HB 441

Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

House Bill 441 (Delegate Hixson, *et al.*)
Health and Government Operations and Ways and Means

Healthy Maryland Initiative

This bill creates the Healthy Maryland Initiative Fund, funded by an increase in the State tobacco tax. Monies from the fund are used to expand Medicaid coverage to parents, increase funding for tobacco cessation programs, and implement the new Small Business Health Care Incentive Program.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: Tobacco tax revenues increase by $211.1 million to fund the Healthy Maryland Initiative Fund in FY 2007. General fund revenues from tobacco taxes increase by $900,000 in FY 2007 from increased sales tax revenues. Total special fund expenditures increase by $66.5 million in FY 2007 to fund Medicaid expansion, legal immigrant coverage, other health programs, and the Small Business Health Care Incentive Program. Future year estimates reflect: (1) decline in tobacco tax revenues from fewer sales; (2) full implementation of Medicaid expansion in FY 2008; (3) no mandated funding for the Small Business Health Care Incentive Program in FY 2011 and beyond; and (4) inflation.

($ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	$.9	$3.0	$5.2	$7.3	$9.3
SF Revenue	211.1	182.0	176.1	170.3	164.6
SF Expenditure	66.5	81.5	93.9	96.1	83.0
FF Expenditure	0	34.0	46.4	50.1	52.0
Net Effect	$145.5	$69.6	$41.0	$31.3	$38.9

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

Local Effect: None.

Small Business Effect: Meaningful. More small business employees could gain health insurance.

Analysis

Bill Summary:

Medicaid Expansion: The bill requires the Medicaid program to cover parents who have a dependent child living with them and whose annual household income is 75% or below the federal poverty level guidelines (FPG) in fiscal 2008 and 100% or below FPG in fiscal 2009 and each year thereafter. The Department of Health and Mental Hygiene (DHMH) must notify the federal Centers for Medicare and Medicaid Services of an amendment to the State Medicaid plan that would allow the State to phase in expanded coverage.

Small Business Health Care Incentive Program: The bill establishes this program within the Department of Business and Economic Development (DBED). The program is intended to provide incentives to small businesses (2-50 employees) that have not recently offered health insurance to their employees to provide comprehensive health insurance as part of an employee benefit package. The program must provide grants to eligible employees for a portion of the costs of providing the Comprehensive Standard Health Benefit Plan (standard plan) as part of an employee benefit package. Grants may be either the lesser of 50% of the cost of the standard plan, or $2,500. To be eligible, an employer must be a small employer, provide the standard plan to its employees on or after July 1, 2006, have not provided the standard plan to its employees during the last 12 months preceding the date of application, and meet any other requirements determined by DBED. DBED must give priority for grants to employers that have an average annual wage among its employees that does not exceed 75% of the average annual wage in the State. DBED may pay for administrative costs from the Healthy Maryland Initiative Fund. DBED must report to the Governor and the General Assembly by December 1, 2007 on issues related to the number of applications, grants awarded, increased coverage, and any recommendations for modifying the program.

Healthy Maryland Initiative Fund: The bill also establishes the Healthy Maryland Initiative Fund to provide health care services and incentives. The fund consists of monies generated from the increased tobacco tax. After making required distributions from the tobacco tax revenues, the Comptroller must distribute the remaining tax revenue to the Healthy Maryland Initiative Fund. The fund may be used only for: (1) activities aimed at reducing tobacco use in Maryland; (2) the Medicaid program, including coverage for all legal immigrant children under the age of 18 and pregnant women, and expansion of Medicaid eligibility for parents; (3) the Specialty Care Network; and (4) the Small Business Health Care Incentive Program.

For each fiscal year, monies in the fund must be appropriated as follows: (1) at least $30 million annually for activities aimed at reducing tobacco use in Maryland; (2) at least $50 million annually to expand Medicaid eligibility for all parents who have a dependent child living with them and whose household income is 75% or below FPG in fiscal 2008 and 100% or below FPG in fiscal 2009 and each year thereafter; (3) at least $7 million annually for comprehensive medical care for all legal immigrant children under the age of 18 and pregnant women who arrived in the United States on or after August 22, 1996, who meet Medicaid eligibility standards, and who do not qualify for federally-funded coverage; (4) at least $10 million annually for the Specialty Care Network; (5) for fiscal 2007 through 2010 only, at least $15 million for the Small Business Health Care Incentive Program; and (6) for fiscal 2007 through 2009 only, at least $1.5 million for the Office of Minority Health and Health Disparities to develop and implement a statewide health disparities reduction plan.

After allocating funds as required, any remaining balance in the fund must be distributed: (1) for fiscal 2008 through 2010, 75% to the Medicaid program and 25% to the Small Business Health Care Incentive Program; and (2) for fiscal 2011 and each year thereafter, to the Medicaid program. Money from the fund must supplement and may not supplant funding for the Medicaid program.

