

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0150-01
Bill No.: SB 23
Subject: Employees-Employers; Health Care; Health Care Professionals; Health Dept.;
Health, Public; Insurance - Medical; Mental Health Dept.; Physicians; Social
Services Dept.; Revenue Dept.
Type: Original
Date: February 18, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	\$0	(\$303,397,486 to Unknown)	(\$425,931,026 to Unknown)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$303,397,486 to Unknown)	(\$425,931,026 to Unknown)

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue Reimbursements Fund	\$0	(\$11,978,816)	(\$23,957,632)
County Foreign Insurance Fund	\$0	\$0	\$0
Insurance Dedicated	\$0	\$109,940	\$219,879
Insurance Examiners	\$0	(\$88,302)	(\$176,604)
Conservation Fund	\$0	(\$1,720,000)	(\$3,440,000)

Highway Fund	\$0	\$3,898,720	\$7,803,076
Missouri Health Care Trust Fund	\$0	(Unknown)	(Unknown)
Health Professional Education and Training	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	\$0	(\$13,677,178 to Unknown)	(\$27,354,357 to Unknown)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Federal Funds	\$0	(Unknown)	(Unknown)
Total Estimated Net Effect on <u>All</u> Federal Funds*	\$0	(Unknown)	(Unknown)

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0	(Unknown)	(Unknown)

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 30 pages.

FISCAL ANALYSIS

ASSUMPTION

This proposal would become effective if approved by the voters in the general election to be held on the Tuesday following the first Monday in November, 2004. Section A of this proposal would become effective April first of the year following notice to the revisor of statutes that a waiver had been obtained from the Secretary of the United States Department of Health and Human Services. The health premium surcharge and the income tax surcharge would apply to all tax years beginning on or after January first of the year following receipt of notice that appropriate waivers had been obtained. The small employer tax credits would apply to five consecutive tax years beginning on or after January first of the first year following notice by the revisor of statutes that appropriate waivers had been obtained.

Officials from the **Department of Public Safety (DPS) - Division of Fire Safety, DPS - Missouri National Guard, DPS - Capitol Police, DPS - Division of Liquor Control, DPS - Missouri Veterans' Commission, DPS - Director's Office, DPS - State Water Patrol, DPS - State Emergency Management Agency, Harris-Stowe State College, Office of State Treasurer and Office of State Courts Administrator** assume the proposal will have no fiscal impact on their organizations.

Officials from the **Department of Health and Senior Services (DOH)** state DOH is required by the proposal to participate in the Universal Health Assurance Program, but is not given any direct responsibilities in the operation.

This proposal would not be expected to significantly impact the operations of the DOH. If the proposal were to substantially impact the DOH programs, then the DOH would request funding through the legislative process.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** state the proposal should not result in additional costs or savings to the BAP. The proposal would decrease total state revenue.

Officials from the **DPS - Division of Highway Safety** state this proposal will not directly affect their organization because employer contributions are not budgeted to individual agencies; employer contributions are picked up by the state as a whole. Highway Safety state the proposal would have an unknown effect on State and Local Funds.

ASSUMPTION (continued)

Officials from the **DPS - Missouri Highway Patrol (MHP)** state that MHP employees are paid from the General Revenue, Highway, Federal, Gaming, Criminal Records System and Criminal Justice Revolving funds. MHP assumes the 12% surcharge to fund this legislation will come from these various funds and therefore, this legislation will impact these funds for FY 04 as follows: General Revenue - \$852,544, Highway - \$8,268,232, and all other funds - \$512,489. MHP assumes the Highway and Patrol Medical Plan would no longer be needed. The current state share contributed to the Highway and Patrol Medical Plan is as follows: General Revenue - \$823,110, Highway - \$8,635,563, and all other funds - \$589,930. Therefore, this proposal would result in an additional annual cost to General Revenue of \$29,434 and savings to the Highway Fund and all other funds of \$32,669 and \$77,441, respectively.

MHP officials assume the Gaming Commission will respond on behalf of the Gaming Fund.

Oversight has presented the fiscal impact for the General Revenue and Highway funds only as the other funds were minimal.

Officials from the **DPS - Gaming Commission (Commission)** state the health care premiums of the 124 patrol officers in the Gaming Division are paid from the Gaming Commission Fund. The MHP provided the Commission with the projected financial impact to the state for Patrol officers assigned to the Commission. The calculation is as follows:

Current state cost share per pay period	\$746.00
Proposed surcharge per pay period	<u>\$883.05</u>
Increase in state cost share per pay period	\$135.05
Number of pay periods per year	<u>24</u>
Expected additional cost to state	<u>\$3,289.20</u>

In addition to Patrol officers, the Commission employs 112 state employees. The Commission presumes that the Office of Administration will provide the financial impact for the State of Missouri as they retain the current health care costs for state employees under the Missouri Consolidated Health Care Plan.

Oversight is not presenting the fiscal impact for the Gaming Commission Fund since the impact is minimal.

ASSUMPTION (continued)

Officials from the **Department of Economic Development (DED)** - state the DED assumes the Missouri Consolidated Health Care Plan will provide information on any impact. Any impact on DED is unknown at the present time.

Officials from the **DED - Public Service Commission (PSC)** state that under the proposal, all state agencies are considered one employer; therefore, a twelve percent health premium surcharge would apply based on total agency payroll. The Missouri Consolidated Health Care Plan (HCP) would no longer be the administrator of health care benefits for state employees and state contributions would no longer be directed to that agency. For the costs that follow, it is assumed the state budgets the contribution for employees' health care coverage based on total budgeted full time employee equivalents (FTE) in the agency. For FY 03, state contributions for health care for agency employees is \$1,123,640. Applying twelve percent of total projected agency payroll for a health premium surcharge would mean the agency would pay \$1,158,026, or \$33,386 more than the presently anticipated contribution.

State health care contributions through HCP on behalf of state employees is not appropriated directly to the PSC as a portion of the agency operating budget contained in HB 7. The estimated health cost contributions are appropriated in HB 5. Any additional costs that affect the PSC fund would be assessed to regulated utility companies.

