

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 1455

SHORT TITLE: PSO Medicare Licensing

SPONSOR(S): Representatives Cansler and Bowie

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>
EXPENDITURES					
Health & Human Services					
Recurring		\$350,000	\$500,000	\$520,000	\$540,000
Nonrecurring	\$50,000*				
Positions	(0)	(3 to 5)	(5 to 7)	(5 to 7)	(5 to 7)
Correction					
Recurring			<u>No Fiscal Impact</u>		
Nonrecurring					
Judicial					
Recurring			<u>No Fiscal Impact</u>		
Nonrecurring					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:					
Department of Health and Human Services					
Department of Correction					
Judicial Department					
EFFECTIVE DATE: Effective upon enactment.					
* See Technical Considerations.					

BILL SUMMARY: House Bill 1455 authorizes public, private, or non-profit providers of health care services to form “provider sponsored organizations” (PSOs) and provide services to Medicare beneficiaries. The bill designates the Department of Health and Human Resources as the regulatory agency for Medicare PSOs and establishes detailed requirements for these organizations, including application, financial reporting, and operating standards. The penalties

and enforcement provision makes it a Class 1 misdemeanor to violate any requirements or standards specified in the bill.

ASSUMPTIONS AND METHODOLOGY:

I. Department of Health and Human Services

A. Background

The proposed legislation designates the Department of Health and Human Services (HHS) as the regulatory agency for Medicare Provider Sponsored Organizations (PSOs). The Secretary of HHS has stated that he will delegate this responsibility to the Division of Facility Services (DFS) within HHS if the proposed legislation is enacted. Under the proposed legislation, HHS will be responsible for licensing and monitoring Medicare PSOs.

Licensing: The proposed legislation requires that HHS issue a license to a PSO as a risk-bearing entity eligible to offer health benefits coverage in North Carolina to Medicare beneficiaries if the PSO complies with the proposed requirements. The license must be granted or denied not longer than 90 days after the receipt of a substantially complete application for licensing. In addition, HHS has 45 days to determine whether an application is substantially complete and notify the applicant in writing that additional information is needed to complete the application. Under these time frames, HHS must complete an extensive financial and operational review of each license application to determine whether the proposed PSO can adequately provide health care services for Medicare beneficiaries while also meeting the financial risk and solvency requirements established under the proposed legislation.

Monitoring: Once PSO licenses are issued, HHS will be responsible for monitoring the operations and financial solvency of each PSO to ensure that health care services continue for the Medicare beneficiaries covered by each PSO and that each PSO is financially solvent and can meet its obligations. The proposed legislation requires PSOs to meet ongoing financial standards relating to their net worth once they are operational. PSOs are required to report quarterly on financial information relating to PSO solvency standards until they break-even and have an operating surplus and then this reporting becomes annual. All PSOs are also required to report annually on their operations providing detailed information to HHS on all aspects of their operations. HHS is responsible for ensuring that PSOs are financially solvent and able to meet their financial obligations; and that PSO's meet consumer protection and quality standards. HHS is authorized to suspend or revoke a PSO license if it finds that a PSO fails to meet the requirements of the proposed legislation. The monitoring activities are extensive and will become more extensive if some licensed PSO's have financial problems.

Start-Up: The proposed legislation requires HHS to establish the application form and application procedures for the licensing process. In addition, the proposed

legislation authorizes HHS to adopt rules consistent with the law to authorize and regulate PSO's. If HHS determines that rule-making is necessary, the proposed legislation requires that rules be adopted no later than six months after the proposed law is enacted. These start-up activities will need to occur regardless of any applications during the first year.

B. Assumptions and Methodology

1. **Number of PSOs:** Since Medicare PSOs were just authorized by federal law in 1997, there is limited information available to assist in estimating how many PSO's may develop in North Carolina and how quickly PSO applications will be filed with HHS. Since it is impossible to reliably estimate the number of PSOs, the following assumptions relating to the number of PSO's applications and the timing of applications have been used for this fiscal note:
 - a. No more than one application will be submitted in 1998-99.
 - b. No more than four applications will be received through the end 1999-2000.
 - c. At the end of 2002-03, there will not be more than 10 PSOs.
2. **Work Requirements:** Based on the requirements of the proposed legislation, it is assumed that monitoring compliance of licensed PSO's will require more resources than reviewing initial applications and that the work required will increase as each new licensee is added and requires monitoring.
3. **Staffing Requirements:** Based on the requirements of the proposed legislation, it is assumed that HHS will need additional staff with expertise in health care financing and managed care operations. The exact number of staff required to implement the proposed legislation will depend on whether HHS decides to rely entirely on new in-house staff or use a combination of in-house staff and consultant services. Using the assumptions estimating the number and timing of PSO applications as a guide, the following assumptions have been used for this fiscal note:
 - a. HHS will use existing in-house staff in the Division of Facility Services and hire consultants only during 1998-99.
 - b. HHS will need three to five new in-house staff in 1999-2000 to review new PSO applications and begin the monitoring process for existing PSOs.
 - c. HHS staffing requirements will increase to five to seven staff beginning in 2000-01 and future years to monitor existing PSOs and continue licensing new ones.
4. **1998-99 Expenditures:** This fiscal note assumes that HHS will receive one PSO application in 1998-99 and use existing in-house staff and consultants to meet the 90 day licensing requirement specified in the proposed legislation. While the Division of Facility Services has existing staff which could be redirected to review a PSO application, HHS may need up to \$50,000 to buy consulting

services to ensure that a PSO application can be **thoroughly** reviewed within the 90 day time frame. (See Technical Considerations.)

5. **Expenditures for 1999-2000:** This fiscal note assumes that HHS will receive no more than four PSO license applications through the end of 1999-2000 and will create a PSO unit within the Division of Facility Services to review and monitor PSOs. The PSO unit will include three to five staff with an average salary and benefits of \$50,000 per position. In addition, \$100,000 is allocated to cover consulting services and support costs for total estimated expenditures up to \$350,000 for 1999-2000.

6. **Expenditures for Future Years:** This fiscal note assumes that no more than 10 PSOs will exist by the end of 2002-03 and that the PSO unit within the Division of Facility Services will include five to seven staff to review and monitor PSOs. Assuming an average salary and benefits of \$50,000 per position and \$150,000 allocated to cover consulting services and support costs, total expenditures for 2000-01 is estimated to be up to \$500,000. Future years are assumed to increase 4% year.

II. Department of Correction

Since this establishes a misdemeanor penalty, the Sentencing Commission does not expect this bill to have any significant impact on the state prison population. In addition, because this bill creates a new crime, there is no conviction data available from which to estimate the impact on jail populations.

III. Judicial Department

The Administrative Office of the Courts (AOC) does not expect this bill to impact the court system. The creation of a Class 1 misdemeanor penalty could increase the number of cases

coming through the courts, but the AOC has no evidence to believe that these new “provider service organizations” will not comply with the new regulations.

SOURCES OF DATA:

Department of Health and Human Services
Department of Insurance
Sentencing and Policy Advisory Commission
Judicial Department
N. C. Hospital Association
Health Policy Tracking Service
National Conference of State Legislatures

TECHNICAL CONSIDERATIONS:

Since HHS may need up to \$50,000 of nonrecurring funds in 1998-99 **to ensure the 90 day time frame for licensing PSOs is met** and no funding has been appropriated to HHS for this purpose, the proposed legislation may need to be amended giving HHS the explicit authority to use up to \$50,000 in existing funds, if a PSO license application is received during 1998-99, to buy consulting services to assist in the licensing of PSOs.

FISCAL RESEARCH DIVISION

733-4910

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