

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 287 (Delegates Goldwater and Barve)
Economic Matters

**Office of the Attorney General - Approval of Conversions of Nonprofit Corporations
to For-Profit Stock Corporations and Mutual Corporations**

This bill applies to nonprofit HMOs, hospitals, and health service plans (nonprofit corporation). The bill requires a nonprofit corporation to obtain written approval from the Office of the Attorney General (OAG) prior to entering an arrangement with, or forming, a for-profit stock or mutual corporation that would involve a material amount of assets of the nonprofit corporation. The OAG will approve the proposed plan if (1) it is in the public interest; (2) the transaction would not adversely affect the availability of health care services in certain communities; (3) the proposed plan includes the establishment of a charitable trust that is equal to the fair market value of the nonprofit corporation; and (4) the proposal satisfies other specified conditions. Distributions from the charitable trust will only be made to nonprofit charitable corporations that provide health care services to the uninsured and medically underserved population in Maryland. Each nonprofit corporation operating in the State must submit an annual report to the OAG identifying the activities undertaken to meet their public benefit obligation.

The OAG shall institute legal proceedings if it determines that the for-profit corporation is not fulfilling its commitment to certain communities in accordance with the agreement approved by the OAG. The nonprofit corporation and affected persons or communities may initiate judicial review of the final action taken by the OAG.

Fiscal Summary

State Effect: Indeterminate effect on general fund revenues and expenditures.

Local Effect: Local health expenditures could decrease by an indeterminate but potentially significant amount to the extent that the bill results in fewer uninsured individuals in a jurisdiction.

Small Business Effect: Potential meaningful effect on small businesses as discussed below.

Fiscal Analysis

Bill Summary: The nonprofit corporation must provide written notice to the OAG and publish notice of its proposed plan. The OAG must hold public hearings and provide access to the records concerning the nonprofit corporation's proposed plan. Within 90 days of the written notice, the OAG must notify the nonprofit corporation of its decision, unless an extension is necessary.

The fair market value of the nonprofit corporation at the time of conversion to a for-profit corporation will be equivalent to the stock value of the nonprofit corporation if the nonprofit corporation were able to issue stock.

A nonprofit corporation that converts to a mutual insurer or a mutual insurer that enters into any arrangement with a nonprofit corporation retains the charitable trust obligation of the nonprofit corporation to preserve the assets of the nonprofit for charitable purposes. If the mutual insurer subsequently enters into an arrangement with a for-profit corporation, the obligation shall be paid.

State Effect: The OAG may charge the nonprofit corporation for the cost of disseminating information to the public. In addition, the OAG may assess the nonprofit corporation a fee to cover the cost of experts or consultants to assist the OAG in reviewing the public benefit and charitable trust proposal submitted by the nonprofit corporation and to assess fair market value. As a result, any increase in expenditures for the OAG could be offset by an increase in revenues through fees assessed on the nonprofit corporation.

Although the courts may incur additional workload as a result of this bill, it is assumed that it could be handled with existing resources.

If, as a result of this legislation, more money is directed towards providing health care services to the uninsured or medically underserved population in Maryland, it could decrease the amount of uncompensated care in the State. This could result in reduced expenditures for: (1) the Medicaid program and the State employee health benefit plan due to lower hospital rates; (2) health services funding to local health departments which serve the "grey-area" population (those who have too much income to be eligible for Medicaid but cannot afford health insurance); and (3) the Primary Care for the Medically Indigent program which serves those not eligible for Medicaid. Any such decrease cannot be reliably estimated at this time, although it could potentially be significant.

Local Expenditures: Local health expenditures could decrease by an indeterminate but

potentially significant amount to the extent that the bill results in fewer uninsured individuals in a jurisdiction.

Small Business Effect: Approximately 40% of small businesses in Maryland receive health insurance coverage through the Comprehensive Standard Health Benefit Plan. It is uncertain how many of the remaining 60% of small businesses have other forms of health insurance coverage. This bill may increase access to health insurance coverage for the population of small businesses and self-employed currently without health insurance if it increases funding to nonprofit corporations that provide health care services to the uninsured.

Information Source(s): Insurance Administration, Department of Health and Mental Hygiene (Health Care Access and Cost Commission), Office of the Attorney General, Department of Fiscal Services

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