



Fiscal Note

Legislative Council Staff

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SB 26-178: HEALTH INSURANCE AFFORDABILITY MEASURES

Prime Sponsors:

Sen. Mullica; Jodeh
Rep. Brown; Gilchrist

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Fiscal note status: The fiscal note reflects the introduced bill as amended by the House Finance Committee.

Summary Information

Overview. The bill creates new revenue sources for the Health Insurance Affordability Enterprise, revises the allocation of funds among supported programs, and establishes review requirements.

Types of impacts. The bill is projected to affect the following areas on an ongoing basis:

- State Revenue
- State Expenditures
- TABOR Refunds
- Statutory Public Entity

Appropriations. No appropriation is required. All expenditures are paid from the Health Insurance Affordability Cash Fund, which is continuously appropriated.

**Table 1
State Fiscal Impacts**

Type of Impact	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
State Revenue	\$142 million	\$2 million	\$0
State Expenditures	up to \$142 million	at least \$2 million	at least \$2 million
Change in TABOR Refunds	\$0	\$0	Not estimated
Change in State FTE	0.0 FTE	0.0 FTE	0.0 FTE

Fund sources for these impacts are shown in the tables below. The exact timing of when new revenue received by the Health Insurance Affordability Enterprise will be spent, as well as the amount by which spending within the enterprise shifts between different programs, are not known and cannot be estimated. See State Expenditure section for more detail.

**Table 1A
 State Revenue**

Fund Source	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
General Fund	\$0	\$0	-\$2,000,000
Health Insurance Affordability CF	\$142,000,000	\$2,000,000	\$2,000,000
Total Revenue	\$142,000,000	\$2,000,000	\$0

**Table 1B
 State Expenditures**

Fund Source	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
General Fund	\$0	\$0	\$0
Health Insurance Affordability CF	up to \$142 million	at least \$2 million	at least \$2 million
Federal Funds	\$0	\$0	\$0
Centrally Appropriated	\$0	\$0	\$0
Total Expenditures	up to \$142 million	at least \$2 million	at least \$2 million
Total FTE	0.0 FTE	0.0 FTE	0.0 FTE

Summary of Legislation

The bill creates new revenue sources for the Health Insurance Affordability Enterprise, revises the allocation of funds among supported programs, and establishes review requirements.

HIAE Revenue Sources

The bill directs the Health Insurance Affordability Enterprise (HIAE) to issue up to \$100 million in bonds, imposes a one-time supplemental fee of \$40 million on health insurance companies, reallocates insurance tax credits to benefit the HIAE, and grants the HIAE investment authority.

Bonds

The HIAE may issue up to \$100 million in bonds under this bill. The HIAE Board will set the bond terms, including interest rate, maturity dates up to 45 years, and redemption terms. Proceeds will be deposited into the HIAE Cash Fund and may be used to cover fees, expenses, and commissions related to the bond sale. The bill requires that bond repayments from the HIAE Cash Fund take priority over allocations to HIAE supported programs.

As an enterprise, the HIAE is already authorized to issue bonds but has not done so historically. The fiscal note assumes that with the guidance from the bill, the HIAE will issue \$100 million in bonds.

Supplemental Fee

No sooner than January 1, 2027, the bill requires the HIAE to collect \$40 million through a supplemental fee assessed equally on health insurance companies that covered at least 20,000 Colorado residents in calendar year 2025.

Insurance Premium Tax Credit Revenue Diversion

[Senate Bill 22-081](#) expanded the tax credit available for donations offered to Connect for Health Colorado by \$4 million annually through tax year 2028. The bill redirects these expanded tax credits such that only donations offered to HIAE will be eligible and continues them indefinitely.

Investment Authority

The bill grants the HIAE authority to invest money in the HIAE fund without going through the State Treasurer and to contract with fund manager to advise on investment strategies.

Fund Reallocation

HIAE funds are currently allocated to the following programs:

- the **reinsurance program**, which covers a portion of claims for high-cost individuals;
- **On-Exchange Subsidies**, which pay carriers to lower the cost of purchasing insurance through the Connect for Health Colorado for individuals who meet federal requirements, including having an income between 133 and 400 percent of the federal poverty line; and
- the **OmniSalud program**, which subsidizes insurance for Coloradans with incomes below 300 percent of the federal poverty line who are not eligible for federal tax credits or state-funded insurance; and

The bill reallocates funds assessed starting in calendar year 2027, after all bond obligations have been met, to these programs as shown in Table 2.

