Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE
Revised

House Bill 288 (Delegate Hixson, *et al.*)
Health and Government Operations and Ways and Means

Healthy Maryland Initiative

This bill creates the Healthy Maryland Initiative Fund, financed by an increase in the State tobacco tax. The fund is used to expand Medicaid coverage to parents, implement the new Small Business Health Care Incentive Program, and increase funding for tobacco use reduction, substance abuse, specialty care services, and the Office of Minority Health and Health Disparities.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: Tobacco tax revenues increase by $193.0 million in FY 2008. Tobacco tax revenues of $206.3 million go to the Healthy Maryland Initiative Fund in 2008. General fund revenues from the tobacco tax decline by $13.2 million in FY 2008 due to diversion of revenues to the fund as required by the bill. Medicaid expenditures from the fund increase by $103.7 million (50% special funds, 50% federal funds) in FY 2009. In addition, special fund expenditures increase by $61.0 million in FY 2008 to fund various health programs. General fund expenditures increase by $1.0 million in FY 2009 only for a required study. Future year estimates reflect decline in tobacco tax revenues from fewer sales; full implementation of Medicaid expansion in FY 2009; no mandated funding for the Small Business Health Care Incentive Program in FY 2012 and beyond; administrative and personnel costs; mandated spending; and inflation.

($ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	($13.2)	($14.2)	($15.8)	($17.2)	($18.6)
SF Revenue	206.3	179.2	169.0	159.1	149.5
GF Expenditure	0	1.0	0	0	0
SF Expenditure	61.2	127.3	156.3	166.6	177.7
FF Expenditure	.2	52.3	79.3	87.6	97.2
Net Effect	$131.6	($15.6)	($82.5)	($112.3)	($144.0)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Meaningful. More small business employees could gain health insurance under the incentive program.

Analysis

Bill Summary:

Tobacco Tax: The bill doubles the tobacco tax from $1.00 to $2.00 per pack of 20 cigarettes, from $0.50 to $1.00 per pack of 10 cigarettes, from $0.05 to $0.10 for each cigarette in a package over 20, and from $0.05 to $0.10 for each cigarette in a free sample. The tobacco tax rate for other tobacco products increases from 15% to 25% of their wholesale price.

Healthy Maryland Initiative Fund: This fund, consisting of monies generated from the increased tobacco tax, is established to provide health care services and incentives. After making required distributions from the tobacco tax revenues, the Comptroller must distribute the remainder to the Healthy Maryland Initiative Fund. The fund may only be used for:

- activities aimed at reducing tobacco use in Maryland;
- the Medicaid program, including coverage for all legal immigrant children under the age of 18 and pregnant women, and expansion of Medicaid eligibility for parents;
- substance abuse treatment and prevention services;
- the Specialty Care Network;
- the Small Business Health Care Incentive Program; and
- the Office of Minority Health and Health Disparities.

For each fiscal year, monies in the fund must be appropriated as follows:

- $14 million for activities aimed at reducing tobacco use in Maryland;
- at least $40 million to expand Medicaid eligibility for all parents who have a dependent child living with them and whose household income is 75% or below federal poverty level guidelines (FPG) in fiscal 2009 and 100% or below FPG in fiscal 2010 and each year thereafter;
- at least $7 million annually for comprehensive medical care for all legal immigrant children under the age of 18 and pregnant women who arrived in the United States on or after August 22, 1996, who meet Medicaid eligibility standards, and who do not qualify for federally funded coverage;
- $30 million for substance abuse and prevention services;

- $10 million for the Specialty Care Network;
- for fiscal 2009 through 2011 only, $15 million for the Small Business Health Care Incentive Program; and
- for the Office of Minority Health and Health Disparities, $2.0 million in fiscal 2009, $4.0 million in fiscal 2010, $6.0 million in fiscal 2011, $8.0 million in fiscal 2012, and $10.0 million in fiscal 2013 and each year thereafter.

Money from the fund may not supplant funding for any program.

Other Mandated Appropriations: Beginning in fiscal 2009, the Governor must include at least $35 million in the annual budget for activities aimed at reducing tobacco use, of which $14.0 million must come from the Healthy Maryland Initiative Fund and $21.0 million from the Cigarette Restitution Fund (CRF).

For fiscal 2008, funds may be appropriated and transferred by budget amendment from the Healthy Maryland Initiative Fund in the amount and for the purposes specified: (1) $30 million for substance abuse prevention and treatment; (2) at least $10 million for Medicaid, including $7 million for legal immigrant children and pregnant women and $3 million to begin the Medicaid expansion; (3) $10 million for the Specialty Care Network; and (4) $15 million for the Small Business Health Care Incentive Program.

