB 7 would have no significant fiscal impact on OIG.