

Multiple Agency Fiscal Note Summary

Bill Number: 1123 HB	Title: Health carrier reimbursement
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Estimated Cash Receipts

Agency Name	2025-27			2027-29			2029-31		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Washington State Health Care Authority	0	0	(70,685,000)	0	0	(350,270,000)	0	0	(478,042,000)
University of Washington	0	0	(30,537,879)	0	0	(125,325,859)	0	0	(134,848,892)
University of Washington	In addition to the estimate above, there are additional indeterminate costs and/or savings. Please see individual fiscal note.								
Total \$	0	0	(101,222,879)	0	0	(475,595,859)	0	0	(612,890,892)

Estimated Operating Expenditures

Agency Name	2025-27				2027-29				2029-31			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Washington State Health Care Authority	.3	0	0	(70,685,000)	1.0	0	0	(350,270,000)	1.0	0	0	(478,042,000)
University of Washington	.0	0	0	0	.0	0	0	0	.0	0	0	0
Total \$	0.3	0	0	(70,685,000)	1.0	0	0	(350,270,000)	1.0	0	0	(478,042,000)

Estimated Capital Budget Expenditures

Agency Name	2025-27			2027-29			2029-31		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Washington State Health Care Authority	.0	0	0	.0	0	0	.0	0	0
University of Washington	.0	0	0	.0	0	0	.0	0	0
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Estimated Capital Budget Breakout

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Date Published:
Final 1/31/2025

Individual State Agency Fiscal Note

Bill Number: 1123 HB	Title: Health carrier reimbursement	Agency: 107-Washington State Health Care Authority
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

ACCOUNT	FY 2026	FY 2027	2025-27	2027-29	2029-31
St Health Care Authority Admin Acct-State 418-1		187,000	187,000	472,000	472,000
Uniform Medical Plan Benefits Administration Account-Non-Appropriated 439-6		2,565,000	2,565,000	2,940,000	2,940,000
School Employees' Insurance Admin Acct-State 492-1		187,000	187,000	472,000	472,000
School Employees' Insurance Account-Non-Appropriated 493-6		(34,628,000)	(34,628,000)	(165,796,000)	(232,770,000)
School Employees' Benefits Board Medical Benefits Administrative Account-Non-Appropriated 494-6		2,565,000	2,565,000	2,940,000	2,940,000
Public Employees' and Retirees Insurance Account-Non-Appropriated 721-6		(41,561,000)	(41,561,000)	(191,298,000)	(252,096,000)
Total \$		(70,685,000)	(70,685,000)	(350,270,000)	(478,042,000)

Estimated Operating Expenditures from:

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	0.0	0.5	0.3	1.0	1.0
Account					
St Health Care Authority Admin Acct-State 418-1	0	187,000	187,000	472,000	472,000
Uniform Medical Plan Benefits Administration Account-Non-Appropriated 439-6	0	2,565,000	2,565,000	2,940,000	2,940,000
School Employees' Insurance Admin Acct-State 492-1	0	187,000	187,000	472,000	472,000
School Employees' Insurance Account-Non-Appropriated 493-6	0	(34,628,000)	(34,628,000)	(165,796,000)	(232,770,000)
School Employees' Benefits Board Medical Benefits Administrative Account-Non-Appropriated 494-6	0	2,565,000	2,565,000	2,940,000	2,940,000
Public Employees' and Retirees Insurance Account-Non-Appropriated 721-6	0	(41,561,000)	(41,561,000)	(191,298,000)	(252,096,000)
Total \$	0	(70,685,000)	(70,685,000)	(350,270,000)	(478,042,000)

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: David Pringle	Phone: 360-786-7310	Date: 01/22/2025
Agency Preparation: Sara Whitley	Phone: 360-725-0944	Date: 01/23/2025
Agency Approval: Tanya Deuel	Phone: 360-725-0908	Date: 01/23/2025
OFM Review: Marcus Ehrlander	Phone: (360) 489-4327	Date: 01/27/2025

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

See attached narrative.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

See attached narrative.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

See attached narrative.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2026	FY 2027	2025-27	2027-29	2029-31
418-1	St Health Care Authority Admin Acct	State	0	187,000	187,000	472,000	472,000
439-6	Uniform Medical Plan Benefits Administration Account	Non-Appropriated	0	2,565,000	2,565,000	2,940,000	2,940,000
492-1	School Employees' Insurance Admin Acct	State	0	187,000	187,000	472,000	472,000
493-6	School Employees' Insurance Account	Non-Appropriated	0	(34,628,000)	(34,628,000)	(165,796,000)	(232,770,000)
494-6	School Employees' Benefits Board Medical Benefits Administrative Account	Non-Appropriated	0	2,565,000	2,565,000	2,940,000	2,940,000
721-6	Public Employees' and Retirees Insurance Account	Non-Appropriated	0	(41,561,000)	(41,561,000)	(191,298,000)	(252,096,000)
Total \$			0	(70,685,000)	(70,685,000)	(350,270,000)	(478,042,000)

III. B - Expenditures by Object Or Purpose

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years		0.5	0.3	1.0	1.0
A-Salaries and Wages		62,000	62,000	248,000	248,000
B-Employee Benefits		20,000	20,000	76,000	76,000
C-Professional Service Contracts		250,000	250,000	500,000	500,000
E-Goods and Other Services		20,000	20,000	42,000	42,000
G-Travel		4,000	4,000	8,000	8,000
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services		(71,059,000)	(71,059,000)	(351,214,000)	(478,986,000)
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements		18,000	18,000	70,000	70,000
9-					
Total \$	0	(70,685,000)	(70,685,000)	(350,270,000)	(478,042,000)

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2026	FY 2027	2025-27	2027-29	2029-31
WMS Band 02	123,000		0.5	0.3	1.0	1.0
Total FTEs			0.5	0.3	1.0	1.0

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

See attached narrative.

