Department of Legislative Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 97 (The Speaker, *et al.*)
(Administration)
Environmental Matters and Economic Matters

Maryland Children's Health Program

This Administration bill expands the Medicaid program to qualified women and children from families with income levels up to 200% of the federal poverty level. Qualified women are uninsured pregnant and two months postpartum and qualified children are uninsured and under 19 years of age.

This bill takes effect July 1, 1998.

Fiscal Summary

State Effect: The FY 1999 Medicaid budget allowance includes $76.17 million to fund the new Maryland Children's Health Program, of which approximately $46.79 million is federal funds and $29.38 million is general funds. The Department of Legislative Services, however, anticipates utilization rates will be lower than projected by the Department of Health and Mental Hygiene (DHMH) and expects actual expenditures to be $71.08 million, of which $27.31 million is general funds. This reflects a $2.07 million general fund reduction from the level proposed in the FY 1999 budget. Out-year estimates reflect an increase in participation rates to 75% of the newly-eligible population, a 10% annual "crowd-out" rate, and 4% inflation.

(in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Expenditures	$27.31	$38.32	$39.85	$41.44	$43.10
FF Expenditures[1]	43.77	66.72	69.39	72.17	75.06
Net Effect	$71.08	$105.04	$109.24	$113.61	$118.16

Note: ( ) - decrease; GF - general funds; FF - federal funds; SF - special funds
1 - federal fund expenditures are reimbursable by the federal government

Local Effect: Local expenditures for health services could decrease by an indeterminate but significant amount to the extent that the bill results in fewer uninsured individuals in a jurisdiction. No effect on revenues.

Small Business Effect: A small business impact statement was not provided by the Administration in time for inclusion in this fiscal note. A revised fiscal note will be issued when the Administration's assessment becomes available.

Fiscal Analysis

Bill Summary: In order to qualify for the program, individuals may not have voluntarily terminated employer-based health insurance coverage in the preceding three months. Outreach efforts will be administered by the Department of Health and Mental Hygiene in conjunction with the Maryland Health Care Foundation.

The Department of Health and Mental Hygiene must study and report to the Senate Finance Committee and the House Environmental Matters Committee the feasibility and cost-effectiveness of providing family coverage by December 31, 1998. In addition, the department must take the necessary steps to secure the enhanced federal matching rate of 65% for pregnant women.

Background: The 1998 federal budget commits $20.25 billion in block grants to states to fund health insurance coverage for uninsured children below 200% of the federal poverty level (the Children's Health Insurance Program). Maryland's share of the block grant in federal fiscal 1998 amounts to approximately $61.6 million. Under the federal program, federal dollars would cover 65% of the total cost of the program while State general funds must cover 35% of the total cost. Currently, Maryland's Medicaid program receives a 50% federal funds match. Under the new program, no more than 10% of total funding may be used for administrative costs.

State Effect: The fiscal 1999 Medicaid budget allowance includes: (1) $59.39 million (of which $20.99 million is general funds) to expand Medicaid coverage to newly-eligible uninsured children and pregnant and postpartum women with incomes under 200% of the federal poverty level; and (2) $19.28 million (of which $9.64 million is general funds) for uninsured children and pregnant women who qualify for and have not received coverage under the current Medicaid program. It is assumed that publicity surrounding the new program will produce an increase in Medicaid enrollment and about 15% of the women and children who qualify but have never applied for assistance would seek coverage (819 women and 8,461 children). DHMH's total estimated cost of $76.17 million includes approximately $7 million in administrative costs and also reflects a savings of $2.5 million from the termination of the Maryland Kids Count Program.

DHMH estimates that 38,037 children and 240 pregnant women will participate in the new program. This is based on estimated utilization rates of 75% for the newly-eligible population. However, based on the experience of Kids Count, which has enrolled only 25%

of the eligible children, and the experience of the Medicaid program, which has a utilization rate between 80% and 85%, the participation forecasts by DHMH appear overstated. The Department Legislative Services (DLS) anticipates that about 50% of the newly-eligible children will enroll in the new program (30,139 children) and 75% of the newly-eligible pregnant women will enroll (203 women). DLS's estimate also assumes that 15% of women and children currently eligible for Medicaid but who have not enrolled would seek coverage as a result of publicity surrounding this new program (567 women and 6,829 children).

In addition, DLS's estimate assumes 2.5% of insured children will drop their health insurance coverage to participate in this new program ("crowding out") in the first year. This estimate reflects a 10% crowd-out rate as a result of the three-month delay and an additional three-quarter reduction of 10% to account for open enrollment delays. An additional 2,593 children will enroll in the new program as a result of crowding out at a cost of $4.01 million (of which $1.4 million is general funds).

Finally, DLS's estimate does not assume that women and children qualifying through the expansion are healthier than current non-disabled Medicaid recipients. The DHMH estimate includes a 5% reduction in costs due to the superior health status of the newly-eligible population. If a similar adjustment were applied to the DLS estimate, projected expenditures would be reduced by $3.39 million.

As a result of these differences, DLS projects actual fiscal 1999 expenditures to be $71.08 million, of which $27.31 million is general funds. This reflects a $2.07 million reduction for the budget allowance.

The number of uninsured persons in Maryland would decrease as a result of this bill, 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; and (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). Any such decrease cannot be estimated at this time.

Information Source(s): Department of Health and Mental Hygiene (Medical Care Policy Administration), Department of Legislative Services

Fiscal Note History: First Reader - January 16, 1998
mld Revised - Updated Information - January 19, 1998

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