Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1587 (Delegate Hammen, *et al.*)

Appropriations and Health and Government Operations Finance

Health Services Cost Review Commission - Averted Uncompensated Care - Assessment

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This bill repeals provisions relating to • assessment of hospital uncompensated care savings to finance health care expansion efforts under Chapter 7 of the 2007 special session; and • the current hospital assessment that funds the Maryland Health Insurance Plan. The bill instead requires the Health Services Cost Review Commission to annually assess an amount in hospital rates to • reflect the aggregate reduction in hospital uncompensated care from the expansion of health care coverage under Chapter 7; and • operate and administer MHIP.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: MHIP special fund revenues could increase by $20.6 million beginning in FY 2009 from the new assessment. Compared with proposed spending under Chapter 7, special fund revenues and expenditures for health care expansion efforts could increase by $17.5 million in FY 2009, while federal fund expenditures could increase by $20.5 million. General fund savings in future years reflect acceleration of uncompensated care savings and higher federal matching funds compared with those assumed under Chapter 7. MHIP revenues in future years reflect inflation in hospital net patient revenues.

($ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
SF Revenue	$38.1	$67.4	$86.6	$107.5	$43.2
GF Expenditure	0	(45.3)	(62.9)	(97.3)	(54.7)
SF Expenditure	17.5	45.2	62.8	81.9	15.7
FF Expenditure	20.5	0	.2	15.5	39.0
Net Effect	$.1	$67.5	$86.5	$107.4	$43.2

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

Local Effect: Minimal to none.

Small Business Effect: Minimal to none.

Analysis

Bill Summary: The new assessment has to be uniform, broad-based, and a reasonable amount of hospital rates and may not exceed 3% in the aggregate of any hospital's total net regulated patient revenue.

For the portion of the assessment relating to uncompensated care, HSCRC must ensure that the assessment does not exceed hospital uncompensated care savings realized from the health care coverage expansion. Each hospital must remit its assessment to the Health Care Coverage Fund. HSCRC must ensure that any savings not subject to the assessment be shared equitably among purchasers of hospital services.

For the portion of the assessment relating to MHIP, HSCRC must ensure that the assessment • is included in the reasonable costs of each hospital when establishing the hospital's rates; • may not be considered in determining the reasonableness of rates or hospital financial performance; and • may not be less than the assessment of 0.8128% that was in existence on July 1, 2007. Each hospital must remit one-twelfth of the MHIP portion of the assessment to the MHIP Fund each month.

Funds generated from the assessment may only be used to supplement Medicaid coverage beyond the eligibility requirements in place on January 1, 2008 and provide funding for MHIP.

By January 1 annually, HSCRC must report the aggregate reduction in hospital uncompensated care realized from the expansion under Chapter 7 as well as the number of individuals who enrolled in Medicaid as a result of the expansion and the expenses associated with the utilization of inpatient hospital care by those individuals.

By January 1, 2009 and annually thereafter, the Maryland Health Care Commission must report on the uncompensated care savings derived from the Small Employer Health Benefit Plan Premium Subsidy Program.

Uncodified language in the bill authorizes funds generated from the uncompensated care assessment to be used to pay for the elimination of Medicaid day limits on hospital services for the period of July 1, 2008 through December 31, 2008. HSCRC must ensure that the uncompensated care assessment does not exceed the savings realized in averted uncompensated care from the health care coverage expansion and the elimination of Medicaid day limits.

Current Law:

Chapter 7 of the 2007 Special Session: Chapter 7 expanded eligibility for Medicaid to parents, caretaker relatives, and childless adults with incomes up to 116% of federal poverty guidelines effective July 1, 2008. The Act also established a Small Employer Health Benefit Plan Premium Subsidy Program and the Health Care Coverage Fund. Full Medicaid benefits will be provided to parents and caretaker relatives; however, the Department of Health and Mental Hygiene may cap enrollment, phase in, and limit benefits for childless adults. In fiscal 2010 through 2012, it is the intent of the General Assembly that benefit expansion to childless adults occur upon attainment of specified combined total general fund and Education Trust Fund revenues as submitted in the Governor's proposed budget.

