

Department of Legislative Services  
Maryland General Assembly

FISCAL NOTE

House Bill 1206 (Delegate Klausmeier)

Environmental Matters

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Health Services Cost Review Commission - Facility Rates

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This bill requires the Health Services Cost Review Commission (HSCRC) to perform a full rate review of each hospital at least once every three years and to approve rates only prospectively. It alters current law by authorizing HSCRC to review costs and rates to assure purchasers of hospital services that *unit rates* (as opposed to *rates* in current law) are set equitably among all purchasers. A hospital that changes its rate or rate schedule concerning either aggregate or unit rates is required to disclose the change to HSCRC and payors and file the change with HSCRC. A hospital is prohibited from changing its rate schedule unless it files written notice with HSCRC supported by any information that HSCRC considers appropriate.

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Fiscal Summary

**State Effect:** Special fund expenditures and offsetting revenues increase by \$314,300 in FY 1999 for full rate reviews, exclusive of potential significant increase in special fund expenditures and offsetting revenues in FY 1999 for setting unit rates. Future year expenditures increase with annualization and inflation; special fund revenues increase accordingly.

(in dollars)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
SF Revenues	\$314,300	\$381,100	\$394,400	\$408,100	\$422,400
SF Expenditures	314,300	381,100	394,400	408,100	422,400
Net Effect	\$0	\$0	\$0	\$0	\$0

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

**Local Effect:** None.

**Small Business Effect:** None.

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## Fiscal Analysis

**State Effect:** Special fund expenditures could increase by an estimated \$314,337 in fiscal 1999, which accounts for the bill's October 1, 1998 effective date. This estimate reflects the cost of five new positions (four Associate Directors and one Rate Analyst) to conduct a full rate review of each hospital every three years. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. The information and assumptions used in calculating the estimate are stated below:

- there are 60 hospitals;
- 20 full rate reviews would need to be done a year;
- HSCRC currently does two full rate reviews a year, so 18 additional reviews would need to be done every year;
- 50% of rate reviews would be contested;
- nine uncontested rate reviews each require one Associate Director full time for one month and one Rate Analyst full time for half a month;
- nine contested rate reviews each require four Associate Directors full time for one month and one Rate Analyst full time for a month.

Salaries and Fringe Benefits	\$277,362
Other Operating Expenses	<u>36,975</u>
<b>Total FY 1999 State Expenditures</b>	<b>\$314,337</b>

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.

To the extent that the bill requires HSCRC to establish and monitor rates for every unit of service a hospital provides, special fund expenditures could increase by an indeterminate but significant amount. Special fund revenues would increase accordingly, since HSCRC's operating expenditures are financed through health care facility fees. HSCRC currently establishes about 50 departmental unit rates for various departments within a hospital such as the operating room or radiology unit. Hospitals have flexibility to price individual services within each department as long as the services are on average consistent with commission-approved departmental unit rates and are charged equally to all payors. Each hospital sets rates for about 10,000 services. Setting unit rates for all hospitals would involve an estimated 600,000 individual services on an annual basis, assuming 60 hospitals and 10,000 services for each hospital.

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**Information Source(s):** Department of Health and Mental Hygiene (Health Services Cost Review Commission, Health Resources Planning Commission); Department of Legislative Services

**Fiscal Note History:** First Reader - March 4, 1998

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