

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

Revised

Senate Bill 521 (Senator Teitelbaum)

Finance

Health Care Regulatory Reform

This bill transfers health planning functions from the Health Resources Planning Commission (HRPC) to the Department of Health and Mental Hygiene (DHMH), transfers the administrative and enforcement responsibility for private review agents from DHMH to the Maryland Insurance Administration (MIA), and repeals the requirement that a health care practitioner payment system be implemented. MIA (rather than DHMH) is designated as the single point of entry for complaints about HMOs. MIA is to adopt by regulation criteria for determining the appropriate level of investigation for quality of care complaints and develop a procedure for referral of quality of care complaints to DHMH for investigation. The bill requires studies of Certificate of Need (CON), freestanding ambulatory surgery, uncompensated care, downstream risk arrangements, quality of care, practice parameters, excess hospital beds, and hospital outpatient rate regulation.

The bill takes effect July 1, 1998.

Fiscal Summary

State Effect: General fund expenditures increase by \$25,300 in FY 1999 due to transferring oversight of private review agents. Future year expenditures increase with annualization and inflation. FY 1999 budget language stipulates that up to \$100,000 of the three health regulatory commissions' appropriations may be reduced to represent health regulatory reorganization savings, contingent upon enactment of this bill. Revenues would not be affected.

(in dollars)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditures	25,300	27,400	28,400	29,400	30,400
Net Effect	(\$25,300)	(\$27,400)	(\$28,400)	(\$29,400)	(\$30,400)

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

Local Effect: None. It is assumed that the bill's requirements could be handled with existing

budgeted resources.

Small Business Effect: Indeterminate.

Fiscal Analysis

Bill Summary: The bill transfers health planning functions from HRPC to DHMH. However, DHMH is authorized to delegate to HRPC those health planning functions necessary to support HRPC's CON function. HRPC user fee revenues are to be used to cover health planning functions transferred to DHMH, as well as HRPC's operating expenditures. DHMH is authorized, in consultation with HRPC, to transfer from HRPC to DHMH staff necessary to develop the State health plan.

The role of local health planning agencies in the State health planning process is strengthened. Prior to adoption of a State health plan, DHMH is to provide local health planning agencies the opportunity for input. HRPC is to establish criteria for obtaining input from local health planning agencies when considering CON applications.

The bill authorizes the Health Services Cost Review Commission (HSCRC) to allow hospitals to charge below commission-approved rates for outpatient surgical services under specified circumstances. HSCRC is to implement this change in one region of the State in 1998. Prior to implementing the change in other areas of Maryland, HSCRC is to report to various legislative committees on the effect of the change in the pilot region. This provision is in effect for 18 months and terminates on December 31, 1999.

It is the intent of the General Assembly that HSCRC, in reviewing hospital rates, only take into account costs attributable to regulating hospital services and exclude costs attributable to unregulated hospital services, including outpatient surgical services, where applicable.

The bill stipulates that the three health commissions conduct studies and data collection so as to permit comparison of pertinent information. MIA and the Health Care Access and Cost Commission (HCACC) are to establish a small group insurance market coordinating task force.

The bill requires the following studies to be conducted: (1) HCACC is to study the desirability of continuing to develop *practice parameters for health care practitioners* and report by November 1, 1998 to various legislative committees; (2) HCACC is to study the feasibility of establishing a *hospital and health care provider report card* to comparatively evaluate the quality of care outcomes for hospitals and other health care providers and report by December 1, 1998 to various legislative committees; (3) DHMH, in consultation with HRPC, HSCRC, and HCACC, is to conduct a *comprehensive study of the CON program* (including specialty medical programs) to determine whether to retain or streamline CON

requirements and report by January 1, 1999 to the Governor and the General Assembly; (4) HSCRC is to study the issue of *financing uncompensated care for services provided by freestanding ambulatory care facilities* and report by January 1, 1999 to the Governor and the General Assembly; (5) DHMH, in consultation with HRPC, is to develop a methodology for *calculating hospital licensed bed capacity* that reflects actual licensed and staffed beds and report by January 1, 1999 to the Governor and the General Assembly. DHMH, in consultation with HRPC, is to adopt delicensing regulations by July 1, 1999; and (6) MIA, HSCRC, and HCACC are to establish an interagency task force to coordinate analysis of *downstream risk arrangements* between carriers and subcontracting provider entities and report by December 1, 1999 to various legislative committees.

State Expenditures:

Fiscal 1999 budget language stipulates that up to \$100,000 of the three health regulatory commissions' appropriations may be reduced by the Secretary of Budget and Management to represent health regulatory reorganization savings, contingent upon enactment of this bill.

Transfer of Health Planning Functions

The bill specifies that HRPC user fee revenues are to be used to cover health planning functions transferred from HRPC to DHMH, as well as HRPC's operating expenditures. Hence, there would be no net effect on State expenditures.