Officials from **Central Missouri State University** assume this proposal would result in unknown increased costs exceeding \$100,000.

Officials from **Truman State University** assume the proposal would result in increased health care benefit costs of \$959,531 for FY 04, \$997,912 for FY 05, and \$1,037,829 for FY 06. Costs were projected assuming total payroll increases of four percent (4%) per year and include full- and part-time employees, as well as student workers.

Officials from **Missouri Western State College** assume this proposal would result in increased health care benefit costs of approximately \$283,000 per year based on 12% of payroll costs for salaries/wages paid..

Officials from **Southwest Missouri State University (SMSU)** state health care costs in FY 02 were \$7,592,485, which includes both the cost for paid medical claims, administration fees, and reinsurance premiums. The enactment of this proposal would result in a savings of these health care costs of

ASSUMPTION (continued)

\$7,592,485. However, applying the 12% surcharge prescribed for employers with 499 or more

employees would result in a cost of \$11,745,890 based upon wages paid to all employees who provided services to SMSU during FY 02 (wages paid = \$97,882,419; $\$97,882,419 \times 12\% = \$11,745,890$). The net estimated effect of this proposal would be an additional cost of at least \$4,153,405 annually ($\$11,745,890 - \$7,592,485$).

Officials from the **University of Missouri** stated they cannot determine the cost that would be incurred as a result of the proposal as it is currently written, should it be approved by the General Assembly.

Officials from the **Department of Higher Education (DHE)** state the potential impact of this proposal is unknown. Health coverage for DHE employees is provided by the state. Therefore, it is assumed there would be no unique fiscal impact on the DHE aside from the effect it would have on all state government.

Officials from the **Department of Labor and Industrial Relations (DOL)** state the DOL will likely pay \$6,327,131 ($1,119.45 \text{ FTE} \times \$471/\text{month} \times 12 \text{ months}$) for health care premiums for department employees in FY 2004. Under this proposal, the cost would be \$4,843,014 ($\$40,358,453 \text{ payroll} \times 12\%$), thereby saving \$1,484,117.

Oversight assumes the Office of Administration will calculate the increased benefit cost/savings for all state employees.

Officials from the **Office of the Secretary of State (SOS)** state this proposal creates the Missouri Universal Health Assurance Program, the Missouri Health Care Trust Fund and the Health Professional Education and Training Fund which requires the Board of Governors for the Missouri Universal Health Assurance Program and the Department of Revenue to promulgate rules to implement the proposal. Based on experience with other divisions, the rules, regulations and forms issued by the Board and Department could require as many as 36 pages in the *Code of State Regulations*. For any given rule, roughly one-half again as many pages are published in the *Missouri Register* as in the Code because cost statements, fiscal notes and notices are not published in the Code. The estimated cost of a page in the *Missouri Register* is \$23.00. The estimated cost of a page in the *Code of State Regulations* is \$27.00. The actual costs could be more or less than the numbers given. The fiscal impact of this proposal in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded and withdrawn. The SOS estimates the cost of this proposal to be \$2,214 [$(36 \text{ pp} \times \$27) + (54 \text{ pp} \times \$23)$].

ASSUMPTION (continued)

SOS officials note statewide newspaper publications of constitutional amendments cost approximately \$1,161 per column inch based on the estimate provided by the Missouri Press

Service times three (3) for multiple printings as required by the Constitution and State Statute. This equates to \$3,485 per column inch (\$1,161 X 3). The estimated total number of inches for this amendment is 110 inches, which includes title header and certification paragraph. Therefore, the SOS estimates the publication cost of this proposal to be \$383,350 (\$3,485 X 110 inches).

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Department of Elementary and Secondary Education (DES)** state since DES employs more than 499 employees, the agency's rate would be 12%. The total FY 03 department request for personal service costs equaled \$73,958,146; therefore, anticipated costs would be \$8,874,977 (\$73,958,146 X 12%). The rate of reduction of the workers' compensation insurance is not stated. Therefore, the net fiscal impact cannot be estimated. It is assumed General Revenue moneys will need to be appropriated to cover DES's additional cost. Additionally, income tax credits allowed to employers will decrease the amount of General Revenue by an unknown amount.

DES officials also state the total salaries for school districts is not available at the present time. Since each school district employs different numbers of full-time personnel, the percentage of payment would differ and since the reduction in the amount of workers' compensation insurance payments is not specified, a specific fiscal impact cannot be estimated. For purposes of this fiscal note, the net effect of this proposal on political subdivisions is assumed to be an unknown cost.

Oversight assumes the Office of Administration will calculate the increased benefit costs for all state employees.

Officials from the **Department of Transportation (DOT)** state they assume the effective date is January 1, 2006 due to this proposal going to the vote of the people in November, 2004. Once passed, the board must apply for waivers from the Federal Government. Not until the January of the year following the receipt of these waivers from the Federal Government is the legislation effective. It is unlikely that these waivers will be received during their application year of 2004 but will actually be received in 2005. Therefore, the program will begin collecting surcharges the following calendar year

ASSUMPTION (continued)

(2006). However, due to the timing of the fiscal year, FY2006 will only show an impact for 6

months (January to June).

To compute the surcharge, DOT's FY02 payroll of \$239,018,162 (salaries related to the One Stop Shop are included at the FY04 Budget Request Amount) was increased by an inflation rate of 2.5% for each year and then multiplied by 12%. DOT employees are paid from the General Revenue, Federal, Highway, State Transportation Fund, Rail Expense, Motor Carrier Federal, and Aviation Trust Funds. DOT assumes the 12% surcharge to fund this legislation will come from these various funds and therefore, this legislation will impact these funds for FY06 as follows: General Revenue, \$19,922; Federal, \$17,883; Highway, \$15,713,687; State Transportation, \$2,391; Rail Expense, \$28,993; Motor Carrier Federal, \$27,048; and Aviation Trust Fund, \$19,955.

