



OFFICE OF MANAGEMENT & BUDGET

State Budget Office

One Capitol Hill
Providence, RI 02908-5890

Office: (401) 222-6300

State Fiscal Note for Bill Number:

2025-H 5996

Date of State Budget Office Approval: Wednesday, May 14, 2025

Date Requested: Thursday, April 10, 2025

Date Due: Sunday, April 20, 2025

<i>Impact on Expenditures</i>	<i>Impact on Revenues</i>
FY 2025 N/A	FY 2025 N/A
FY 2026 Indeterminate	FY 2026 Indeterminate
FY 2027 Indeterminate	FY 2027 Indeterminate

Explanation by State Budget Office:

This bill would create a new Chapter of RIGL in Title 42, "State Affairs and Government", establishing a new program to help reduce out-of-pocket costs for low- and moderate-income consumers enrolled in the Rhode Island health benefits exchange.

Section one sets forth the new Chapter 157.2 RIGL entitled "Rhode Island Individual Market Affordability Act of 2025". This Act 1.) establishes the necessary definitions for the program, 2.) establishes the healthcare affordability program under the direction of the director of the Rhode Island health benefits exchange, 3.) establishes the health insurance individual market affordability fund, 4.) sets forth a tax credit which shall provide a total premium assistance credit amount for each enrollee, 5.) establishes the Individual market affordability board and outlines membership, and 6.) and directs the director of the Rhode Island health benefits exchange to promulgate regulations as necessary to carry out the purposes of the Chapter and the utilization of program fund.

This bill directs the director of the "exchange" or Healthsource RI to allocate program funds to:

1. Provide payments to carriers to increase the affordability of health insurance on the individual market for individuals who receive federal premium tax credits in the form of supplemental state premium tax credits;
2. Provide payments to carriers to increase the affordability of health insurance on the individual market for individuals who are over the household income limit, as established by federal law, for federal premium tax credits in the form of state premium tax credits;
3. Provide subsidies to reduce cost sharing for individuals enrolled in health insurance coverage through the exchange who are determined eligible for state subsidies; and
4. Pay for the actual administrative costs for implementing and administering the program established under this chapter.

Section two amends Section 35-4-27 of the General Laws in Chapter 35-4 entitled "State Funds" to include the newly created "Health Insurance Individual Market Affordability Account" to the list of restricted receipt accounts not subject to the States 10% indirect cost recovery on restricted receipt accounts.



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Summary of Facts and Assumptions:

H-5996 states that nothing in this chapter shall be construed as obligating the State to make general revenue appropriations to support the affordability program however it is unclear whether the tax credit would produce enough revenue to fully cover costs of the programs. The bill outlines potential uses of the assessment, the bill specifies the director and newly established board shall be responsible for promulgating rules and regulations to define the structure of the program and utilization of the funds. The uses are wide ranging and not insignificant, including subsidies to reduce cost sharing and the actual administrative costs of implementing and administering the program. However, without knowing the structure and regulations of the program, determining an estimate for implementation of this act is indeterminate. The Budget Office consulted HealthSource Rhode Island (HSRI) and the Division of Taxation (Division) to gather the following information to provide context to inform the potential fiscal impact of this proposal.

HSRI anticipates there would be some implementation and ongoing costs required to run the program. Note that the bill allows the funding source mechanism to pay for administration costs per 42-157.2-5 (a)(4), so these administrative costs would presumably be included in the assessment as restricted receipt revenues. Therefore, we expect no general revenue impact from the administration costs of the program. The following are the estimated administrative costs to be covered by restricted receipts:

- One-time technical implementation costs of \$750,000 - \$1.5 million
- Ongoing annual cost total of \$1.2 million per year which consists of:
 - Contracted staffing costs of \$235,000 for HSRI to run the program
 - actuarial contracting costs of \$100,000
 - revenue collection contracting costs of \$500,000
 - costs to supporting the creation, upkeep, and facilitation of the board of \$200,000
 - HSRI technical and operational work to support tax reporting of \$200,000

HSRI assumes no cost from the “cost-sharing” authority in 42-157.2-5 (a)(3), because HSRI assumes that federal enhanced tax credits will expire, and all the revenue would go towards premium assistance. A cost-sharing program could have significantly more expensive ongoing costs than a premium assistance program due to more actuarial work and more decisions to be made annually.

The proposed mechanism directs the contribution rate to be set so as to raise the money needed to fund the program, and therefore is primarily defined in the text of the bill. Federal Advanced Premium Tax Credits are scheduled to expire at the end of 2025. In that case, the bill states that the funding amount would be at least \$40 million. HSRI estimates the annual cost to fully replace the tax credits would be just over \$40 million per year (\$40.7 million in FY 2027, rising by about 1% per year as premiums increase). Payments would begin in January 2026, so the first fiscal year of revenue (FY 2026) would be three-quarters of a full year in order to have money on hand to pay out in early 2026. Including the administration costs, HSRI would estimate the revenue raised annually to be about \$42 million per full year, rising slightly each year. If the tax credits are extended federally through an act of Congress, the bill calls for this program to set a rate that would raise at least \$20 million per year. Administration costs could be included in that or added to that, at the state’s option as the bill is currently written.



