LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 6, 2005

TO: Honorable Steve Ogden, Chair, Senate Committee on Finance

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: **SB871** by Nelson (Relating to the Medicaid managed care delivery system.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB871, As Introduced: a positive impact of $22,054,592 through the biennium ending August 31, 2007.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2006	$7,410,908
2007	$14,643,684
2008	$19,763,719
2009	$24,768,047
2010	$25,755,424

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings from *GR MATCH FOR MEDICAID* 758	Probable (Cost) from *GR MATCH FOR MEDICAID* 758	Probable Savings from *FEDERAL FUNDS* 555	Probable (Cost) from *FEDERAL FUNDS* 555
2006	$17,290,894	($9,879,986)	$17,115,855	($14,493,156)
2007	$82,291,026	($67,647,342)	$110,547,088	($73,171,171)
2008	$94,711,077	($74,947,358)	$124,362,852	($80,966,777)
2009	$107,537,938	($82,769,891)	$137,972,349	($89,187,212)
2010	$25,755,424	$0	$8,467,912	$0

Fiscal Analysis

The bill would amend Medicaid Managed Care sections of the Government Code.
The bill would require the Health and Human Services Commission (HHSC), in implementing Medicaid Managed Care, to reduce the administrative burden on physicians and providers and to minimize expenditures not related to direct patient care.

Section 3 of the bill would require HHSC, in determining the cost-effectiveness of a particular managed care model or arrangement, to assess the fiscal impact on political subdivisions in the state which provide indigent care and the impact on Medicaid provider participation. In addition, HHSC would be required to provide primary care case management (PCCM) to all Medicaid recipients, except those provided care under Subchapter D (Section 4, the Integrated Care Mangement model).

Section 4 of the bill would create a new model of managed care, Integrated Care Management (ICM), within the Medicaid Managed Care statute. The model would serve: recipients of financial assistance under Chapter 31, Human Resources Code; pregnant women; and aged, blind and disabled persons who are not in nursing facilities. The model would require assignment of members to a medical home and the establishment of a system for integrated care management that would: 1) include acute and long-term care services; 2) coordinate disease management services; 3) provide case management, including health risk assessment and screenings. The system would also be required to provide information to health care providers to assist in cared coordination. The patient's medical home would be required to coordinate patient care, including home health and durable medical equipment and "patient support services."

The bill would require the establishment of enhanced provider reimbursement for after hours care, incorporation of early and periodic screening, diagnosis, and treatment, and adherence to evidence-based clinical guidelines and performance measures.

HHSC would be required to implement the pilot in at least eight areas, including urban and rural. At least half of the sites must be in areas previously served by a primary care case management model of managed care. A statewide advisory committee would be required to assist HHSC in developing the integrated care model.

The bill would require HHSC to contract for technological support and care coordination.

The subchapter relating to the Integrated Care Model expires September 1, 2009.

Some realignment of funding/savings between HHSC and the Department of Aging and Disability Services could be required for implementation.

Methodology

Section 3. According to HHSC, expanding PCCM in certain areas that are under managed care would save approximately $14,425,071 in General Revenue in the 2006-07 biennium. HHSC provided additional information that savings resulting from a statewide expansion of PCCM compared to fiscal year 2004-05 areas would result in a savings of $15.3 million in General Revenue for the 2006-07 biennium compared to fiscal years 2004-05. This additional savings has been included in this fiscal note.

Section 4. According to HHSC, the savings associated with the ICM Model would be $7,059,469 in General Revenue for the 2006-07 biennium. HHSC projections are contained in the March 17, 2005 report titled, “Financial Impact of Proposed Integrated Care Management (ICM) Model.” The ICM pilot would be in eight areas, urban and rural, 50% in area with PCCM on September 1, 2006.

HHSC analysis indicates expenditures compared to current Fee for Service arrangement are as follows for the 2006-07 biennium:

1) Client services (Acute) savings of $49.6 million GR/$125.4 million All Funds;

2) Client services (Long-Term Care) savings of $17.6 million GR/$44.5 million All Funds;

3) Client Services (prescription drug) costs of $4.7 million GR/$11.9 million All Funds. Prescription drug costs are higher because it is assumed that the current policy of provided unlimited prescriptions in managed care would be continued (as opposed to the 3 per month per client for adults in Fee for Service);

4) Administration (vendor) costs of $57.1 million GR/$114.2 million All Funds. Vendor administrative costs are assumed to be 10% of an estimated Health Maintenance Organization premium for acute care and Long-term care combined; and

5) Administration (claims payments) savings of $1.7 million GR/$47.2 All Funds.

The enhanced reimbursement system under the provisions of the bill is assumed to cost $7,963,460 in General Revenue for the 2006-07 biennium.

Provisions of the bill requiring Technological Support and Care Coordination are assumed by HHSC to cost $6,742,489 in General Revenue for the 2006-07 biennium. HHSC assumes some information technology system changes at a 75/25 match and other functions at a 50/50 match. Activities assumed include extending the current claims processing contractor's technical support capabilities and procurement of software and hardware items.

Reimbursement of travel for members of the Statewide Advisory Committee has a biennial General Revenue cost of $24,000. The twelve-member committee may meet four times per fiscal year during the development and operation of the ICM. Cost per member per trip is assumed to be $500. Annual all funds cost is $24,000. Reimbursement for members of the advisory committee would require authorization in the General Appropriations Act.

Technology

Provisions of the bill requiring Technological Support and Care Coordination are assumed by HHSC to cost $6,742,489 in General Revenue for the 2006-07 biennium.

Assumes some IT system changes at a 75/25 match and other functions at a 50/50 match, overall average is a 60/40 federal participation rate.

Activities include extending the TMHP technical support capabilities and procurement of software and hardware items.

Three year all funds cost is $20 million and $8 million GR.

Local Government Impact

No significant fiscal implication to units of local government is anticipated, as compared to the current operations of the Medicaid program. According to HHSC, local units of government currently receiving a total projected $75 million per year in reimbursements (federal share) related to the Upper Payment Limit (UPL) program would continue to receive those reimbursements under this model.

Source Agencies: 529 Health and Human Services Commission

LBB Staff: JOB, SD, CL, PP, KF