Table 2A
Change to Funding Allocation for
the Health Insurance Affordability Enterprise

HIAE Programs	Current Law	Under SB 26-178
Reinsurance Program	Lesser of 73 percent or \$90 million	50 percent
On-Exchange Subsidies	Up to 10 percent	25 percent
OmniSalud Program	\$18 million plus any remaining	20 percent
Administration	3 percent	3 percent
Other Uses	Not Available	2 percent

Current Allocation Formula in Practice

Under current law expenditures of state funds in the HIAE differs from the current allocation formula as shown in Table 2B because:

- the HIAE has been expending surplus funds which are allocated based on which programs accrued the surplus;
- prior legislation has allocated certain funds outside of the current allocation formula; and
- administrative costs have remained constant at \$4 million even as total state funds have increased.

Table 2B
Actual and Projected Expenditure as a Percentage of State Funds
Under Current Law

HIAE Programs	FY 2025-26 Actuals	FY 2026-27 Projected	FY 2027-28 Projected
Reinsurance	52%	32%	44%
On-Exchange Subsidies	9%	45%	34%
OmniSalud	37%	22%	21%
Administration	2%	2%	1%

Hyde Amendment Compliance and Other Allocation

Under current law, the HIAE assists certain populations receiving health coverage through Connect for Health Colorado in complying with the Hyde amendment using funds allocated for On-Exchange Subsidies. Under the bill, this effort will be expanded and funded using funds allocated for "other uses". Any funds that remaining after Hyde Amendment compliance is fully funded will be allocated to other initiatives to increase coverage in the individual market, including current programs.

Review Requirements

Finally, the bill requires the HIAE to contract with a third party to evaluate the feasibility of restructuring the program and places new stakeholder engagement requirements on the HIAE board.

Background

The HIAE is regularly funded by the HIAE fee, which is assessed on health insurance carriers at 1.15 percent of premiums for nonprofit carriers and 2.1 percent for for-profit carriers, plus federal funds which must be allocated to the reinsurance program. These regular revenue sources have not sufficiently covered expenses since FY 2023-24 and the HIAE has been spending surplus accrued in previous years, which will soon be depleted.

[House Bill 25B-1006](#) planned to temporarily sustain the HIAE through the sale of \$100 million in insurance premium tax credits and a \$10 million transfer. Insurance entities have not yet purchased the full \$100 million of tax credits, so [House Bill 26-1346](#), if passed, would allow non-insurance entities to purchase these credits.

Assumptions

Bond Terms

This fiscal note assumes a 20-year bond with an estimated coupon rate of 7.5 percent. As of the date of this fiscal note, the yield on a 20-year U.S. Treasury note is approximately 4.98 percent. Government bonds may carry higher interest rates if they are considered riskier or have low liquidity, making them harder to sell. Final bond terms will be determined by the HIAE board and market conditions at issuance, which may alter the revenue and expenditure estimates.

Insurance Tax Credit Sales

The fiscal note assumes that the HIAE will receive \$2 million in annual donations beginning in FY 2026-27. This is half of the donations allowed to the HIAE in the bill. This estimate is based on experience from implementing [Senate Bill 22-081](#).

In addition, [House Bill 25B-1004](#) and [House Bill 25B-1006](#) also permit the sale of insurance premium tax credits. Purchasing these credits at a discount is likely more appealing to insurers than contributing to HIAE for a tax credit of equal value. As a result, donations to the HIAE may fall below the \$2 million estimate.

Investments

The fiscal note assumes that the HIAE investments will not outperform those managed by the State Treasurer. Therefore, it projects no fiscal impact resulting from the independent investment authority granted under the bill.

State Revenue

The bill increases state revenue by \$142 million in FY 2026-27 and \$2 million in FY 2027-28. In future years, the bill shifts revenue from the General Fund to the HIAE Cash Fund. This shift may also lower the TABOR refund obligation; none of the other changes will have an effect on TABOR refunds. As shown in Table 4 and discussed below, the bill impacts state revenue through:

- bond sale proceeds;
- a one-time fee on health insurance companies;
- assumed donations to the HIAE starting in FY 2026-27 that will increase state revenue, decrease revenue to Connect for Health Colorado (a statutory public entity); and
- starting in FY 2028-29, decreased premium tax revenue from extending tax credits for eligible donations

**Table 4
 State Revenue by Source**

Revenue Source	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29
Bond Sale Proceeds– HIAE	\$100,000,000	\$0	\$0
Fees on Insurers – HIAE	\$40,000,000	\$0	\$0
Donations – HIAE	\$2,000,000	\$2,000,000	\$2,000,000
Insurance Premium Taxes – General Fund	\$0	\$0	-\$2,000,000
Total Revenue	\$142,000,000	\$2,000,000	\$0

Bond Sale Proceeds

The bill will increase HIAE revenue by \$100 million in FY 2026-27. Bond revenue generated by the enterprise is not subject to TABOR.

