Department of Legislative Services
Maryland General Assembly

FISCAL NOTE
Revised

House Bill 98 (Delegate Harrison, *et al.*)
Economic Matters

Provider-Sponsored Organizations - Medicare+Choice Program

This bill authorizes medical care providers to form provider sponsored organizations (PSOs) in order to provide health care services to Medicare recipients under the federal Medicare+Choice program. A PSO is authorized to participate in the Maryland Medicaid managed care program. A PSO must be licensed prior to contracting with consumers. In addition, a PSO is subject to the same statutory requirements to operate as are applicable to an HMO to the extent that they are not preempted by federal law. The Insurance Commissioner must adopt regulations to license PSOs, including adopting federal solvency standards. Upon the repeal or termination of federal solvency standards, the State solvency standards for HMOs will apply to PSOs. The bill also provides that a health care practitioner is not prohibited from referring an enrollee of a PSO to an affiliated health care provider of the PSO.

This bill takes effect June 1, 1998.

Fiscal Summary

State Effect: General fund revenues could increase by an indeterminate minimal amount in FY 1999. General fund expenditures could increase by $84,100 in FY 1999, which reflects a four-month start-up delay. Future year expenditures reflect annualization and inflation.

(in dollars)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	---	---	---	---	---
GF Expenditures	$84,100	$105,100	$108,700	$112,400	$116,400
Net Effect	($84,100)	($105,100)	($108,700)	($112,400)	($116,400)

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

Local Effect: None.

Small Business Effect: Potential meaningful impact on small businesses.

Fiscal Analysis

Background: The federal Balanced Budget Act of 1997 established provisions for the licensing of PSOs to allow doctors and hospitals to group together to participate in Medicare risk contracts. The Act authorizes Medicare-only plans. The Act requires a state to take final action on a license application within 90 days after receipt of a completed application. It prohibits states from implementing standards or a review process that imposes material requirements that are not generally applicable to other entities engaged in substantially the same business. The federal Health Care Financing Administration (HCFA) will establish solvency standards (not expected to be completed until April of 1998). States are required to apply these solvency standards.

State Revenues: General fund revenues for the Insurance Administration will increase by an indeterminate minimal amount from PSO license-application fees. The application fee charged by the Insurance Administration will be established once regulations have been developed by HCFA. General fund revenues will depend on the number of entities that apply to form PSOs, which would be influenced by the solvency standards established by HCFA. For illustrative purposes, the Insurance Administration currently charges HMOs an initial application fee of $300 for a certificate of authority to operate.

State Expenditures: General fund expenditures for the Insurance Administration could increase by an estimated $46,159 in fiscal 1999, which accounts for the 120-day start-up delay given the bill's June 1, 1998 effective date. This estimate reflects the cost of hiring one Financial Analyst to monitor the PSOs for financial and statutory compliance. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses. The estimate assumes that about 10-12 entities would apply to form PSOs under the federal Medicare+Choice program.

Salary and Fringe Benefits	$42,899
Operating Expenses	3,260
Total FY 1999 MIA Expenditures	**$46,159**

Future year expenditures reflect (1) full salary with 3.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.
The Department of Health and Mental Hygiene (DHMH) assumes that between 50 and 75 entities would apply to form PSOs. As such, DHMH advises that general fund expenditures could increase by an estimated $107,568 in fiscal 1999, which accounts for the 120-day start-up delay given the bill's June 1, 1998 effective date. This estimate reflects the cost of hiring

three Health Facilities Inspection Nurses to conduct a review of the quality of health care services provided by PSOs. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

The bill requires PSOs to meet the quality standards applicable to HMOs. Currently, DHMH has two individuals, one physician and one nurse, to conduct an external review of HMOs every three years. There are currently 22 HMOs licensed in Maryland. The Department of Legislative Services assumes that there will be about 10-12 new PSOs as a result of this bill, thus general fund expenditures for DHMH could increase by an estimated $37,900 in fiscal 1999. This estimate reflects the cost of hiring one Health Facilities Inspection Nurse to inspect PSOs. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salary and Fringe Benefits	$32,100
Operating Expenses	5,800
Total FY 1999 DHMH Expenditures	**$37,900**

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

Small Business Effect: For those small business health care providers, mainly physicians, who elect to participate in Medicare risk contracts where they were unable to previously, this bill would have a positive impact on their business. The extent of the impact, however, cannot be reliably estimated at this time.

Information Source(s): Department of Health and Mental Hygiene (Licensing and Certification, Medical Care Policy Administration, Boards and Commissions); Insurance Administration; Department of Budget and Management; Department of Legislative Services

Fiscal Note History:	First Reader - February 6, 1998
lc	Revised - Enrolled Bill - April 27, 1998

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