

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 1085 (Delegate Hurson)
Economic Matters

Community Health Networks

This bill provides for licensure and regulation of “community health networks (CHNs).” It requires a CHN to obtain a joint license from the Department of Health and Mental Hygiene (DHMH) and the Insurance Administration. DHMH is the single point of entry for CHN licensure. DHMH and the Insurance Administration are required to establish reasonable licensure fees not to exceed the administrative cost of the licensure program.

Fiscal Summary

State Effect: General fund expenditures and revenues could increase by an estimated \$222,000 in FY 1997, assuming that licensure fees are set so as to cover expenditures. Future year expenditures and revenues increase with annualization and inflation. The bill’s penalty provision could result in an additional minimal increase in general fund revenues.

| (in dollars) | FY 1997 | FY 1998 | FY 1999 | FY 2000 | FY 2001 |
|-----------------|-----------|-----------|-----------|-----------|-----------|
| GF Revenues | \$222,000 | \$250,600 | \$260,000 | \$269,700 | \$279,800 |
| GF Expenditures | 222,000 | 250,600 | 260,000 | 269,700 | 279,800 |
| Net Effect | \$0 | \$0 | \$0 | \$0 | \$0 |

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

Local Effect: None.

Fiscal Analysis

Bill Summary: The bill does not apply to a CHN that is not a risk-bearing entity and that contracts directly with the State or other payor that assumes all the financial risk. A CHN is authorized to offer either a full range of health services or a partial range of services, or

services for groups with specialized health needs.

The Insurance Administration is required to adopt regulations for licensure of CHNs, including criteria to determine (1) if the CHN applying for a license is a risk-bearing entity and satisfies financial solvency requirements for the level of risk assumed; or (2) may be waived from licensure requirements.

Each CHN must establish a written quality improvement plan. DHMH must review and approve the quality improvement plan of each CHN every two years, unless the CHN receives a waiver of review from DHMH. DHMH must adopt regulations regarding waiver criteria. In addition, each CHN must develop an action plan to respond to community health problems and submit to DHMH an annual progress report that includes outcome measurements.

DHMH is required to investigate complaints regarding CHN quality of care and public accountability issues. It must refer financial solvency, market conduct, benefit, and public understanding issues to the Insurance Administration.

If a CHN violates any provisions of the bill, DHMH or the Insurance Administration is authorized to impose a penalty of not more than \$1,000 for each unlawful act or apply to a court for legal or equitable relief considered appropriate by the Secretary of Health and Mental Hygiene.

Background: The bill incorporates recommendations made by the Governor's Task Force on Community Health Networks which met during the 1995 interim to address the regulation of community health networks. The task force conducted a survey of health networks and 19 networks responded. Of those, 15 met the task force's definition of a CHN and nine entered into risk-bearing arrangements. In addition, over half of Maryland's 51 acute hospitals participate in a network, but several of the hospitals that are currently not participating expect to become network participants in the near future.

State Expenditures: The Insurance Administration advises that general fund expenditures in fiscal 1997 could increase by an estimated \$251,800, which reflects the bill's October 1, 1996 effective date and the cost of hiring 7.5 positions: 2.5 Technicians in the Exam/Audit section and four Technicians and one Office Clerk in the Life/Health section. The Exam/Audit section requires one Technician to do financial examinations and one Technician to do financial analysis for every 10-15 CHNs and an additional one-half Technician to review CHN applications for licensure. The Life/Health section requires three Technicians to perform market conduct analysis, one Technician to review form and rate filings, and one Office Clerk to handle additional paperwork.

The Department of Fiscal Services advises, however, that general fund expenditures could increase by an estimated total of \$222,000 in fiscal 1997, of which \$176,400 is for 5.5

positions and associated operating expenses in the Insurance Administration and \$45,600 is for one position and associated operating expenses in the DHMH's Office of Licensing and Certification.

Insurance Administration expenditures could increase by an estimated \$176,400 in fiscal 1997, which reflects the bill's October 1, 1996 effective date and the cost of hiring 4.5 Technicians to provide regulatory oversight for CHN's (including one Financial Analyst, one Financial Examiner, one half-time Application Analyst, one Market Conduct Analyst, and one Filing Review Analyst) and one Office Clerk. The estimate includes salaries of \$135,200, fringe benefits, one-time start-up costs, and ongoing operating expenses. Fiscal Services assumes, in the absence of evidence of the contrary, that if one Financial Examiner is sufficient to handle 10-15 CHNs, then one Market Conduct Analyst should be sufficient as well.

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| Salaries and Fringe Benefits | \$141,400 |
| Other Operating Expenses | <u>35,000</u> |
| Total FY 1997 Insur. Adm. Expenditures | \$176,400 |

DHMH expenditures could increase by an estimated \$45,600 in fiscal 1997, which reflects the bill's October 1, 1996 effective date and the cost of hiring one Program Administrator to provide regulatory oversight for CHNs. The estimate includes a salary of \$33,274, fringe benefits, one-time start-up costs, and ongoing operating expenses.

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| Salaries and Fringe Benefits | \$41,720 |
| Other Operating Expenses | <u>3,856</u> |
| Total FY 1997 DHMH Expenditures | \$45,576 |

Future year expenditures reflect (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 2% annual increases in ongoing operating expenses. The Department of Fiscal Services advises that CHN growth in future years is likely, given the trend towards managed care and the incentive for hospitals to participate in CHNs to be in a better position to reduce or convert excess bed capacity. However, at this time it is not possible to reliably estimate the number of new CHNs in future years.

State Revenues: The bill specifies that DHMH and the Insurance Administration are required to establish reasonable licensure fees not to exceed the administrative cost of the licensure program. Accordingly, it is assumed that revenues will increase to the same extent

as expenditures, i.e. \$220,000 in fiscal 1997. For illustrative purposes, the licensure fee that would need to be charged to cover fiscal 1997 expenditures is \$14,667, assuming licensure of 15 CHNs.

The bill also provides that the Insurance Administration or DHMH may impose a penalty of up to \$1,000 for each violation or apply to any court for legal or equitable relief. Accordingly, general fund revenues could increase depending on the number and amount of fines imposed. Any such increase is assumed to be minimal.

Information Source(s): Department of Health and Mental Hygiene (Licensing and Certification, Health Care Access and Cost Commission), Insurance Administration, Department of Fiscal Services

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