

Department of Legislative Services  
 Maryland General Assembly  
 2008 Session

FISCAL AND POLICY NOTE  
 Revised

House Bill 1391

(Delegate Mizeur, *et al.*)

Health and Government Operations and Ways and Means

Finance

Kids First Act

This bill requires taxpayers, beginning with tax year 2008, to indicate on their income tax return whether each dependent child for whom an exemption is claimed has health care coverage. The Comptroller must send taxpayers with a dependent child and specified income notice that the dependent child may be eligible for Medicaid or the Maryland Children’s Health Program and, in specified instances, Medicaid and MCHP applications, with instructions.

The bill takes effect July 1, 2008 and terminates June 30, 2011.

Fiscal Summary

**State Effect:** In FY 2009, total expenditures could increase by \$352,600 to mail required notices and alter tax forms. The net effect of using Rate Stabilization Fund monies to mail applications in FY 2010 and 2011 would be increased Medicaid general fund expenditures in those years. Medicaid expenditures (50% general funds, 50% federal funds) could increase by a potentially significant amount beginning in FY 2009 to the extent enrollment in Medicaid and MCHP increases under the bill. No effect on revenues.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	36,200	289,700	236,400	0	0
SF Expenditure	0	0	0	0	0
GF/FF Exp.	-	-	-	-	-
GF/SF/FF Exp.	316,400	0	0	0	0
Net Effect	(\$352,600)	(\$289,700)	(\$236,400)	\$0	\$0

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

**Local Effect:** None.

**Small Business Effect:** None.

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## Analysis

**Bill Summary:** If the income reported on the tax return for tax year 2007 of a taxpayer with a dependent child does not exceed the highest income eligibility standard for Medicaid or MCHP, the Comptroller must send the taxpayer a notice that the dependent child may be eligible for Medicaid or MCHP, including how to enroll in the programs. This notice must be developed by the Department of Health and Mental Hygiene.

Beginning with tax year 2008, taxpayers must report on their income tax return the presence or absence of health care coverage for each dependent child for whom an exemption is claimed. A taxpayer may not be penalized for failure to provide this information or for providing inaccurate information.

If a taxpayer indicates on the tax year 2008 or 2009 return that a dependent child does not have health care coverage and the income on the taxpayer's return does not exceed the highest income eligibility standard for Medicaid or MCHP, the Comptroller must send the taxpayer applications and enrollment instructions for Medicaid and MCHP. The Comptroller may not send any notice or information other than the notice developed by DHMH.

Uncodified language requires DHMH, in consultation with the Maryland Insurance Administration and the Maryland Health Care Commission, to

- study and make recommendations for improving the processes for determining eligibility for Medicaid and MCHP, including the feasibility of auto-enrollment;
- study and make recommendations for increasing the availability and affordability of health care coverage for children with family incomes above 300% of federal poverty guidelines, including specified options; and,
- by January 1, 2009, report on its studies and recommendations.

By January 1 of each year, MHCC and the Comptroller's Office must study and report on

- the number of Maryland families, by income level, claiming the State income tax exemption for dependent children;
- the value to a family of the State income tax exemption for dependent children, by income level; and
- the effect of the bill on the number and percentage of children in the State who are uninsured.

The Comptroller must publicize the availability of Medicaid and MCHP to taxpayers with dependent children.

Notwithstanding any other provision of law, for fiscal 2010 and 2011, up to \$300,000 each year must be transferred from the Maryland Health Care Provider Rate Stabilization Fund to the Comptroller's Office to pay only for mailings of applications and enrollment instructions.

**Current Law:** An individual with a federal adjusted gross income up to \$100,000 may deduct an exemption of \$3,200 for each dependent. Individuals with a federal AGI over \$100,000 and married couples filing a joint return or an individual filing as a head of household or surviving spouse with a federal AGI over \$150,000 are allowed to deduct between \$600 and \$2,400 per dependent based on federal AGI.

The Medicaid program provides health care coverage to approximately 530,000 Marylanders. Eligibility is limited to children, pregnant women, elderly or disabled individuals, and indigent parents who pass certain income and asset tests. MCHP offers comprehensive health care coverage to low-income children younger than age 19 with family incomes that exceed the standard for Medicaid but are at or below 300% FPG. Families with incomes above 200% FPG are enrolled in the MCHP premium plan and required to pay monthly premiums depending on income. In fiscal 2008, approximately 113,000 children will be covered through MCHP.