Medicaid Expansion: The bill expands Medicaid eligibility to parents who have a dependent child living with them and whose annual household income is 75% or below the FPG in fiscal 2009 and 100% or below FPG in fiscal 2010 and each year thereafter. The Department of Health and Mental Hygiene (DHMH) must notify the federal Centers for Medicare and Medicaid Services (CMS) of an amendment to the State Medicaid plan that would allow the State to phase in expanded coverage.

The bill requires the Secretary of Health and Mental Hygiene to develop and implement an education and outreach campaign for enrolling individuals eligible for, but not enrolled in Medicaid. Uncodified language requires DHMH to report by January 1, 2008 on the implementation of the campaign.

Small Business Health Care Incentive Program: Established within the Department of Business and Economic Development (DBED), this program provides incentives to small businesses (2-50 employees) that have not recently offered health insurance to their employees to provide comprehensive health insurance as part of an employee benefit package. The program must provide grants to eligible employers for a portion of the costs of providing the Comprehensive Standard Health Benefit Plan (standard plan) as part of an employee benefit package. Grants may be either the lesser of 50% of the cost of the standard plan, or $2,500.

To be eligible, an employer must: (1) be a small employer; (2) provide the standard plan to its employees on or after July 1, 2007; (3) have not provided the standard plan to its employees during the last 12 months preceding the date of application; (4) and meet any other requirements determined by DBED. DBED must give priority for grants to employers that have an average annual wage among its employees that does not exceed 75% of the average annual wage in the State. DBED may pay for administrative costs from the Healthy Maryland Initiative Fund. DBED must report to the Governor and the General Assembly by December 1, 2009 on issues related to the number of applications, grants awarded, increased coverage, and any recommendations for modifying the program.

Joint Legislative Task Force on Universal Access to Quality and Affordable Health Care: The bill extends the termination date for the task force by two years from June 30, 2007 until June 30, 2009. The bill requires the task force to conduct an in-depth study of public- and private-sector options for achieving universal health care coverage for all citizens of the State. The task force may contract with an entity to conduct the study. In fiscal 2009 only, the Governor must include $1.0 million in the budget to fund an in-depth study of public and private sector options for achieving universal health care coverage.

Current Law: An adult may qualify for Medicaid if the adult is: (1) aged, blind, or disabled; (2) in a family where one parent is absent, disabled, unemployed, or underemployed; or (3) a pregnant woman. Adults must also have very low incomes to qualify for Medicaid (about 46% FPG). The Maryland Children's Health Program (MCHP) covers children with family incomes up to 300% FPG and pregnant women with incomes up to 250% FPG. The Maryland Primary Adult Care Program (MPAC) provides primary care, pharmacy, and outpatient mental health benefits to individuals aged 19 and over with incomes up to 116% FPG. MPAC does not cover inpatient hospital, emergency room, or specialty care services.

The Governor must include at least $21 million in the annual budget for activities aimed at reducing tobacco use in Maryland.

Chapter 280 of 2005 created a Specialty Care Network to provide office-based and outpatient specialty care for lower-income individuals.

The Comprehensive Standard Health Benefit Plan (CSHBP) is a standard health benefit package (standard plan) that carriers must sell to small businesses (2-50 employees). Carriers must offer the standard plan to all small businesses, but may sell additional benefits or enhancements through riders. Any riders must be offered and priced separately. CSHBP includes guaranteed issuance and renewal, adjusted community rating with rate bands, and the elimination of preexisting condition limitations. In order to maintain affordability, the average CSHBP premium rate per employee must remain below 10% of Maryland's average annual wage.

Background: The Kaiser Commission on Medicaid and the Uninsured reports that the national median income threshold for parents applying for Medicaid is 42% FPG for nonworking parents and 65% FPG for working parents, while income thresholds in Maryland are 31% FPG and 38% FPG, respectively.

State Fiscal Effect: Appendix 1 shows revenues and expenditures associated with the bill. Revenues significantly outweigh expenditures in all years.

State Revenues:

Tobacco Tax: The bill increases the tobacco tax on cigarettes from $1.00 to $2.00 a pack and the tax on tobacco products other than cigarettes (cigars, pipe tobacco, chewing tobacco, and snuff) from 15% to 25% of the wholesale price of these products. The bill also requires that a "floor" tax be applied on any cigarette inventories that are held for resale as of the effective date of the tobacco rate increase. The State imposes a 5% sales tax on the price (including stamp tax) of cigarettes. Any excise tax increase will increase sales and use tax revenues as well. These sales and use tax revenues will be deposited into the State's general fund as provided under current law.

As shown in **Exhibit 1**, tobacco tax revenues increase by a total of $193.0 million. This figure includes $100,000 in sales tax revenues and $16.5 million from the floor tax.