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HSRI assumes the assessment would apply to most employers in Rhode Island as well as some out-of-state employers that cover RI residents. According to § 42-7.4-2, the state employee health plan would be included in the assessment (federal health coverage and local health coverage are specifically exempted). Based on the total revenue estimates above, HSRI assumes the impact would be about \$5 per member per month. This is based on available data from the RI vaccine programs that use the same revenue mechanism. For HSRI's average plan, this would be about 1% of premium, but the actual percentage will vary based on each entity/employer's coverage. The employer would have the discretion over how much of the added cost would be passed on to employees.

Note that the bill is written as state tax credits (versus for example, subsidies that would have no tax implications). The bill is not specific about how the tax credits would be incorporated into the state's income tax system, but this involves implementation and/or ongoing costs for the Division of Taxation in addition to costs above.

HSRI provided two descriptions on how the tax credits could be issued and redeemed based on how the bill is written (of note, these are general interpretations to guide fiscal impact analysis). At a maximum, the State would implement a state-level version of the federal APTC reconciliation process, which is very thorough:

- HSRI creates a 1095A form that tells each recipient the amount they received
- HSRI submits a data file to the IRS with all recipient's APTC amounts
- The IRS produces the annual Form 8962
- The tax filer uses their 1095A to fill in Form 8962 as part of their tax return
- If their income or other info has changed, they might have to pay back some premium tax credit (PTC), or might be able to claim extra PTC, as determined by Form 8962

At a minimum, since there's no requirement in the statute about reconciliation, Taxation and HSRI could issue guidance or regulations that say the amount determined by the Exchange is the final tax credit amount (no reconciliation needed). And therefore, the tax forms at the state level could either essentially ignore this, or just capture it without it affecting the rest of the math in the return.

Based on HSRI's interpretation of how the tax credits could be issued and redeemed as noted above, the Division of Taxation expressed concerns that the bill is in-administrable in its current form and provided the following additional context. The Division cannot administer a tax credit associated with and solely constructed using the Federal Tax Code as the Division does not have that expertise. All references to the determination of eligibility, calculation of the credit and application of the credit must be in R.I. Gen. Laws. The calculation of the Tax Credit must be based solely on verifiable information. Much of Form 8962 is unverifiable to the Division. Even with the creation of a State equivalent form, this would not be verifiable and would be a likely target for fraudulent activity.



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The process cannot rely on the information as provided on form 1095-A. After the implementation of R.I. Gen Laws 44-30-102, the Federal Government removed the need for employers to supply the form 1095-B to individuals, thereby removing any source of data validation. The process cannot rely on the federal government requirement for form 1095-A. This form is required to be submitted to individuals by January 31 of each year, after which the individuals must then complete and submit their tax return. Many low income households file earlier in the tax season, so requiring 1095-A information would either force them to wait longer for their refunds or force the Division to deny their credit if a 1095-A is not provided because the taxpayer filed earlier in the filing season.

The bill lacks any changes to Taxation statutes that are required to allow for an individual to receive a credit. The Division lacks the expertise to determine a premium tax credit's value and HSRI would need to determine the correct value of the PTC and inform Taxation. This would require the taxpayer to provide information directly to HSRI each year with which to calculate the credit or would require extensive data sharing, including personally identifiable information (PII) and tax information, between the Division and HSRI.

The Division would require at least two Tax Auditors, one Supervisor, 2 Tax support resources and 1 Senior Legal resource in order to review and administer any type of premium tax credit for which the Division is responsible for verification of the credit and any subsequent appeals.

To obtain tax information for the purposes of calculating the value of the credit, HSRI would likely need an enterprise system of record that would adhere to all State and Federal requirements. This system would need to import, compare, store, calculate, revise, report and export information related to the premium tax credit, the health exchange and individual taxpayers. This system would contain PII. Given that the State's current requirements for enterprise systems, including technical, security and insurance requirements, this system may require HSRI to submit a funding request to the capital budget.

The Division would require programming changes to accommodate a new credit as well as tax form changes to allow for an individual to claim the credit, at an estimated cost between \$550K - \$750K. The Division would need to expend significant resources to work with software providers to incorporate these new requirements into their 1040 filing software. The earliest this could be accomplished is for tax year 2026, filed in 2027. The Division would require additional programming costs to accommodate an enhancement to the system to hold the values of the credits and verify usage, as well as a new interface to safely and securely exchange data with HSRI, at an estimated cost between \$1.5 million and \$2.5 million. As mentioned, implementation of the bill is unable to be determined until final rules and regulations are set and could be wide-ranging beyond the context provided here. Therefore, the Budget Office is unable to produce a determinate estimate for this fiscal note at this time.



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Comments on Sources of Funds:

Rhode Island Benefits Exchange (HealthSource RI) is a program within the Department of Administration (DOA) and is funded through general revenues, federal funds, and restricted receipts.

Summary of Fiscal Impact:

FY 2025: N/A

FY 2026: Indeterminate

FY 2027: Indeterminate

Budget Office Signature: _____

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