*Maryland Health Care Provider Rate Stabilization Fund:* The Rate Stabilization Fund receives money from the 2% premium tax imposed on HMOs and managed care organizations. The fund was established to retain health care providers in the State by allowing insurers to charge lower premium rates for medical professional liability insurance and increasing Medicaid payment rates. Money in the fund is transferred to one of two accounts: the Rate Stabilization Account, which is used to pay insurers for subsidies to health care providers, and the Medical Assistance Program Account, which is used to increase Medicaid payments to health care providers. After fiscal 2009, all monies in the fund are to be allocated to the Medical Assistance Program Account to continue increased payments to health care providers and to support the Medicaid program.

**Background:** In fiscal 2006, Medicaid and MCHP served almost 400,000 (60%) of the estimated 660,000 Maryland children with family incomes at or below 300% FPG and more than one-quarter of all children in Maryland.

A May 2007 study by the Kaiser Commission on Medicaid and the Uninsured found that awareness and understanding of Medicaid and state children's health insurance programs are uneven among low-income parents. Many low-income parents with uninsured children assume that Medicaid and SCHIP are "not for working families" and that their earnings are too high for their children to qualify.

According to MHCC, in 2005-2006, the uninsured rate amount Maryland children was almost 12%.

**State Fiscal Effect:** DHMH expenditures would increase by \$316,426 in fiscal 2009 to pay for mailing of required notices. While the Comptroller's Office is required to mail the notices, DHMH indicates that it would pay for the expenses in fiscal 2009 using some combination of general, federal, or special funds. Funds are anticipated to be available for outreach to implement health care expansion efforts established by Chapter 7 of the special session of 2007. However, Legislative Services notes that, to date, the budget does not include any outreach funds. Nevertheless, this analysis assumes that DHMH rather than the Comptroller's Office would incur expenses related to mailing in fiscal 2009 only.

General fund expenditures for the Comptroller's Office could increase by \$36,200 in fiscal 2009 for a one-time-only cost to alter tax year 2008 income tax forms to collect information about health care coverage of dependent children.

Special fund expenditures for the Comptroller's Office could increase in fiscal 2010 and 2011 to implement the bill as follows.

In fiscal 2010, expenditures could increase by an estimated \$289,710 to mail Medicaid and MCHP applications to taxpayers with income that does not exceed the highest income eligibility standard for Medicaid or MCHP who report on their tax year 2008 return that one or more dependent children do not have health care coverage. This estimate assumes • 50% of taxpayers with eligible incomes will report on their tax year 2008 return that one or more dependent children do not have health care coverage; and • applications will be mailed beginning in July 2009 following receipt of tax year 2008 returns. To the extent fewer taxpayers report uninsured dependents, expenditures to mail Medicaid and MCHP applications would be reduced.

In fiscal 2011, expenditures could increase by an estimated \$236,400 to mail Medicaid and MCHP applications to specified taxpayers. This estimate assumes • 40% of taxpayers with eligible incomes will report on their tax year 2009 return that one or more dependent children did not have health care coverage; • applications will be mailed beginning in July 2010 following receipt of tax year 2009 returns; and • 2% inflation in the cost of mailing applications. To the extent fewer taxpayers report uninsured dependents, expenditures to mail Medicaid and MCHP applications would be reduced.

In fiscal 2010 and 2011, up to \$300,000 must be transferred from the Rate Stabilization Fund to the Comptroller's Office to cover the cost of required mailings. Legislative Services assumes those special funds would be used to cover expenses in fiscal 2010 and

2011. However, the use of rate stabilization funds in fiscal 2010 and 2011 would reduce the balance that would otherwise be used for Medicaid expenses in those years. Thus, up to \$300,000 in special funds would not be available to Medicaid in fiscal 2010 and 2011, and general fund Medicaid expenditures would increase by up to \$300,000.

DHMH and MHCC could conduct the studies required by the bill using existing resources.

To the extent the bill results in increased enrollment in Medicaid and MCHP, DHMH expenditures (50% general funds, 50% federal funds for Medicaid and 35% general funds, 65% federal funds for MCHP) could increase beginning in fiscal 2009. Department of Human Resources expenditures (50% general funds, 50% federal funds) could also increase to perform intake of additional Medicaid and MCHP enrollees. The extent of that increase cannot be reliably estimated at this time.

*For illustrative purposes only*, the average annual cost to cover a child in Medicaid or MCHP is estimated to be \$2,021 in fiscal 2009; therefore, for every 1,000 new enrollees, total Medicaid expenditures could increase by \$2.0 million, not including administrative expenses. Medicaid and MCHP costs are expected to increase by 5% annually in future years. Conversely, increases in the number of insured children could reduce uncompensated care costs in the State.

**Exhibit 1** displays 2008 FPG by family size.

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**Exhibit 1**  
**2008 Federal Poverty Guidelines**

<u>Family Size</u>	<u>300% FPG</u>
2	\$42,000
3	\$52,800
4	\$63,600
5	\$74,400

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## Additional Information

**Prior Introductions:** None.

**Cross File:** None.

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

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