HB 793

Department of Legislative Services

Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

House Bill 793 (Delegate Hurson)
Health and Government Operations

Medical Assistance Reimbursement Rate Commission

This bill establishes an 11-member Medical Assistance Reimbursement Rate Commission (commission) as an independent unit that functions within the Department of Health and Mental Hygiene (DHMH). By January 1, 2005, the commission must establish rates for reimbursement of managed care organizations (MCOs) and health care services provided under the Medicaid program and the Maryland Children's Health Program (MCHP).

Fiscal Summary

State Effect: DHMH general fund expenditures could increase by $66,500 in FY 2004 to staff the commission. Medicaid expenditures (50% general funds, 50% federal funds) could increase by a significant amount beginning in FY 2005. No effect on revenues.

(in dollars)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Revenues	$0	$0	$0	$0	$0
GF Expenditure	66,500	79,200	84,000	89,200	94,900
GF/FF Exp.	0	-	-	-	-
Net Effect	($66,500)	($79,200)	($84,000)	($89,200)	($94,900)

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

Local Effect: None.

Small Business Effect: Meaningful. The Medical Assistance Reimbursement Rate Commission may recommend significantly higher reimbursement rates to health care providers. Health care providers treating Medicaid enrollees would be reimbursed in an amount more in line with current community rates.

Analysis

Bill Summary: In developing rates, the commission must: (1) consider the underlying methodology used in the resource-based relative value scale (RBRVS) established for the Medicare program; (2) ensure that the compensation for health care services is reasonably related to the cost of providing health care services, including the cost of professional liability insurance and complying with all regulatory requirements; (3) ensure the participation of a sufficient number of providers; (4) reflect rates paid by other payors for similar services; and (5) provide for an annual inflationary adjustment.

The Governor must include in the State budget, beginning with fiscal 2006, at a minimum, sufficient funds for the reimbursement rates established by the commission.

The bill provides for commission term limitations, appointments and quorum requirements, and permits the commission to employ staff and expend funds to carry out its duties in accordance with the State budget. The commission must adopt regulations to carry out the provisions of the bill.

By October 1, 2004, and annually thereafter, the commission must issue a report to the Governor, DHMH, and the General Assembly that discusses its accomplishments.

The establishment of the commission takes effect October 1, 2003. DHMH must implement rates established by the commission by January 1, 2005.

Current Law: DHMH must seek to provide appropriate levels of provider reimbursement to encourage greater provider participation. There are no provisions for a Medical Assistance Reimbursement Rate Commission.

Background: The Medicaid managed care program, otherwise known as HealthChoice, provides health care to more than 450,000 enrollees through six participating Medicaid MCOs. Capitation payments for enrollees exceeded $1.1 billion in calendar 2002.

DHMH has attempted to set capitation rates at a level that provides for quality health care and generates reasonable profits for MCOs, but MCOs have historically complained that reimbursement rates are too low. With HealthChoice's inception, DHMH used fiscal 1997 fee-for-service data as a "base" upon which to set capitation rates. DHMH's ability to increase rates has been constrained by the federal mandate that costs must not exceed an Upper Payment Limit (UPL) as well as several deficit situations over the past few fiscal years.

In an effort to more appropriately reimburse MCOs, DHMH began using the MCOs' self-reported encounter data to determine actual program costs in providing medical care.

Using the data, DHMH applied risk and regional adjustments to the rates. Risk adjustments provide reimbursement rates based on the actual health status of a particular MCO's enrollees. Regional adjustments account for the differing costs of health care in various regions of the State.

In another attempt to increase capitation rates, DHMH applied to the federal Center for Medicare and Medicaid Services to modify the method in which capitation rates are set by changing the base amount upon which annual inflation is determined. Approved for calendar 2003 rates, the new base used to establish capitation rates is 2% higher than rates would have been if the old fee-for-service base established in 1997 had been used.

State Fiscal Effect: DHMH expenditures for the commission could increase by $66,515 in fiscal 2004, which accounts for the bill's October 1, 2003 effective date. This estimate reflects the cost of hiring one administrator and one part-time office secretary to adopt regulations, conduct research, and assist with reporting requirements. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$56,921
Operating Expenses	9,594
Total FY 2004 State Expenditures	**$66,515**

Future year expenditures reflect: (1) full salaries with 4.5% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Medicaid expenditures (50% general funds, 50% federal funds) could increase by a significant amount beginning fiscal 2005. The commission could recommend higher reimbursement rates for providers to ensure continued provider participation in the Medicaid program. There are insufficient data at this time to reliably estimate the extent of any increase. *For illustrative purposes only*, if the commission recommended a 1% increase in Medicaid capitation rates, Medicaid expenditures could increase by more than $5.5 million in fiscal 2005 and $11 million on an annual basis.

Additional Information

Prior Introductions: Similar bills, HB 1017 and SB 782, were introduced in the 2000 session. The bills would have established an 11-member Medical Assistance Reimbursement Expert Panel within DHMH to study and make recommendations on Medicaid reimbursement rates to health care providers. HB 1017 was reported unfavorably by the House Environmental Matters Committee and SB 782 was reported unfavorably by the Senate Finance Committee.

Cross File: None.

Information Source(s): Department of Health and Mental Hygiene, Maryland Insurance Administration, Department of Legislative Services

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ncs/jr

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