

Department of Legislative Services  
Maryland General Assembly

FISCAL NOTE

Revised

House Bill 1158 (Delegate Hurson)

Environmental Matters

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**Medical Assistance - Federally Qualified Health Centers - Supplemental Payment**

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This bill requires the Department of Health and Mental Hygiene (DHMH) to pay to a Federally Qualified Health Center (FQHC) the difference between the payment received by the FQHC from a Medicaid managed care organization (MCO) and the “reasonable cost” to the FQHC of providing the services to the MCO enrollee, if requested by the FQHC. The reasonable cost must be determined in accordance with the Medicaid provisions in the Social Security Act, as amended by the federal Balanced Budget Act of 1997. The supplemental payments made to the FQHC must be reduced each year in accordance with the Balanced Budget Act, and must end in fiscal year 2004. DHMH must set aside a portion of the MCO capitation rate for the supplemental payment and pay the FQHC directly. The supplemental payments must be made at least quarterly. The bill also prohibits DHMH from delegating responsibility for such payments to the MCO.

The bill takes effect July 1, 1998 and sunsets June 30, 2004.

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**Fiscal Summary**

**State Effect:** Expenditures for the Medicaid program could increase by \$88,700 in FY 1999, of which \$44,350 is general funds and \$44,350 is federal funds. Out-year increases reflect inflation. No effect on general fund revenues.

(in dollars)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditures	\$44,350	\$44,800	\$45,200	\$45,700	\$46,200
FF Expenditures*	\$44,350	\$44,800	\$45,200	\$45,700	\$46,200
Net Effect	(\$88,700)	(\$89,600)	(\$90,400)	(\$91,400)	\$92,400)

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

\* federal fund expenditures are reimbursable by the federal government

**Local Effect:** None.

**Small Business Effect:** Potential meaningful.

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## Fiscal Analysis

**State Expenditures:** The Balanced Budget Act of 1997 eliminates over six years the requirement that states pay FQHCs on a cost basis. In the first two years, states are required to make supplemental payments to FQHCs to make up the full difference between the amount they currently receive from Medicaid under managed care and the amount they previously received under the fee-for-service system (which was cost-based). In the third year of the phase-out, the supplemental payment decreases to make up 90% of what FQHCs received previously, and decreases to 85% in the fourth year and 70% in the final two years of the phase-out. DHMH has not made the supplemental payments, indicating that the payments do not apply to Maryland's 1115 Medicaid waiver.

Under the Medicaid managed care regulations, an MCO can reimburse a FQHC on either a capitated or fee-for-service basis. If the reimbursement is made on a capitated basis, the MCO must make appropriate adjustments for risk factors in its rate. If the reimbursement is made on a fee-for-service basis, the MCO payment must take into account the cost of services incurred by the FQHC, although the MCO is not required to pay 100% of the FQHC's reasonable allowable costs. Most of the MCOs do not reimburse the FQHCs 100% of their reasonable cost.

The fiscal 1999 MCO capitation rate includes approximately \$6.8 million in funding for FQHCs. As a result of this bill, DHMH would have to assess the difference between the reasonable cost of the FQHC and the amount the FQHC receives in reimbursements from the MCO. This amount would be taken out of the MCO capitation rates and paid directly to the FQHC. Since total Medicaid payments do not change, there would be no impact on health care costs for the Medicaid program.

Administrative costs for the Medicaid program would, however, increase by \$88,704 in fiscal 1999, of which \$44,352 will be general funds and \$44,352 will be federal funds. The estimate reflects the cost of contracting accountants to complete quarterly audits of the FQHCs and the settlement process. Future year expenditures reflect 1% inflation.

**Small Business Effect:** Some of these FQHCs are small businesses. This bill would increase the reimbursement to some of these small businesses. The extent of the increase in revenues cannot be estimated at this time although it could be significant for some FQHCs.

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

**Fiscal Note History:**

First Reader - March 10, 1998

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