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Section 1(8) provides the HCA the explicit authority to adopt rules to implement this legislation, to include but not limited to: levying fines and taking other contract actions to enforce compliance with state law, as the HCA deems necessary.

HCA Fiscal Note

Bill Number: **HB 1123**

Title: **Health carrier reimbursement**

Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts:

ACCOUNT	Account Title	REV SOURCE	FY-2027	FY-2028	FY-2029	FY-2030	2025-27	2027-29	2029-31
721	Public Employees' and Retirees' Insurance Account		(\$41,561,000)	(\$85,734,000)	(\$105,564,000)	(\$126,048,000)	(\$41,561,000)	(\$191,298,000)	(\$252,096,000)
493	School Employees' Insurance Account		(\$34,628,000)	(\$71,989,000)	(\$93,807,000)	(\$116,385,000)	(\$34,628,000)	(\$165,796,000)	(\$232,770,000)
418	State Health Care Authority Admin Account	0621	\$187,000	\$236,000	\$236,000	\$236,000	\$187,000	\$472,000	\$472,000
492	School Employees' Insurance Admin Account	0621	\$187,000	\$236,000	\$236,000	\$236,000	\$187,000	\$472,000	\$472,000
439	Uniform Medical Plan Benefits Administration Account		\$2,565,000	\$1,470,000	\$1,470,000	\$1,470,000	\$2,565,000	\$2,940,000	\$2,940,000
494	School Employees' Benefits Board Medical Benefits Administration Account		\$2,565,000	\$1,470,000	\$1,470,000	\$1,470,000	\$2,565,000	\$2,940,000	\$2,940,000
CASH RECEIPT - TOTAL \$			(\$70,685,000)	(\$154,311,000)	(\$195,959,000)	(\$239,021,000)	(\$70,685,000)	(\$350,270,000)	(\$478,042,000)

Estimated Operating Expenditures:

ACCOUNT	ACCOUNT TITLE	TYPE	FY-2027	FY-2028	FY-2029	FY-2030	2025-27	2027-29	2029-31
721	Public Employees' and Retirees' Insurance Account	Non-Appropriated	(\$41,561,000)	(\$85,734,000)	(\$105,564,000)	(\$126,048,000)	(\$41,561,000)	(\$191,298,000)	(\$252,096,000)
493	School Employees' Insurance Account	Non-Appropriated	(\$34,628,000)	(\$71,989,000)	(\$93,807,000)	(\$116,385,000)	(\$34,628,000)	(\$165,796,000)	(\$232,770,000)
418	State Health Care Authority Admin Account	State	\$187,000	\$236,000	\$236,000	\$236,000	\$187,000	\$472,000	\$472,000
492	School Employees' Insurance Admin Account	State	\$187,000	\$236,000	\$236,000	\$236,000	\$187,000	\$472,000	\$472,000
439	Uniform Medical Plan Benefits Administration Account	Non-Appropriated	\$2,565,000	\$1,470,000	\$1,470,000	\$1,470,000	\$2,565,000	\$2,940,000	\$2,940,000
494	School Employees' Benefits Board Medical Benefits Administration Account	Non-Appropriated	\$2,565,000	\$1,470,000	\$1,470,000	\$1,470,000	\$2,565,000	\$2,940,000	\$2,940,000
ACCOUNT - TOTAL \$			(\$70,685,000)	(\$154,311,000)	(\$195,959,000)	(\$239,021,000)	(\$70,685,000)	(\$350,270,000)	(\$478,042,000)

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Part II: Narrative Explanation**II. A - Brief Description of What the Measure Does That Has Fiscal Impact**

Section 1 adds a new chapter to RCW 41.05 (State Health Care Authority) to enact the following:

