Fiscal Note & Local Impact Statement

122 nd General Assembly of Ohio

BILL: **Sub. H.B. 361** DATE: **October 23, 1997**

STATUS: **As Passed by the House** SPONSOR: **Rep. Van Vyven**

LOCAL IMPACT STATEMENT REQUIRED: **No — Minimal cost**

CONTENTS: **Establishes operating standards for managed care organizations**

State Fiscal Highlights

STATE FUND	FY 1998	FY 1999	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Indeterminate effect	Indeterminate effect
Other State Funds – Insurance Operating Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Up to $500,000 increase	Up to $400,000 increase

- The Department of Insurance's regulatory workload will be increased by the requirements of this bill. The department will require 7-8 additional staff and equipment totaling approximately $480,000 in added costs. The department expects to fund these increased costs from the cash balance in its operating fund, Fund 554.

- Costs incurred by INS related to "additional" market conduct examinations and audits performed to verify compliance with provisions of the bill that are over and above "normal examinations" would be billable to those health insuring companies (HICs).

- The additional administrative burden placed on HICs by the bill could result in negligible increases in premium rates. This however depends on how HICs choose to recoup these costs. In essence there could be a negligible increase in state costs of providing employee health benefits.

- Violations of the bill's provisions regarding utilization review could generate costs for both INS and the Attorney General's office. Such violations permit the Superintendent of Insurance to use the powers ascribed to him by the Unfair and Deceptive Trade Practices Act. The current Superintendent rarely uses these powers so the fiscal effect is likely to be minimal.

LOCAL GOVERNMENT	FY 1998	FY 1999	FUTURE YEARS
Counties			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Potential minimal increase	Potential minimal increase

- The additional administrative burden placed on HICs by the bill could result in negligible increases in premium rates. This however depends on how HICs choose to recoup these costs. In essence there could be a negligible increase in local government costs of providing employee health benefits.

- Violators of state law regarding utilization could result in civil action in common pleas courts, potentially increasing court costs for affected counties. The Superintendent of Insurance may also pursue violators of the bill's provisions in the Franklin County Common Pleas Court, which may have a financial impact on this court.

Detailed Fiscal Analysis

The bill establishes operating standards for managed care organizations by defining the responsibilities of HICs, physicians, and consumers, and requires a utilization review process.

Fiscal Effects on the Department of Insurance

Potential Cost Increases

The bill would expand the regulatory workload of the Department of Insurance. According to a spokesperson for INS, the additional workload would result from additional filings of provider contracts with HICs, continued review of standards, and investigation of complaints. These increased administrative duties will require 7-8 new staff and equipment, in the Managed Care and the Market Conducts Divisions of the department, totaling an estimated $480,000 in added costs in the year of implementation and approximately $400,000 in each subsequent year, assuming an effective date of October 1, 1998. The department expects to fund these increased costs from the cash balance in its operating fund, Fund 554, and will seek Controlling Board approval for spending authority, prior to the effective date of the bill.

Fund 554 - Total Resources and Spending Authority

	FY 1995	FY 1996	FY 1997	**FY 1998***	**FY 1999***
Total Spending	$11,783,343	$12,716,050	$13,165,677	$16,169,582	$15,909,623
Total Resources[1]	$21,385,286	$23,719,984	$26,852,415	$26,716,386	$23,816,804
Ending Cash Balance[1]	$9,459,257	$10,919,120	$13,666,386	$10,546,804	$7,907,181

* FY 1998 & FY 1999 spending include increases granted by the Controlling Board on Sept. 29, 1997.
1. FY 1998 7 FY 1999 are estimated amounts.

Lastly, the Superintendent of Insurance can charge HICs for INS's costs from market conduct examinations, audits, and "disciplinary" actions. (Such charges are currently allowed under HMO law and would be allowed for all HICs by this bill.). INS however anticipates billing these costs only in circumstances where these "additional" market conduct examinations and audits performed to verify compliance with provisions of the bill are over and above "normal examinations".

Violations of the bill's provisions regarding utilization review could generate costs for both INS and the Attorney General's office. Such violations permit the Superintendent of Insurance to use the powers ascribed to him by the Unfair and Deceptive Trade Practices Act. The current Superintendent rarely uses these powers so the fiscal effect is likely to be minimal. Additionally, this could also result in civil action in common pleas courts, potentially increasing court costs for affected counties. The Superintendent of Insurance may also pursue violators of the bill's provisions in the Franklin County Common Pleas Court, which may have a financial impact on this court.

Effects on Health Care Premiums Paid by Public Employers

The effect of this bill could place an additional administrative burden on HICs. According to the spokesperson for INS, many of the HICs in the state already conduct business in accordance with the major policy thrust of the bill and as such, should not encounter major cost increases.

However, the additional administrative burden placed on HICs by the bill could result in negligible increases in health care premiums paid by public employers. This however depends on how HICs choose to recoup these costs, if any. In essence there could be a negligible increase in state and local government costs of providing employee health benefits. A spokesperson for the Department of Administrative Services estimates that the bill will have no impact on health care premiums paid by public employers and subsequently state benefit costs.

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