

Department of Fiscal Services  
Maryland General Assembly

FISCAL NOTE

House Bill 514 (Delegate Rawlings, *et al.*)  
Environmental Matters

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**Maryland Medicaid Managed Care Program - Capitation Payments - Graduate  
Medical Education Costs**

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This bill relates to the capitated payment system for Medicaid recipients enrolled in managed care organizations. The State must implement a capitated payment system that assures the graduate medical education (GME) component of the capitated rates is used only to reimburse the GME costs of facilities that have GME costs included in the rates approved by the Health Services Cost Review Commission.

The bill will take effect June 1, 1997.

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**Fiscal Summary**

**State Effect:** Assuming compliance with the bill's requirements would delay the implementation of Medicaid managed care, expenditures for the Medicaid program could increase by an indeterminate but potentially significant amount in FY 1998. No effect on revenues.

**Local Effect:** None.

**Small Business Effect:** None. Hospitals and managed care organizations are not small businesses.

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**Fiscal Analysis**

**State Expenditures:** The current Medicaid managed care capitated payment methodology has GME costs built into the capitated rates. The Medicaid program has not provided information on the exact amount of GME costs that are built into the capitated rates. Total GME costs attributable to aggregate Medicaid data is in the neighborhood of \$40 million.

The GME costs attributable to the managed care population is estimated to range between \$23 million and \$33 million. If compliance with the bill's requirements entails a significant change to the current capitated payment system, the Medicaid program would have to submit the changes to the federal Health Care Financing Administration (HCFA) for approval. These changes would have to be budget-neutral, assuming utilization rates for hospitals remain unchanged. It is uncertain how long it would take HCFA to approve the alternate capitated payment system. The Medicaid program is expected to begin enrolling eligible Medicaid recipients into managed care organizations in June 1997 and coverage through managed care organizations is expected to begin in July 1997. If implementation of Medicaid managed care is delayed pending HCFA approval, it would impose a cost to the State in terms of unrealized savings. It is anticipated that a delay of six months could result in unrealized savings of approximately \$25 million in fiscal 1998.

The impact on the Medicaid program under an alternate capitated payment system that satisfies the bill's requirements depends on the extent to which managed care organizations (MCOs) use GME hospitals. If MCOs use GME hospitals less than current utilization rates, then expenditures for the Medicaid program would decrease relative to projected expenditures based on the current capitated payment system. Conversely, if MCOs use GME hospitals more, the expenditures for the program would increase above projected levels based on the current capitated payment system.

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**Information Source(s):** Department of Health and Mental Hygiene (Medical Care Policy Administration, Health Services Cost Review Commission); University of Maryland Medical System; Department of Fiscal Services

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