

**Department of Legislative Services**  
Maryland General Assembly  
2001 Session

**FISCAL NOTE**  
**Revised**

House Bill 429 (Chairman, Environmental Matters Committee)  
(Departmental – Health and Mental Hygiene)

Environmental Matters

Finance

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**Maryland Medical Assistance Program - HealthChoice Performance Incentive Fund**

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This departmental bill establishes a HealthChoice Performance Incentive Fund within the Department of Health and Mental Hygiene (DHMH), to be used exclusively for the provider reimbursement budget, including providing financial incentives to managed care organizations that exceed performance targets. The fund is special funded by fines collected from Medicaid managed care organizations (MCOs) that fail to meet certain quality of care standards. DHMH must adopt regulations to carry out the bill's provisions, including the distribution of monies from the fund to MCOs. At the end of each fiscal year, any amount in the fund exceeding \$3 million must revert to the general fund. The Legislative Auditor must audit the accounts and transactions of the fund as provided in the State Government Article.

The bill takes effect July 1, 2001.

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**Fiscal Summary**

**State Effect:** Medicaid revenues and expenditures (50% general funds, 50% federal funds) from MCO fines and incentive bonuses would each decrease beginning in FY 2002 due to the creation of the special funded HealthChoice Performance Incentive Fund used for MCO performance incentives. Special fund revenues would increase by at least \$870,000 beginning in FY 2002 due to the transfer of existing collected fines (50% general, 50% federal) into the special fund and any additional fines assessed against MCOs. Future year special fund expenditures and revenues could increase or decrease depending on fines imposed on MCOs and incentive bonuses paid to MCOs for meeting performance standards.

**Local Effect:** None.

**Small Business Effect:** The Department of Health and Mental Hygiene has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

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## Analysis

**Bill Summary:** DHMH must report by December 31, 2003 to the House Environmental Matters and Ways and Means committees, and the Senate Finance and Budget and Taxation committees, on the uses of the fund. DHMH must also report to these committees when the fund balance reaches \$2.5 million.

**Current Law:** DHMH has the authority to impose fines on MCOs that do not meet certain quality of care standards. Fifty percent of the fines must be paid to the general fund. Fifty percent of the fines are federal funds and must be returned to the federal Health Care Financing Administration (HCFA).

**Background:** DHMH is currently working with the HealthChoice MCOs on a performance initiative that will establish performance standards for MCOs and encourage them to provide high quality care to MCO enrollees. DHMH collected \$640,000 in fines in calendar 1998 and \$230,000 in calendar 1999. Fines collected in 1998 were to be paid out to MCOs that met certain performance standards in 1999; however, no MCOs met the standards and DHMH has retained the funds. DHMH is in the process of determining whether any MCOs meet performance standards in calendar 2000. If monies are not returned to MCOs, the monies will revert to the general fund (50%) and to the federal government (50%).

**State Fiscal Effect:** The bill's provisions do not alter current practice since Medicaid will continue to assess fines and pay incentive bonuses to MCOs. However, fines and bonuses are currently designated as 50% general funds and 50% federal funds. DHMH may spend the general funds collected from fines in any manner it chooses, while the federal funds must either be paid to MCOs as incentive bonuses or returned to the federal government.

The bill's provisions would change this designation and allocate all fines and bonuses as special funds within the HealthChoice Performance Incentive Fund. Accordingly, all special funds must be used exclusively for incentive bonuses to MCOs.

Currently, DHMH has collected \$870,000 (50% general funds, 50% federal funds) in fines. These monies would be transferred to the special funded Incentive Fund.

Accordingly, DHMH will cease to: (1) collect fines on MCOs as 50% general and 50% federal funds; and (2) pay incentive bonuses to MCOs as 50% general funds and 50% federal funds, thus reducing both Medicaid general and federal fund revenues and expenditures. Special fund revenues would increase by at least \$870,000 in fiscal 2002 and could further increase to the extent DHMH imposes fines on MCOs. Special fund expenditures could increase beginning in fiscal 2002 to the extent DHMH pays incentive bonuses to MCOs. Future year increases cannot be reliably estimated at this time because the amount of fines imposed on MCOs and incentive bonuses paid to MCOs is unknown.

An audit of the HealthChoice Performance Incentive Fund could be handled with existing Office of Legislative Audit budgeted resources.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of Health and Mental Hygiene (Medicaid, Maryland Health Care Commission, Health Services Cost Review Commission), Office of Administrative Hearings, Department of Legislative Services (Office of Legislative Audits)

**Fiscal Note History:** First Reader – February 16, 2001  
cm/cer Revised – House Third Reader – March 26, 2001

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