HIAE Supplemental Fee

No sooner than January 1, 2027, the bill requires the HIAE to collect \$40 million from a supplemental fee assessed equally on all health insurance companies that covered at least 20,000 Colorado residents in calendar year 2025. The fiscal note assumes that the full \$40 million will be collected in FY 2026-27. Enterprise fee revenue is not subject to TABOR.

Donations and Taxes

As discussed in the Assumption Section, the fiscal note assumes that insurers will donate \$2 million per year to the HIAE in order to claim a tax credit. The sections below discuss the impact of this assumption on state revenue.

Donations

Current law incentivizes private entities to donate to Connect for Health Colorado, a statutory public entity, through tax year 2028. The bill alters and continues these incentives such that an estimated \$2 million of donations will be diverted to the HIAE. Since the HIAE is a state enterprise, these donations will be newly recorded as state revenue. Donations are not subject to TABOR.

Insurance Premium Taxes

By continuing the expanded tax credit set to expire August 2028, the bill reduces General Fund revenue by an estimated \$2 million starting in FY 2028-29. Any unused credits may be carried forward to future tax years. Insurance premium tax revenue is subject to TABOR (see TABOR Refund Section).

State Expenditures

The bill is anticipated to sustain HIAE programs for approximately 12 months, which are assumed to be spread across FY 2027-28 and FY 2028-29. Since the exact timing of spending is not known, this section does not break down spending by state fiscal years but discusses the "initial spending" and the "future year spending".

The bill increases allocations to HIAE Programs through FY 2028-29 and decreases allocations to the programs in FY 2029-30 and future years. Additionally, the bill places new expenditure obligations within some of these allocations.

Finally, the bill's change to the allocation formula will cause expenditures to shift between HIAE programs in unknown ways. This change cannot be estimated due to ambiguity around when the new allocation formula is effective and to which revenue streams it applies, as discussed in the Technical Note, as well as the complex legal interactions that have caused the current expenditure of state funds in the HIAE to differ from the current allocation formula.

Table 5
Health Insurance Affordability Cash Fund Expenditures

Fund Source	Initial Spending Through FY 2028-29	Future Year Spending Starting FY 2029-30	Cumulative Total Impact FY 2027-28 – FY 2047-48
HIAE Programs	\$138,750,000	-\$5,500,000	-\$169,100,000
Bond Costs	\$5,250,000	\$7,500,000	\$251,100,000
Total Expenditures	\$144,000,000	\$2,000,000	\$80,500,000
Total FTE	0.0 FTE	0.0 FTE	0.0 FTE

The timing of when revenue and bond proceeds to the Health Insurance Affordability Enterprise will be spent is not known and cannot be estimated precisely. Expenditures are shown as being up to \$144 million in FY 2027-28 and FY 2028-29 for informational purposes. If less is spent, more will be available in future years (See State Expenditures section). The bill also increases bond issuance and repayment costs, which will reduce money available for HIAE programs.

Initial Spending of HIAE Program Allocation

Table 5A shows how the HIAE may expend the \$144 million in revenue generated from the initial tranche of revenue from the bond issuance and other new revenue under the bill. The fiscal note assumes that this revenue will be allocated based on the bill’s allocation formula (see Technical Note) as shown in Table 5A.

Table 5A
Initial Spending of HIAE Funds
 FY 2027-28 and FY 2028-29

Cost Component	Assumed Allocation	First Year
Initial Tranche of Revenue		\$144,000,000
Bond Costs		\$5,250,000
<u>Available for HAIE Programs</u>		<u>\$138,750,000</u>
Reinsurance	50 percent after bonds	\$68,375,000
On-Exchange Subsidies	25 percent after bonds	\$34,187,500
OmniSalud	20 percent after bonds	\$27,350,000
Administration	3 percent after bonds	\$4,102,500
Other Uses	2 percent after bonds	\$2,735,000
Total Expenditures		\$144,000,000

Future Year Decrease in HIAE Program Allocation

After the newly generated revenue is expended sustaining the HIAE programs for an additional year, HIAE program costs will need to decrease (beyond current projections) to pay for the ongoing costs of the bonds. This will be partially offset by the ongoing \$2 million in newly generated revenue. The fiscal note assumes that expenditures will decrease based on the bill's allocation formula (see Technical Note) as shown in Table 5B.