It is also assumed that the Highway and Patrol Medical Plan will no longer be needed. To compute the estimated appropriation request of \$46,853,709 for the medical plan in FY06, DOT inflated the FY04 appropriation amount of \$42,905,345 (this includes \$363,905 for One Stop Shop employees that chose to remain in the Missouri Consolidated Health Care Plan, DOT will pay their state share) by 4.5% per year. Since the plan will no longer be needed, this represents a cost savings. The cost savings for FY04 are as follows: General Revenue, \$29,483; Federal, \$26,465; Highway, \$23,254,900; State Transportation, \$3,539; Rail Expense, \$42,907; Motor Carrier Federal, \$40,028; and Aviation Trust, \$29,532.

Additionally, based on the assumption that the Highway and Patrol Medical Plan will no longer be needed, there will be a potential reduction in staff of approximately 50% which totals \$150,000 for a full year. However, DOT assumes the reduction would occur through attrition and therefore, no exact titles can be provided. There will also be an estimated expense and equipment savings of \$10,000 for a full year related to the reduced staff.

Oversight has presented the fiscal impact for the Highway Fund only as the fiscal impact on General Revenue, Federal, State Transportation, Rail Expense, Motor Carrier Federal and Aviation were minimal.

Officials from the **Department of Conservation (MDC)** state this proposal appears to have significant impact on MDC funds because of a 12% surcharge on total wages paid by MDC. The estimated fiscal impact on MDC based on current salaries and wages would be approximately \$3.44 million annually.

ASSUMPTION (continued)

Officials from the **Department of Natural Resources (DNR)** state the DNR has 2,058.34 full-

HW-C:LR:OD (12/02)

time equivalent (FTE) employees in FY 03. Therefore, section 354.798.2(6) of the legislation would be applicable to DNR. This section of the proposal requires employers with more than four hundred ninety-nine employees to pay a twelve percent (12%) health premium surcharge. Based upon a FY 03 Personal Services budget of \$69,063,108, a 12% health premium surcharge is \$8,287,573.

DNR estimates state funds are charged approximately \$10,963,919 for medical insurance for eligible employees who elect state insurance coverage. This was calculated by using the FY 03 FTE of 2,058.34 multiplied by the annual premium of \$5,652 minus \$669,819 for seasonal employees ineligible for state medical coverage. Therefore, this proposal would result in decreased cost to the DNR of approximately \$2,676,346.

Oversight assumes the Office of Administration will calculate the increased/decreased benefit costs for all state employees.

Officials from the **Missouri Consolidated Health Care Plan (HCP)** stated HCP estimates that the first year cost of this program could be a savings of \$78,669,109 for the state. The fiscal impact for the Public Entities for the first year could be a savings of \$9,661,788.

Assumptions - State Employees:

- The projected 2002 gross annual payroll for HCP covered departments and agencies (not including the Department of Transportation and Conservation) is: \$1,509,238,688.
- The legislation would require the state to contribute 12% of payroll:
 $\$1,509,238,688 \times 0.12 = \$181,108,643$

NOTE: This amount represents the state contribution. It does not include any employee contribution that is covered under the employee surcharge section of this proposal and is assessed based upon a tax formula applied against adjusted gross earnings.

ASSUMPTION (continued)

Calculations - State:

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Fiscal Impact of the Proposal:

State Contributions Under the Proposal:	\$181,108,643
Current State Contributions and Administration Expense:	<u>\$259,777,752</u>
Fiscal Impact of the Proposal (Savings):	(\$ 78,669,109)

Impact on the first year (ten months): (\$78,669,109 X 10/12) (\$65,557,591)

Assumptions - Public Entity:

- 2002 annual payroll for Public Entities (PE) is estimated to be: \$120,772,350*.
 - * Total projected PE Plan Cost for calendar year 2002 is \$19,323,576. It is assumed the PE's insurance cost is the same percentage as the state or 16% of payroll (\$259,777,752/1,509,238,688). Therefore, \$19,323,576/0.16 = \$120,772,350 total payroll for Public Entities.
 - The PEs 8%** required under this proposal would be \$9,661,788.
 - ** The 8% is an average of the possible assessments listed in the proposal.
 - Total Cost (Savings) for Calendar Year 2002 through HCP: (\$19,323,576)
- | | |
|---|---------------------|
| Minus the Total Cost under the Proposal | \$ <u>9,661,788</u> |
| Savings for Public Entities | (\$ 9,661,788) |

Impact on the first year (ten months): (\$9,661,788 X 10/12)	(\$ 8,051,490)
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Officials from the **Department of Social Services (DOS) - Division of Medical Services (DMS)** state estimates of impact to the DMS assumes that the population (Medicaid) would be the same, whether they were served by the new entity or contracted to DMS to administer. DMS assumes the language regarding fee schedules based on the calendar year 1999 do not apply to institutional reimbursement. If it does, it would have an effect on the per diem paid to hospitals and nursing homes. Independent providers are to be reimbursed on a fee-for-service schedule that is anticipated to represent usual and customary charges (UCR).

Costs are expected to increase because current Medicaid reimbursement for non-institutional providers, in many cases, represents less than UCR. While it is extremely difficult to define an accurate

ASSUMPTION (continued)

cost, several issues can be defined. For example, dental, ambulance and physician reimbursement is currently paid at less than UCR. If the negotiated reimbursement were to reflect 75% to 100% UCR, it is anticipated that additional costs of approximately \$180.1 million to \$235.5 million would be realized. This figure is derived through calculating the difference between current reimbursement for the dental, ambulance and physician programs and the cost for these services at 75% to 100% UCR. A dental program fee increase was calculated with current information in which procedures were identified by current Medicaid reimbursement and UCR. This resulted in a difference of approximately \$31.5 million to \$39.4 million. A physician program fee increase was calculated with current information and an increase of \$142.6 million to \$190.1 million would be needed to bring physician fees up to 75% to 100% UCR. Similarly, an ambulance fee increase was developed and requested in the FY 98 budget in which Medicaid rates were compared to Medicare (UCR) rates (\$6 million).

The loss of the advantage of competitively bidding managed care contracts would result in an additional cost of over \$24.3 million (five percent of current MC+ payments).

While it is not possible to arrive at an actual dollar increase to Medicaid, DMS believes there will definitely be an increase exceeding \$100,000,000 annually.