- Section 1(1) defines “contractor” as a health carrier or third-party administrator (TPA) that provides medical coverage offered to public employees and their covered dependents.
- Section 1(2) requires a hospital licensed under RCW 70.41 (Hospital licensing and regulation) that receives payment for services through any program administered by the Health Care Authority (HCA) under RCW 74.09 (Medical care) to contract with a contractor upon a good faith offer to contract.
 - o An exception is noted for hospitals owned and operated by a health maintenance organization licensed under RCW 48.46 (Health maintenance organizations).
- Section 1(3)(a) summarizes the following requirements for health plans offered to public employees and their covered dependents, beginning January 1, 2027:
 - o Section 1(3)(a)(i): Reimbursement to providers and facilities for all inpatient (IP) and outpatient (OP) hospital services may not exceed the lesser of billed charges, the contractor’s contracted rate for the provider or 200 percent of the total amount Medicare would have reimbursed providers and facilities for the same or similar services.
 - o Section 1(3)(a)(ii): Reimbursement to any provider or facility for IP and OP hospital services provided at a specialty Children’s Hospital may not exceed the lesser of billed charges, the contractor’s contracted rate, or 350 percent of the total amount Medicare would have reimbursed providers and facilities for the same or similar services.
 - o Section 1(3)(a)(iii): Reimbursement for services provided by rural hospitals, critical access hospitals (CAH) or sole community hospitals must not be less than 101 percent of allowable costs as defined by the Centers for Medicare and Medicaid Services (CMS).
 - o Section 1(3)(a)(iv): Reimbursement for primary care services (PC), as defined by the HCA, may not be less than 150 percent of the amount that would have been reimbursed under Medicare for the same or similar services; and,
 - o Section 1(3)(a)(v): Reimbursement for non-facility based behavioral health (BH) services, as defined by the HCA, may not be less than 150 percent of the amount Medicare would have reimbursed for the same or similar services.
- Section 1(3)(b) summarizes the following requirements for health plans offered to public employees and their covered dependents, beginning January 1, 2029:
 - o Section 1(3)(b)(i) Reimbursement to providers and facilities for all inpatient (IP) and outpatient (OP) hospital services may not exceed the lesser of billed charges, the contractor’s contracted rate for the provider or 190 percent of the total amount Medicare would have reimbursed providers and facilities for the same or similar services.
 - o Section 1(3)(b)(ii): Reimbursement to any provider or facility for IP and OP hospital services provided at a specialty Children’s Hospital may not exceed the lesser of billed charges, the contractor’s contracted rate, or 300 percent of the total amount Medicare would have reimbursed providers and facilities for the same or similar services.
- Section 1(4) states that a contractor may reimburse a hospital through a non-fee-for-service (FFS) payment methodology, so long as any payments incentivize higher quality and improved health outcomes, and that the contractor complies will all other reimbursement requirements of this legislation.
- Section 1(5) requires health plans incorporate any resulting financial impacts of changes in reimbursement, resulting from this legislation, in future premium development.
- Section 1(6) requires contractors to provide cost and quality of care information and/or data to the HCA upon a request. Contractors may not enter into an agreement with a provider or any third party that would restrict the HCA from receiving information or data related to this provision.

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Title: **Health carrier reimbursement**

- Section 1(7) requires the HCA provide a report to the Governor’s office, and all relevant committees of the legislature, by December 31, 2030, to include an analysis of initial impacts of this legislation on network access, member premiums, and State expenditures for medical coverage offered to public employees.
- Section 1(8) provides the HCA authority to adopt rules to implement this legislation, to include but not limited to: levying fines and taking other contract actions to enforce compliance with state law, as the HCA deems necessary.

II. B - Cash Receipts Impact

Given the fiscal analysis detailed below, and all associated assumptions, HCA estimates that this bill could result in allowed cost avoidance in the state’s self-insured Uniform Medical Plan (UMP), resulting in an impact to future UMP bid rates and the state’s contribution toward medical benefits for employees under the PEBB and SEBB programs (Employer Medical Contribution, or EMC). Any decreases to assumed expenditures is assumed to require a parallel decrease in revenue via future PEBB and SEBB funding rates. See detailed analysis below.

ACCOUNT	Account Title	REV SOURCE	FY-2027	FY-2028	FY-2029	FY-2030	2025-27	2027-29	2029-31*
721	Public Employees' and Retirees' Insurance Account		(\$41,561,000)	(\$85,734,000)	(\$105,564,000)	(\$126,048,000)	(\$41,561,000)	(\$191,298,000)	(\$252,096,000)
493	School Employees' Insurance Account		(\$34,628,000)	(\$71,989,000)	(\$93,807,000)	(\$116,385,000)	(\$34,628,000)	(\$165,796,000)	(\$232,770,000)
418	State Health Care Authority Admin Account	0621	\$187,000	\$236,000	\$236,000	\$236,000	\$187,000	\$472,000	\$472,000
492	School Employees' Insurance Admin Account	0621	\$187,000	\$236,000	\$236,000	\$236,000	\$187,000	\$472,000	\$472,000
439	Uniform Medical Plan Benefits Administration Account		\$2,565,000	\$1,470,000	\$1,470,000	\$1,470,000	\$2,565,000	\$2,940,000	\$2,940,000
494	School Employees' Benefits Board Medical Benefits Administration Account		\$2,565,000	\$1,470,000	\$1,470,000	\$1,470,000	\$2,565,000	\$2,940,000	\$2,940,000
CASH RECEIPT - TOTAL \$			(\$70,685,000)	(\$154,311,000)	(\$195,959,000)	(\$239,021,000)	(\$70,685,000)	(\$350,270,000)	(\$478,042,000)

*Accounts for only one fiscal year in this biennium.

