Franchise Tax Board

SUMMARY ANALYSIS OF AMENDED BILL

Author:	AB 1952	Analyst:	Deborah Barrett	Bill Number:	AB 1952
Related Bills:	See Prior Analysis	Telephone:	845-4301	Amended Date:	May 3, 2006
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Healthy California Act/ California Essential Health Benefits Program/FTB Distribute Form Prepared By the Managed Risk Medical Insurance Board

____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended __________________.

____ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

_X_ AMENDMENTS DID NOT RESOLVE THE DEPARTMENTS CONCERNS stated in the previous analysis of bill as amended April 17, 2006.

____ FURTHER AMENDMENTS NECESSARY.

____ DEPARTMENT POSITION CHANGED TO ___________________.

_X_ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED April 17, 2006, STILL APPLIES.

____ OTHER – See comments below.

SUMMARY

This bill would establish the California Essential Health Benefits Program (Program) and require the Franchise Tax Board (FTB) to distribute information regarding newly mandated health care coverage requirements.

SUMMARY OF AMENDMENTS

The May 3, 2006, amendments made changes to the requirements relating to the administration of the Healthy California Act that do not impact the department's programs or operations and are not discussed in this analysis. The Implementation Concerns, Fiscal Impact, and Economic Impact identified in the department's analysis of this bill as amended April 17, 2006, are restated for convenience. The remainder of the department's analysis of this bill as amended April 17, 2006, still applies.

POSITION

Pending.

Board Position:			Legislative Director	Date
____ S	____ NA	____ NP		
____ SA	____ O	____ NAR	Brian Putler	5/19/06
____ N	____ OUA	_X_ PENDING		

IMPLEMENTATION CONSIDERATIONS

FTB has identified the following implementation concerns. Staff is available to work with the author's office to resolve these and other concerns that may be identified.

It is unclear whether the author intends for each piece of correspondence generated by the department to include information about health care coverage requirements, or whether a separate one time or annual mailing is intended. It is recommended that the author clarify these notice-related issues to ensure the bill is implemented as intended.

The requirement to send a notice to individuals that file a personal income tax return would also include taxpayers that filed nonresident or part year resident returns, despite the fact that they would not be required to obtain the mandatory insurance. It is suggested that an exception be provided for nonresident or deceased taxpayers to avoid incurring costs that are not merited.

Depending on how the implementation issues are resolved, the department anticipates that the requirements of this bill can be accomplished through normal annual updates, but could require additional funding as described below under Fiscal Impact.

FISCAL IMPACT

Staff estimates that the department's cost for mailing a notice is approximately $.35 per notice. Using the 2005 process year as an example, with approximately 14,656,000 personal income tax returns filed, the department estimates that for a single mailing postage alone would cost $5.1 million. Additional costs to process 14 million notices, along with costs associated with resulting telephone calls and correspondence would be expected as a result of the provisions of this bill. Actual cost estimates will be developed as the bill progresses through the legislative process.

ECONOMIC IMPACT

Based on data and assumptions discussed below, this bill would result in the following revenue losses.

Estimated Revenue Impact of AB 1982 As Amended 05/03/2006 ($ in Millions)		
2006-07	2007-08	2008-09
-$35	-$75	-$75

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Tax Revenue Discussion

The revenue impact of the bill would be determined by a decrease in employee's wages that would reflect a shift to health benefits. Regardless of whether the employer provides health care coverage or contributes 7% of total payroll costs to fund uninsured workers health care coverage, employers would offset these costs by reducing compensation to employees. Contributing 7% of total payroll costs would dilute wages less than directly providing health care coverage.

According to *The State of Health Insurance in California*, there are approximately 6.6 million uninsured non-elderly individuals in California. Roughly 3.8 million are uninsured workers.

If employers of the 3.8 million uninsured individuals contribute 7% of total payroll costs, wages would potentially decrease by roughly $3.8 billion. This assumes an average hourly wage rate of $10, a 32-hour workweek, and 45 weeks of employment annually (3.8 million uninsured x $10 x 32 hours x 45 weeks x 7% contribution = $3.8 billion). Assuming half of the $3.8 billion is attributed to uninsured workers who do not have sufficient income to generate a tax liability, and applying a 4% marginal tax rate to the other half, results in revenue losses of approximately $75 million annually ($3.8 billion x 50% x 4% = $76 million).

Taxable year estimates are converted to cash flow fiscal year estimates in the table.

LEGISLATIVE STAFF CONTACT

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