Due to time frames involved in waiver applications and implementation, no impact is forecasted in FY 04. No cost to DOS is associated with the DOS director serving on the Board of Governors as all expenses would be paid out of the Health Care Trust Fund.

Oversight notes that based on the DOS FY 03 budget, Medicaid vendor payments and managed care through Medicaid is budgeted at \$4,118,913,458. For fiscal note purposes, **Oversight** has represented **unknown** costs associated with personal services and expenses and equipment for DMS as being saved by the state because the State's Medicaid program, as it now exists, would no longer be in place. Depending on the provisions of the waivers, if obtained, some of the functions of the DMS could be required to be performed by the Missouri Universal Health Assurance Program.

Officials from the **Department of Mental Health (DMH)** stated Section 354.7771.1, requires that all Title XVIII and Title XIX collections will be deposited into the Missouri Health Care Trust Fund (MHCTF). DMH collected \$240,729,771 in federal funds from MC+, Medicaid, Uncompensated Care, and Medicare in FY 2002 and deposited them in the following funds:

ASSUMPTION (continued)

General Revenue	\$179,171,429
Federal	37,600,710
General Revenue Reimbursements	<u>23,957,632</u>
TOTAL	\$240,729,771

Assuming the proposal is approved at the general election of November 2004 and further assuming that DOS requests and receives a waiver from the Centers for Medicaid and Medicare Services for deposit of federal funds into the MHCTF on or about April 1, 2005, then the revenues for the final three (3) months of FY 2005 would be deposited into the MHCTF. Based on average growth factors in each fund, DMH estimates deposits into MHCTF would be \$62,500,000 for FY 2005 (FY '02 revenues of \$240,729,771 X various growth factors = \$250,000,000/12 X 3.)

Two separate growth factors were determined for the General Revenue (3.3%) and Federal (7.5%) funds. These factors were determined using four fiscal year's of actual and projected revenue data: (1) 2001 actual, (2) 2002 actual, (3) 2003 projected, and (4) 2004 projected. The resulting percentages were rounded down to be conservative. These percentage factors were then applied to FY 2004 projections to determine FY 2005 and 2006 estimates for each of the two funds.

The revenue trend for the third fund, General Revenue Reimbursements Fund (GRRF), was estimated to be negative for FY 2005 and static for FY 2006. This estimate was based on information from the Division of Medical Services regarding anticipated changes to their method of calculating the annual Uncompensated Care/Disproportionate Share Hospital (DSH) Medicaid claim.

DMH is assuming that all of the above DMH collections from Medicare, Medicaid, and Uncompensated Care would be deposited into the MHCTF. This does not represent a loss of funds to the state. These funds would be used to provide covered services to persons through the MHCTF instead of through the General Revenue (GR) and Federal appropriations.

If the DMH assumes that the Missouri Health Assurance program would choose DMH as a provider of services, the fiscal impact to the DMH would be dependent on the payments made to DMH under the new plan compared to current GR and Federal funding.

If the DMH assumes that the Missouri Health Assurance program would choose not to utilize DMH as a provider of services, there could be a loss of funding to DMH if DMH appropriations

were reduced in proportion to the amount previously deposited by DMH to GR and Federal funds.

ASSUMPTION (continued)

DMH assumes that the Office of Administration will include the employer surcharge in their fiscal note impact for all state employees.

Depending on the assumption scenario, there could be an impact of reduced funding to DMH which cannot be determined at this time.

Officials from the **Office of Administration - Division of Accounting** state FY 2002 personal service costs for all funds was \$3,291,274,856. The employer health premium surcharge of 12% would be \$394,952,983. If 18% of personal service costs for the employer share is a more accurate projection of that cost, then the cost to the state would be approximately \$592,429,000. **Oversight** notes that this is \$348,567,539 for the 12% health premium surcharge and \$522,850,833 for the 18% health premium surcharge without DOT, MHP, and MDC, which will be presented separately. Annual cost of employer share for the current plan administered by HCP is projected to be approximately \$259,777,752.

COA states the cost of reprogramming current employer payroll systems to withhold and report employee surcharge is unknown. The costs would be driven by how the Department of Revenue requires the monies to be withheld and reported in conjunction with normal state income tax withholding. OA anticipates that this would be a major expense for the state and all other employers.

COA did not comment on the estimated premium tax that would be collected from all Missouri employers or Missouri individuals. However, **Oversight** notes in a similar proposal from two years ago, COA estimated the premium tax on all Missouri employers would generate revenues of \$5,685,000,000 for the Health Care Trust Fund and \$690,000,000 from Missouri individuals.

Officials from the **Department of Insurance (INS)** state this legislation would eliminate health insurance through companies. This would result in a decrease in premium tax revenue that is split 50/50 between General Revenue and County Foreign Insurance. County Foreign Insurance funds are later distributed to school districts.

INS states the 2% premium tax assessed and collected from private insurers on health and accident insurance policies would be lost due to the single payer system. Based on total premiums reported, INS estimates that in 2001 over \$60 million in premium taxes were from

accident and health insurance policies. These revenues would be lost if this proposal is implemented. INS would also be required to pay the health premium surcharge of 12% on its employees. FY 03 personal service appropriations are

ASSUMPTION (continued)

\$4,973,628 for the Insurance Dedicated Fund. The surcharge of 12% would have a cost of \$596,835 for the Insurance Dedicated Fund and \$640,068 for the Insurance Examiners Fund. INS costs for employee insurance is \$471 per month per employee for 2003. Total savings would be \$816,714 for the Insurance Dedicated Fund and \$463,464 for the Insurance Examiners Fund. INS assumes the legislation would become effective January 2005, if approved in the November 2004 election.

