

Department of Fiscal Services  
Maryland General Assembly

FISCAL NOTE

House Bill 449 (Delegate Bonsack, et al.)  
Economic Matters

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Medical Education Program Fund - Primary Care Practitioners

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This bill establishes a Medical Education Program Fund to assist in paying the cost of medical education programs to train primary care health practitioners. It requires the Insurance Administration to collect fees from health insurers and health maintenance organizations (HMOs) and deposit fee revenues in the fund. The Health Care Access and Cost Commission (HCACC) is to notify the Insurance Administration of the total assessment on health insurers and HMOs each year, administer the fund, and to report: (1) to the Legislative Policy Committee on the status and expenditures of the fund at least once each year; and (2) to the Senate Finance Committee and the House Environmental Matters Committee on the status of the fund and procedures used by HCACC to ensure compliance with this bill.

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Fiscal Summary

**State Effect:** Special fund expenditures for medical education could increase by a significant amount. FY 1997 administrative expenditures could increase by \$160,000, of which \$47,500 is general funds and \$112,500 is special funds. Future year expenditures increase with annualization and inflation. Special fund revenues would increase and general fund revenues could decrease by an indeterminate but significant amount.

(in dollars)	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
GF Revenues	----	----	----	----	----
SF Revenues	----	----	----	----	----
GF Expenditures	\$47,400	\$51,300	\$53,200	\$55,200	\$57,200
SF Expenditures	112,300	129,500	134,200	139,200	144,300
Net Effect	(\$159,700)	(\$180,800)	(\$187,400)	(\$194,400)	(\$201,500)

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

**Local Effect:** Potential indeterminate increase in expenditures for local jurisdiction employee health benefit plans. No effect on revenues.

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## **Fiscal Analysis**

**Background:** Graduate medical education is now factored into the rates of teaching hospitals by the HSCRC: \$79 million in direct medical education costs and \$95 million in indirect costs in fiscal 1994. As the health care marketplace becomes more competitive, managed care organizations are looking to contract with low cost hospitals. Teaching hospitals, because they alone finance graduate medical education, are perceived to be at a competitive disadvantage to non-teaching hospitals.

Chapter 499 (SB 639) of the Acts of 1995 required the Department of Fiscal Services, in conjunction with the Health Services Cost Review Commission (HSCRC), to study the issue of funding graduate medical education. In its study, Fiscal Services notes that (1) the current financing structure for graduate medical education provides no incentive to train an appropriate number and specialty mix of physicians; and (2) Maryland ranks last among states in the percentage of medical school graduates completing a residency in 1995 who plan to enter primary care.

**State Revenues:** Special fund revenues would increase by an indeterminate but significant amount, depending on the amount assessed by HCACC on health insurers and HMOs for medical education programs. Fees assessed on insurers are to be based on each insurer's premiums collected.

General fund revenues could decrease by an indeterminate but significant amount as a result of lower retaliatory tax revenues. A retaliatory tax is levied on all Maryland insurers writing policies in other states which have higher taxes than Maryland's. Maryland retaliatory taxes could decline to the extent that the bill's requirements would increase the assessment on insurers and reduce Maryland's ability to levy retaliatory taxes. Decreased revenues could be significant, depending on the amount assessed under the bill's requirements. For illustrative purposes, retaliatory taxes for health insurers totaled approximately \$2 million in 1994.

**State Expenditures:** Special fund expenditures for medical education could increase by an indeterminate but significant amount, depending on the amount assessed under the bill's requirements.

HCACC could decide to allocate funds to medical schools, nursing schools, or teaching hospitals. If hospitals were to receive additional payments for graduate medical education from the fund, the HSCRC could reduce hospital rates accordingly. As a result, the costs of graduate medical education would shift from hospitals (and ultimately hospital services payers) to the payers directly. This would have the effect of shifting any burden now borne by the State's teaching hospitals and spread it among all payers. It is assumed that expenditures for the State employee health benefit plan and the Medicaid program could be affected indirectly, since any increased costs incurred by health insurers and HMOs due to the Medical Education Program Fund fee could be passed on to the State. It is not possible at

this time to reliably estimate the extent of any increase. Any such increase would depend on the amount assessed under the bill's requirements.

Fiscal 1997 administrative expenditures could increase by an estimated \$160,000, of which \$47,500 is general funds to hire 1.5 new positions (two Financial Analysts and one Office Clerk) in the Insurance Administration and \$112,500 is special funds to hire three new positions (Program Administrator, Administrator, and Fiscal Clerk) in the Health Care Access and Cost Commission.

The bill requires the Insurance Administration to collect fees from health insurers and health maintenance organizations (HMOs) and deposit fee revenues in the fund. As a result, the administration needs 1.5 new positions to audit and verify assessment tax forms (for nonprofit health service plans and HMOs which do not currently file tax forms), compile the data for submission to the HCACC, and track and audit retaliatory taxes.

HCACC would need three new positions to notify the Insurance Administration of the total amount to be assessed on health insurers and HMOs each year, administer the fund with regard to allocating monies to various graduate medical education programs, and develop a monitoring system to assure that the training practitioners are receiving training in primary care. The commission is also authorized to appoint a committee to administer the fund and monitor compliance with primary care training requirements.

The \$160,000 estimate reflects the bill's October 1, 1996 effective date and includes salaries of \$96,816, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$130,600
Office Equipment/Computers	24,900
Other Operating Expenses	<u>4,500</u>
<b>Total FY 1997 Ins. Adm./HCACC Admin. Expenditures</b>	<b>\$160,000</b>

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.

**Local Expenditures:** Expenditures for local employee health benefit plans could increase since any increased costs incurred by health insurers and HMOs due to the Medical Education Program Fund fee could be passed on to local jurisdictions.

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**Information Source(s):** Insurance Administration, Department of Budget and Fiscal Planning, Health Care Access and Cost Commission, Health Services Cost Review Commission, Department of Fiscal Services, *Financing of Graduate Medical Education* (December 1995), Department of Legislative Reference, *Issue Papers, 1996 Legislative Session* (December 1995)

**Fiscal Note History:** First Reader - March 5, 1996

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