Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE
Revised

House Bill 994 (Delegates Hammen and Taylor)
Environmental Matters

Hospital Capacity and Cost Containment Act

This bill alters current law to facilitate the closing or downsizing of certain hospitals by broadening certificate of need (CON) exemptions, establishing a category of "limited service hospital," and providing for delicensing of excess hospital beds and the financing of closing costs of a hospital that converts to a limited service hospital.

Fiscal Summary

State Effect: Potential savings for Medicaid, the State Employee Health Benefits Plan, and Health Resources Planning Commission's (HRPC) staff resources. Revenues would not be affected.

Local Effect: None.

Small Business Effect: Minimal.

Fiscal Analysis

Bill Summary:

CON Provisions

The bill alters the CON exemption for the closing or partial closing of a hospital. For a hospital in a county with more than three hospitals, a CON exemption is allowed if a public hearing is held; under current law, a CON exemption is available if HRPC finds that a proposed closing is consistent with the State Health Plan. For a hospital in a county with fewer than three hospitals, a CON exemption is available if HRPC finds that a proposed

closing is in the public interest and consistent with the State Health Plan.

It broadens CON exemptions for a hospital wishing to relocate, change bed capacity, or change the type of health care services offered. It provides that a CON is not required (1) under certain circumstances, for a health care facility owned or controlled by a merged asset system that relocates to a site within the facility's or merged asset system's primary service area or a limited service hospital's immediate area; (2) under certain circumstances, for a hospital located in a county with three or more hospitals that wants to change bed capacity if it is between hospitals in a merged asset system and the change occurs on or after July 1, 2000; (3) for a hospital whose change in bed capacity is due to an annual licensed bed recalculation; or (4) for the conversion of a hospital to a limited service hospital.

It limits a CON exemption for changing bed capacity by prohibiting a hospital from adding or removing beds under the "10 beds or 10 percent" rule (i.e., a CON exemption is available if an increase or decrease does not exceed 10% of the total bed capacity or 10 beds); thus the "10 beds or 10 percent" exemption applies only to a health facility that is not a hospital.

Limited Service Hospitals

The bill establishes a category of limited service hospital and provides that outpatient services are not within the scope of the Health Services Cost Review Commission's (HSCRC) rate-setting authority, except for emergency services. The Maryland Institute for Emergency Medical Services Systems must develop standard procedures for the transport of individuals in need of emergency services or urgent care to limited service hospitals.

Financing of Hospital Closure Costs

The bill alters the Maryland Hospital Bond Program to allow the Health and Higher Educational Facilities Authority to finance the closing costs of a hospital that converts to a limited service hospital (if conversion occurs before October 1, 2002 and the hospital's capability to admit patients for overnight acute care hospitalization is eliminated). The bill repeals the provision that the Maryland Hospital Bond Program is required to pay for obligations of a hospital if closure of the hospital is not the result of a merger or consolidation with other hospitals. It clarifies the method used for determining a hospital's bond indebtedness that will be included in the program.

Delicensing Hospital Beds

The bill requires the Department of Health and Mental Hygiene (DHMH) to annually calculate a hospital's licensed bed capacity and to delicense any beds determined to be excess capacity by July 1, 2000 and annually thereafter.

Discharge Data

DHMH must ensure that Medicaid reimbursement for hospital services provided by a hospital in a contiguous state or the District of Columbia must be reduced by 20% if the hospital does not submit discharge data on all Maryland patients to HSCRC.

Background: Up to 41% of Maryland's 12,249 licensed acute care hospital beds will not be needed by the year 2000; shorter hospital stays and less hospital utilization continue to push down hospital occupancy rates. Since 1980 the daily average hospital census in Maryland has dropped from 11,000 to 6,500, and that number is projected to drop to about 6,000 by the year 2000.

A special task force appointed by Maryland Hospital Association's executive committee was charged with developing alternatives and incentives to assist the hospital community in downsizing acute inpatient capacity, in an attempt to produce a more efficient and cost effective health care delivery system. According to the task force's 1996 recommendations, the process required under current law (that an acute care facility obtain an exemption from CON requirements in order to cease an operation) can take up to 180 days if everything proceeds on schedule and the exemption requirement has been used to delay and obstruct the process.

To provide funds for hospital closure costs, HSCRC assesses a fee on hospitals which is paid to the Health and Higher Education Facilities Authority. The authority issues bonds that pay for the hospital's closing costs.

State Expenditures:

State Health Care Costs

The bill could result in lower hospital costs in Maryland, depending on which hospitals close or convert to a limited service hospital and which hospitals are used by patients who otherwise would have gone to the closed hospital. Systemwide hospital charges are likely to decrease because it is likely that any hospital that closes is a high-cost one. This would result in lower State expenditures for the Medicaid program and the State Employee Health Benefits Plan, to the extent that payors realize and pass on cost savings.

Under the Medicaid managed care system, savings from lower hospital rates would primarily be realized by Medicaid managed care organizations (MCOs). 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.

The bill's provision regarding reduced Medicaid reimbursement to hospitals that fail to provide discharge data is not expected to significantly affect Medicaid expenditures.

Health Resources Planning Commission

The Health Resources Planning Commission's (HRPC) workload could decrease by an indeterminate amount due to the bill's broadening of CON exemptions for hospitals. HRPC advises that the number of CON applications from a particular type of health care facility varies from year to year and is driven by the needs of the particular industry. Because of this variation, it is difficult to estimate the extent of any potential savings resulting from the bill. Further, staff would still be required to review applications for a CON exemption to determine whether an exemption is warranted. Therefore, expenditures would likely not decrease and any surplus staff resources would be assigned elsewhere within the commission.

Health Services Cost Review Commission (HSCRC)/Licensing and Certification Administration

As hospitals begin to close, HSCRC (which sets hospital rates) and the Licensing and Certification Administration (which inspects hospitals) could experience a decreased workload. It is assumed that, until the number of hospital closings exceeds two or three, any savings would be minimal and that any surplus staff resources would be assigned elsewhere within the HSCRC or the administration.

Information Source(s): Department of Health and Mental Hygiene (Health Services Cost Review Commission, Health Resources Planning Commission), Health and Higher Educational Facilities Authority, Department of Legislative Services

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