Exhibit 1
Revenue Increase from a $1.00 Increase in the Tobacco Tax
Fiscal 2008

Tobacco Tax	$171.5 million
OTP Tax	4.9 million
Floor Tax	16.5 million
Sales Tax	0.1 million
Total	**$193.0 million**

However, as shown in **Exhibit 2**, the requirements of the bill result in a net loss in State tobacco tax revenues of $13.2 million.

Exhibit 2
Tobacco Tax Revenues under HB 288
Fiscal 2008

Tobacco tax revenues (under HB 288)	$481.3 million
General Fund	$275.0 million
Healthy Maryland Initiative Fund	$206.3 million
Net Loss to General Fund under HB 288	$13.2 million

Healthy Maryland Initiative Fund: Special fund revenues for the fund would be $206.3 million in fiscal 2008 from the $1.00 increase in the tobacco tax. This estimate assumes that cigarette consumption would decline by 16% due to the $1.05 price increase per pack of cigarettes. Future years assume revenues from the increase in the tobacco tax are $165.9 million in fiscal 2009 and then declines by about 2.5% annually.

State Expenditures: As shown in Appendix 1, special fund expenditures increase by $61.0 million in fiscal 2008 to pay for mandated funding in a variety of programs. In fiscal 2009, special fund expenditures increase by an additional $15 million to implement the Small Business Health Care Incentive Program and $2 million for the Office of Minority Health and Health Disparities. State expenditures increase by an additional $140.9 million (50% special funds, 50% federal funds) in fiscal 2009 to implement the Medicaid expansion.

Medicaid Expansion: Assuming CMS waiver approval, Medicaid expenditures from the fund could increase by $103.7 million (50% special funds, 50% federal funds) in fiscal 2009 to expand Medicaid coverage to parents and with household incomes up to 75% FPG. The information and assumptions used in calculating the estimate are stated below:

- an estimated 121,559 Marylanders with incomes up to 75% FPG will be uninsured in 2009, of whom 25,833 are parents;
- 15,500 uninsured parents (60% of uninsured parents) will enroll in Medicaid;
- 6,611 individuals will drop their private health insurance and enroll in Medicaid ("crowd-out effect"), including 2,401 parents and 4,211 children;
- 75% of newly enrolled adults will have an annual cost of $5,085 in 2009;
- 25% of newly enrolled adults will have an annual cost of $6,600 in 2009;
- 6,660 children, already eligible for Medicaid, will enroll ("woodwork effect") at an annual cost of $2,031 per child in 2009;
- expenditures would be offset by $16.7 million, the estimated portion of the MPAC program attributable to parents with incomes up to 75% FPG; and

- DHMH will hire one full-time data processing program analyst to modify reporting requirements, eligibility, claims, and computer subsystems.

Salary and Fringe Benefits	$66,063
Other Operating Expenses	2,636
Total FY 2009	**$68,699**

DHMH administrative expenditures could increase by $485,664 (50% general funds, 50% federal funds) in fiscal 2008 to increase outreach to individuals who are eligible for, but not enrolled in Medicaid, as required by the bill.

Additionally, administrative expenditures for the Department of Human Resources are anticipated to increase by approximately $903,310 in fiscal 2008 to for 18.2 full-time equivalent staff to conduct Medicaid eligibility determination at local departments of human services.

Salaries and Fringe Benefits	$794,311
Other Operating Expenses	108,999
Total	**$903,310**

Future year estimates reflect: (1) full salaries with 4.5% annual increases and 3% employee turnover; (2) 1% annual increases in ongoing operating expenses; (3) increased enrollment (1% population growth and 2% annual increase in enrollment rate for adults); and (4) 6.5% medical inflation in the Medicaid program. Future year expenditures are offset by savings from the MPAC program.

In 2010, Medicaid expenditures could increase by $157.8 million (50% special funds, 50% federal funds) when Medicaid eligibility is extended to parents with incomes up to 100% FPG. Approximately 40,397 individuals are expected to enroll in fiscal 2010, including both new enrollees and crowd-out enrollees.

Small Business Health Care Incentive Program: DBED special fund expenditures increase by $15 million in fiscal 2009 to provide grants to small businesses. DBED would receive $15 million annually from the Healthy Maryland Initiative Fund in fiscal 2009 through 2011 and may pay for administrative costs using grant monies. DBED advises that for fiscal years 2009 through 2011, it would need a contractual program administrator and administrative assistant to administer the program as well as $300,000 to contract with an outside vendor to assist in assessing small businesses to award grants. This estimate includes salaries, fringe benefits, and ongoing operating expenses. With $14.6 million in grant funds, DBED could make 5,844 grants of $2,500.