On or after July 1, 2009, if the expansion of health care coverage under Chapter 7 reduces hospital uncompensated care, HSCRC • must determine the savings realized in averted uncompensated care for each hospital individually; and • may assess an amount in each hospital's rates equal to a portion of the savings realized for that hospital. Each hospital must remit any assessment to the Health Care Coverage Fund. HSCRC must ensure that any savings not subject to the assessment be shared equitably among purchasers of hospital services.

Maryland Health Insurance Plan: Chapter 153 of 2002 repealed laws pertaining to the Substantial, Affordable, and Available Coverage insurance product and created MHIP, a State program to provide health benefits for medically uninsurable persons. MHIP operates within the Maryland Insurance Administration and is run by an independent board with regulatory authority. MHIP is funded by an annual assessment on hospital rates and premium revenues from enrollees.

The current MHIP assessment is equal to the percentage that the value of SAAC was to the three insurance carriers that provided SAAC in 2002, or 0.8128%. The assessment currently funds two-thirds of MHIP's operating costs. Each hospital must remit one-twelfth of the assessment to the MHIP Fund each month. HSCRC must ensure that the assessment is revenue neutral to each hospital and may not be considered in determining the reasonableness of rates or hospital financial performance.

Background:

Comparison of Financing under Chapter 7 vs. under the Bill: The hospital assessments intended to finance health care coverage expansion efforts under current law and under the bill differ in the following key respects:

Chapter 7	**HB 1587**
• Hospital specific	• Broad-based and uniform
• Retrospective (savings achieved in one year not assessed until the following year)	• Prospective (assessment based on anticipated savings with cost settlement)
• Nonuniform nature was assumed to limit federal matching rate on reinvested savings	• Uniform nature may allow full federal matching rate on reinvested savings
• Hospital-specific nature would have increased rates for hospitals with the highest uncompensated care	• Broad-based nature spreads out cost among all hospitals (though hospitals with less uncompensated care may face increased rates)

Under both assessments, uncompensated care savings are presumed to be shared between expansion efforts (75%) and payors of hospital services (25%).

Unlike Chapter 7, the bill also provides additional funding for MHIP by replacing the current MHIP assessment with a proposed higher assessment and generates special fund revenues to accelerate the elimination of Medicaid day limits.

Maryland Health Insurance Plan: MHIP's fund balance at the end of fiscal 2008 is expected to be $141.8 million. On July 1, 2008, per Chapter 7, $75.0 million of this balance will be transferred to the Health Care Coverage Fund. In fiscal 2009, it is expected that MHIP expenditures will exceed annual revenues, requiring MHIP to become more reliant on the fund balance. With the $75.0 million transferred out of MHIP and expected fiscal 2010 revenues of $161.4 million and expenditures of $206.0 million, MHIP is expected to deplete the fund balance by the end of fiscal 2010. MHIP indicates that, due to its declining fund balance, it is likely to cap enrollment at between 13,000 and 14,000 members in the near future. As of November 2007, MHIP had 12,210 members.

Hospital Uncompensated Care: Hospital uncompensated care is reimbursed through Maryland's all-payor system. An uncompensated care component is built into each hospital's rates. Therefore, all payors of hospital care, including Medicare, Medicaid, commercial payors, and others finance uncompensated care when they pay for hospital services. Certain hospitals with high levels of uncompensated care receive additional funding through the Uncompensated Care Fund. These funds are collected from a revenue neutral assessment imposed on top of hospital rates (equal to 0.75% of net patient revenues) and redistributed to hospitals based on their proportional share of uninsured individuals treated. In fiscal 2007, hospitals received $700.0 million for uncompensated care through the rate structure and $78.0 million from the fund. Hospital costs are split among payors at approximately 44% commercial, 37% Medicare, and 18% Medicaid (which is split equally among State and federal funds).

Federal Guidelines Regarding Provider Assessments: The federal Medicaid Voluntary Contribution and Provider-Specific Tax Amendments of 1991 placed restrictions on states' use of provider-generated revenues. State provider taxes cannot exceed 25% of a state's share of Medicaid expenditures, must be broad-based and uniform, and cannot hold providers harmless. A broad-based tax is imposed on all providers in the class. A uniform tax is one imposed at the same rate for all providers. The federal Tax Relief and Health Care Act of 2006 codified the maximum provider tax rate at 6.0% of annual gross receipts. From January 1, 2008 through September 30, 2011, this cap will temporarily drop to 5.5%.