II. C – Expenditures

Public Employees Benefits Board (PEBB) and School Employees Benefits Board (SEBB) programs

Given the fiscal analysis detailed below, and all associated assumptions, HCA estimates that this bill could result in allowed cost avoidance in the state’s self-insured Uniform Medical Plan (UMP), resulting in an impact to future UMP bid rates and the state’s contribution toward medical benefits for employees under the PEBB and SEBB programs (Employer Medical Contribution, or EMC). Additionally, given feedback from Premera, a SEBB fully insured carrier, HCA assumes allowed cost avoidance and potential impacts to fully insured (FI) bid rates in future periods.

Section 1 adds a new section to RCW 41.05 that requires all contracted health plans (both fully insured carriers and self-insured TPAs) of the PEBB and SEBB programs comply with the following reference-based pricing reimbursement requirements, using Medicare reimbursement as the reference pricing mechanism.

- Reimbursement for IP and OP hospital services may not exceed 200 percent of Medicare beginning January 1, 2027; reimbursement for IP and OP hospital services may not exceed 190 percent of Medicare beginning January 1, 2029. HCA assumes acute care and critical access hospitals (CAH) are subject to this reimbursement cap.
- Reimbursement to specialty Children’s Hospitals for IP and OP hospital services may not exceed 350 percent of Medicare beginning January 1, 2027; reimbursement for IP and OP hospital services may not exceed 300 percent of Medicare beginning January 1, 2029.
- Reimbursement to rural hospitals, CAHs and sole community hospitals must not be less than 101 percent of allowable costs (but still subject to the 200/190 percent of Medicare caps detailed above).
- Reimbursement for PC services, as defined by the HCA, may not be less than 150 percent of Medicare and,
- Reimbursement for BH services, as defined by the HCA, may not be less than 150 percent of Medicare.

IP and OP facility-based hospital services represent a significant portion of overall PEBB and SEBB plan claims liability for the self-insured UMP and fully insured plan offerings. HCA interprets the hospital reimbursement “caps” imposed by this version of the legislation to be implemented at the facility level, not at the granular service level or aggregate carrier level. An analysis of facility level reimbursement in the UMP revealed a number

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of hospitals are currently being reimbursed at levels that exceed the 200 percent of Medicare reimbursement cap for acute care and CAH facility types, and the 350 percent of Medicare reimbursement cap for specialty Children's Hospitals.

Decreasing reimbursement to these facilities to comply with the requirements of this legislation results in an assumed allowed cost avoidance for IP and OP facility-based services in all plans. However, reimbursement for PC and BH services may need to increase relative to current levels, potentially resulting in increases to certain allowed costs. The assumed investment in PC and/or BH services is not expected to exceed the total projected cost avoidance for facility-based services. Therefore, despite increasing reimbursement for some services, HCA projects a net allowed cost avoidance for all PEBB and SEBB medical plans resulting from this legislation. Details regarding specific impacts to the self-insured UMP and fully insured plans are detailed below.

The UMP is the state's self-insured health plan, governed under RCW 41.05 (State health care authority). The state's contribution toward employee medical premiums, known as the Employer Medical Contribution (EMC) is calculated using the non-Medicare UMP Classic (PEBB) and UMP Achieve 2 (SEBB) plan bid rates. While the EMC is developed using UMP projected costs, it is applied to all PEBB and SEBB employee plan premiums.

Self-insured Uniform Medical Plan (UMP) impact and state costs

The self-insured UMP medical benefit, and all associated provider and facility contracting for the UMP, is administered by Regence. Given analysis of current reimbursement levels for facility IP/OP, Children's Hospital and PC and BH services, HCA assumes Regence will need to adjust provider contracts to meet the requirements of this legislation. Therefore, there are two main cost implications facing the UMP should this legislation pass as written:

Increased administrative costs associated with implementation of this Legislation

Given a preliminary assessment of this legislation, Regence indicates a significant investment in time and resources to ensure successful implementation and compliance with bill requirements.

Regence estimates an initial required investment of \$5.3 million for implementation of the requirements of this legislation, and annual ongoing costs of approximately \$2.9 million. Administrative fees paid to Regence are paid out of fund 439 (Uniform Medical Plan Benefits Administration Account) and fund 494 (School Employees' Benefits Board Medical Benefits Administration Account).

Allowed cost avoidance and cost liability

HCA estimates net allowed cost avoidance in future periods resulting in decreased claims liability driven by caps in reimbursement for IP/OP facility-based hospital services. Changes in UMP claims liability will impact fund 721 (Public Employees' and Retirees' Insurance Account) and fund 493 (School Employees' Insurance Account) and could result in changes to projected employer contributions via the EMC and associated state expenditures.

To effectively estimate projected impacts to UMP cost liability, HCA completed this analysis in three steps:

Step 1: Determine current (Calendar year (CY) 2023) and projected reimbursement levels

HCA analyzed CY2023 UMP hospital IP/OP experience at the individual hospital level for associated hospitals with claims experience in the UMP network to determine the scope of current allowed claims that could be subject to the requirements of this legislation. The Milliman Medicare Repricing (MMR) software, developed by HCA's contracted actuary Milliman, Inc., was applied to reprice UMP allowed

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claims to determine what the estimated Medicare reimbursement could be for those services. The ratio of current UMP allowed amounts to Medicare repriced allowed amounts, for each hospital included in the analysis, resulted in the current assumed reference-priced reimbursement levels for services covered under this legislation (as a percent of Medicare).