Salaries and Fringe Benefits	$87,207
Contractual Services	300,000
Grants to Small Businesses	14,611,478
Other Operating Expenses	1,315
FY 2009 Expenditures	**$15,000,000**

Future year expenditures reflect: (1) full salaries with 4.5% annual increases and 3% employee turnover; (2) 1% annual increases in ongoing operating expenses; and (3) mandated appropriations end after fiscal 2011.

Other Mandated Appropriations: There are several mandated funding provisions in the bill, as well as uncodified language that authorizes funds in fiscal 2008 to be appropriated and transferred by budget amendment from the Healthy Maryland Initiative Fund to specified programs. It is assumed funding would occur in the earliest possible fiscal year permitted by law.

Additional Comments: Exhibits 3 and 4 display the projected number of individuals who would gain access to health insurance under the bill, the corresponding proportion of uninsured, and the anticipated number of individuals who would enroll in available insurance options.

Exhibit 3:
Projected Access and Enrollment
Expansion of Medicaid Eligibility to 75% FPG

Access Expanded To	25,833 parents
Percentage of Uninsured	3.0%
New Enrollees	15,500 parents 6,660 children ("woodwork effect")
Crowd-out Enrollees	2,401 parents 4,211 children
Total Enrollees	17,901 parents 10,871 children

Exhibit 4
Projected Access and Enrollment
Expansion of Medicaid Eligibility to 100% FPG

Access Expanded To	35,022 parents
Percentage of Uninsured	4.4%
New Enrollees	21,714 parents 8,905 children (“woodwork effect”)
Crowd-out Enrollees	3,296 parents 5,781 children
Total Enrollees	25,010 parents 14,686 children

The Health Services Cost Review Commission indicates that expansion of Medicaid to 22,160 previously uninsured individuals through the fiscal 2009 expansion to 75% FPG could result in as much as $29.5 million in reduced hospital uncompensated care by fiscal 2011. Savings of as much as $9.8 million could be realized in fiscal 2009, with savings of $22.1 million in fiscal 2010. This savings could be used to fund expansion of health insurance coverage or reduce hospital rates, which in turn reduces the cost of health insurance for all payors. Uncompensated care savings attributable to the individuals insured though the Small Business Health Care Incentive Program cannot be reliably estimated at this time, but could be significant.

Exhibit 5 shows federal poverty level guidelines for 75% and 100% FPG by family size.

Exhibit 5
2007 Federal Poverty Level Guidelines

Family Size	75% FPG	100% FPG
1	$7,658	$10,210
2	$10,268	$13,690
3	$12,878	$17,170
4	$15,488	$20,650

Additional Information

Prior Introductions: An identical bill was introduced in the 2006 session as HB 441. No action was taken on the bill.

Cross File: SB 207 (Senator Jones, *et al.*) – Finance and Budget and Taxation.

Information Source(s): Department of Business and Economic Development, Comptroller's Office, Department of Health and Mental Hygiene, Maryland Insurance Administration, Department of Legislative Services

Fiscal Note History: First Reader - February 16, 2007
ncs/jr Revised - Correction - February 21, 2007

Analysis by: Jennifer B. Chasse

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Appendix 1
Revenues and Expenditures
Fiscal 2008-2012
($ in Thousands)

	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012
State Revenues					
Tobacco Tax to the Healthy Maryland Initiative Fund[1]	$206,273	$179,195	$169,001	$159,121	$149,549
Net Impact of Tobacco Tax on General Fund	(13,196)	(14,511)	(15,849)	(17,208)	(18,606)
Federal Revenues					
Federal Matching Funds[2]	243	52,315	79,329	87,624	96,716
Expenditures					
Medicaid Expansion[3]	3,000	104,630	157,796	174,341	192,485
Substance Abuse	30,000	30,000	30,000	30,000	30,000
Tobacco Use Reduction	14,000	14,000	14,000	14,000	14,000
Small Business Program	-	15,000	15,000	15,000	-
Specialty Care Network	10,000	10,000	10,000	10,000	10,000
Legal Immigrant Medicaid Coverage[4]	7,000	7,000	7,000	7,000	7,000
Office of Minority Health and Health Disparities		2,000	4,000	6,000	8,000
Total HMIF Spending	61,000	182,630	237,796	256,341	276,485
Surplus[5]	145,273	179,642	174,327	147,523	98,697

[1] Revenues from the tobacco tax increase dedicated to the fund.
[2] Fiscal 2008 spending is mandated, but the expansion does not begin until fiscal 2009.
[3] Total funds including federal match.
[4] Fiscal 2008 spending is mandated, but the Governor's proposed fiscal 2008 budget includes $6 million for this purpose. Given the bills requirement that spending not supplant existing funding, $13 million will be available for this purpose.
[5] Fiscal 2008 fund balance of $145.3 million. Future years represent surplus funds after spending, including any prior year balance.