GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Chief Financial Officer

Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO:	**The Honorable Linda W. Cropp** **Chairman, Council of the District of Columbia**
FROM:	**Natwar M. Gandhi** **Chief Financial Officer**
DATE:	**June 14, 2002**
SUBJECT:	**Draft Fiscal Impact Statement: "Physicians Negotiation Act of 2002"**
REFERENCE:	**Bill Number 14-525 as Introduced**

Conclusion

Funds are sufficient in the FY 2002 budget and the proposed FY 2003 through FY 2006 budget and financial plan to implement the proposed legislation because the bill allows the Mayor to disapprove the result of any negotiation if it imposes a negative fiscal impact on the District government. This provision enables the District to avoid any increase in the cost of employee health insurance, any increase in the District's contribution to Medicaid costs, or any increase in the District's costs for uninsured hospital or medical charity care that may otherwise result from this legislation.

Background

The purpose of the "Physicians Negotiation Act of 2002" is to improve health care in the District of Columbia by allowing physicians to collectively negotiate certain specified terms and conditions of their contracts with health plans without violating Federal or District antitrust laws. In 1999 there were 10,611 registered doctors and 19 HMOs in the District. The Act could impact the District's finances through several channels. Under the protection of the Act, some physicians would form coalitions and negotiate collectively with health plans for higher fees and more flexible medical practices. These negotiations could increase health care costs to health plans and result in higher private and public health insurance premiums.

In addition, the Act contains a number of provisions that give substantial responsibilities to the Insurance Commissioner and to the Mayor. For example, Section 8 requires the

Mayor to approve a request to enter into joint negotiations or a proposed contract if the Mayor determines that the applicants have demonstrated that the likely benefits resulting from the joint negotiation or proposed contract outweigh the disadvantages attributable to a reduction in competition that may result from the joint negotiation or proposed contract. Additional resources will be required to carry out these new responsibilities. The negotiating parties are to pay for these additional resources.

The legislation also contains restrictions designed to limit the power of physicians and the subjects that can be discussed. Section 4 explicitly disallows negotiating for fees or prices for services except where the health plan has substantial market power defined as a market share that exceeds 15 percent of covered lives. Only one provider in the District has this kind of market share.

Finally, the proposed legislation allows the Mayor to disapprove the result of any negotiation if it imposes a negative fiscal impact on the District government. This provision enables the District to avoid any increase in the cost of employee health insurance, any increase in the District's contribution to Medicaid costs, or any increase in the District's costs for uninsured hospital or medical charity care that may otherwise result from this legislation.

Financial Plan Impact

The Physicians Negotiation Act can increase District government expenditures in at least four different ways. First and foremost, it can increase the District's contribution for employee health insurance. Second, the legislation may increase the District's contribution to Medicaid costs. Third, the District's payments for uninsured hospital or medical charity care. Allowing the Mayor to disapprove the result of any negotiation that imposes a negative fiscal impact on the District government avoids the potential increase in District spending that would otherwise be imposed by this bill.

Finally, depending upon the structure of the program, the spending of the Department of Insurance and Securities Regulation (DISR) may increase so that the program can be established and administrated. An administrative structure needs to be established that will minimize or altogether avoid these costs. The legislation requires the negotiating parties to pay for this structure; however, until the structure is in place there can be no negotiation. If DISR can establish a contractual arrangement that can be fully paid for from fees, there will be no additional administrative costs.

Funds are sufficient in the FY 2002 budget and the proposed FY 2003 through FY 2006 budget and financial plan to implement the proposed legislation because the bill allows the Mayor to disapprove the result of any negotiation if it imposes a negative fiscal impact on the District government. This provision enables the District to avoid any increase in the cost of employee health insurance, any increase in the District's contribution to Medicaid costs, or any increase in the District's costs for uninsured hospital or medical charity care that may otherwise result from this legislation.