While this analysis and the ultimate legislation is assumed to be implemented at the individual hospital level, the table below summarizes reference price in aggregate across all hospitals for context:

		CY2023 UMP Allowed (in millions)	Medicare Allowed (in millions)	CY2023 Reference Price (as percent of Medicare)
PEBB	Acute Care and CAH Hospitals (IP/OP)	\$639.1	\$310.6	206%
	Children's Hospitals (IP/OP)	\$73.4	\$16.8	438%
	Behavioral Health (BH)	\$61.3	\$55.4	111%
	Primary Care Services (PC)	\$86.6	\$58.5	148%
SEBB	Acute Care and CAH Hospitals (IP/OP)	\$296.4	\$146.8	202%
	Children's Hospitals (IP/OP)	\$29.7	\$7.7	386%
	Behavioral Health (BH)	\$24.1	\$23.2	104%
	Primary Care Services (PC)	\$48.5	\$31.3	155%

The intended implementation date of this legislation is assumed to be January 1, 2027, with projected impacts assumed through at least December 31st, 2030; therefore, HCA applied a unit cost trend to CY2023 UMP allowed claims for each individual hospital, derived using Milliman’s biannual analysis of UMP medical trends, to project CY2023 UMP allowed cost liability forward to CY2030. Similarly, a Medicare FFS unit cost trend, derived from CMS released publications, was applied to project estimated Medicare allowed costs through the same period. The same trend was applied to each hospital, no assumption was made for certain facilities or hospitals to trend at different rates.

These projections do not account for utilization trends, changes in service mix, population shifts or any future or currently uncaptured changes to provider or facility fee schedules. Should any aspect of this analysis deviate from actual results, the resulting fiscal impact will change.

Step 2: Determine impact of reimbursement caps at each hospital and calculate projected cost avoidance

After projecting claims liability forward to future periods under current market assumptions, HCA determined the modeled impact of implementing the legislated reimbursement caps in two “phases”:

- Phase 1: Assumed implementation date of January 1, 2027:
 - Acute care and CAH IP/OP hospital reimbursement does not exceed 200 percent of Medicare
 - Children’s Hospital IP/OP hospital reimbursement does not exceed 350 percent of Medicare
 - PC and BH services reimbursement is at least 150 percent of Medicare
- Phase 2: Assumed implementation date of January 1, 2029:
 - Acute care and CAH IP/OP hospital reimbursement does not exceed 190 percent of Medicare
 - Children’s Hospital IP/OP hospital reimbursement does not exceed 300 percent of Medicare
 - PC and BH services reimbursement remains at 150 percent of Medicare

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Given CY2023 experience and the analysis performed in Step 1, HCA estimates more than half of the approximately one hundred hospitals included in this analysis exceed the 200 percent of Medicare reimbursement cap to be implemented in Phase 1. Furthermore, BH service reimbursement is assumed to require increases in provider reimbursement to meet the 150 percent of Medicare minimum threshold; PC service reimbursement levels are projected to exceed the 150 percent of Medicare minimum, therefore there is no assumed required investment for these services.

Estimated UMP Cost Avoidance/Investment in projected periods (in millions)

		Projection Period	Acute care Hospital IP/OP	Children's Hospital IP/OP	Behavioral Health (BH)	Primary Care (PC)	Total net cost avoidance
PEBB	Phase 1	FY2027*	(\$38.1)	(\$9.8)	\$9.1	\$0.0	(\$38.8)
		FY2028	(\$77.9)	(\$19.9)	\$17.7	\$0.0	(\$80.0)
	Phase 2	FY2029	(\$90.8)	(\$24.6)	\$16.8	\$0.0	(\$98.6)
		FY2030	(\$104.2)	(\$29.4)	\$15.9	\$0.0	(\$117.7)
SEBB	Phase 1	FY2027*	(\$15.3)	(\$2.3)	\$4.6	\$0.0	(\$12.9)
		FY2028	(\$31.3)	(\$4.6)	\$9.1	\$0.0	(\$26.8)
	Phase 2	FY2029	(\$37.2)	(\$6.5)	\$8.7	\$0.0	(\$34.9)
		FY2030	(\$43.3)	(\$8.4)	\$8.3	\$0.0	(\$43.4)

*Represents only 6 months of cost avoidance/investment.

PEBB and SEBB program benefit periods, and the implementation of this legislation, are assumed to run on a calendar year basis; all financial estimates above have been converted to a fiscal year projection of cost avoidance or investment.

Due to the magnitude of assumed cost avoidance resulting from decreases in IP/OP hospital reimbursement, HCA assumes net annual allowed cost avoidance in Phase 1 for both PEBB and SEBB UMP. Phase 2 requires acute care hospital and CAH IP/OP reimbursement not exceed 190 percent of Medicare and Children’s Hospital reimbursement not exceed 300 percent of Medicare; this additional reduction in projected hospital reimbursement results in additional estimated cost avoidance through FY 2030.