HRPC has identified \$291,294 in grant funds to local health planning agencies that would be transferred to DHMH. Additional HRPC special funds would be transferred to DHMH as part of the health planning function, but it is not possible to readily determine an exact amount at this time because health planning staff perform both State health plan functions and general health planning functions. For illustrative purposes, the fiscal 1999 budget includes \$671,000 in the Health Planning and Policy Analysis Division and 14 positions, exclusive of \$291,294 in local health planning grant funds.

HRPC has identified an estimated \$700,000 in new expenditures that DHMH would incur in carrying out some of the functions that it inherits from HRPC, for which HRPC has no funding. These include: completion of population-based planning to achieve improvement in community health status and development of an institution-specific plan for the reduction of health capacity of health services (\$502,600); and coordination of local health planning input and conducting public hearings and meetings (\$197,400).

The Department of Legislative Services advises that, with the exception of local health planning functions, these new expenditures are not a direct result of the bill's requirements and should not be included as part of the bill's fiscal impact. They are already required under current law. Although the bill strengthens the role of local health planning agencies in the State health planning process, the bulk of this effort falls on local health planning agencies in

providing input. The State must consider local input in addition to other sources of input in preparing the State health plan and considering CON applications. Therefore, it seems reasonable that the bill's requirements regarding additional input from local health planning agencies could be handled with existing budgeted resources.

Private Review Agents Transferred from DHMH to MIA

DHMH

As a result of the transfer of authority to certify private review agents from DHMH to MIA, general fund expenditures for DHMH will decrease by \$44,332. This estimate reflects the elimination of one position within Licensing and Certification and a 90-day start-up delay and includes a salary and fringe benefits of \$43,717 and operating expenditures of \$615.

Future year expenditure reductions would reflect: (1) a full salary with 3.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Insurance Administration

MIA advises that general fund expenditures could increase by an estimated \$62,810 in fiscal 1999, which accounts for a 90-day start-up delay. This estimate reflects the cost of two new positions (one Analyst and one Typist Clerk) to certify private review agents. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

The Department of Legislative Services advises, however, that MIA general fund expenditures would increase by only an estimated \$25,318 in fiscal 1999, which accounts for a 90-day start-up delay. This estimate reflects the cost of one position (Clerk Typist). Funds for an analyst position are not needed, since a program administrator position could be transferred from the Licensing and Certification Administration. The program administrator has current responsibility for certifying private review agents. Licensing and Certification is not transferring any support staff funds because its program administrator shared secretarial services with other professional staff. As a result, MIA needs a new clerk typist position to assist with the clerical tasks involved in certifying private review agents. The estimate includes salaries and fringe benefits of \$19,968, and ongoing operating expenses of \$5,350. Future year expenditures would reflect: (1) full salaries with 3.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

HMO Complaints

MIA is designated as the single point of entry for complaints about HMOs, whereas under current law DHMH is placed in this role. MIA is to adopt by regulation criteria for determining the appropriate level of investigation for quality of care complaints and develop

a procedure for referral of quality of care complaints to DHMH for investigation. There would be no effect on State expenditures because (1) DHMH already handles quality of care complaints and refers non-quality of care complaints to MIA; and (2) current law encourages complaints to be sent to the HMO to resolve through an in-house grievance system. However, to the extent that State policy dictates a more aggressive pursuit of HMO complaint investigation resulting in additional HMO complaint investigations on the part of State agencies, general fund expenditures for complaint referral and investigation could increase by an indeterminate amount.

Health Care Practitioner Payment System

The fiscal 1999 HCACC budget includes \$100,000 to provide consumer information regarding practitioner payments as required by this bill. Because the budget does not include funds to implement the health care practitioner payment system, HCACC expenditures would not be affected.

State Revenues:

Private Review Agent Certification Fees

Currently, there are approximately 130 private review agents certified by DHMH. The cost of the two-year certification is \$1,500 per agent. Annualized general fund revenues from the certification fee for DHMH are \$97,500. As a result of the transfer in authority from DHMH to MIA, general fund revenues for DHMH would decrease by \$73,125 (assumes a rolling application) for fiscal 1999 which would be completely offset by a corresponding increase in general fund revenues for MIA. The estimate accounts for a 90-day start-up delay.

Additional Comments: The fiscal 1999 HCACC budget includes \$200,000 in special funds for the development of practice parameters for health care practitioners. The bill provides for a study of the desirability of continuing to develop practice parameters. HCACC is to conduct the study and report by November 1, 1998 to the Senate Finance Committee, the House Economic Matters Committee, and the House Environmental Matters Committee by November 1, 1998. Should HCACC determine that development of practice parameters is not required, the HCACC appropriation would contain \$200,000 in special funds that would not be needed.

Information Source(s): Department of Health and Mental Hygiene (Licensing and Certification Administration, Health Services Cost Review Commission, Health Resources Planning Commission, Health Care Access and Cost Commission, Medical Care Programs Administration, Board of Physician Quality Assurance); Maryland Insurance Administration; Department of Budget and Management; Office of the Attorney General;

Department of Legislative Services

Fiscal Note History:

First Reader - February 26, 1998

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