Department of Legislative Services

Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE
Revised

House Bill 714 (Delegate Donoghue, *et al.*)
Ways and Means Education, Health, and Environmental Affairs

Loan Assistance Repayment and Practice Assistance for Physicians

This bill alters the eligibility for the Janet L. Hoffman Loan Assistance Repayment Program (LARP), by removing primary care physicians from the program (currently known as the LARP-PCS program) and establishing a separate Maryland Loan Assistance Repayment Program (MLARP) for physicians. The bill also creates a Maryland Loan Assistance Repayment Program Fund, consisting of revenue generated through an increase to the rate structure of all hospitals in the State and any other money. The new special fund must be used by the Office of Student Financial Assistance (OSFA) to administer the program. The bill sets program eligibility standards, prioritizes funding for loan repayment, and specifies a role for the Department of Health and Mental Hygiene (DHMH) in identifying additional physician shortages. By December 1, 2009, the Maryland Health Care Commission (MHCC) and the Department of Business and Economic Development (DBED) must report to the General Assembly.

The bill takes effect July 1, 2009.

Fiscal Summary

State Effect: General fund expenditures increase by $58,100 in FY 2010 for DHMH to hire a program administrator to identify additional shortage areas and help OSFA select award recipients. Future year general fund expenditures reflect inflation. Special fund expenditures increase by $50,000 in FY 2010 only for MHCC to conduct the study and report to the General Assembly by December 1, 2009. Special fund expenditures by OSFA may increase further to fund additional physicians under the expanded program. Special fund revenues from user fees may increase to offset the cost of the study by MHCC in FY 2010 only. Special fund revenues also increase if the Health Services Cost Review Commission (HSCRC) approves a rate increase authorized by the bill. Likewise, Medicaid expenditures (50% general funds, 50% federal funds) may increase beginning in FY 2010 if HSCRC approves a rate increase authorized by the bill.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
SF Revenue	-	$0	$0	$0	$0
GF Expenditure	$58,100	$73,000	$76,500	$80,100	$83,900
SF Expenditure	$50,000	$0	$0	$0	$0
Net Effect	($108,100)	($73,000)	($76,500)	($80,100)	($83,900)

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

Local Effect: None.

Small Business Effect: Potential minimal.

Analysis

Bill Summary: OSFA within the Maryland Higher Education Commission (MHEC), using funds transferred from the Board of Physicians Fund, makes financial aid awards to assist in repaying loans owed by a physician who practices primary care for a nonprofit organization or government entity in an area of the State that has been federally designated as having a shortage of primary care or mental health providers. Likewise, OSFA makes financial aid awards to assist in repaying loans owed by a medical resident specializing in primary care who agrees to practice for at least two years as a primary care physician for a nonprofit organization or government agency in a geographic area of the State that has been federally designated. The physician must also meet any other requirements established by OSFA, in consultation with DHMH.

In addition to the loan repayment outlined above, OSFA may, subject to availability of money in the new fund, make financial aid awards to assist in repaying a loan owed by a physician who practices a medical specialty that has been identified by DHMH as being in shortage, in the geographic area of the State where the physician practices that specialty. However, the physician must commit to practicing in the area for a period of time determined by OSFA.

"Primary care" is defined to include primary care, family medicine, internal medicine, obstetrics, pediatrics, geriatrics, emergency medicine, and psychiatry. This definition effectively expands eligibility since it encompasses more specialties than qualify under the existing LARP-PCS program. The program also expands eligibility to physicians who may work in for-profit settings.

OSFA has to prioritize funding for loan repayment in the following order: (1) physicians that meet eligibility criteria due to practicing in a federally designated shortage area; (2) physicians practicing primary care in a geographic area where DHMH has identified a shortage of primary care physicians; and (3) physicians practicing a medical specialty other than primary care in a geographic area where DHMH has identified a shortage of that specialty. OSFA, in collaboration with DHMH, has to adopt regulations establishing the maximum number of program participants each year in each priority area and the minimum and maximum amount of an award in each priority area.

The bill reallocates the funding currently available to LARP-PCS to MLARP. The bill also repeals the prohibition on the department hiring more than one person to administer its portion of the existing LARP-PCS.

The hospital rate increases used to capitalize the new fund must be approved by HSCRC. Fund expenditures must be made through an appropriation in the annual budget.

The reporting requirement for MHCC and DBED must discuss the feasibility of expanding the eligibility criteria of State development programs to include providing assistance to physician practices in medically underserved areas in the State and making economic development funding available for physician practices evolving to medical homes.

Current Law/Background: MHCC is special funded by user fees imposed on payors and providers. Fees are used exclusively to cover the costs of fulfilling the commission's statutory and regulatory duties.

LARP provides loan repayment assistance in exchange for certain service commitments to help ensure that underserved areas of the State have sufficient numbers of primary care physicians, dentists, and professionals serving underserved areas of the State or low-income families. The program is subdivided into LARP, LARP-PCS, and MDC-LARP. Individuals must be employed full time in State or local government or in a nonprofit organization that assists low-income, underserved residents or underserved areas in the State.