Medicaid Day Limits: In fiscal 2004, budget constraints led DHMH to implement hospital day limits for adult Medicaid enrollees. Medicaid day limits cap the number of days that Medicaid will pay for a hospital stay at a percentage of the average length of stay by diagnosis-related group. A hospital is not paid for additional days beyond this limit; thus, any losses incurred become uncompensated care. HSCRC increases hospital rates in future years to adjust for the higher uncompensated care experienced by hospitals as a result of day limits. Medicaid day limits provide significant cost savings to the State Medicaid program, with minimal direct impact on most Medicaid enrollees. However, they increase health care costs in the State overall and are detrimental to the hospital all-payor system. Though initially set to terminate after 18 months, Medicaid day limits continue to be in effect. The fiscal 2009 budget includes $31.9 million to end Medicaid day limits effective December 31, 2008. Revenues anticipated under this bill would allow DHMH to end day limits effective July 1, 2008.

State Fiscal Effect: **Exhibit 1** shows the difference in expenditures for health care expansion by funding source under Chapter 7 compared with the bill. Additional expenditures in fiscal 2009 are to end Medicaid day limits six months earlier than currently budgeted. In out-years, total spending remains the same, but significant general funds savings are anticipated primarily due to availability of additional special funds.

Exhibit 1
Comparison of Funding Sources for Health Care Expansion:
Chapter 7 of the 2007 Special Session vs. HB 1587
($ in Millions)

	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013
Chapter 7 of 2007					
General Funds	$0.0	$45.3	$131.7	$285.6	$259.9
Special Funds	65.3	95.2	81.5	116.0	203.9
Federal Funds	47.3	120.4	180.8	336.6	349.6
Total Funds	**$112.6**	**$260.9**	**$394.1**	**$738.3**	**$813.4**
HB 1587					
General Funds	$0.0	$0.0	$68.8	$188.3	$205.2
Special Funds	82.8	140.4	144.3	197.9	219.6
Federal Funds	67.8	120.4	181.0	352.1	388.6
Total Funds	**$150.6**	**$260.9**	**$394.1**	**$738.3**	**$813.4**
Difference					
General Funds	$0.0	($45.3)	($62.9)	($97.3)	($54.7)
Special Funds	17.5	45.2	62.8	81.9	15.7
Federal Funds	20.5	0.0	0.2	15.5	39.0
Total Funds	**$38.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**

Note: Numbers may not sum to total due to rounding. The exhibit does not reflect additional special fund revenues from the new MHIP assessment.

Total special fund revenues under the bill could increase by an estimated $38.1 million in fiscal 2009. This estimate reflects $20.6 million resulting from a 1% assessment on anticipated hospital net regulated patient revenues of $11.3 billion for MHIP and a net of $17.5 million in additional special fund revenues for health care expansion efforts available under the bill compared with Chapter 7. Legislative Services assumes that the $17.5 million in additional revenues for health care expansion will be spent as special fund expenditures. It is unclear whether or by how much MHIP special fund expenditures may increase given additional revenues for the program. As shown below, MHIP special fund revenues are expected to increase in the out-years based on a 7.5% increase in net patient revenues. Therefore, no additional special fund expenditures are assumed for MHIP under the bill. Elimination of Medicaid day limits, effective July 1, 2008 and at a total cost of $38.0 million, is assumed within the net effect of the bill.

Additional MHIP Revenues Due to the New Assessment Under HB 1587

Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013
$20.6 million	$22.2 million	$23.8 million	$25.6 million	$27.5 million

As shown in Exhibit 1, beginning in fiscal 2010 general funds savings of between $45.3 and $97.3 million are anticipated each year under the bill compared with general fund requirements under Chapter 7. These savings stem from accelerated uncompensated care savings in all years and increased federal matching funds in fiscal 2011 through 2013. As total spending does not decline under the bill in those fiscal years compared with Chapter 7, reduced general fund expenditures are replaced with higher special and federal fund expenditures and total expenditures remain the same.