Step 3: Estimate potential impact to future UMP bid rates, projected EMC, and state expenditures

Any decreases in projected claims liability in UMP is assumed to impact the underlying trends, bid rates and projected state expenditure related to the employer contribution toward PEBB and SEBB employee premiums, known as the EMC. As noted above, the EMC is calculated using the non-Medicare UMP Classic (PEBB) and UMP Achieve 2 (SEBB) plan bid rates. As plan cost liability decreases in each of these plans, the State’s contribution toward employee medical premiums is also expected to decrease.

HCA assumes, given estimated cost avoidance associated with the impacts of Phase 1 this legislation (calculated above in step 2), future UMP bid rates and the resulting EMC could decrease by approximately 2.3 to 4.8 percent in the PEBB program and approximately 1.7 to 3.6 percent in the SEBB program. Due to amplified cost avoidance in Phase 2, it is assumed the EMC could experience further decreases relative to the CY2025 final UMP bid rates of approximately 5.9 to 7.1 percent in PEBB and 4.7 to 5.9 percent in SEBB.

The EMC is calculated using the UMP projected plan liability and then applied uniformly across all PEBB and SEBB plan offerings. Based on these assumptions, HCA estimates the following possible range of impact to EMC projected expenditures:

HCA Fiscal Note

Bill Number: **HB 1123**

Title: **Health carrier reimbursement**

Estimated EMC expenditure impact for projection period

	PEBB non-Medicare	SEBB Active	Total
	Assumed Annual Expenditure Decrease	Assumed Annual Expenditure Decrease	Total Assumed Annual Expenditure Decrease
FY2027*	(\$41,561,000)	(\$34,628,000)	(\$76,189,000)
FY2028	(\$85,734,000)	(\$71,989,000)	(\$157,723,000)
FY2029	(\$105,564,000)	(\$93,807,000)	(\$199,371,000)
FY2030	(\$126,048,000)	(\$116,385,000)	(\$242,433,000)

**Represents only 6 months of impact*

This analysis was performed under a discrete set of assumptions, all of which are based on projections of historical experience forward to future periods. Past-experience is not a prediction of future experience, and any deviations from the assumptions applied in this analysis will yield different results. Due to decreases in projected EMC expenditure resulting from impacts of this legislation, HCA assumes the potential for parallel impacts to current projected funding rates for each program should this bill be enacted as written. Any decreases in projected expenditures are assumed to result in decreases to assumed revenue, in the form of funding rate changes, to the PEBB and SEBB programs.

Key assumptions:

- The supporting detailed claims and facility specific data underlying this analysis is considered proprietary and confidential and are therefore not included in this summary.
- All modeling and underlying results should be considered draft; all results are preliminary and are subject to change given changes in underlying service mix, utilization of services, future provider fee schedule adjustments and inflationary pressures.
- Should actual experience deviate from modeled values, the results of this analysis will change.
- Base period of experience: Allowed claims incurred January 1, 2023, through December 31, 2023; paid through March 31, 2024.
- The reimbursement “caps” imposed in the legislation will apply statewide to the entirety of the UMP network.
- Claims for PEBB non-Medicare and SEBB active population only; does not include exclusions for claims coordinated with Medicare or other payers.
- PEBB Medicare risk pool claims experience excluded from analysis.
- IP/OP allowed claims were identified using the Milliman Health Cost Guidelines grouper and include all services provided in a facility-based setting and any applicable facility fees assessed.
- Behavioral health (BH) services are defined using the set of procedure codes defined by HCA. All service costs for claims where at least one of the defined procedure codes appeared in any claim line are included in the underlying assumption of BH allowed cost.
- Primary Care Provider (PC) services are defined consistent with the WA Health Care Cost Transparency Board's (HCCTB) definition of Primary Care (HCPCS/CPT codes and provider specialty).
- Total Projected UMP Allowed amounts include all categories of service (IP, OP, Prof, and Pharmacy) and are trended forward to future periods using the underlying trend assumption noted in the above analysis. All other UMP Allowed amounts are specific to applicable categories of service included and trended forward using the applicable trend assumption.
- UMP Allowed claims were repriced to Medicare using the Milliman Medicare Repricer (MMR). The Medicare Repricer includes inpatient, outpatient, Ambulatory Surgical Center (ASC), and professional claims repricing capabilities, and replicates the Medicare claim adjudication logic including diagnosis-related group (DRG) and ambulatory payment classification (APC) grouping.

