

Department of Fiscal Services
 Maryland General Assembly

FISCAL NOTE

House Bill 949 (Delegate Hurson, *et al.*)
 Economic Matters

Community Health Networks

This bill provides for licensure and regulation of “community health networks (CHN).” 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 point of entry for CHN licensure and for consumer complaints. DHMH and the Insurance Administration are required to establish reasonable licensure fees not to exceed the administrative cost of the licensure program. In addition, this bill provides for the participation of CHNs in the small group market.

Fiscal Summary

State Effect: General fund expenditures and revenues could increase by an estimated \$301,900 in FY 1998, assuming that licensure fees are set so as to cover expenditures. Future year expenditures and revenues increase with annualization and inflation. CHN rate and form filings could generate an additional \$3,000 in general fund revenues in FY 1998 only. General fund revenues could increase by an indeterminate amount from the bill’s penalty provision.

(in dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	\$304,900	\$346,900	\$359,300	\$372,000	\$385,300
GF Expenditures	301,900	346,900	359,300	372,000	385,300
Net Effect	\$3,000	\$0	\$0	\$0	\$0

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

Local Effect: None.

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

Fiscal Analysis

Bill Summary: This bill does not apply to a CHN that contracts directly with a governmental entity or other payor that assumes all the financial risk, or is contracting directly with a purchaser under a non-risk bearing arrangement. A CHN is authorized to offer either a full range of health services or a partial range of health services. A CHN may not prohibit a provider from communicating to an enrollee, subscriber, public official, or other persons information that is necessary or appropriate for the delivery of health care services. A health care provider who is treating an enrollee of a CHN is not prohibited from referring the enrollee to other affiliated providers of the CHN.

The bill specifies financial solvency requirements and hold harmless, marketing, and rate and form filing provisions. The Insurance Administration is required to adopt regulations for licensure of CHNs, including criteria to determine if a CHN satisfies financial solvency requirements for the level of risk assumed. The bill also authorizes the Insurance Administration to contract out the financial examination function at the expense of the CHNs.

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 adopt an action plan to respond to community health problems and submit to DHMH an annual progress report that includes outcomes 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: This 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 broadly defined CHNs as a legal aggregation of health care providers operating collectively, so as to reflect the emerging forms of integrated networks that provide either a full range of integrated services, or a set of specialized services, or services to a population with distinct needs. 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.

State Revenues: The bill specifies that DHMH and the Insurance Administration are required to set reasonable licensure fees not to exceed the administrative cost of the licensure program. Accordingly, it is assumed that revenues would increase as much as expenditures, that is, approximately \$301,900 in fiscal 1998.

In addition, general fund revenues could increase by an estimated \$3,000 in fiscal 1998 since the bill's requirements subject CHNs to rate and form filings. Each CHN must submit its proposed forms to the Insurance Administration and pay a \$100 form filing fee. Further, each CHN must submit its proposed rates to the administration and pay a \$100 rate filing fee. Based on the findings of the task force, it is estimated that approximately 15 CHNs will file forms and rates, resulting in an increase in general fund revenues of \$3,000.

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.

State Expenditures: The Insurance Administration advises that general fund expenditures for the administration in fiscal 1998 could increase by an estimated \$296,100, which reflects the bill's October 1, 1997 effective date and the cost of hiring ten positions. The Life and Health section requires two Contract Analysts to review contracts filed by CHNs, three Technicians to perform market conduct analyses, and two Secretaries to handle additional paperwork. The Examination and Auditing section requires one Technician to perform financial examinations, one Technician to conduct financial analysis, and one Technician to review CHN applications and renewals for licensure.

The Department of Fiscal Services advises, however, that general fund expenditures could increase by an estimated total of \$301,900 in fiscal 1998, of which \$263,900 is for 8.5 positions and associated operating expenses in the Insurance Administration and \$38,000 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 \$263,900 in fiscal 1998, which reflect's the bill's October 1, 1997 effective date and the cost of hiring 7.5 Technicians to provide regulatory oversight for CHNs (including one Financial Analyst, one Financial Examiner, one half-time Application Analyst, three Market Conduct Analyst, two Contract Analysts) and one Secretary. The estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Although the bill stipulates that the Insurance Administration may contract out the financial examination function at the expense of CHNs, the administration already is authorized to conduct examinations in this manner by sections 17 and 32 of Article 48A. While it is possible that fewer positions would be needed in the Examination and Audit section as a result of contracting out examinations responsibilities, it is not possible to reliably estimate the impact of this provision at this time. The administration could choose to perform this function with regular employees, contractual employees, or contract with an accounting firm. If the administration contracts out financial examinations, in-house staff will still be needed to provide supervision and oversight. Therefore, the estimate includes one Financial Examiner.

Salaries and Fringe Benefits	\$208,025
Other Operating Expenses	<u>55,906</u>
Total FY 1998 Insur. Admin. Expenditures	\$263,931

DHMH expenditures could increase by an estimated \$38,000 in fiscal 1998, which reflects the bill's October 1, 1997 effective date and the cost of hiring one Program Administrator to provide regulatory oversight for CHNs. The estimate includes salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$33,890
Other Operating Expenses	<u>4,140</u>
Total FY 1998 DHMH Expenditures	\$38,030

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.

Small Business Effect: The Governor's Task Force on Community Health Networks conducted a survey of health networks during the 1995 interim and 19 networks responded. Of those, 15 met the task force's definition of a CHN and nine entered into risk-bearing arrangements. Some small business community health centers and over half of Maryland's 51 acute hospitals participate in a network.

This bill provides regulatory oversight of emerging forms of integrated health networks. If the regulatory oversight promotes and enhances the delivery of health care services in the State, small business health providers and community health centers would benefit from the bill. However, if the bill imposes significant regulatory and administrative burdens on small businesses, it would adversely impact small business providers and community health centers.

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

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