Officials from the **Department of Revenue (DOR) - Division of Taxation** provide the following assumptions related to the proposal:

- Section 354.798.1 defines the term employer to mean every person, partnership, association, corporation, trustee, receiver, the legal representative of a deceased employer etc., using the service of another for pay in this state.
- Section 354.798.2 defines that every employer is to pay health premium surcharge by calculating a percentage of the total amount of employer paid in wages to all persons providing services for pay to the employer. The percentage paid is based on the number of employees paid by the employer using the following:
 - For employers with fewer than 5 employee - 5%;
 - For employers with 4 and fewer than 50 employees - 6%;
 - For employers with more than 49 but fewer than 100 - 8%;
 - For employers with more than 99 and fewer than 250 - 9%;
 - For employers with more than 249 and fewer than 500 - 10%;
 - For employers with more than 499 - 12%
- Section 354.798.3 requires that the employers pay the surcharge to DOR for deposit into the Missouri Health Care Trust Fund. The premiums will be paid at the same time that the employer is required to file a withholding return. If any amount exceeds the liability of this section the amount of overpayment shall be refunded to the employer.
- Section 354.798.4-Self employed persons and independent contractors are to make estimated quarterly payment equal to 5% of such person's income that is subject to federal self-employment tax. Premiums are to be paid to DOR and DOR to deposit into the fund.
- Section 354.798.5-DOR is to provide forms and may promulgate rules to implement this

provision.

- Section 354.798.6 indicates that this section is effective for all tax years beginning on or after January 1st of the year following the receipt of notice by the revisor of statutes that the waivers requested per section 354.807 have been received.

ASSUMPTION (continued)

- Section 354.798.7 indicates that any employer that has a contract with an insurer, health service corporation or health maintenance organization to provide health care services and in effect on the effective date of this section shall be entitled to an income tax credit against Chapter 143 except for withholding taxes in an amount equal to the health premium surcharge due per this legislation;
- Section 354.801 indicates that any insurer, health services corporation or health maintenance organization that provides health care services under a contract with an employer that was in effect on the effective day of this legislation shall pay to the trust fund an amount equal to the health premium surcharge that had been paid by the employer if the contract had not been in effect.
- Section 354.804.1 sets out that for all tax years beginning on or after January 1st of the year following the receipt of notice by the revisor of statutes a surcharge is imposed in addition to the state income tax on the Missouri Adjusted Gross Income (MAGI). The surcharge will be a percentage based upon the MAGI starting at 1.2% for MAGI over \$5,000.
- Section 354.804.2 indicates the surcharge imposed shall be collected in the same manner and at the same times as resident individual income tax by DOR and has refund capabilities.
- Section 354.804.3 indicates that an employer may agree to pay all or part of the employee's surcharge.
- Section 34.804.4 indicates that DOR shall provide forms for paying and may promulgate rules and regulations;
- Section 354.816 indicates that for 5 consecutive tax years any employer who employs 25 or fewer workers shall be allowed a credit against the tax other than withholding in an amount equal to \$25 each month for each full time employee for the first year; \$20 each month for each full time employee the 2nd year; \$15 each month for each full time employee the 3rd year; \$10 each month for each full time employee the 4th year; \$5 each month for each full time employee the 5th year and a pro-ration thereof for each part-time employees. A self-employed person shall be deemed an employee and shall be eligible for the credit. The credit allowed will be claimed at the time the tax return is filed after all other credits and shall not exceed the employer's tax liability. Also defines full time employee that works 40 hours or more a week.
- Section B indicates that Section 354.750 to 354.795 shall be effective April 1st following

- the notice to the revisor of Statutes.
- Section C Sections 354.750 to 354.816 of this act shall be submitted to the vote of the people.

ASSUMPTION (continued)

Administrative Impact:

Business Tax –

Withholding Tax - DOR assumes this creates a health insurance premium surcharge to be paid by employers to the DOR at the same time that withholding tax is reported. The rate of the surcharge varies with the number of employees. This will result in a major impact on the withholding mainframe system. A new unit will need to be established to handle the returns and correspondence – Withholding will need **5 Tax Processing Tech I's and 1 Tax Processing Tech III**.

Corporate Tax – Section 354.798.7 allows an employer an income tax credit in an amount equal to the health premium surcharge paid. **1 Tax Processing Tech I** will be needed to handle this credit. The corporate mainframe system and PC systems will need to be modified to handle the credit. Section 354.816.2 also allows an employer an income tax credit for employing 25 or fewer workers. The amount of the credit varies each year for 5 years. This credit is non-refundable.

Processing Section –

The processing section in the Business Tax area will need to open, sort and process all the vouchers received on the surcharge regarding withholding tax for employers. This would be a due date sensitive area and processing would need **4 Permanent Part-Time employees to work 40 hours a month** to handle the incoming mail.

Personal Tax –

DOR assumes Personal Tax would need to collect the quarterly payment made by sole proprietors, etc., but is unsure how it would be monitored. Forms, programming on the income tax mainframe system, and PC application will need to be completed to process these quarterly

payments. **1 Tax Processing Tech I** will be needed to handle the errors, correspondence and telephone calls on the quarterly filers.

Employers with health care plans can get a credit for the amount paid..This could add up to a fairly substantial number – Personal Tax will need **1 Tax Processing Tech** for every 5,000 credits claimed.

ASSUMPTION (continued)

Besides the employer having to pay, there is an additional charge on the employee. Personal Tax assumes this would be added to the withholding tables as a separate table to be remitted by the employer on a separate line since it's not on the taxable income but the Missouri Adjusted Gross Income (MAGI).

Personal Tax will need 6 additional lines on the returns as follows:

- One for the amount of the self-employment tax;
- One for the amount of surcharge on the self-employment tax;
- One for employers to take a credit;
- One for employees to calculate the tax
- One to take the credit; and
- One for the total.

The DOR is unsure how many FTE will be needed for these additional lines. The administration side would be complicated and would need to be monitored heavily. DOR requests **12 Tax Season Temporaries, 2 Tax Processing Tech I** for error correction and **2 Tax Processing Tech I** for correspondence.

DOR assumes if this legislation also applies to the Property Tax Credit form, because of the nature of the filers, then Personal Tax would need **3 Tax Season Temporaries and 1 Tax Processing Tech I** for the correspondence and error correction combined.

DOR assumes Personal Tax will handle a tax credit that is allowed for five years by employers including self-employed.. Personal Tax would need **1 Tax Processing Tech** for every 3,000 claimed because that employee is going to have to verify they qualify too.