HCA Fiscal Note

Bill Number: **HB 1123**

Title: **Health carrier reimbursement**

- WA Facility specific repricing was applied using the MMR when a facility had a Medicare ID and fee schedule specific to that ID.
- For facilities that did not have a facility specific fee schedule (Children's Hospitals, Critical Access Hospitals (CAH), etc.) a national average fee schedule was applied to reprice claims to Medicare Allowed amounts. That is, these facility types were repriced to Medicare assuming they were standard acute care facility types.
- The CY2023 base period of claims experience, and assumed repriced Medicare allowed amounts, are trended forward to future periods using the following methodology:
 - o UMP projected allowed amounts are trended forward using only assumed unit cost trends, and do not account for utilization or total allowed trends.
 - o All cost avoidance estimates do not account for shifts in utilization or assumed allowed cost trends that include an assumption for utilization. For this reason, all resulting values should be considered estimates.
 - o UMP IP/OP annual unit cost trend applied to 2023 base period of experience is the composite weighted average of CY2021-CY2027 actual and projected unit cost trend for IP and OP service categories respectively, weighted on proportion of allowed dollars.
 - o UMP Professional annual unit cost trend applied to 2023 base period of experience is the average of CY2021-CY2027 actual and projected unit cost trend.
 - o Average CY2021-CY2025 actual and projected Medicare FFS unit cost trends for IP/OP and Professional services are applied to the 2023 base period of experience to project Medicare allowed costs into future periods.
- It is unknown how the Medicare FFS unit cost trends and underlying service mix will change in the future; should trends or utilization of the underlying service mix used to reprice these claims deviate from assumed trends in this analysis, the results will change.

Fully insured plan impact and member premiums

Feedback and analysis from Premera, a fully insured health plan in the SEBB program, indicate the potential for allowed cost avoidance resulting from the impacts of this legislation; while the details regarding Premera's assumption were not available at the time this analysis was drafted, HCA anticipates receiving an update once this information becomes available. Kaiser Foundation Health Plan of Washington (KPWA) and Kaiser Foundation Health Plan of the Northwest (KPNW) did not provide information or assumptions about cost impacts resulting from this bill.

Required FTEs

Section 1(8) provides the HCA the explicit authority to adopt rules to implement this legislation, to include but not limited to: levying fines and taking other contract actions to enforce compliance with state law, as the HCA deems necessary. HCA assumes one Washington Management System 2 (WMS 2) FTE will be required to meet the agency's need for implementation and ongoing oversight and management of the work associated with this legislation.

Required funding for actuarial support

In addition to staffing assumptions, detailed above, HCA assumes actuarial support will be required for implementation and ongoing oversight and management of the work associated with this legislation. HCA estimates \$250,000 will be required annually beginning CY2026.

HCA Fiscal Note

Bill Number: **HB 1123**

Title: **Health carrier reimbursement**

Part III: Expenditure Detail

III. A - Operating Budget Expenditure

ACCOUNT	ACCOUNT TITLE	TYPE	FY-2027	FY-2028	FY-2029	FY-2030	2025-27	2027-29	2029-31
721	Public Employees' and Retirees' Insurance Account	Non-Appropriated	(\$41,561,000)	(\$85,734,000)	(\$105,564,000)	(\$126,048,000)	(\$41,561,000)	(\$191,298,000)	(\$252,096,000)
493	School Employees' Insurance Account	Non-Appropriated	(\$34,628,000)	(\$71,989,000)	(\$93,807,000)	(\$116,385,000)	(\$34,628,000)	(\$165,796,000)	(\$232,770,000)
418	State Health Care Authority Admin Account	State	\$187,000	\$236,000	\$236,000	\$236,000	\$187,000	\$472,000	\$472,000
492	School Employees' Insurance Admin Account	State	\$187,000	\$236,000	\$236,000	\$236,000	\$187,000	\$472,000	\$472,000
439	Uniform Medical Plan Benefits Administration Account	Non-Appropriated	\$2,565,000	\$1,470,000	\$1,470,000	\$1,470,000	\$2,565,000	\$2,940,000	\$2,940,000
494	School Employees' Benefits Board Medical Benefits Administration Account	Non-Appropriated	\$2,565,000	\$1,470,000	\$1,470,000	\$1,470,000	\$2,565,000	\$2,940,000	\$2,940,000
ACCOUNT - TOTAL \$			(\$70,685,000)	(\$154,311,000)	(\$195,959,000)	(\$239,021,000)	(\$70,685,000)	(\$350,270,000)	(\$478,042,000)

III. B - Expenditures by Object or Purpose

OBJECT	OBJECT TITLE	FY-2027	FY-2028	FY-2029	FY-2030	2025-27	2027-29	2029-31
Object A	Salaries and Wages	\$62,000	\$124,000	\$124,000	\$124,000	\$62,000	\$248,000	\$248,000
Object B	Employee Benefits	\$20,000	\$38,000	\$38,000	\$38,000	\$20,000	\$76,000	\$76,000
Object C	Professional Service Contracts	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$500,000	\$500,000
Object E	Goods and Other Services	\$20,000	\$21,000	\$21,000	\$21,000	\$20,000	\$42,000	\$42,000
Object G	Travel	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000	\$8,000	\$8,000
Object N	Grants, Benefits & Client Services	(\$71,059,000)	(\$154,783,000)	(\$196,431,000)	(\$239,493,000)	(\$71,059,000)	(\$351,214,000)	(\$478,986,000)
Object T	Intra-Agency Reimbursements	\$18,000	\$35,000	\$35,000	\$35,000	\$18,000	\$70,000	\$70,000
OBJECT - TOTAL \$		(\$70,685,000)	(\$154,311,000)	(\$195,959,000)	(\$239,021,000)	(\$70,685,000)	(\$350,270,000)	(\$478,042,000)

III. C - Operating FTE Detail:

FTE JOB TITLE	SALARY	FY-2027	FY-2028	FY-2029	FY-2030	2023-25	2025-27	2027-29	2027-30
WMS BAND 02	123,000	0.5	1.0	1.0	1.0	0.0	0.3	1.0	2.0

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object or Purpose

NONE

IV. C - Capital Budget Breakout:

NONE

IV. D - Capital FTE Detail:

NONE

Part V: New Rule Making Required

Section 1(8) provides the HCA the explicit authority to adopt rules to implement this legislation, to include but not limited to: levying fines and taking other contract actions to enforce compliance with state law, as the HCA deems necessary.