Table 5B
Change in Future Year Program Allocations
FY 2029-30 and future years

Cost Component	Assumed Allocation	First Year
Ongoing Additional Revenue		\$2,000,000
Bond Costs		\$7,500,000
Available for HIAE Programs		-\$5,500,000
Reinsurance	50 percent after bonds	-\$2,750,000
On-Exchange Subsidies	25 percent after bonds	-\$1,375,000
OmniSalud	20 percent after bonds	-\$1,100,000
Administration	3 percent after bonds	-\$165,000
Other Uses	2 percent after bonds	-\$110,000
Total Expenditures		\$2,000,000

Expenditures within Allocations

Within revenue and program allocations under the bill, the HIAE is required to spend \$6.3 million in the first year and \$8.4 million in future years. The costs will be paid from the allocations for "bond costs", "administration", and "other uses" in Tables 5A and 5B above. These costs are further outlined in Table 6 and discussed below.

Table 6
State Expenditures
Health Insurance Affordability Enterprise

Cost Component	First Year	Future Years
Bond Issuance Costs	\$1,500,000	\$0
Bond Obligation Costs	\$3,750,000	\$7,500,000
Hyde Amendment Compliance	\$876,888	\$876,888
Feasibility Study	\$200,000	\$0
Total Costs	\$6,326,888	\$8,376,888

Bond Issuance Costs

The fiscal note estimates \$1,500,000 in issuance costs for selling the bonds. The costs of selling bonds can vary depending on the complexity and terms of the sale. Issuance costs can range from 1 percent to 2 percent of the total face value of the bonds. The fiscal note assumes a 1.5 percent issuance fee calculated on the \$100 million face value, which is paid by the proceeds received from selling the bonds. If the issuance fee is higher than assumed in the fiscal note, the costs in Table 6 will be higher than estimated. Conversely, if the fees are less than 1.5 percent, the issuance costs will be lower.

Bond Obligation Costs

As discussed in the Assumption Section, the fiscal note assumes a 20-year bond with an estimated coupon rate of 7.5 percent.

Two bond repayments will be made each year, totaling \$7.5 million, except in the first year, when only one interest payment will be made (the first repayment typically occurs six months after issuance). Annual interest payments are expected through at least FY 2047-48, with a \$100 million principal repayment also required.

Feasibility Study

In FY 2026-27 only, the HIAE will contract with a third party to evaluate the feasibility of restructuring the HIAE. The fiscal note assumes this will be paid from the HIAE "administrative" allocation which historically has not been fully expended. Based on projects of similar scope, the fiscal note estimates that it will require \$200,000.

Hyde Amendment Compliance

The bill increases expenditures for complying with the Hyde Amendment by about \$900,000 annually. These costs will be paid from the allocation for "other uses", which, per the bill, will receive 2 percent of incoming state revenue starting in calendar year 2027.

The Hyde Amendment prohibits the use of federal funds for abortion services, except in cases of life endangerment, rape, or incest. As a result, insurance carriers classify \$1 per member per month as the cost of abortion services and bills the On-Exchange population separately for these costs to ensure that no federal funds are used. The HIAE currently has authority to subsidize insurance costs for roughly 70 percent of the On-Exchange population and uses that authority to pay the \$1 per member month fee for that population. The bill grants the HIAE distinct authority to cover the cost of complying with the Hyde amendment and the fiscal note assumes they will use this authority to cover these fees for 100 percent of the population.

TABOR Refunds

The bill is expected to decrease the amount of state revenue subject to TABOR by \$2 million starting in FY 2028-29. Because a forecast of state revenue subject to TABOR is not available beyond FY 2027-28, the impact to TABOR refunds cannot be estimated at this time.

Because TABOR refunds are paid from the General Fund, decreased General Fund revenue will lower the TABOR refund obligation, but result in no net change to the amount of General Fund otherwise available to spend or save in any future years when the state is over its revenue limit.

Statutory Public Entity

As discussed in the State Revenue section, the bill diverts \$2 million per year in donation revenue from Connect for Health Colorado, a statutory public entity, to the HIAE, a state enterprise, in FY 2026-27 and FY 2027-28. SB 22-081 created this revenue stream to fund the Connect for Health Colorado public education and awareness campaign, which will be defunded under the bill.

Technical Note

New Allocation Formula Timing

As currently written, the bill applies the new fund allocation formula to revenue assessed beginning in calendar year 2027. Due to timing and ambiguity around if non-fee revenue is ever assessed or simply collected, the revenue generated by the bill will not be subject to the bill's allocation formula. Additionally, due to an 18-month lag between when the fee is assessed and collected, all HIAE fee revenue expended until FY 2028-29 will be subject to the current allocation formula.

Tax Credit Timing

As currently written, it is unclear how the tax credit deadlines specified in the bill interact with other tax deadlines. The fiscal note assumes that the tax credit is structured such that up to \$4 million worth of donations to the HIAE may be eligible for a tax credit in tax year 2027 and that the HIAE will receive all eligible donations in FY 2026-27. If clarifying amendments are necessary, the fiscal note assumes they will be adopted.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State and Local Government Contacts

Regulatory Agencies

Treasury

Revenue