Tobacco Tax: The bill doubles the tobacco tax from $1.00 to $2.00 per pack of 20 cigarettes, from $0.50 to $1.00 per pack of 10 cigarettes, from $0.05 to $0.10 for each cigarette in a package over 20, and from $0.05 to $0.10 for each cigarette in a free sample. The tobacco tax rate for other tobacco products increases from 15% to 25% of their wholesale price.

Other Mandated Appropriations: For fiscal 2008 and each year thereafter, the Governor must include at least $35 million in the annual budget for activities aimed at reducing tobacco use. Thirty million dollars of this must come from the Healthy Maryland Initiative Fund and $5 million from the Cigarette Restitution Fund (CRF).

For fiscal 2007, funds may be appropriated and transferred by budget amendment from the Healthy Maryland Initiative Fund in the amount and for the purposes specified: (1) at least $30 million for tobacco cessation; (2) at least $10 million for Medicaid, including $7 million for legal immigrant children and pregnant women and $3 million to begin the Medicaid expansion; (3) at least $10 million for the Specialty Care Network; and (4) at least $15 million for the Small Business Health Care Incentive Program.

Current Law: An adult may qualify for Medicaid if the adult is: (1) aged, blind, or disabled; (2) in a family where one parent is absent, disabled, unemployed, or underemployed; or (3) a pregnant woman. Adults must also have very low incomes to qualify for Medicaid (about 46% FPG). The Maryland Children's Health Program covers children with family incomes up to 300% FPG and pregnant women with incomes up to 250% FPG.

Beginning in fiscal 2007, the Governor must include at least $21 million in the annual budget for activities aimed at reducing tobacco use in Maryland.

Chapter 280 of 2005 created a Specialty Care Network to provide office-based and outpatient specialty care for lower-income individuals.

The Comprehensive Standard Health Benefit Plan (CSHBP) is a standard health benefit package (standard plan) that carriers must sell to small businesses (2-50 employees). Carriers must offer the standard plan to all small businesses, but may sell additional benefits or enhancements through riders. Any riders must be offered and priced separately. CSHBP includes guaranteed issuance and renewal, adjusted community rating with rate bands, and the elimination of preexisting condition limitations. In order to maintain affordability, the average CSHBP premium rate per employee must remain below 10% of Maryland's average annual wage.

State Revenues: Special fund revenues for the Healthy Maryland Initiative Fund could increase by $211,119,000 beginning in fiscal 2007 from the $1.00 increase in the tobacco tax. This estimate assumes that cigarette consumption would decline by 16.9% due to the severe price increase per pack of cigarettes. Future years assume the tobacco tax is $182.0 million in fiscal 2008 and then declines by about 3% annually.

The bill increases the tobacco tax on cigarettes from $1.00 a pack to $2.00 a pack and the tax on tobacco products other than cigarettes (cigars, pipe tobacco, chewing tobacco, and snuff) from 15% to 25% of the wholesale price of these products. The bill also requires that a "floor" tax be applied on any cigarette inventories that are held for resale as of the effective date of the tobacco rate increase. The State imposes a 5% sales tax on the price (including stamp tax) of cigarettes. Any excise tax increase will increase sales and use tax revenues as well. These sales and use tax revenues will be deposited into the State's general fund as provided under current law.

The bill provides that beginning in fiscal 2007, after making the required distributions to the refund and administrative cost account, the Comptroller must distribute $275 million annually to the general fund and any remaining to the Healthy Maryland Initiative Fund.

Exhibit 1 lists the impact of HB 441 on State revenues in fiscal 2007 through 2011.

Exhibit 1
Net Impact on State Revenues
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	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Current Law:					
Tobacco Tax	270.2	267.5	264.9	262.2	259.6
OTP Tax	8.9	9.4	9.9	10.3	10.9
Total Tobacco Taxes (GF)	**279.2**	**276.9**	**274.7**	**272.6**	**270.4**
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Tobacco Tax	449.2	442.4	435.8	429.2	422.8
OTP Tax	13.9	14.5	15.3	16.0	16.8
Floor Tax	23.1				
Total Tobacco Taxes	486.1	457.0	451.1	445.3	439.6
To General Fund	275.0	275.0	275.0	275.0	275.0
To HMIF	211.1	182.0	176.1	170.3	164.6
Increased Sales Tax	5.0	5.0	4.9	4.8	4.7
Total General Funds	**280.0**	**280.0**	**279.9**	**279.8**	**279.7**
Net Impact General Funds	0.9	3.0	5.2	7.3	9.3

State Expenditures: State special fund expenditures increase by $66.5 million in fiscal 2007 to pay for mandated funding in a variety of programs and to implement the Small Business Health Care Incentive Program. State expenditures increase by an additional $67.4 million (50% special funds, 50% federal funds) in fiscal 2008 to implement the Medicaid expansion to include eligible parents. Impact by program is discussed below.

