SESSION OF 2007

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2274

As Recommended by House Committee on
Economic Development and Tourism

Brief*

HB 2274 would allow certain insurance companies to claim the Business and Job Development Credit and the High Performance Incentive Program Credit against premium tax. An insurance company would be allowed to claim such credits if:

- Such credit is earned but not used by a related corporation not required to pay the premium tax;
- The value of such credits would be made available to the related corporation through a reduction in costs charged to the related corporation by such insurance company or the transfer of funds to the related corporation in an amount equal to the credit claimed by the insurance company; and
- When the entity earning the credits is engaged in a contract that is subject to the federal acquisition regulations for services related to the administration of the federal Medicare program and has engaged in the investment in a qualified business facility with respect to the acquisition or retention of a contract to administer the federal Medicare program.

The bill also would define related corporation as a corporation or partnership controlled by the insurance company with at least an 80.0 percent interest. The provisions of the Act would expire on July 1, 2012, however, any credit unused but earned as of the July 1, 2012 date would continue to be used until exhausted.

Background

Proponents of the bill include a representative of the Kansas Department of Insurance, Kansas Department of Commerce, Topeka

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*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at http://www.kslegislature.org

Chamber of Commerce, Kansas Department of Revenue, and Wheatlands Administrative Services. The Committee was informed that when Congress passed the Medicare Modernization Act in 2003, it required that the contracts to administer traditional medicare programs must all be placed on a bid basis. In carrying out this mandate, the Centers for Medicare and Medicaid Services (CMS), ended its tradition of placing contracts on a state-by-state basis, establishing 15 multi-state jurisdictions across the nation.

Under this approach, Kansas is in a four-state jurisdiction that also includes Nebraska, Iowa, and Missouri. As a part of the bid process, CMS made it clear that it strongly preferred not to contract directly with an insurer, but instead to contract with a subsidiary, and insisted on governance of such subsidiaries including board members not affiliated with the insurer. To address those concerns, Blue Cross and Blue Shield of Kansas formed a wholly-owned subsidiary, Wheatlands, for the purpose of bidding on the Medicare business. As of January 1, 2007, all persons directly involved in Medicare administration at Blue Cross and Blue Shield of Kansas became employees of Wheatlands, controlled by its own board of directors. Wheatlands submitted a bid on this contract in November 2006 and anticipates that CMS will narrow the number of bidders and negotiate best and final offers sometime in March of 2007. The impact of this bid on the economy of Topeka and Kansas would be significant, a potential swing of approximately 600 jobs. If the contract is awarded to Wheatlands, it would add approximately 280 jobs, but if it loses the contract, the current 340 jobs will be eliminated.

The Department of Revenue indicates that any loss of revenue that would occur from the enactment of HB 2274 would be negligible, because the agency believes only one company would be affected. The agency indicates that implementation of this bill would require modifications to the automated tax system. The agency estimates that the modifications would require 80 hours of programming time at a cost of $80 per hour for a total of $6,400. The Kansas Insurance Department collects and audits returns for premium taxes. The agency indicates that any additional expenditures that would be associated with the enactment of HB 2274 could be handled within existing resources. Any fiscal effect associated with enactment of HB 2274 is not accounted for in *The FY 2008* Governor's *Budget Report.*