Federal funding is expected to increase over that assumed under Chapter 7, in all but fiscal 2010, due to an anticipated higher federal match on uncompensated care savings. A higher match is presumed because the proposed assessment is uniform and broad based rather than hospital specific. Federal funding is level in fiscal 2010 as both plans are expected to attain maximum federal matching funds in those years. Receipt of revenues related to uncompensated care savings will be accelerated by one year compared with those anticipated under Chapter 7 because the proposed assessment is prospective rather than retrospective. Once actual uncompensated care savings are determined for a given year, HSCRC indicates that it would adjust assessment rates up or down in future years to account for any difference.

To the extent a higher federal match is not attained or uncompensated care savings are less than anticipated, general fund contributions under the bill could be closer to those expected under Chapter 7.

Appendix 1 and **Appendix 2** display additional details for total expenditures and funding sources under both Chapter 7 and the bill, respectively.

Additional Comments: HSCRC indicates that, due to the accelerated uncompensated care savings anticipated under the bill, the current Uncompensated Care Fund assessment (0.75% of hospital net patient revenues) could be reduced to as little as 0.25% beginning in fiscal 2011. This would result in a special fund revenue and expenditure reduction of approximately $25.0 million annually, with no net fiscal impact.

Additional Information

Prior Introductions: None.

Cross File: SB 974 (Senator Middleton) – Finance.

Information Source(s): Department of Health and Mental Hygiene, Maryland Insurance Administration, Department of Legislative Services

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Appendix 1
Health Care Expansion as Proposed in Chapter 7 of the 2007 Special Session[1]
($ in Millions)

	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013
Expenditures					
Medicaid Expansion					
Administration	$3.0	$3.4	$4.7	$7.5	$7.4
Parents	94.6	168.4	185.6	204.3	224.8
Childless Adults	0.0	69.0	171.6	492.3	545.1
Small Employer Subsidy Program	15.0	20.0	32.2	34.1	36.1
Total Expenditures	**$112.6**	**$260.9**	**$394.1**	**$738.3**	**$813.4**
Funding Sources					
General Funds	$0.0	$45.3	$131.7	$285.6	$259.9
Special Funds					
Rate Stabilization Fund	3.0	49.6	23.7	0.0	0.0
MHIP Balance	62.3	12.7	0.0	0.0	0.0
Uncompensated Care Savings	0.0	32.9	57.8	116.0	203.9
Federal Funds	47.3	120.4	180.8	336.6	349.6
Total Funds	**$112.6**	**$260.9**	**$394.1**	**$738.3**	**$813.4**

[1] Reflects final fiscal 2009 action and planned spending in future years which were not anticipated under Chapter 7. Chapter 7 did not include funds to eliminate Medicaid day limits.

Note: Numbers may not sum to total due to rounding.

Appendix 2
Health Care Expansion as Proposed under HB 1587[1]
($ in Millions)

	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013
Expenditures					
Medicaid Expansion					
Administration	$3.0	$3.4	$4.7	$7.5	$7.4
Parents	94.6	168.4	185.6	204.3	224.8
Childless Adults	0.0	69.0	171.6	492.3	545.1
Small Employer Subsidy Program	15.0	20.0	32.2	34.1	36.1
End Medicaid Day Limits 7/1/08	38.0	0.0	0.0	0.0	0.0
Total Expenditures	**$150.6**	**$260.9**	**$394.1**	**$738.3**	**$813.4**
Funding Sources					
General Funds	$0.0	$0.0	$68.8	$188.3	$205.2
Special Funds					
Rate Stabilization Fund	3.0	41.5	31.7	0.0	0.0
MHIP Balance	31.8	43.2	0.0	0.0	0.0
Uncompensated Care Savings	48.0	55.7	112.6	197.9	219.6
Federal Funds	67.8	120.4	181.0	352.1	388.6
Total Funds	**$150.6**	**$260.9**	**$394.1**	**$738.3**	**$813.4**

[1] Reflects final fiscal 2009 action and planned spending in future years.

Note: Numbers may not sum to total due to rounding.