HB 952

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

House Bill 952 (Delegate Hurson, *et al.*)
Economic Matters

Children's Health Insurance Assistance Program

This bill establishes a Children's Health Insurance Assistance Program (CHIAP) to provide primary and preventive health care services to eligible uninsured children. The bill establishes a Children's Health Insurance Assistance Program Advisory Council, consisting of no more than 12 members, in the Department of Health and Mental Hygiene (DHMH) to review and evaluate outreach plans and services delivered to children enrolled in the program. There is a Children's Health Insurance Assistance Program Fund that consists of revenues derived from an increase in the tobacco tax. The tobacco tax will be raised from 36 cents to 40 cents for a pack of 20 cigarettes. The amount awarded each year by the program to provide health care services to uninsured children shall not exceed the tobacco tax revenues distributed annually to the fund. The Children's Health Insurance Assistance Program Management Team will solicit and award grants. The grantee will pay a claim under the program only after all other federal, State, local, or private resources have been used first.

Fiscal Summary

State Effect: Special fund revenues distributed to the CHIAP fund would increase by $12.3 million in FY 1998 due to increased excise tax revenues, including floor tax revenues. General fund revenues would decrease by $628,000 in FY 1998 due to declining cigarette consumption as a result of the excise tax increase. Future year revenues reflect decreasing cigarette consumption and inflation. Special fund expenditures for CHIAP would increase by an indeterminate but potentially significant amount beginning in FY 1998. The expenditures include (1) the distribution of grants to entities providing health care services to eligible children; and (2) administrative costs for the management team and the advisory council. General fund expenditures could increase for the Insurance Administration and the Medicaid program by an indeterminate amount.

(in thousands)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002

GF Revenues	($628)	($618)	($603)	($587)	($572)
SF Revenues	12,312	13,563	13,224	12,893	12,571
GF Expenditures	---	---	---	---	---
SF Expenditures	---	---	---	---	---
Net Effect	$11,684	$12,945	$12,621	$12,306	$11,999

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

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

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

Fiscal Analysis

Bill Summary: The Children's Health Insurance Assistance Program Fund must be used exclusively for the distribution of grants for the provision of free and subsidized health care services to eligible children. Any unspent portion of the fund may not revert to the general fund of the State. At least 70% of monies distributed to the fund must be used to pay for health care services for eligible children.

Eligible children are (1) newborns or children who have been a resident of Maryland for at least 30 days prior to enrollment; (2) uninsured and not eligible or covered by Medical Assistance (Medicaid); and (3) those who meet certain income standards. The income eligibility criteria for free and subsidized health insurance coverage through the Children's Health Insurance Assistance Program is represented in the diagram below (**Exhibit 1**). The program may subsidize up to 50% of the premium for children under six years of age and whose family income falls between 185% and 235% of the federal poverty level. The family of the child must pay the difference between the subsidy and the cost of the health insurance premium.

Exhibit 1
Eligibility Criteria for Children's Health Insurance Assistance Program (CHIAP)

Poverty Level	**Eligibility for free and subsidized health insurance under CHIAP**		
235%	**CHIAP (subsidized insurance)**		
185%	**CHIAP eligibility (free insurance)**		
100%			
Age of Child:	<1	1 to <6	6 to 13*

*Only includes children born after September 30, 1985

The advisory council will make recommendations to the Insurance Administration on outreach plans submitted by potential grantees. In conjunction with DHMH, the advisory council will evaluate the accessibility of services delivered to uninsured children enrolled in

the program. Members of the advisory council may not receive compensation but are entitled to reimbursement for expenses under the standard State travel regulation, as provided in the State budget.

In addition to soliciting and awarding grants, the Children's Health Insurance Assistance Program Management Team will (1) prepare and approve a budget for the program; (2) execute contracts related to expanding access to health care services for eligible children; (3) receive necessary funds for the operation of the advisory council and the management team; (4) adopt regulations to carry out the provision of the bill; and (5) review and study enrollment patterns annually and adjust the maximum income ceiling, if necessary. The management team comprises representatives from DHMH, the Department of Budget and Management, and the Insurance Administration.

