SB 499

Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

Senate Bill 499 (Senator Frosh)
Finance

Certificate of Need - Open Heart Surgical Program - Suburban Maryland Health Planning Area

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This bill requires the Health Resources Planning Commission (HRPC) to initiate an application process by July 15, 1999 for a new open heart surgical program in the health planning area encompassing Montgomery County, Prince George's County, or Southern Maryland. The commission must award a Certificate of Need (CON) to the applicant that demonstrates its program is in the best interests of the region and State. HRPC's need methodology for open heart surgery programs does not apply to the creation of this program; however, all other provisions of the CON application process, including the impact on other providers of the same service, do apply. The bill takes effect June 1, 1999, remains in effect for three years, and is abrogated on May 31, 2002. Notwithstanding the bill's termination, a CON issued pursuant to the bill's provisions remains in effect.

Fiscal Summary

State Effect: Potentially significant Medicaid and State Employee Health Benefits Plan savings in future years. Revenues would not be affected.

Local Effect: None.

Small Business Effect: None.

Fiscal Analysis

Background: A CON is the primary method for implementing the State Health Plan and is generally required for capital expenditures, additions, or modifications to existing facilities or services, and for new services. The basis for approval of a CON is need, as determined in the State Health Plan.

State Expenditures:

Health Care Savings - Medicaid and State Employee Health Benefits Plan

The bill's provision bypassing HRPC's need methodology for open heart surgery programs could pave the way for establishment of an open heart surgery program in the specified region that otherwise could not be established. Because there is likely to be competition among hospitals in the region wishing to open a new open heart surgery program, competing hospitals may offer to lower hospital rates to offset some of the new revenue attributable to open heart surgery. 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 $450,000 to $900,000. This estimate depends on the number of open heart surgery cases each year and assumes that (1) a hospital reduces its unit rates by 50% of new revenue from open heart surgery, resulting in a total of $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 $60,000 to $120,000. This estimate depends on the number of open heart surgery cases each year and assumes that: (1) a hospital reduces its unit rates by 50% of new revenue from open heart surgery, resulting in a total of $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.

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

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lnc/jr

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