

**Department of Legislative Services**

Maryland General Assembly

2002 Session

**FISCAL NOTE**

**Revised**

House Bill 650

(Delegate Hammen)

Environmental Matters

Finance

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**Department of Health and Mental Hygiene - Reimbursement Rates**

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This bill requires the Department of Health and Mental Hygiene (DHMH) to report annually by September 1 to the Governor and certain committees of the General Assembly on its progress in establishing a process to annually set the fee-for-service reimbursement rates for the Maryland Children's Health Program (MCHP) and the Medicaid program.

The bill takes effect July 1, 2002.

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**Fiscal Summary**

**State Effect:** DHMH could establish the rate process for mental health services and prepare the reports with existing budgeted resources. No effect on revenues.

**Local Effect:** None.

**Small Business Effect:** None.

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**Analysis**

**Bill Summary:** DHMH must also establish a process to annually set the fee-for-service reimbursement rates for the public mental health system in a manner that ensures participation of providers and that considers the reasonable cost of certain factors, such as employee and operating expenses, future capital needs, medical inflation, and other costs as identified by the Community Services Reimbursement Rate Commission. DHMH must submit a report by September 1 of each year to the Governor and certain

committees of the General Assembly on: (1) its progress in establishing this process; (2) an analysis of the estimated costs of implementing the new reimbursement rate system; (3) any proposed changes to the fee-for-service reimbursement rates for the public mental health system; and (4) the schedule for implementing any proposed changes.

**Current Law:** DHMH is authorized to set reimbursement rates for health care providers in the MCHP and Medicaid programs. DHMH reimburses providers on a fee-for-service basis according to a fee schedule developed by DHMH. Chapter 702 of 2001 requires DHMH to establish a process to annually set the fee-for-service reimbursement rates for MCHP and Medicaid in a manner that ensures participation of providers. In developing this process, DHMH must consider a reimbursement system that reflects either: (1) fee-for-service rates paid in the community; or (2) the Resource Based Relative Value Scale (RBRVS) system used in the Medicare program or the American Dental Association CPT-3 codes. DHMH must report to the Governor, the Senate Finance and Budget and Taxation committees, and the House Environmental Matters and Appropriations committees by September 1, 2001 on: (1) its progress in complying with these requirements; (2) an analysis of the fee-for-service reimbursement rates paid in other states and how those rates compare with those in Maryland; (3) its schedule for bringing Maryland's fee-for-service reimbursement rates to a level that assures that all health care providers are reimbursed adequately to provide access to care; and (4) an analysis of the estimated costs of implementing the schedule and any proposed changes to the fee-for-service reimbursement rates for the MCHP and Medicaid programs.

**Background:** In 1992, Medicare significantly changed the way it pays for physicians' services. Instead of basing payments on charges, the federal government established a standardized physician payment schedule based on the RBRVS. In the RBRVS system, payments for services are determined by the resource costs needed to provide them. The cost of providing each service is divided into three components: (1) physician work; (2) practice expense; and (3) professional liability insurance. Payments are calculated by multiplying the combined costs of a service by a conversion factor (a monetary amount that is determined by the federal Centers for Medicare and Medicaid Services). Payments are also adjusted for geographical differences in resource costs.

In 1999, DHMH conducted a study of Medicaid's reimbursement rates which found that Medicaid's reimbursement rates were, on average, about one-third of Medicare RBRVS rates. The low reimbursement rates raised concern about the adequacy of Medicaid and MCHP provider networks and the quality of care provided to program enrollees.

As a result, Chapter 702 of 2001 requires DHMH to establish a process for annually setting the fee-for-service reimbursement rates based on comparable rates paid for the same services.

In its September 2001 report to the Governor and General Assembly, DHMH recommended an annual comparison of Maryland Medicaid rates with Medicare rates paid in Maryland. The rate comparison would be reported to the Governor and General Assembly by June of each year, providing information to be considered in the development of the Medicaid budget for the following State fiscal year.

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### **Additional Information**

**Prior Introductions:** A similar bill, HB 1071, was introduced in 2001 and established the rate evaluation process. It was passed by the General Assembly (Chapter 702 of 2001).

**Cross File:** SB 481 (Senator Kelley) – Finance.

**Information Source(s):** Department of Health and Mental Hygiene (Medicaid),  
Department of Legislative Services

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