Health insurers, nonprofit health service plans, and HMOs that apply and receive funds through the program (grantees) must submit an outreach plan and provide at least 2.5% of the grant award in in-kind services for outreach. In addition, the grantee must report annually to the management team on the number of primary care providers participating in the program. The grantee must provide the minimum benefit package specified in the bill. The grantee contracts with the Insurance Administration to provide coverage under this program. On or before July 1, 1998, grantees must apply to the Insurance Administration for monies from the fund to carry out the purpose of this bill.

The program must seek funding from private foundations, federal agencies, and other funding sources for development and implementation of outreach plans.

State Revenues: The number of cigarette packs sold in fiscal 1998 is projected to be 354.3 million at the current tobacco excise tax rate of 36 cents. At this rate, general fund revenues from the excise tax is expected to be about $125.8 million. As a result of this bill, the tobacco tax would be increased to 40 cents a pack effective October 1, 1997. It is assumed that an increase in the tax rate to 40 cents per pack and the resulting increase in the price of a pack of cigarettes would cause cigarette consumption to fall. The total number of cigarette packs sold with the tax increase is projected to be about 352.6 million and tobacco tax revenues raised are estimated to be $136.2 million in fiscal 1998 .

The bill specifies that the four cent increase in the tax rate would be distributed to the Children's Health Insurance Assistance Program Fund. This amounts to 10% of the tobacco tax revenue that is collected at the new tax rate of 40 cents. In fiscal 1998 the amount distributed to the special fund from the increased excise tax rate would be approximately $11 million. The remaining tobacco tax revenue of $125.2 million would go to the general fund. The decrease in the general fund revenues from $125.8 million to $125.2 million is a result of

the decline in the consumption of cigarettes due to the increase in the tax rate. In fiscal 1998, this decrease in general fund revenues would be approximately $628,000.

It addition, the special fund would receive about $1.3 million in revenues derived from the floor tax, which is the increased tax imposed on cigarette packs for which taxes have already been paid. Consequently, the combined tax revenues distributed to the CHIAP fund is $12.3 million. Future year general fund and special fund revenues assume a decline in the consumption of cigarettes of between 2 and 3% annually to reflect current industry trends and inflation.

State Expenditures: Currently, the Medical Assistance Program provides health insurance coverage to uninsured eligible children through the Pregnant Women and Children (PWC) Program, the Maryland Kids Count Program, and beginning in fiscal 1998, through the Thriving by Three Program. Given the varying income and age eligibility criteria for each program, the targeted population in this bill overlaps with some of the population covered under each of the three programs mentioned above. The diagram below (**Exhibit 2**) represents the population of eligible children that would be covered exclusively through CHIAP and the overlapping population.

Exhibit 2
Eligibility Criteria for CHIAP, PWC , Kids Count, and Thriving by Three

<table>
<tr><td>Poverty Level</td><td colspan="3">CHIAP, PWC, Kids Count and Thriving by Three Eligibility</td></tr>
<tr><td>250%</td><td>Thriving by Three eligibility</td><td></td><td></td></tr>
<tr><td>235%</td><td>Thriving by Three and CHIAP subsidized insurance overlap</td><td>CHIAP subsidized insurance</td><td></td></tr>
<tr><td>185%</td><td>PWC&CHIAP overlap</td><td>Kids Count and CHIAP free insurance overlap</td><td>Kids Count eligibility</td></tr>
<tr><td>133%</td><td colspan="3" rowspan="2">PWC and CHIAP overlap</td></tr>
<tr><td>100%</td></tr>
<tr><td>Age of Child:</td><td><1</td><td>1 to < 6</td><td>6 to 13*</td></tr>
<tr><td></td><td>1 to < 4</td><td></td><td></td></tr>
</table>

*Only includes children born after September 30, 1985

The bill provides that the grantee will pay a claim under the program only after all other federal, State, local, or private resources have been used first. Consequently, the population that would be served through CHIAP is significantly reduced. The diagram illustrates that only children aged four and five years and whose family income falls between 185% and 235% of the federal poverty level would be served exclusively by CHIAP. This population of children will be eligible for subsidized health insurance coverage. Currently, the Thriving by Three program and the Maryland Kids Count program do not offer inpatient hospitalization coverage. Under CHIAP, children may receive inpatient hospitalization for up to 90 days a year. As a result, the population of children that overlaps with Thriving by Three and Kids Count would receive inpatient hospitalization coverage through CHIAP. The PWC program covers hospitalization so the CHIAP-eligible population that overlaps with PWC would not receive only CHIAP coverage.

