HB 866

Department of Legislative Services

Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

House Bill 866 (Delegate McDonough, *et al.*)
Health and Government Operations

Task Force to Evaluate the Quality of Patient Care Under a Capitated Payment System

This bill establishes a Task Force to Evaluate the Quality of Patient Care Under a Capitated Payment System to study the impact of moving from a "per case" to a "per capita" payment model on the provision and quality of end-of-life care, health care services for the chronically ill, behavioral health services, and specialty care services, as well as the alignment of patient needs with the needs of hospitals. The task force must report its findings to the Governor and specified committees of the General Assembly by January 1, 2015. The Health Services Cost Review Commission (HSCRC) must provide staff for the task force. A member of the task force may not receive compensation but may be reimbursed for expenses under standard State travel regulations.

The bill takes effect June 1, 2014, and terminates June 30, 2015.

Fiscal Summary

State Effect: Special fund expenditures increase for HSCRC by $55,000 in FY 2015 only to hire a contractor to assist the task force in conducting the required study and submitting the required report and to provide expense reimbursement to task force members. No effect on revenues.

(in dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Revenues	$0	$0	$0	$0	$0
SF Expenditure	55,000	0	0	0	0
Net Effect	($55,000)	$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

Background: HSCRC, an independent commission within the Department of Health and Mental Hygiene (DHMH), was established in 1971 to contain hospital costs, maintain fairness in hospital payment, provide for financial access to hospital care, and disclose information on the operation of hospitals in the State. HSCRC administers the nation's only all-payer hospital rate regulation system, as authorized by State and federal law. HSCRC sets hospital rates paid by all private and public payers, including Medicare and Medicaid. The commission is 100% special funded by user fees assessed on hospitals.

Maryland All-payer Model: In March 2013, DHMH submitted an initial model proposal to the federal Center for Medicare and Medicaid Innovation (CMMI) to replace the State's all-payer, rate-regulated hospital financing system. On January 10, 2014, CMMI announced approval of the new model – the Maryland all-payer model, which was signed on February 10, 2014. Under the model, Maryland will transition from the current waiver to a new five-year demonstration contract. The model contract includes the following major components:

- **All-payer Total Hospital Cost Growth Ceiling:** Maryland will limit inpatient and outpatient hospital cost growth for all payers to a trend based on the State's 10-year compound annual gross State product (3.58% for the first three years).
- **Medicare Total Hospital Cost Growth Ceiling:** Maryland will limit Medicare per-beneficiary total hospital cost growth, setting a per-beneficiary spending target sufficient to produce $330.0 million in cumulative Medicare savings over five years beginning with an estimated $49.5 million in savings in 2015.
- **Population-based Revenue:** Hospital reimbursement will shift from a per-case system to a population-based system, with at least 80% of hospital revenues shifted to global budgeting over the five-year period.
- **Reduction of Hospital Readmissions:** Maryland will commit to reducing its Medicare readmission rate over five years.
- **Reduction of Hospital Acquired Conditions:** Maryland will achieve an annual aggregate reduction of 6.89% in potentially preventable conditions measures through the current Hospital Acquired Conditions Program for a cumulative reduction of 30% over five years.

The demonstration will be deemed successful if Maryland can meet the hospital cost and quality targets without inappropriately shifting costs to nonhospital settings *and* if there is a measurable improvement in quality of care. DHMH anticipates that the model will

produce net savings for the federal government, the State, and private payers, while providing stability and predictability for Maryland.

State Fiscal Effect: As the task force will convene at the same time HSCRC will be implementing the new all-payer model and given the complexity of the issues to be addressed in the required study and the short timeframe given for the completion of the report, HSCRC advises that contractual services are required. Therefore, special fund expenditures increase by a total of $55,000 in fiscal 2015 only, which reflects a 30-day start-up delay. This estimate includes the cost of hiring of one contractor to assist the task force in completing the study and write the required report. This amount also includes an estimated $5,000 to reimburse the 23 members of the task force for expenses, as authorized under the bill.

Additional Information

Prior Introductions: SB 1073 of 2013 received a hearing in the Senate Finance Committee, but no further action was taken.

Cross File: None.

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

Fiscal Note History: First Reader - February 25, 2014
mc/ljm

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