HB 1280

Department of Legislative Services

Maryland General Assembly

FISCAL NOTE

House Bill 1280 (Delegates Conroy and Pitkin)
Economic Matters

Uncompensated Health Care - Health Care Tax

This bill creates a 5% health care tax to be assessed on certain insurers, nonprofit health service plans, HMOs, or any other person that provides health benefit plans subject to State regulation (carriers) to defray the cost of uncompensated care incurred by certain "health care facilities".

The Insurance Commissioner must pay the health care tax collected to the Maryland Health Care Foundation.

Fiscal Summary

State Effect: General fund expenditures could increase by $83,800 in FY 1999; future year expenditures reflect annualization and inflation. Indeterminate effect on the State Employee Health Benefit Plan. Potential minimal increase in general fund revenues.

(in dollars)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	-	-	-	-	-
GF Expenditures	$83,800	$102,100	$105,700	$109,400	$113,300
Net Effect	($83,800)	($102,100)	($105,700)	($109,400)	($113,300)

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

Local Effect: Indeterminate effect on expenditures. No effect on revenues.

Small Business Effect: Potential meaningful.

Fiscal Analysis

Bill Summary: The bill directs the Insurance Commissioner to assess a 5% health care tax on the total premiums of a carrier's Maryland accounts during any six-month period in which: (1) the carrier does not contract with a health care facility for one or more health care services provided under the carrier's health plan; (2) the health care facility had uncompensated care costs in the previous year equal or greater than the statewide average uncompensated care costs for that year; (3) the carrier sells its health plan to residents who live in the primary service area of the health care facility; and (4) at least 10% of the carrier's in-State enrollees reside in the primary service area of the health care facility.

A carrier must submit a semiannual report to the Commissioner and the Secretary of the Department of Health and Mental Hygiene (DHMH) concerning: (1) the type of health care services a health care facility provided to its enrollees for the previous six months; and (2) the level of business the carrier conducted with any health care facility during the previous six months. In addition, the Health Services Cost Review Commission (HSCRC) must report, semiannually, to the Commissioner those health care facilities under its jurisdiction that have uncompensated care in excess of 6% of gross revenues of the health care facility.

Background: The Maryland Health Care Foundation is a nonprofit organization established to promote public awareness of the need to provide more timely and cost-effective care for Marylanders without health insurance and to receive moneys that can be used to provide financial support to programs that expand access to health care services for uninsured Marylanders.

State Effect: There are several inherent difficulties with assessing the fiscal impact of this bill on carriers at this time.

- The bill refers to health care facilities as defined in Health-General §19-101(F). Under this definition, the bill refers to 64 hospitals (acute and specialty), 200 ambulatory surgical facilities, 118 home health agencies, 20 hospice agencies, 240 nursing homes, 14 residential treatment facilities, and 30 addiction treatment centers. Although uncompensated care costs would largely be incurred by hospitals, it is expected that any and all of the above mentioned facilities would have some amount of uncompensated care (i.e., charity care or bad debt). Currently, uncompensated care figures are reported by the HSCRC for hospitals only. Uncompensated care costs for the other facilities are not presently available.

- At this point in time, it is not possible to ascertain: (1) the contractual relationship, or lack of, between each carrier and health care facility; and (2) the residential distribution of each carrier's enrollees. At least for HMOs, according to the HSCRC,

all but one contract with all the hospitals in the State.

- If this bill passes, a carrier could avoid the health care tax completely if the carrier contracts with all health care facilities.

For the reasons indicated above, it is difficult to identify how many carriers would be subject to the health care tax. Absent this information, it is not possible, at this time, to assess the bill's effect on carriers' costs and the corresponding impact on the State Employee Health Benefit Plan through higher premiums.

If health care tax revenues are distributed to the Maryland Health Care Foundation, the number of uninsured persons in Maryland could decrease, 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 estimated at this time.

Assuming the bill does not violate federal Medicaid provider tax and donation laws, the Medicaid program would not be affected. If the bill violates federal law, it could result in a loss of millions of dollars of federal matching funds for the Medicaid program.

