HB 953

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 953 (Delegate Dewberry, *et al.*)
Environmental Matters

Open Heart Surgery Services - Demonstration Program for New Services

This bill establishes a demonstration program for "new open heart surgery services" and provides an exemption from Certificate of Need (CON) requirements if certain conditions are met. These conditions include (1) the Health Services Cost Review Commission (HSCRC) must determine that the new service will result in net savings to the health care system; and (2) the new service complies with quality of care standards to be adopted by the Department of Health and Mental Hygiene (DHMH) by January 1, 2000. A hospital must be licensed by DHMH for new open heart surgery services before it provides the services and is prohibited from applying for a license to provide a new open heart surgery service before January 1, 2000. The bill takes effect July 1, 1999, is in effect for three and one-half years, and is abrogated on December 31, 2003. A hospital seeking to establish a new open heart surgery service must obtain a license before January 1, 2003, unless the General Assembly extends the bill's termination date.

Fiscal Summary

State Effect: General fund expenditures increase by $83,900 in FY 2000. Future year expenditures reflect inflation, lower workload, and the bill's termination date, exclusive of potentially significant Medicaid and State Employee Health Benefits Plan savings.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	$0	$0	$0	$0	$0
GF Expenditures	83,900	42,800	43,600	44,400	22,600
Net Effect	($83,900)	($42,800)	($43,600)	($44,400)	($22,600)

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

Local Effect: None.

Small Business Effect: None.

Fiscal Analysis

Bill Summary: The bill requires DHMH to develop a reporting system and model for expected mortality rates. DHMH is authorized to collect statistical information from hospitals that is necessary to develop standards for open heart surgery and to impose a penalty of up to $1,000 a day for any hospital that does not provide the required information or to apply to a court for legal relief. Hospitals are subject to inspection by DHMH to review compliance with quality of care standards. If a hospital is not complying with the standards, DHMH is authorized to impose a penalty of up to $10,000 a day, apply to a court for legal relief, or issue an administrative order that prohibits the hospital from providing designated types of services or admitting designated types of patients, or both.

DHMH must submit a report by July 1, 2002 to the various legislative committees regarding the cost to the health care system of establishing new open heart surgery services, the quality of medical care delivered by new open heart surgery services, access to open heart surgery, and the number of open heart surgery procedures performed at hospitals with open heart surgery services in existence before July 1, 1999.

State Expenditures:

Inspection Costs - Licensing and Certification Administration

DHMH advises that general fund expenditures could increase by an estimated $83,945 in fiscal 2000, which reflects no start-up delay. This estimate reflects the cost of hiring one contractual physician with cardiovascular specialty to develop standards for new open heart surgical services, collect statistical data, inspect the new services, and write a report. 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:

- eight hospitals currently perform open heart surgery services;
- seven hospitals would be eligible for new open heart surgery services under the bill's hospital size and merged asset system specifications (Harford Memorial, Holy Cross, Greater Baltimore Medical Center, North Arundel, Southern Maryland, St. Agnes, and Suburban); and
- DHMH currently visits accredited hospitals only to follow up on the Joint

Commission on Accreditation of Healthcare Organizations (JCAHO) accreditation survey findings or to investigate complaints.

Contractual Salaries and Fringe Benefits	$75,813
Other Operating Expenses	8,132
Total FY 2000 State Expenditures	**$83,945**

Future year expenditures reflect (1) a half-time contractual position to conduct annual surveys, analyze data, and prepare report; (2) 2% annual increases in contractual salaries; (3) 1% annual increases in ongoing operating expenses; and (4) the bill's termination date.

Health Care Savings - Medicaid and State Employee Health Benefits Plan

One of the conditions for initiating new open heart surgery services is that the Health Services Cost Review Commission (HSCRC) must determine that the new service will result in net savings to the health care system. This means that a hospital opening a new open heart surgery program would go to HSCRC and negotiate lower hospital rates. For example, in each of the last three circumstances in which a hospital went through the CON procedure to initiate new open heart surgery services, the reduction in hospital rates exceeded $3 million each. This reduction in hospital rates is across the board, i.e., in operating room and bed rates. Therefore, rates charged to almost all hospital patients could be lower, which could result in savings in the Medicaid program and the State Employee Health Benefits Plan whenever a hospital offers open heart surgery services.

Future year Medicaid expenditures could decrease by up to $450,000 to $900,000 for each hospital newly offering open heart surgery services. This estimate depends on the extent of competition among hospitals and each hospital's annual number of open heart surgery cases and assumes that (1) a hospital reduces its unit rates by 50% of new revenue from open heart surgery, resulting in up to $3 million to $6 million in decreased hospital charges; and (2) Medicaid expenditures represent around 15% of hospital charges. However, under the Medicaid managed care system, it would primarily be Medicaid managed care organizations (MCOs) that would realize savings from lower hospital rates. The State pays a fixed capitation rate to Medicaid MCOs to provide health care services to Medicaid patients; that capitation rate is negotiated each year. Hence, it is not possible to reliably determine the extent to which decreased hospital rates would translate into lower State payments to MCOs in future years, but it could be significant (in the hundreds of thousands of dollars). Any Medicaid savings would be 50% general funds and 50% federal funds.

Future year State Employee Health Benefits Plan expenditures could decrease by up to $60,000 to $120,000 for each hospital newly offering open heart surgery services. This estimate depends on the extent of competition among hospitals and each hospital's annual number of open heart surgery cases and assumes that: (1) a hospital reduces its unit rates by 50% of new revenue from open heart surgery, resulting in up to $3 million to $6 million in decreased hospital charges; and (2) State Employee Health Benefits Plan expenditures represent around 2% of hospital charges. It is not possible to reliably determine the extent to which decreased hospital rates would translate into lower State Employee Health Benefits Plan payments to participating carriers in future years, but it could be significant (in the tens of thousands of dollars). Any State Employee Health Benefits Plan savings would be a mix of 60% general funds, 20% special funds, and 20% federal funds.

State Revenues: The monetary penalty provisions of this bill are not expected to significantly affect State revenues.

Information Source(s): Department of Health and Mental Hygiene (Health Services Cost Review Commission, Licensing and Certification Administration, Health Resources Planning Commission, Medical Care Programs Administration), Department of Legislative Services

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