

**COMMONWEALTH OF KENTUCKY FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2026 REGULAR SESSION**

MEASURE

2026 BR NUMBER 1325

HOUSE BILL NUMBER 2 HCS1

TITLE AN ACT relating to Medicaid, making an appropriation therefor, and declaring an emergency.

SPONSOR Representative Ken Fleming

FISCAL SUMMARY

STATE FISCAL IMPACT: YES NO UNCERTAIN

OTHER FISCAL STATEMENT(S) THAT MAY APPLY: ACTUARIAL ANALYSIS
 LOCAL MANDATE CORRECTIONS IMPACT HEALTH BENEFIT MANDATE STATE
EMPLOYEE HEALTH PLAN IMPACT

APPROPRIATION UNIT(S) IMPACTED: Department for Medicaid Services, Legislative Research Commission, University of Kentucky, University of Louisville, Auditor of Public Accounts; Budget Reserve Trust Fund

FUND(S) IMPACTED: GENERAL ROAD FEDERAL RESTRICTED Medicaid Managed Care Organization Compliance Fund

FISCAL ESTIMATES	2025-2026	2026-2027	2027-2028	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES				
EXPENDITURES	\$500,000	Indeterminable	Indeterminable	Indeterminable
NET EFFECT	(\$500,000)	(Indeterminable)	(Indeterminable)	(Indeterminable)

() indicates a decrease/negative

PURPOSE OF MEASURE: The proposed legislation makes several provisions regarding Medicaid services including requirements for community engagement, eligibility determinations, non-emergency medical transportation, home and community-based waivers, dental services, procurement of Medicaid managed care (MCO) contracts, and coverage for weight loss drugs. The legislation also establishes requirements for MCOs including MCO contracts and penalties for certain contract violations, MCO website content, provider appeals, and establishes a fund for the collection of any fines or penalties for MCO contract violations. In addition, the measure makes several provisions regarding the Legislative Research Commission (LRC) including establishment of a healthcare dashboard in partnership with the University of Kentucky (UK) and the University of Louisville (UofL), data sharing agreements, contracting for fiscal analyses services, and the Medicaid Oversight and Advisory Board (MOAB). The measure also requires an audit of the Kentucky Medicaid program to be conducted every five years by the Auditor of Public Accounts.

FISCAL EXPLANATION:

Department for Medicaid Services

The analysis focuses on the costs incurred by the Department for Medicaid Services (DMS, agency) due to provisions related to community engagement, cost sharing, Medicaid eligibility determinations, non-emergency medical transportation services (NEMT), waiver services, dental services, MCO contract procurement, and coverage of weight loss drugs.

Community Engagement

House Bill (HB) 2/PHS 2 codifies the federal community engagement requirements for those in the Medicaid expansion eligibility group as established under H.R. 1 (P.L. 119-21). DMS estimates that the community engagement requirements will result in a reduced enrollment of 4,295 individuals in fiscal year (FY) 2027 and 9,660 individuals in FY 2028. The federal Medical Assistance Percentage (FMAP) varies by the Medicaid eligibility group with the match rate for Medicaid expansion group at 90/10. Based on a per member per month (PMPM) of \$1,204 as reported for FY 2026 (LRC Medicaid Quarterly Report) or \$14,449 on an annual basis, there would be reduced expenditures of \$62.1 million in FY 2027, with \$6.2 million accounted for by General Fund and \$55.9 million accounted for by Federal Funds, and \$139.6 million in FY 2028, with \$13.9 accounted for by General Fund and \$125.6 accounted for by Federal Funds.

The above analysis is based on the DMS estimates of Medicaid disenrollment due to the requirements as contained in H.R. 1. Staff is unable to determine the fiscal impact of the provisions included in the measure regarding community engagement requirements that are outside of those under H.R. 1.

Cost Sharing

H.R. 1 requires that states impose cost sharing for specified Medicaid eligibles for certain services effective October 1, 2028. The proposed legislation codifies the federal cost sharing requirements as established under H.R. 1 and advances the federally mandated implementation date to January 1, 2027. DMS estimates that additional costs of \$2.0 million would be incurred to make modifications to its information technology system to accommodate implementation of the cost sharing requirements under the timeline provided in legislation. Applying a 90/10 FMAP, \$200,000 of the costs would be accounted for by General Fund and \$1.8 million would be accounted for by Federal Funds.

In general, implementation of cost sharing in health insurance plans can serve to decrease utilization of nonessential health services by enrollees and foster more efficient use of health resources. The agency estimates that about 377,000 of the 450,000 in the Medicaid expansion eligibility group would be subject to the cost sharing requirements under H.R. 1. Cost sharing collections are estimated to result in a decrease in expenditures of \$10.0 million with a reduction of \$1.0 million in General Fund and \$9.0 million in Federal Funds.

Eligibility Determinations

DMS estimates that the requirements for more frequent eligibility determinations among the Medicaid expansion group will result in a reduced enrollment of 18,879 individuals in fiscal year FY 2028. Again, based on a PMPM of \$1,204, or \$14,449 on an annual basis and an FMAP of

90/10, there would be reduced expenditures of \$272.8 million in FY 2028, with \$27.3 million accounted for by General Fund and \$245.5 million accounted for by Federal Funds.