Customer Assistance –

The surcharge would increase unbalanced withholding returns (overpays/underpays). This would increase contacts with the field offices for resolution. The number of FTE required would depend on the increase in contacts. **An average field agent answers 5,193 phone calls and assists 2,149 walk-ins per year.**

One Tax Collection Tech for every 15,000 calls a year to 7200 (main tax line to a tax collection technician) regarding balance dues or employer surcharge information and/or filing requirements.
ASSUMPTION (continued)

One Tax Collection Tech for every 24,000 calls a year to income tax hotline regarding resident surcharge. Based on the number of new accounts, there is a potential to see an increase accounts petitioned to a Prosecuting Attorney or referred to a collection agency. Customer Assistance anticipates the need for **1 Tax Processing Tech** to support the Prosecuting Attorney function if petitioned. An increase in the program specific fund collection fees would also be required to reimburse a 20% collection fee. Also, there is the potential to see an increase in the program specific fund for lien fees.

Information Technology –

To modify the tax systems, processing and electronic filing, DOR estimates that 2,076 hours of programming will be needed to modify and create all necessary systems at a cost of **\$69,255**. DOR will also need contract programmers to establish the entire system and to assist the mainframe programmers – 4 months of contract programming at a cost of **\$103,800**.

The State Data Center implementation costs will be **\$13,510** with an ongoing cost of **\$4,291**.

Division Director's Office –

DOR assumes the division will have to modify the income tax books to include the additional lines and instructions. This will increase the book size by 4 pages each book. Averaging the printing costs at \$.005 per page x 4 pages per book x 2,162,015 books printed, DOR would need **\$43,240** in printing for the income tax books.

DOR will have to create a voucher for the quarterly filers and the withholding filers. Current vendor cost is \$.25 per voucher book. DOR will need printing costs of **\$32,500** for implementation.

Postage

DOR assumes postage will increase on the income tax books with the additional 4 pages. Also,

postage will be needed for the withholding and quarterly filers. There are an estimated 120,000 employers and the division is estimating 10,000 quarterly filers – if mailed at a rate of \$.37 an additional **\$48,000** in postage will be needed.

Oversight assumes the DOR will use the bulk mailing rate of \$0.268 to mail income tax booklets. Therefore, **Oversight** assumes additional postage costs of \$34,840.

ASSUMPTION (continued)

Officials from the **Department of Corrections (DOC)** did not respond to our request for a statement of fiscal impact. However, in response to a similar proposal from the prior year, DOC officials states that it is unknown what fiscal impact, if any, passage of this bill would have for the DOC. It is unclear whether offenders incarcerated within DOC would fall under the auspices of this bill. Inmates are not excluded as 'residents' of Missouri in the language of this bill and therefore appear to be covered under this assurance program for medical and mental health services. They are counted as Missouri residents in the national census taken every 10 years. If indeed they are covered, it is likely that jails and mental health clients would qualify as well. In that instance, DOC would have a significant positive fiscal impact if this bill were passed as law.

It is also unknown what health standards may be imposed by the program. If these standards exceed NCCHC standards for accreditation, the level of inmate care would similarly increase, therefore raising expenses for the department .

For purposes of this fiscal note, **Oversight** assumes:

- Should the proposal be approved by the voters in a general election in November, 2004,
- The health premium surcharge on employers and the individual income tax surcharge would be levied on the wages paid or received in the taxable year beginning January 1, 2005.
- In accordance with projections made by DOS officials, the waiver which would be required by this proposal would become effective prior to January, 2005, and the federal financial participation for Medicaid and Medicare would begin to accrue to the plan at that time.
- In accordance with the provisions of this proposal, the Missouri Universal Health Care Plan would become effective on April 1, 2005.
- The state would pay both the surcharge and premiums for health care coverage for employees from January 1, 2005, to April 1, 2005. Further, all state-financed insurance plans would be dropped as of April 1, 2005.

- Expenditures for health care in Missouri are in line with those across the United States. The Health Care Financing Administration states that the per capita expenditure for health care in the United States was \$3,800 in 1997 and can be used as a basis for projecting statewide costs. The 2000 census of Missouri's population was 5,595,211. Further, increases in health care costs since 1993 have been approximately 5% annually.

ASSUMPTION (continued)

- Health care costs which would be covered by the plan and are currently paid by state agencies from a number of funds which would accrue to the Missouri Health Care Trust Fund and be saved by the current fund. Further, these costs would be included in projections made based on per capita cost of health care. Agencies affected would include the Department of Elementary and Secondary Education, Department of Corrections, Department of Labor, Department of Health, Department of Mental Health, etc. The 12 % employer surcharge tax for health care premiums for the Departments of Conservation, Transportation, and Missouri State Highway Patrol will be presented separately. The 12% surcharge for the rest of the state employees will be presented under the Office of Administration.
- After April 1, 2005, growth in health care expenditures would be limited to "2% above the total percentage increase in the state's gross domestic product for the previous year".
- Because it is not specifically mentioned to the contrary in this proposal, Workman's Compensation would continue to exist.

The proposal would result in a decrease in Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE			
<u>Income - Department of Social Services</u>			
Medicaid reimbursements	\$0	Unknown	Unknown
<u>Savings - Department of Social Services</u>			
Possible elimination or cutback in the Division of Medical Services	\$0	Unknown	Unknown
<u>Savings - Missouri Consolidated Health Care Plan</u>			
Possible elimination or cutback	\$0	Unknown	Unknown
<u>Savings - Department of Health and Senior Services</u>			
Senior RX Program - possible elimination or cutback	\$0	Unknown	Unknown
<u>Costs - Department of Public Safety</u>			
Missouri State Highway Patrol fringe benefit surcharge	\$0	(\$14,717)	(\$29,434)
<u>Costs - Office of Administration</u>			
Personal service, fringe benefits and expense and equipment costs for reprogramming the current payroll system	\$0	(Unknown)	(Unknown)
Fringe benefit surcharge for state employees other than the DOT, MHP, and MDC	\$0	(\$197,476,492)	(\$394,952,983)
<u>Costs - Department of Revenue</u>			
Personal service costs (22 FTE)	\$0	(\$329,346)	(\$572,985)
Fringe benefits	\$0	(\$93,904)	(\$192,504)
Equipment and expense	<u>\$0</u>	<u>(\$513,962)</u>	<u>(\$183,120)</u>
Total <u>Costs</u> - Department of Revenue	<u>\$0</u>	<u>(\$937,212)</u>	<u>(\$948,609)</u>

Costs - Office of Secretary of State

Election costs	\$0	(\$383,350)	\$0
<u>FISCAL IMPACT - State Government</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
	(10 Mo.)		