Entities would be awarded grants based on the number of eligible children enrolled or anticipated to enroll in the program. The grantees would receive funds that would cover the cost of health insurance premiums, either completely or in part. As a result, the program's expenditures would be impacted by (1) the number of children that grantees enroll; (2) the cost of the premiums established by the grantees; and (3) the cost of operating the advisory council and the management team. Because there are insufficient data on the above variants, the program cost cannot be reliably estimated at this time, however, it is anticipated to be significant but no more than $12.3 million in fiscal 1998.

For illustrative purposes, the PWC program, which provides inpatient hospitalization coverage (without restrictions on the total number of days covered) cost approximately $3,700 per enrollee in fiscal 1995. If the premium cost for CHIAP is approximately $3,700 per child, then about 3,327 children would receive free insurance coverage through CHIAP. The actual number of children that would enroll through CHIAP for free and subsidized health insurance cannot be reliably determined at this time. Currently, approximately 8,500 children are eligible through Kids Count and 4,000 children are eligible through Thriving by Three. Some portion of these children would be eligible for inpatient hospitalization through CHIAP. Finally, the Health Care Access and Cost Commission which regulates the Comprehensive Standard Health Benefit Plan (CSHBP) has three employees administering the CSHBP. While CHIAP is not identical to CSHBP, it is similar in many respects to assume that the administrative costs associated with the CSHBP would apply to the CHIAP management team. In any event, administrative costs for CHIAP cannot exceed 30% of monies distributed to the fund.

It is assumed that grantees would be responsible for eligibility determination and enrollment under this program. If, instead, the management team has to assume responsibility for

eligibility determination and enrollment, the overall cost to the program should not change significantly. This is because the cost of eligibility determination and enrollment would shift from the grantees to the management team. The grantees would experience a decrease in their cost which would be reflected as a reduction in the grant amount.

The bill provides that the Department of Health and Mental Hygiene must (1) provide staff support to the advisory council; (2) coordinate and supervise enrollment and outreach activities of the grantees; and (3) monitor, review, and evaluate the services delivered to eligible children enrolled in the program. Expenditures incurred by DHMH to comply with the bill's requirements would be reimbursed with monies from the fund.

Expenditures for the Medical Assistance Program could increase as a result of this bill. The bill provides that if a child enrolled in CHIAP receives inpatient hospitalization and the child qualifies for Medicaid through spenddown, the program would have to enroll the child in Medicaid. This may entail modifications to the Client Automated Resource Eligibility System (CARES) and the Medicaid Management Information System (MMIS) because additional coding may be required to include the population of children covered exclusively by CHIAP. The extent of the cost, however, cannot be reliably estimated at this time.

The Insurance Administration advises that its general fund expenditures could increase by an estimated $93,701 in fiscal 1998, which accounts for the bill's October 1, 1997 effective date. This estimate assumes that a significant number of entities would apply for and receive grants under this program. The estimate reflects the cost of hiring one Actuary, one Insurance Analyst, and one Market Conduct Examiner to handle rates review, contract filings, and oversight. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

The current participation rate for the Maryland Kids Count program and the anticipated participation rate for the Thriving by Three program is about 26%. Given the low participation rate of existing programs and the proportion of CHIAP-eligible children that overlaps with these existing programs, the Department of Fiscal Services anticipates that the number of applications for grants would be less than the Insurance Administration's estimate.

The number of uninsured persons in Maryland could decrease as a result of this bill, thereby decreasing the amount of uncompensated care. 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.

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

Small Business Effect: This bill could minimally affect small businesses. The majority of tobacco producers, wholesalers, and retailers in Maryland are small businesses. The four cent tobacco tax increase could reduce the sales of tobacco products and could decrease the profits that businesses realize from tobacco sales. Any decrease in profits, however, is expected to be minimal since the increase in the tax is minimal.

Information Source(s): Insurance Administration; Department of Health and Mental Hygiene (Health Care Access and Cost Commission, Health Services Cost Review Commission, Community and Public Health Administration, Medical Care Policy Administration); Comptroller of the Treasury; Department of Fiscal Services

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