

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 1284 (Chair, Appropriations Committee)
 Appropriations and Health and Government Operations

Maryland Health Care Provider Rate Stabilization Account - Transfer of Funds

This bill requires, in fiscal 2009, \$83.3 million of the balance remaining in the Rate Stabilization Account at the end of fiscal 2008 to be transferred in fiscal 2009 as follows:

- \$7.0 million to the Medical Assistance Program Account to increase fee-for-service dental rates in fiscal 2009;
- \$14.3 million to the Health Care Coverage Fund for expenses in fiscal 2009; and
- \$62.0 million to the Health Care Coverage Fund for expenses in fiscal 2010.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: The bill authorizes special fund expenditures of \$21.3 million in FY 2009. The Governor’s proposed FY 2009 budget includes \$21.3 million in general fund Medicaid expenditures that will be reduced contingent upon enactment of legislation authorizing the use of additional funding from the Rate Stabilization Fund during FY 2009. This would result in no net fiscal effect in FY 2009. The FY 2009 transfer of \$21.3 million in special funds will result in a corresponding general fund expenditure increase and special fund expenditure decrease for Medicaid in FY 2010. In FY 2010, the \$62.0 million in special funds for the Health Care Coverage Fund will be offset by a corresponding decrease in special funds available to the Medical Assistance Program Account. No effect on revenues.

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	(21.3)	21.3	0	0	0
SF Expenditure	21.3	(21.3)	0	0	0
Net Effect	\$0	\$0	\$0	\$0	\$0

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background:

Maryland Health Care Provider Rate Stabilization Fund: The Maryland Health Care Provider 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. **Exhibit 1** displays the required distribution of funds among the two accounts.

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

Funds from RSA are paid primarily to the Medical Mutual Liability Insurance Society of Maryland, which insures 70% to 75% of private practice physicians in the State. However, after realizing surpluses of \$43.7 million in 2005 and \$45.9 million in 2006, Medical Mutual announced in September 2007 its intent to declare a dividend of

\$68.6 million (later increased to \$97.9 million) and withdraw from the subsidy program in 2008. Following Maryland Insurance Administration proceedings in December 2007, the Insurance Commissioner and Medical Mutual announced that the insurer would return \$84.0 million to the State. This figure represents the amount that Medical Mutual received in the prior three years and would have received in 2008 in premium subsidies.

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 at the end of fiscal 2008 will be \$97.9 million.

Dental Rates: During the 2007 interim, the Department of Health and Mental Hygiene formed a Dental Action Committee. The committee identified low provider participation as the main barrier to comprehensive oral health services for Medicaid enrollees. A main driver of low provider participation is low reimbursement rates. All Maryland Medicaid dental reimbursement rates are below the twenty-fifth percentile of the American Dental Association's South Atlantic charges, and many are below the tenth percentile. The committee recommended that Medicaid increase dental reimbursement rates to the fiftieth percentile of the ADA's South Atlantic charges for all dental codes and index the reimbursement rates to inflation. DHMH plans to increase rates as such over the next three fiscal years.

Health Care Coverage Fund: Chapter 7 of the 2007 special session established the Health Care Coverage Fund to expand Medicaid eligibility for parents, caretaker relatives, and childless adults up to 116% of federal poverty guidelines, establish a Small Employer Health Benefit Plan Premium Subsidy Program, and support health care services in Prince George's County. The fund consists of • \$75 million from the Maryland Health Insurance Plan Fund, to be transferred on July 1, 2008; • monies collected from any Health Services Cost Review Commission hospital assessment of uncompensated care savings achieved under Chapter 7; • investment earnings; and • any other monies from any other source accepted for the benefit of the fund. In fiscal 2011 through 2013, up to \$10.0 million per year may be transferred from the fund to support health care services in Prince George's County.

State Fiscal Effect: The proposed fiscal 2009 State budget includes \$7.0 million in general funds and \$7.0 million in special funds from the Rate Stabilization Fund to increase dental provider rates. Contingent on the enactment of legislation authorizing the use of additional funding from the Rate Stabilization Fund, the fiscal 2009 general fund appropriation would not be needed and general fund expenditures would decrease by \$7.0 million in fiscal 2009. If authorizing legislation is not enacted, the \$7.0 million special fund appropriation would not be needed.

As with the funds budgeted for dental reimbursement rates, \$14.3 million in both special and general funds are budgeted for the Health Care Coverage Fund to be used for the expansion of Medicaid to parents and caretaker relatives and the Small Employer Health Benefit Plan Premium Subsidy Program. Contingent on the enactment of legislation authorizing the use of additional funding from the Rate Stabilization Fund to support the initiatives, the fiscal 2009 general fund appropriation would not be needed and general fund expenditures would decrease by \$14.3 million. If authorizing legislation is not enacted, the general funds would be used for the programs and the \$14.3 million special fund appropriation would not be needed.

The use of \$21.3 million from the Rate Stabilization Fund in fiscal 2009 would reduce the fund balance that would otherwise be used for Medicaid expenses in fiscal 2010. Thus, \$21.3 million in special funds would not be available for this purpose in fiscal 2010, and general fund expenditures would increase by \$21.3 million to fund Medicaid.

Total expenditures for the Medicaid expansion and Small Employer Health Benefit Plan Premium Subsidy Program are projected to be \$269.2 million in fiscal 2010, and general funds are expected to support \$109.7 million of the total costs. The transfer of \$62.0 million in special funds from RSA to the Health Care Coverage Fund for fiscal 2010 expenses could reduce the amount of general funds required. However, under current law, all funds within the Maryland Health Care Provider Rate Stabilization Fund are dedicated to Medicaid in fiscal 2010, so transferring \$62.0 million from the Rate Stabilization Fund would increase general fund expenditures for Medicaid by an equivalent amount. Therefore, the \$62.0 million transfer swaps one special fund Medicaid expenditure for another, resulting in no net impact on special or general fund expenditures in fiscal 2010.

Additional Comments: SB 91/HB 101 of 2008, the Administration's Budget Reconciliation and Financing Act of 2008, include identical provisions to this bill. HB 602, HB 1379, and HB 1522 also relate to disbursements to and/or from the Rate Stabilization Fund

Additional Information

Prior Introductions: None.

Cross File: SB 545 (Chair, Budget and Taxation Committee) – Budget and Taxation and Finance.

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

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