Individual State Agency Fiscal Note

Bill Number: 1123 HB	Title: Health carrier reimbursement	Agency: 360-University of Washington
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Part I: Estimates

No Fiscal Impact

Estimated Cash Receipts to:

ACCOUNT	FY 2026	FY 2027	2025-27	2027-29	2029-31
University of Washington Hospital-Non-Appropriated 505-6		(30,537,879)	(30,537,879)	(125,325,859)	(134,848,892)
Total \$		(30,537,879)	(30,537,879)	(125,325,859)	(134,848,892)

In addition to the estimates above, there are additional indeterminate costs and/or savings. Please see discussion.

Estimated Operating Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: David Pringle	Phone: 360-786-7310	Date: 01/22/2025
Agency Preparation: Michael Lantz	Phone: 2065437466	Date: 01/29/2025
Agency Approval: Michael Lantz	Phone: 2065437466	Date: 01/29/2025
OFM Review: Ramona Nabors	Phone: (360) 742-8948	Date: 01/30/2025

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

House Bill 1123 concerns reimbursement rates for hospitals for services provided to public employees and their dependents insured on PEBB and SEBB plans. It requires hospitals to contract with a health insurance carrier, or third-party administrator, providing coverage to public employees or their dependents upon a good faith offer. The bill also caps reimbursement rates based on the type of hospital and type of service provided starting January 1, 2027. Further modifies certain reimbursement rates starting January 1, 2029. Specifies that nothing in this measure prohibits a non fee-for-service payment methodology, if payment method incentivizes higher quality or improved health outcomes. Requires premiums to consider changes to reimbursement rates anticipated from this measure. Allows the Health Care Authority to access data from carriers and adopt rules to implement the measure. Requires report to the Legislature and Governor by December 31, 2030.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

HB 1123 requires hospitals licensed under chapter 70.41 RCW to contract with a health carrier upon a good faith offer, and by January 1, 2027 requires reimbursement to any provider or facility for inpatient and outpatient hospital services to not exceed the lesser of billed charges, the contractor's contracted rate for the provider, or 200 percent of the total amount Medicare would have reimbursed for the same or similar services. Beginning January 1, 2029, the cap for reimbursement rates is reduced to 190 percent of the total amount Medicare would have reimbursed for the same or similar services.

HB 1123 also sets a floor for reimbursement for primary care services and non-facility-based behavioral health services at no less than 150 percent of the total amount Medicare would have reimbursed for the same or similar services.

UW Medicine has 17,467 PEBB/SEBB encounters per year at Harborview and 71,551 patient encounters at UW Medical Center. Given HB 1123 caps reimbursement rates for services provided to patients covered by public employee health plans at 200 percent of Medicare Rates, UW Medicine assumes the following impacts for UW Medical Center (Mountlake and Northwest campuses) and Harborview Medical Center.

For the period between January 1, 2027 (mid-way through FY27) and January 1, 2029 (mid-way through FY29), if the Medicare reimbursement rate for purposes of calculating a 200 percent cap is determined using the actual reimbursement rate for these services inclusive of supplemental payment programs, the impacts are assessed as a reduction in reimbursement for these services provided by approximately \$42,122,383 per FY.

If the Medicare reimbursement rate for purposes of calculating a 200 percent cap is determined using the base Medicare rate only, the impacts are assessed as a reduction in reimbursement for these services provided by approximately \$61,075,757 per FY. This number is used to calculate the figures in the cash receipts table for FY27, FY28, and FY29.

For the period beginning January 1, 2029 (mid-way through FY29), if the Medicare reimbursement rate for purposes of calculating a 190 percent cap is determined using the actual reimbursement rate for these services inclusive of supplemental payment programs, the impacts are assessed as a reduction in reimbursement for these services provided by approximately \$49,481,741 per FY.

If the Medicare reimbursement rate for purposes of calculating a 190 percent cap is determined using the base Medicare rate only, the impacts are assessed as a reduction in reimbursement for these services provided by approximately \$67,424,446 per FY. This number is used to calculate the figures in the cash receipts table for FY29, FY30, and FY31.

In addition to the clinical services UW Medicine provides, the University of Washington, including UW Medicine, employees are public employees who are insured under state PEBB plans. If the reduction in reimbursement rates for services provided for patients insured by PEBB plans were to result in a reduction in premiums for those plans, this may result in cost savings for the portion of premiums paid by the University of Washington as the employer. However, the impacts are indeterminate for the purposes of this fiscal note given those reductions in premium rates are not directly mandated or specified by this bill and are not known at this time.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

IV. D - Capital FTE Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.