SB 515

Department of Legislative Services

Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 515 (Senator Beidle)
Finance Health

Health Services Cost Review Commission - Health Facilities - Rate Setting

This bill authorizes the Health Services Cost Review Commission (HSCRC) to consider all reasonable costs incurred or expenditures made by a facility in connection with the operation of the facility, including costs to employ or contract with physicians or other professional providers for which the facility does not receive corresponding offsetting professional revenue. By June 1, 2027, HSCRC, in coordination with specified entities, must report to the Senate Finance Committee and the House Health Committee. **The bill takes effect June 1, 2026.**

Fiscal Summary

State Effect: HSCRC can complete the required report with existing budgeted resources. HSCRC special fund expenditures increase beginning in FY 2027 for contractual costs, as discussed below. Special fund revenues increase by an indeterminate amount beginning in FY 2027 to the extent HSCRC increases user fees. To the extent HSCRC increases hospital rates, Medicaid expenditures (50% general funds, 50% federal funds) may increase (potentially significantly) beginning as early as FY 2028 (not shown), as discussed below. Federal fund revenues increase accordingly.

(in dollars)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
SF Revenue	$0	-	-	-	-
FF Revenue	$0	-	-	-	-
SF Expenditure	$500,000	$50,000	$50,000	$50,000	$50,000
GF/FF Exp.	$0	-	-	-	-
Net Effect	($500,000)	($50,000)	($50,000)	($50,000)	($50,000)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: HSCRC must consider all reasonable costs incurred or expenditures made by a facility in connection with the operation of the facility as part of HSCRCs duties to: (1) keep informed as to whether a facility has enough resources to meet its financial requirements; and (2) to assure each purchaser that total costs of all hospital services are reasonable, aggregate rates are reasonably related to aggregate costs, and rates are set equitably.

HSCRC, in consultation with the Maryland Department of Health (MDH), the Maryland Insurance Administration, and the Maryland Health Care Commission, must report on the status of efforts to (1) collect and analyze data on costs incurred by hospitals to employ or contract with physicians and other professional providers for which hospitals do not receive corresponding offsetting professional revenue and (2) develop and implement a policy to address such costs.

If HSCRC attempts to develop a policy to address such costs, the policy must seek to (1) ensure reasonable funding for physicians and other professional provider services essential to the delivery of clinical care and the operations of a hospital; (2) maintain access to providers in hospitals and nonhospital based settings; and (3) ensure the State's ability to meet its commitments under the Achieving Healthcare Efficiency through Accountable Design (AHEAD) Model.

Current Law: HSCRC is an independent commission within MDH established to contain hospital costs, maintain fairness in hospital payment, provide access to hospital care, and disclose information on the operation of hospitals in the State. HSCRC was responsible for implementing the Total Cost of Care Model, the successor to the Maryland All-Payer Model Contract and will implement the AHEAD Model from 2026 to 2034 to continue statewide efforts to improve health care quality and control costs.

HSCRC is funded through user fees assessed on hospitals and related institutions whose rates have been approved by the commission. User fees must be used exclusively to cover the actual documented direct costs of fulfilling the statutory and regulatory duties of HSCRC, including administrative costs incurred by MDH on behalf of the commission. HSCRC must assess each facility by June 30 each year.

HSCRC must:

- require each facility to disclose publicly its financial position and the verified total costs incurred and revenue generated by the facility in providing health services;

- review for reasonableness and certify the rates and revenue of each facility;
- keep informed as to whether a facility has enough resources to meet its financial requirements;
- concern itself with solutions if a facility does not have enough resources;
- assure each purchaser of health care facility services that: (1) the total costs of all hospital services offered by or through a facility are reasonable; (2) the aggregate rates of the facility are related reasonably to the aggregate costs of the facility; and (3) rates are set equitably among all purchasers of services without undue discrimination;
- develop guidelines for the establishment of global budgets for each facility;
- receive confirmation that facility global budget agreements, as they are developed, are consistent with the guidelines; and
- after review by HSCRC for compliance with the guidelines, post each executed global budget agreement on the commission's website.

HSCRC may review the costs, and rates, quality, and efficiency of facility services, and make any investigation that the commission considers necessary to assure each purchaser of health care facility services that: (1) the total costs of all hospital services offered by or through a facility are reasonable; (2) the aggregate rates of the facility are related reasonably to the aggregate costs of the facility; and (3) rates are set equitably among all purchasers or classes of purchasers without undue discrimination or preference, except under specified circumstances. HSCRC may review and approve or disapprove the reasonableness of any rate or amount of revenue that a facility sets or requests.

A facility must charge for services only at a rate set in accordance with HSCRC requirements and comply with the applicable terms and conditions of the all-payer model contract. Consistent with the all-payer model contract, in determining the reasonableness of rates, HSCRC may consider objective standards of efficiency and effectiveness.

State Fiscal Effect: The bill authorizes HSCRC to consider costs for a facility associated with employing or contracting with physicians or other professional providers for which the facility does not receive corresponding offsetting professional revenue when determining whether a hospital has sufficient resources to meet its financial requirements and when conducting rate-setting activities and developing hospital global budget revenues. The bill also requires HSCRC, in consultation with specified entities, to report on the status of efforts to collect and analyze data on certain costs incurred by hospitals and develop and implement a policy to address such costs.

Health Services Cost Review Commission

HSCRC advises that contractual services are required to develop reporting mechanisms to oversee costs incurred by facilities, to implement and evaluate these mechanisms, and to

make necessary ongoing refinements and adjustments. Therefore, HSCRC special fund expenditures increase by approximately $500,000 in fiscal 2027, and $50,000 annually thereafter for contractual services. Federally required changes to rate-setting processes under the AHEAD model beginning in calendar 2028 may also have an indeterminate impact on these estimates.

HSCRC does not currently factor certain physician/provider costs into its rates. HSCRC advises that it is unclear *how* certain physician/provider costs *may* be considered under the bill. HSCRC must first develop a policy for hospitals to report costs, then analyze how such costs may be considering in the rate-setting process and development of global budgets.

Medicaid

Since HSCRC does not currently factor certain physician/provider costs into its rates, expanding the factors considered in rate setting to include these costs is likely to increase hospital rates. As Medicaid accounts for 20% of hospital payments based on payor mix, to the extent hospital rates increase, Medicaid expenditures also increase.

MDH notes that fiscal 2025 HSCRC data valued the total cost of unregulated physician losses by hospitals at approximately $1.14 billion. MDH assumes that 20% of those costs (about $228 million) are currently unfunded, and that 20% of unfunded costs (about $45.6 million) would be attributable to Medicaid. Thus, should these costs be incorporated into hospital rates, MDH advises that Medicaid expenditures could increase by an estimated $45.6 million annually (50% general funds, 50% federal funds) beginning as early as fiscal 2028. Federal fund revenues increase accordingly.

However, DLS notes that any impact on hospital rates will depend on the extent to which additional costs are incorporated into the rate-setting process and what HSCRC determines is an appropriate amount of funding.

AHEAD Model

DLS further notes that any significant increases in hospital rates to capture physician/provider losses incurred by hospitals will make compliance with the AHEAD model more difficult.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: HB 616 (Delegate Cullison) - Health.

Information Source(s): Maryland Department of Health; Department of Legislative Services

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