GENERAL REVENUE (continued)

Loss - Department of Insurance

Insurance premium tax	<u>\$0</u>	<u>(\$15,000,000)</u>	<u>(\$30,000,000)</u>
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Loss - Department of Mental Health

Medicaid reimbursements	<u>\$0</u>	<u>(\$89,585,715)</u>	<u>(\$179,171,429)</u>
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**ESTIMATED NET EFFECT ON
GENERAL REVENUE FUND***

<u>\$0</u>	<u>(\$303,397,486 to Unknown)</u>	<u>(\$425,931,026 to Unknown)</u>
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*** Does not include possible income
and/or cost for Medicaid
reimbursements from the Department
of Social Services, Division of Medical
Services**

**GENERAL REVENUE
REIMBURSEMENTS FUND**

Loss - Department of Mental Health

Medicaid reimbursements	<u>\$0</u>	<u>(\$11,978,816)</u>	<u>(\$23,957,632)</u>
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**ESTIMATED NET EFFECT ON
GENERAL REVENUE
REIMBURSEMENTS FUND**

<u>\$0</u>	<u>(\$11,978,816)</u>	<u>(\$23,957,632)</u>
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**COUNTY FOREIGN INSURANCE
FUND**

Savings -Department of Insurance

Transfer of premium taxes to school districts	\$0	\$15,000,000	\$30,000,000
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FISCAL IMPACT - State Government

FY 2004
(10 Mo.)

FY 2005

FY 2006

**COUNTY FOREIGN INSURANCE
FUND (continued)**

Loss - Department of Insurance

Reduction in premium taxes

\$0

(\$15,000,000)

(\$30,000,000)

**ESTIMATED NET EFFECT ON
COUNTY FOREIGN INSURANCE
FUND**

\$0

\$0

\$0

INSURANCE DEDICATED FUND

Savings - Department of Insurance

Fringe benefit surcharge

\$0

\$109,940

\$219,876

**ESTIMATED NET EFFECT ON
INSURANCE DEDICATED FUND**

\$0

\$109,940

\$219,876

INSURANCE EXAMINERS FUND

Costs - Department of Insurance

Fringe benefit surcharge

\$0

(\$88,302)

(\$176,604)

**ESTIMATED NET EFFECT ON
INSURANCE EXAMINERS FUND**

\$0

(\$88,302)

(\$176,604)

CONSERVATION FUND

Costs - Department of Conservation

Fringe benefit surcharge

\$0

(\$1,720,000)

(\$3,440,000)

**ESTIMATED NET EFFECT ON
CONSERVATION FUND**

\$0

(\$1,720,000)

(\$3,440,000)

FISCAL IMPACT - State Government

FY 2004
(10 Mo.)

FY 2005

FY 2006

HIGHWAY FUND

HW-C:LR:OD (12/02)

Savings - Department of Transportation

Medical plan staff elimination			
Personal service	\$0	\$75,000	\$153,750
Fringe benefits	\$0	\$31,778	\$65,144
Expense and equipment	<u>\$0</u>	<u>\$5,000</u>	<u>\$10,300</u>
Total <u>Savings</u> - Department of Transportation	<u>\$0</u>	\$111,778	\$229,194

Savings - Department of Transportation

Fringe benefit surcharge	<u>\$0</u>	<u>\$3,770,607</u>	<u>\$7,541,213</u>
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Savings - Department of Public Safety - Missouri Highway Patrol

Fringe benefit surcharge	<u>\$0</u>	<u>\$16,335</u>	<u>\$32,669</u>
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ESTIMATED NET EFFECT ON HIGHWAY FUND

<u>\$0</u>	<u>\$3,898,720</u>	<u>\$7,803,076</u>
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MISSOURI HEALTH CARE TRUST FUND

Income - Office of Administration

Employer premium tax*	\$0	\$2,842,500,000	\$5,685,000,000
Individual surcharge tax	<u>\$0</u>	<u>\$345,000,000</u>	<u>\$690,000,000</u>
Total <u>Income</u> - Office of Administration	\$0	\$3,187,500,000	\$6,375,000,000

*** Includes premium tax paid by the state for all state employees.**

Income - Department of Social Services

Medicaid reimbursements	\$0	Unknown	Unknown
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Income - Department of Mental Health

Medicare and Medicaid reimbursements	\$0	\$120,364,886	\$240,729,771
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FISCAL IMPACT - State Government

FY 2004 (10 Mo.)	FY 2005	FY 2006
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MISSOURI HEALTH CARE TRUST FUND (continued)

Costs - Missouri Health Care Trust Fund

The plan could become effective on April 1, 2005, at which time costs to administer the plan (staff, Board of Governors' expenses, Regional Advisory Council expenses, etc.) and to provide health care benefits at costs, which would be negotiated by the Board of Governors as specified in the proposal, would be borne by the Fund. Using HCFA (now the Centers for Medicare and Medicaid Services) per capita 2000 census figures for Missouri and 5% annual increases in health care costs, it is projected that expenditures from the Fund for benefits would equal \$7,853,342,254 for the three months in FY 2005. Administrative costs would be capped at four percent of the income generated from the various sources. A reserve equal to expenditures in the preceding three months would be required.

**ESTIMATED NET EFFECT ON
MISSOURI HEALTH CARE TRUST
FUND***

\$0

(Unknown)

(Unknown)

*** Does not include possible income
and/or costs for Medicaid
reimbursements from the Department
of Social Services - Division of Medical
Services.**

FISCAL IMPACT - State Government

FY 2004
(10 Mo.)