LARP

Eligible employment fields include lawyers, nurses, nurse faculty members, physical and occupational therapists, social workers, speech pathologists, physician assistants, and certain teachers.

MDC-LARP

Practicing dentists can qualify for loan repayment for each year of obligated service and also receive a supplement to help defray associated tax liability. Individuals must agree

to remain employed full time as a dentist with Medicaid recipients comprising at least 30% of the patient population. MDC-LARP has no income eligibility requirements, and award recipients are selected by DHMH instead of OSFA.

LARP-PCS

Primary care physicians and medical residents in a residency program specializing in primary care can qualify for loan repayment in exchange for agreeing to serve full time as a primary care physician in an underserved area in the State for at least two years. The program is financed through the State budget, federal matching funds through the National Health Service Corps program, and the Board of Physicians Fund. LARP-PCS awards range from $25,000 to $30,000 per year. LARP-PCS has no income eligibility requirements, and award recipients are selected by DHMH instead of OSFA.

If the Governor does not include at least $750,000 in the State budget for LARP, the Comptroller must divert 14% of fees collected by the Board of Physicians to OSFA for LARP. The fiscal 2010 budget includes a combined total of $2.68 million for LARP, LARP-PCS, and MDC-LARP. MHEC advises that it granted 26 awards to physicians under LARP-PCS in fiscal 2009. The average award was $25,436.

Regulations define "primary care services" as medical services which address a patient's general health needs. In addition, "primary health services" are generally rendered by general and family practitioners, internists, obstetricians, gynecologists, pediatricians, physician assistants, nurse clinicians, and nurse practitioners.

Maryland has a unique Medicare waiver from the federal government that allows the State to have an "all-payor" system in which every payor for hospital care – including Medicaid, Medicare, commercial insurance, and uninsured individuals – pays the same rates for hospital services. Hospital revenues are split among payors: approximately 44% commercial insurance, 37% Medicare, 18% Medicaid, and 1% other payors. Thus, when hospital rates increase, expenses for all payors increase proportionately.

Chapter 505 of 2007 established a Task Force on Health Care Access and Reimbursement to look at issues relating to access to, and reimbursement of, physicians and other health care professionals in Maryland, and make specific recommendations. One of the task force's recommendations was for HSCRC to establish a State-only physician loan assistance repayment program utilizing up to 0.1% of hospital net patient revenue, which could provide up to $13 million for the program fund.

In February 2009, HSCRC sent a letter to the Centers for Medicare and Medicaid Services (CMS) requesting a ruling on whether an increase in hospital rates used to support a program like the one proposed by the bill is consistent with the State's Medicare waiver. CMS has not yet responded.

State Fiscal Effect: The bill specifies that money in the new fund must be used by OSFA to administer the program. It is unclear whether "administer" encompasses administrative costs, or just the awards under the expanded program. Any additional administrative costs are incurred by DHMH rather than OSFA, but the bill does not appear to authorize DHMH to use special funds for its role in administering the program. Moreover, it is unclear whether the new fund can be capitalized through the rate increase since it is dependent on federal and HSCRC approval.

Thus, general fund expenditures increase by $58,126 in fiscal 2010, assuming a 90-day implementation delay, for DHMH to hire one additional program administrator to identify additional shortage areas, particularly as they relate to the expanded definition of "primary care" under the bill, and help select award recipients. The estimate includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salary and Fringe Benefits	$51,873
Operating expenses	1,958
Start-up Costs	4,295
Total FY 2010 Expenditures	**$58,126**

Future year expenditures reflect a full salary with 4.4% annual increases and 3% employee turnover and 1% increases in ongoing operating expenses.

As noted above, special fund revenues may increase by about $13.0 million if CMS allows HSCRC to raise hospital rates and if HSCRC approves a 0.1% increase. Those revenues and any related expenditures are not reflected in this analysis because they are contingent on federal and HSCRC approval.

Medicaid expenditures (50% general funds, 50% federal funds) may increase beginning in fiscal 2010 due to an increase in hospital rates used to finance the program. Medicaid's share of total hospital revenues is approximately 18% annually. Such an increase is dependent on the size of the rate increase approved by HSCRC. If the rate increase is consistent with the task force's recommendation, Medicaid expenditures may increase by $2.3 million in fiscal 2010 as a result of a 0.1% increase in hospital rates.

MHEC estimates that the bill may increase applications for MLARP by 15 eligible physicians annually, costing an additional $381,540 beginning in fiscal 2010.

Additional Comments: Commercial insurance premiums may increase as a result of increased hospital rates to the extent such increases are approved by HSCRC and passed on to consumers. Commercial insurance comprises 44% of total hospital revenues annually.

Additional Information

Prior Introductions: None.

Cross File: SB 627 (Senator Middleton, *et al.*) - Education, Health, and Environmental Affairs.

Information Source(s): Maryland Higher Education Commission, Department of Health and Mental Hygiene, Department of Legislative Services

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