Small Business Health Care Incentive Program: DBED special fund expenditures increase by $15 million in fiscal 2007 to provide grants to small businesses in order to increase the number of insured in the small group market. DBED would grant $15 million annually from the Healthy Maryland Initiative Fund in fiscal 2007 through 2010 and may pay for administrative costs using grant monies. DBED advises it would need a program administrator and administrative assistant to administer the program as well as $225,000 to contract with an outside vendor to assist in assessing small businesses to award grants. This estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	$84,903
Contractual Services	225,000
Grants to Small Businesses	14,677,507
Other Operating Expenses	12,590
FY 2007 Expenditures	**$15,000,000**

Future year expenditures reflect: (1) full salaries with 4.6% annual increases and 3% employee turnover; (2) 1% annual increases in ongoing operating expenses; and (3) mandated appropriations end after fiscal 2010.

It is estimated that 51,000 small businesses currently provide health insurance to about 452,000 covered lives. Each contract carries on average 1.812 covered lives. If $2,500 grants were awarded for each new contract, approximately 6,000 small business employees (10,872 total covered lives) could receive health insurance coverage. These annual grants could increase coverage in the small group market by about 1.32%.

The bill provides that after allocating all funds from the Healthy Maryland Initiative Fund as required, in fiscal 2008 through 2010 only, 25% of any remaining balance in the fund must be distributed to the Small Business Health Care Incentive Program. In fiscal 2008, this could be an additional $25 million for the program, although future year estimates are expected to decrease due to lower tobacco tax revenues.

Medicaid Expansion: DHMH expenditures could increase by $67,940,093 (50% special funds, 50% federal funds) in fiscal 2008 to expand Medicaid coverage to parents with household incomes up to 75% FPG. The estimate reflects the following facts and assumptions:

- 11,137 parents newly enroll in Medicaid at a cost of $4,775 per parent;
- 9,411 children newly enroll ("woodwork effect") at a cost of $1,836 per child;
- administrative costs are $594,032; and
- enrollment in the Primary Adult Care (PAC) program declines as adults enroll in comprehensive Medicaid coverage, reducing PAC costs by $3,111,710.

Future year estimates reflect increased enrollment; 6.5% medical inflation in the Medicaid program, and 1% increases in annual operating costs.

Other Mandated Appropriations: There are several mandated funding provisions in the bill, as well as uncodified language that authorizes funds in fiscal 2007 to be appropriated and transferred by budget amendment from the Healthy Maryland Initiative Fund to specified programs. It is assumed funding would occur in the earliest possible fiscal year permitted by law.

For fiscal 2007 only, $30 million may be appropriated and transferred by budget amendment from the Healthy Maryland Initiative Fund for activities aimed at reducing tobacco use. For fiscal 2008 and each year thereafter, the Governor must include at least $35 million in the annual budget for these activities. This appropriation includes at least $30 million from the Healthy Maryland Initiative Fund and $5 million from the CRF. This mandate increases mandated funding from $21 million annually, thereby increasing annual expenditures by $14 million.

The bill mandates that at least $7 million from the Healthy Maryland Initiative Fund be transferred for comprehensive medical care for all legal immigrant children under the age of 18 and pregnant women who arrived in the United States on or after August 22, 1996, who meet Medicaid eligibility standards, and who do not qualify for federally-funded coverage. The bill permits the appropriation by budget amendment for the same amount in fiscal 2007. Therefore, Medicaid special fund expenditures increase by $7 million, beginning in fiscal 2007, to provide this care.

The bill authorizes the appropriation by budget amendment for $3 million for Medicaid start-up costs in fiscal 2007 to expand Medicaid to eligible parents. Medicaid special fund expenditures increase by $3 million in fiscal 2007.

For fiscal 2007 through 2009 only, at least $1.5 million must be transferred from the Healthy Maryland Initiative Fund for the Office of Minority Health and Health Disparities to develop and implement a statewide health disparities reduction plan. Therefore, DHMH special fund expenditures increase by this amount, for fiscal 2007 through 2009 only, to fund the reduction plan.

After allocating monies in the Healthy Maryland Initiative Fund as required under the bill, any remaining balance in the fund must be distributed, for fiscal 2008 through 2010, 75% to the Medicaid program and 25% for the Small Business Health Care Incentive Program, and for fiscal 2011 and each year thereafter, to the Medicaid program. Medicaid and DBED expenditures could increase by a significant amount, beginning in fiscal 2008. It is estimated there would be about $100 million remaining in the fund, allowing up to $75 million to be distributed to Medicaid and $25 million to DBED for the Small Business Health Care Incentive Program. These monies are not intended to supplant funding for the Medicaid program; therefore, any use of funds would be for future program expansion. There are insufficient data to reliably estimate the type and scope of any Medicaid program expansion or associated costs.

Additional Comments: **Exhibit 2** shows federal poverty level guidelines for families of two.

Exhibit 2
2006 Federal Poverty Level Guidelines (FPG) for Families of Two*

75% Poverty	$9,900
100% Poverty	$13,200

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Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Business and Economic Development, Comptroller's Office, Department of Health and Mental Hygiene (Medicaid), Maryland Insurance Administration, Department of Legislative Services

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