

Department of Legislative Services  
Maryland General Assembly  
2008 Session

FISCAL AND POLICY NOTE

House Bill 602 (Delegate O'Donnell)  
Health and Government Operations

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**Maryland Health Care Provider Rate Stabilization Fund - Transfer of Moneys to  
the Rainy Day Fund**

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This bill requires that \$83,275,000 of the balance in the Rate Stabilization Account of the Maryland Health Care Provider Rate Stabilization Fund at the end of fiscal 2008 be transferred to the State's Revenue Stabilization Account (Rainy Day Fund) in fiscal 2009.

The bill takes effect June 1, 2008.

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**Fiscal Summary**

**State Effect:** One-time transfer of \$83.3 million in FY 2009 from the Rate Stabilization Account to the Revenue Stabilization Account (Rainy Day Fund).

**Local Effect:** None.

**Small Business Effect:** None.

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**Analysis**

**Background/Current Law:** The Maryland Health Care Provider Rate Stabilization Fund was established by Chapter 1 of 2005 with the simultaneous repeal of the Maryland Medical Professional Liability Insurance Rate Stabilization Fund established by Chapter 5 of the 2004 special session (Maryland Patients' Access to Quality Health Care Act of 2004). The fund's revenue comes from the 2% premium tax imposed on health maintenance organizations and managed care organizations. The purpose of the fund is to retain health care providers in the State by allowing insurers to charge lower rates for

medical malpractice insurance and increasing Maryland Medical Assistance Program (Medicaid) payment rates.

The fund consists of two accounts: the Rate Stabilization Account (RSA) and the Medical Assistance Program Account. As shown in **Exhibit 1**, in fiscal 2009, \$25.0 million is allocated to RSA to pay insurers for health care provider subsidies and the remaining amount to the Medical Assistance Program Account to increase Medicaid payments to health care providers. In fiscal 2010 and thereafter, all the revenues are allocated to the Medical Assistance Program Account. Exhibit 1 displays the required distribution of funds among the two accounts.

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**Exhibit 1**  
**Statutory Distribution of Funds under the**  
**Maryland Health Care Provider Rate Stabilization Fund**

<u>Fiscal Year</u>	<u>Rate Stabilization Account</u>	<u>Medical Assistance Program Account</u>
2005	\$0	\$3.5 million
2006	52.0 million	30.0 million
2007	45.0 million	45.0 million
2008	35.0 million	65.0 million
2009	25.0 million	Remaining revenue
2010	\$0	100% of revenue

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Any revenues remaining in the fund after fiscal 2005 must remain in the fund until otherwise directed by law. If the allocations made in a fiscal year exceed revenues estimated for that year, the fund's unallocated balance may be substituted to the extent of the deficit.

The purpose of the Revenue Stabilization Account or Rainy Day Fund is to retain State revenues for future needs and to reduce the need for future tax increases by moderating revenue growth. The Governor is required to appropriate sufficient funds to the account to maintain a balance of at least 5% of estimated general fund revenues for that fiscal year. The Governor's proposed fiscal 2009 budget projects an ending balance of \$738.9 million in the Rainy Day Fund, which exceeds the 5% requirement by \$1.7 million.

In September 2007, the Medical Mutual Liability Insurance Society of Maryland, the State's largest medical malpractice insurer and therefore the largest recipient of premium

subsidies from RSA, announced a dividend of \$68.6 million, later increased to \$97.9 million, and its intent to withdraw from the subsidy program in 2008. This followed surpluses realized by Medical Mutual of \$43.7 million in 2005 and \$45.9 million in 2006. The dividend was generated by an erroneous forecast of Medical Mutual's claims costs. While its actuary predicted that claims costs would increase from 2003 to 2005, they actually declined.

Following Maryland Insurance Administration proceedings in December 2007, the Insurance Commissioner ordered Medical Mutual to repay the fund \$72.4 million, the amount that Medical Mutual received from fiscal 2005 to 2007, and to waive an additional \$11.6 million it was due to receive in fiscal 2008, totaling \$84.0 million.

Due to reduced payouts and funds returned from Medical Mutual, RSA is projected to have a cash balance of \$106.9 million at the end of fiscal 2008. Approximately \$9.0 million in subsidies may be requested by carriers remaining in the program for subsidy year 2007; therefore, the available RSA balance will be \$97.9 million.

The Governor's proposed fiscal 2009 budget allocates \$7.0 million from RSA to cover the costs of higher Medicaid reimbursement rates for dentists, and \$14.3 million to cover the cost of expanded eligibility for Medicaid, enacted as part of Chapter 7 of the 2007 special session. Chapter 7 expanded eligibility for Medicaid to parents and caretaker relatives with incomes up to 116% of federal poverty guidelines effective July 1, 2008. In addition \$62.0 million in RSA would be transferred to the Health Care Coverage Fund to pay fiscal 2010 expenses for the Medicaid expansion and a subsidy program for small businesses that begin providing health coverage for their employees, also created by Chapter 7.

Both the Administration's Budget Reconciliation and Financing Act (BRFA, SB 91/HB 101) and separate legislation (SB 545/HB 1284) introduced in the 2008 session would effectuate the special fund transfer of \$83,275,000 in total from RSA.

**State Fiscal Effect:** This bill would transfer \$83.3 million from RSA to the Rainy Day Fund instead of using \$21.3 million for Medicaid costs in fiscal 2009 and \$62 million for Medicaid expansion costs in fiscal 2010 as proposed in the Governor's fiscal 2009 budget and BRFA. Contingent reductions of \$21.3 million in general funds in the fiscal 2009 budget that would not take effect and use of \$62.0 million transferred from RSA for fiscal 2010 expenses would be offset by the availability of \$83.3 million in general fund revenues through the Rainy Day Fund. Under current law the entire \$83.3 million would be available for Medicaid expenses in fiscal 2010.

## **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Maryland Insurance Administration, Department of Budget and Management, Department of Legislative Services

**Fiscal Note History:** First Reader - February 20, 2008  
ncs/rhh

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