HB 2/PHS 2 also includes additional databases that would be required for verification of eligibility for receipt of Medicaid benefits. DMS reports that additional costs would be incurred to update its eligibility and enrollment systems to ensure information is received from the additional databases. The agency estimates costs of \$5.0 million with \$2.5 million accounted for by General Fund and \$2.5 million accounted for by Federal Funds.

MCO Requirements

The legislation establishes a number of requirements for the MCOs. DMS notes that these requirements would likely increase costs for the MCOs related to additional staffing needs and IT system upgrades. DMS notes that these cost increases may result in higher MCO capitation payments. Based on a 10% increase in the portion of the MCO capitation payments associated with the MCO requirements, DMS estimates increased costs of \$118.8 million with \$23.8 million accounted for by General Fund and \$95 million accounted for by Federal Funds.

Non-Emergency Medical Transportation Services (NEMT)

DMS estimates that the NEMT related provisions would result in increased costs of \$800,000 with \$400,000 accounted for by General Fund and \$400,000 accounted for by Federal Funds in the first year of implementation and ongoing costs of \$550,000 with \$277,500 accounted for by General Fund and \$277,500 accounted for by Federal Funds. First year costs are estimated at \$320,000 for the installation of GPS monitors and \$480,000 for GPS monitoring of the NEMT vehicles with ongoing costs of \$480,000 for GPS monitoring and \$75,000 for replacement of the GPS units annually.

DMS also notes that under current guidelines, stretcher ambulances are not enrolled with NEMT brokers. The agency anticipates that there would be increased costs if the stretcher ambulances were permitted to enroll and bill through NEMT as provided for under the legislation.

Waiver Services

The proposed legislation makes several provisions regarding home and community-based waiver services including requirements for waiver eligibility assessments and management of waiver wait lists. DMS estimates that these provisions would result in increased costs of \$20 million related to system updates with \$10.0 million accounted for by General Fund and \$10.0 accounted for by Federal Funds. The agency notes that there would be ongoing costs for implementation of a new standardized assessment to determine priority level and staff to conduct the assessments.

Dental Services

The measure requires that DMS establish a dental administrative services organization (ASO) for the delivery of dental services for the state's Medicaid program beginning January 2029, prohibits procurement of a contract for a dental ASO vendor prior to January 2028, and requires hiring a full-time Medicaid dental director by July 2028. DMS estimates costs of \$300,000 in salary for the Medicaid dental director with \$75,000 accounted for by General Fund and \$225,000 accounted for by Federal Funds.

Procurement of MCO Contracts

The measure limits the number of MCO vendor contracts to no more than three and establishes the timeframe for procuring new MCO contracts. There would likely be administrative costs associated with procurement of new MCO contracts. However, the procurement activities would not occur until the 2028-2030 fiscal biennium.

Medicaid Coverage for Weight Loss Drugs

The measure prohibits Medicaid coverage of prescription drugs when prescribed primarily for weight loss. In the Regulatory Impact Analysis of a regulation filed (907 KAR 23:010) to permit Medicaid coverage of prescription drugs for weight loss, CHFS estimated costs of \$1.1 million in General Fund based on a take up rate of 2% of eligible individuals. In legislative testimony, DMS reported estimated total costs of \$5.5 million. Thus, total estimated cost avoidance is \$5.5 million with \$1.1 million accounted for by General Fund and \$4.4 million accounted for by Federal Funds.

Overall, the fiscal impact of the measure cannot be determined. The proposed legislation includes provisions that may result in decreased expenditures. However, those decreased costs may be offset by increased expenditures associated with other provisions.

Legislative Research Commission (LRC)

The proposed legislation makes provisions requiring LRC, UK, and UofL to enter into a partnership to design and develop a web-based healthcare transparency dashboard that will be maintained by the LRC. The measure also requires that the LRC contract with an economic consulting firm to conduct analyses of all proposed legislation to determine any possible fiscal impacts to Kentucky's Medicaid program and provide a fiscal impact statement for the General Assembly. HB 2/PHS 2 also allows the MOAB to appoint individuals who are not members of the General Assembly to an advisory committee or subcommittee of the MOAB.

The estimated impact of these provisions is indeterminable. The LRC will have to contract with both UK and UofL to ensure that the requirements of the dashboard meet those of the subcommittee that will be established. The LRC is likely to be able to absorb the staff time necessary for the maintenance and operation of the dashboard. The LRC would also be required to contract with an economic consulting firm to conduct the required Medicaid impact statements. The costs for the ongoing contract would likely require additional funding. The LRC is likely to be able to absorb any costs associated with the staff time necessary for the contract oversight activities. Citizen members of any advisory committee or subcommittee of the MOAB would be entitled to reimbursement for expenses incurred in the performance of duties. The reimbursement would include travel expenses incurred for meetings and is estimated to be less than \$100 per member per meeting.

Auditor of Public Accounts

The measure appropriates \$500,000 from the Budget Reserve Trust Fund in FY 2026 to the Auditor's Office to carry out the audit activities as required under the measure.

DATA SOURCE(S): CHFS/DMS, OSBD, LRC Quarterly Report - FY26(Q1), LRC Staff
PREPARER: Miriam Fordham **NOTE NUMBER:** 79 **REVIEW:** JMR **DATE:** 2/27/2026