General fund administrative expenditures for the Maryland Insurance Administration (MIA) and DHMH could increase by $83,763 in fiscal 1999, which accounts for the October 1, 1998 effective date. This estimate reflects: (1) the cost of one premium tax auditor for MIA to collect and compile the uncompensated care reports from facilities that are not hospitals, and to assess the premium tax on carriers; and (2) one Health Facilities Survey Nurse for DHMH to review the reports that would be submitted to DHMH. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$74,999
Operating Expenses	8,764
Total FY 1999 Administrative Expenditures	**$83,763**

Future year expenditures reflect: (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

If carriers incur the health care tax, the increased costs may be passed on to consumers

through higher premiums. Thus, general fund revenues could increase by an indeterminate minimal amount as a result of the State's 2% insurance premium tax on increased premiums. The State's premium tax is only applicable to "for-profit" insurance carriers. General fund revenues could also increase by an indeterminate minimal amount in fiscal 1999 since the bill's requirements could subject insurance companies to rate and form filings. Each insurer (except HMOs) that revises its rates and amends its insurance policy must submit the proposed change(s) to MIA and pay a $100 rate and form filing fee(s).

Local Expenditures: Expenditures for local jurisdiction employee health benefits could increase, depending upon the current type of health care coverage offered and the number of enrollees. Any increase, however, could be offset by a decrease in expenditures because of fewer uninsured individuals in a jurisdiction.

Small Business Effect: Some nonprofit dental and vision plans may be subject to the 5% health care tax. In addition, small business health care facilities could incur additional audit costs associated with calculating and reporting their uncompensated care.

To the extent that costs increase for carriers and carriers raise health insurance premiums, small businesses and self-employed individuals could face higher health care costs.

Additional Comments: The bill refers to health care facilities that have uncompensated care costs for the previous year equal or greater than the statewide average of uncompensated care costs for that year. The bill does not distinguish between the uncompensated care costs incurred by facilities which provide different types of services (i.e., between hospitals and ambulatory surgical centers). Because uncompensated care costs for hospitals will likely be higher than that of other facilities (significantly higher in some instances), averaging the amount of uncompensated care across all health care facilities would present: (1) a large number of hospitals with uncompensated care costs above the statewide average of all facilities; and (2) most other facilities with uncompensated care costs below the statewide average of all facilities.

If uncompensated care costs for only hospitals are compared, then the fiscal 1996 average hospital uncompensated care is 7.74% of gross hospital revenues. Eighteen hospitals in that year had uncompensated care costs higher than the statewide average for hospitals. These hospitals are indicated below:

Maryland Hospitals with Uncompensated Care Costs
At or Above the Statewide Hospital Average

	1996 Charity and Bad		1996 Charity and Bad

Hospital	Debt (% of Gross Hospital Revenues)	Hospital	Debt (% of Gross Hospital Revenues)
Atlantic Hospital	9.43	Mercy	8.90
Bon Secours	11.26	Prince George	14.21
Cecil County	9.67	Shady Grove	8.83
Dorchester General	8.02	Sinai	10.38
Fort Washington	8.27	Union Memorial	9.55
Hopkins Hospital	8.86	University MD Hospital	10.67
Johns Hopkins Bayview	9.63	University (MIEMSS)	27.14
Laurel Hospital	7.89	University (UMCC)	17.02
Liberty	15.42	Washington Adventist	8.23
Statewide Average Hospital Uncompensated Care		**7.74 % of Total Gross Hospital Revenues**	

Information Source(s): Department of Health and Mental Hygiene (Health Services Cost Review Commission, Medical Care Policy Administration, Health Resources Planning Commission, Health Care Access and Cost Commission, Licensing and Certification), Insurance Administration, Department of Budget and Management, Department of Legislative Services

Fiscal Note History: First Reader - March 16, 1998
lnc

Analysis by: Lina Walker
Reviewed by: John Rixey

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 841-3710
(301) 858-3710