FY 2005

FY 2006

**HEALTH PROFESSIONAL
EDUCATION AND TRAINING FUND**

Income -

Federal government and other	\$0	Unknown	Unknown
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Costs -

Personal services, expense and equipment	\$0	(Unknown)	(Unknown)
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**ESTIMATED NET EFFECT ON
 HEALTH PROFESSIONAL
 EDUCATION AND TRAINING FUND**

<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FEDERAL FUNDS

Savings - Department of Social Services

Possible elimination or cutback in the Division of Medical Services	\$0	Unknown	Unknown
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Costs - Department of Social Services

Loss - Department of Social Services

Medicaid funding	\$0	(Unknown)	(Unknown)
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Loss - Department of Mental Health

Medicaid reimbursements	\$0	(\$18,800,335)	(\$37,600,710)
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**ESTIMATED NET EFFECT ON
 FEDERAL FUNDS**

<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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FISCAL IMPACT - Local Government

FY 2004
(10 Mo.)

FY 2005

FY 2006

ALL LOCAL GOVERNMENTS

Savings - All Local Governments

Health insurance programs	\$0	Unknown	Unknown
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Costs - All Local Governments

Fringe benefit surcharge	\$0	(Unknown)	(Unknown)
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Loss - School Districts

Premium tax revenue from Foreign County Insurance funds	\$0	(Unknown)	(Unknown)
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**ESTIMATED NET EFFECT ON ALL
LOCAL GOVERNMENTS**

	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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FISCAL IMPACT - Small Business

Small business would be expected to be fiscally impacted to the extent they would incur additional administrative costs and additional payroll tax expense due to the requirements of this proposal.

DESCRIPTION

This proposal establishes the "Missouri Universal Health Assurance Program" (Program). The Program is a publicly- financed, statewide insurance program that will provide comprehensive health care coverage for Missouri residents.

The Director of the Department of Health will divide the population of the state into six regional districts, with an advisory council of seven private citizens established for each district. The advisory councils will assist the Board in development of a comprehensive state health care plan and will develop a transportation plan for indigent, elderly, and disabled clients.

The Program will be administered by a nineteen member Board of Governors, ten of which will be appointed by the Governor. The Directors of the Departments of Social Services, Health, and Mental Health will be ex-officio members and the Board shall include a representation of minority and disabled individuals. The Board will be responsible for implementing the Program, monitoring expenditures,

DESCRIPTION (continued)

adopting rules, employing staff, and studying the means of incorporating institutional long-term care benefits into the Program. An annual report will be required after conducting investigations and utilization reviews.

An annual comprehensive state health care plan should be established by the Board and should include a budget, an evaluation of district health care needs, and goals for various parts of the Program. Prior to establishment, the Board should appoint advisory subcommittees of health care research and ethics experts and public hearings should be held. The resulting comprehensive health care plan should seek to secure the most cost-effective health care.

The Board shall establish the "Missouri Health Care Trust Fund" which will be used for all aspects of Program operation. Revenues held in the trust fund are not subject to appropriation or allotment by the State or any political subdivision of the State. Various accounts will be created within the trust fund for specific purposes.

Every person who is a resident of Missouri, regardless of preexisting conditions, will be eligible to receive benefits for covered services under the Program. Persons who are not residents, but who are employed in Missouri will be eligible for benefits if a health premium surcharge is paid. Certain services, as listed, will not be covered under this Program.

The Program shall pay the expenses of institutional providers of health care and each provider shall negotiate an annual budget with the Program to cover anticipated expenses. The Program will reimburse independent providers of health care on a fee for service basis. Other insurers and employers may offer benefits that do not duplicate those offered by the Program. Sections 354.750 to 354.816 of this act will become effective April 1 of the year following the award of a waiver by the Department of Health and Human Services.

Every employer or self-employed person within the State will pay a health premium surcharge to the Department of Revenue based on the number of employees it has. A health premium surcharge, in addition to the state income tax, will be imposed on residents' gross income. An employer may agree to pay all or part of an employee's surcharge.

No later than thirty days after the effective date of this act, the Department of Social Services shall apply to the United States Secretary of Health and Human Services for all health care program waivers that would enable the state to deposit federal funds into the Missouri Health Care Trust Fund created in Section 354.771. The Department should also identify other federal fund sources. Under the same time frame, the Governor shall appoint Board members.

DESCRIPTION (continued)

The Board shall request that the Program be made available to federal employees and retirees while they are residents of Missouri.

For five consecutive tax years after approval of the Program, any employer who has twenty-five or less employees will be allowed a tax credit against the new tax due in incremental amounts.

Certain sections of this proposal have a conditional effective date and the entire proposal will be submitted to the voters of the state for approval or rejection in November, 2004.

This legislation is not federally mandated, would not duplicate any other program and but would require additional capital improvements or rental space.

SOURCES OF INFORMATION

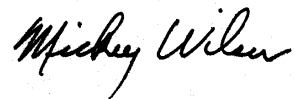
Office of Administration -
 Division of Accounting
 Budget and Planning
Department of Higher Education
Office of State Courts Administrator
Department of Economic Development -
 Public Service Commission
Department of Elementary and Secondary Education
Department of Transportation
Department of Mental Health
Department of Natural Resources
Department of Health and Senior Services
Department of Labor and Industrial Relations
Department of Revenue
Department of Social Services -
 Division of Medical Services
Department of Public Safety -
 Director's Office
 Division of Fire Safety
 Missouri National Guard
 Capitol Police

SOURCES OF INFORMATION (continued)

Department of Public Safety (continued)
 Division of Highway Safety
 Division of Liquor Control
 Missouri Veterans' Commission
 State Water Patrol
 Missouri Highway Patrol

State Emergency Management Agency
Gaming Commission
Missouri Consolidated Health Care Plan
Department of Insurance
Missouri Department of Conservation
Office of Secretary of State -
Division of Administrative Rules
Office of State Treasurer
Southwest Missouri State University
Central Missouri State University
Truman State University
Harris-Stowe State College
University of Missouri
Missouri Western College

NOT RESPONDING: Department of Corrections



Mickey Wilson, CPA
Director
February 18, 2003