

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 71
Finance

(The President) (By Request – Administration)

Health Services Cost Review Commission - User Fees

This Administration bill increases the Health Services Cost Review Commission's (HSCRC) annual user fee cap from \$4.0 to \$5.0 million.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: HSCRC special fund revenues and expenditures would increase by \$725,600 in FY 2008. General fund expenditures would decrease by \$406,600 in FY 2008, contingent upon enactment of this bill, partially offset by an increase in Medicaid expenditures of \$130,600 (50% general funds, 50% federal funds). Future year special fund revenues reflect a 4.5% increase for personnel expenses and a 1.0% increase for other administrative expenses. Future year Medicaid expenditures represent 18% of special fund expenditures.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
SF Revenue	\$725,600	\$867,500	\$1,000,000	\$1,000,000	\$1,000,000
GF Expenditure	(341,300)	(328,500)	(316,600)	(316,600)	(316,600)
SF Expenditure	725,600	867,500	1,000,000	1,000,000	1,000,000
FF Expenditure	65,300	78,100	90,000	90,000	90,000
Net Effect	\$276,000	\$250,400	\$226,600	\$226,600	\$226,600

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

Local Effect: None.

Small Business Effect: A small business impact statement was not provided by the Administration in time for inclusion in this fiscal note. A revised fiscal note will be issued when the Administration's assessment becomes available.

Analysis

Current Law: HSCRC is special funded by user fees assessed on hospitals. The annual user fee cap is \$4.0 million. User fee revenues may only be used to cover direct costs, and the percentage increase in total user fees in any year cannot exceed the percentage increase in the annual update factor applicable to general acute-care hospitals.

The Department of Health and Mental Hygiene (DHMH) may impose an administrative cost assessment of 18% of base salaries on HSCRC to defray the cost of shared services, including personnel services and access to DHMH's budget management office.

Background: The Budget Reconciliation and Financing Acts of 2004 and 2005 (Chapter 430 of 2004 and Chapter 444 of 2005) authorized DHMH to charge HSCRC an administrative cost assessment, increased the commission's user fee cap from \$4.0 to \$4.5 million, and allowed the commission to use the fees to cover administrative costs for fiscal 2005 and 2006 only. Chapter 107 of 2006 extended DHMH's authority to assess HSCRC administrative costs, but did not increase the commission's user fee cap. Moreover, the statutory requirement that user fee revenues be used only to cover direct costs was not modified, thus prohibiting HSCRC from paying the administrative cost assessment with user fee revenues.

Fiscal 2008 budget bill language includes a general fund reduction of \$1.25 million contingent upon the enactment of legislation authorizing the assessment of indirect costs on the budgets of HSCRC and the Maryland Health Care Commission (MHCC). DHMH currently has authority to impose an administrative cost assessment on HSCRC, but its authority regarding MHCC terminated in fiscal 2007. HB 56 of 2007 would make permanent DHMH's authority to assess MHCC administrative costs and increase MHCC's user fee cap from \$10.0 to \$12.0 million.

The Governor's proposed fiscal 2008 budget for HSCRC is \$4.32 million, which exceeds the current user fee cap by 8%. This figure does not include funds to cover the administrative cost assessment, estimated to be \$406,600. The commission's fund balance at the end of fiscal 2007 is anticipated to be \$436,000.

In 2006, the Department of Legislative Services (DLS) conducted a full sunset evaluation of HSCRC. DLS recommended that the commission's user fee cap be increased in fiscal 2008 to allow sufficient budgetary growth through fiscal 2011. DLS specified that the user fee cap should be increased from \$4.0 to \$5.5 million if the administrative cost assessment continues and to \$5.0 million if the administrative cost assessment is discontinued. DLS also recommended, if appropriate, authorizing payment of administrative costs with user fee revenues.

Legislative changes to HSCRC's user fee cap since 1983 are summarized in **Exhibit 1**.

Exhibit 1
Legislative Changes to HSCRC User Fee Cap
1983-2005

<u>Year</u>	<u>Chapter</u>	<u>Change</u>	<u>Percentage Increase</u>
1983	132	Authorized HSCRC to collect user fees and established a \$1.0 million cap.	-
1986	683	Increased cap to \$2.5 million.	150.0%
1995	319	Increased cap to \$3.0 million.	20.0%
1999	613	Increased cap to \$3.5 million.	17.0%
2001	498	Increased cap to \$4.0 million.	14.0%
2004	430	Increased cap to \$4.5 million for fiscal 2005 only.	12.5%
2005	444	Increased cap to \$4.5 million for fiscal 2006 only.	0.0%

Source: Laws of Maryland

State Fiscal Effect: Special fund expenditures would increase by up to \$725,632 in fiscal 2008. This figure reflects the amount in the Governor's proposed fiscal 2008 HSCRC budget that is above the current \$4.0 million user fee cap (\$319,032) and the estimated fiscal 2008 DHMH administrative cost assessment (\$406,600). Special fund revenues are expected to closely match expenditures to cover ongoing HSCRC operations.

Medicaid expenditures could increase by at least \$130,614 (50% general funds, 50% federal funds) annually, beginning in fiscal 2008 as a result of increased hospital rates associated with the higher user fee assessment. Medicaid's share of total hospital revenues is approximately 18% annually.

Increased Medicaid expenditures would be offset by the \$406,600 general fund reduction effectuated by DHMH's administrative cost assessment on HSCRC. The net fiscal impact to the general fund would be a savings of \$341,293.

Future year special fund expenditures assume 4.5% growth in personnel expenses and 1.0% growth in other administrative expenses. For purposes of this analysis, the administrative cost assessment is held constant at \$406,600. Medicaid expenditures are projected to be 18% of special fund expenditures above \$4.0 million.

Based on these assumptions, DLS projects that future year special fund expenditures would exceed the \$5.0 million cap beginning in fiscal 2010 by the following amounts:

- \$15,234 in fiscal 2010;
- \$169,083 in fiscal 2011; and
- \$329,319 in fiscal 2012.

For purposes of this analysis, additional special fund expenditures are capped at \$1.0 million in fiscal 2010 through 2012. Medicaid expenditures are also capped at \$180,000 (50% general funds, 50% federal funds), or 18% of \$1.0 million.

Additional Comments: Commercial insurance premiums could increase by an estimated \$270,800 annually, beginning in fiscal 2008, as a result of increased hospital rates associated with the higher user fee assessment. Commercial insurance comprises 37% of total hospital revenues annually.

Although the bill does not authorize HSCRC to pay the administrative cost assessment with user fee revenues, DLS has assumed payment in the fiscal analysis.

Additional Information

Prior Introductions: Chapter 107 of 2006 (HB 1604) *as introduced* included a provision to increase the HSCRC user-fee cap from \$4.0 to \$5.0 million. This provision was not included in the final bill as passed by the General Assembly.

Cross File: HB 55 (The Speaker) (By Request – Administration) – Health and Government Operations.

Information Source(s): Department of Health and Mental Hygiene (Health Services Cost Review Commission), Department of Legislative Services

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ncs/jr

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