Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE
Revised

House Bill 4 (Delegate Taylor, *et al.*)
Economic Matters

Nonprofit Health Entity Responsibility Act of 2000

This bill requires nonprofit hospitals to submit an annual community benefit report to the Health Services Cost Review Commission (HSCRC) detailing the community benefits provided during the preceding year. Hospitals must conduct a community needs assessment to determine unmet community needs and develop a plan to address them. This community benefit plan must be included in the annual community benefit report. The HSCRC is required to compile the reports and issue an annual nonprofit hospital community health benefit report. This report must be made available to the public, free of charge. The HSCRC must submit a copy of the annual report to the House Economic Matters Committee and the Senate Finance Committee.

In addition, the bill requires a nonprofit health service plan to file a premium tax exemption report with the Maryland Insurance Administration (MIA), demonstrating that the plan has used funds, equal to the value of the premium tax exemption provided to the plan, in a manner that serves the public interest. The Commissioner may not consider whether a nonprofit health service plan offers a substantial, available, affordable coverage (SAAC) product when determining if the plan is serving the public interest. If the nonprofit does not meet the bill's requirements, the plan has one year to comply. Failure to comply within the year provided will subject the plan to the State's premium tax.

Fiscal Summary

State Effect: $41,700 special fund expenditure increase for the Maryland Insurance Administration (MIA) in FY 2001. Future year expenditures reflect annualization and inflation. Any additional hearings at the Office of Administrative Hearings could be handled with existing budgeted resources. Additional filings with HSCRC could be handled with existing budgeted resources. General fund revenues could increase by $23 million for FY

2003 if CareFirst of Maryland does not meet the bill's public interest requirements.

(in dollars)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	$0	-	-	-	-
SF Expenditures	$41,700	$52,400	$54,900	$57,500	$60,200
Net Effect	($41,700)	($52,400)	($54,900)	($57,500)	($60,200)

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

Local Effect: Local jurisdiction expenditures for employee health benefits could increase if CareFirst increases its premiums as a result of the bill's requirements.

Small Business Effect: Potential minimal. Small business expenditures for employee health benefits could increase if CareFirst increases its premiums as a result of the bill's requirements.

Analysis

Current Law: Nonprofit health service plans are not required to provide community benefits in order to maintain their exemption from the premium tax levied on insurance carriers. The tax rate is currently 2% of all premiums. Nonprofit hospitals do not have a community benefit report requirement.

Background: Chapters 123 and 124 of 1998 established a regulatory framework for proposed acquisitions of nonprofit health entities to ensure that in the event of a conversion to a for-profit entity, the public and charitable assets of the health entities are fully accounted for and properly distributed to the State for the benefit of the public.

Currently, the only nonprofit health service plan in Maryland is CareFirst Blue Cross Blue Shield of Maryland. CareFirst Blue Cross Blue Shield is the trade name for the 1998 combination of the former Maryland and National Capital Area Blue Cross and Blue Shield plans. The bill's requirements do not apply to FreeState HMO, which is a for-profit managed care product owned by CareFirst.

According to CareFirst's first annual report in 1998, revenues for the combined company increased to nearly $4 billion, up from $3.4 billion in the prior year. Net income rose from $63.2 million in 1997 to more than $75.7 million, with steady gains in each quarter of 1998. CareFirst increased its reserves 20% from $391 million in 1997 to $472 million in 1998.

State Revenues: CareFirst may satisfy the public interest requirement by establishing that it

has: (1) increased access to, or the affordability of, one or more health care products or services by offering and selling health care products or services that are not required by law; (2) used a greater percentage of premiums collected for medical care than a comparable for-profit health insurer, as determined by the Commissioner; (3) used underwriting standards not required by law to increase the availability of one or more health care services or products; or (4) serviced the public interest by any method or practice approved by the Commissioner.

General fund revenues could increase by $23 million in fiscal 2003 if CareFirst does not satisfy the bill's requirements and loses its premium tax exemption. While CareFirst advises that it is currently undertaking public interest initiatives, it is unknown at this time if its actions would satisfy the bill's requirements. The Commissioner will make that determination after CareFirst files its report on March 1, 2001. The Commissioner will notify CareFirst by November 1, 2001, if the plan has met the public interest requirements. If not, CareFirst has one year to comply with the Commissioner's requirements. If CareFirst fails to comply within the year provided, it will be subject to the 2% premium tax, and could be required to pay approximately $23 million in fiscal 2003. Future year revenues are dependent upon CareFirst's compliance with the bill.

State Effect: Special fund expenditures for the MIA could increase by $41,654 for fiscal 2001, which accounts for the bill's October 1, 2000, effective date. This estimate reflects the cost of hiring one MIA technician III to review annual tax exemption reports and issue orders of compliance or noncompliance. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses. Future year expenditures reflect (1) a full salary with 3.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Expenditures for the State Employee Health Benefits Plan may increase by a minimal amount. The State plan has several medical plan products administered by CareFirst, including a preferred provider option, point-of-service option, and FreeState HMO, a for-profit HMO owned by CareFirst. CareFirst indicates that the bill's requirements could cost CareFirst approximately $23 million annually, the amount it saves from the current premium tax exemption. CareFirst will pass this cost through to its enrollees as a 2% premium increase to offset its expenses. The State plan negotiates with carriers annually to determine rates. Several factors impact on rate negotiation, and the State plan may not necessarily incur the entire 2% premium rate increase that CareFirst plans to pass on to its enrollees.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Insurance Administration, Department of Health and Mental Hygiene (Community Public Health Administration, Health Services and Cost Review Commission), Office of Administrative Hearings, CareFirst of Maryland, Department of Legislative Services

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Analysis by: Susan D. John

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510