LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

May 29, 2005

TO: Honorable David Dewhurst , Lieutenant Governor, Senate
Honorable Tom Craddick, Speaker of the House, House of Representatives

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

IN RE: **SB1188** by Nelson (Relating to the medical assistance program and other health and human services.), **Conference Committee Report**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1188, Conference Committee Report: a positive impact of $197,223,338 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	$85,853,622
2007	$111,369,716
2008	$116,076,652
2009	$113,260,382
2010	$109,961,691

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings from *GENERAL REVENUE FUND* 1	Probable (Cost) from *GENERAL REVENUE FUND* 1	Probable Savings from *FEDERAL FUNDS* 555	Probable (Cost) from *FEDERAL FUNDS* 555
2006	$120,083,392	($34,229,770)	$185,860,128	($50,530,959)
2007	$146,795,995	($35,426,279)	$235,709,698	($52,774,543)
2008	$154,213,432	($38,136,780)	$262,935,399	($56,881,739)
2009	$154,974,847	($41,714,465)	$267,271,258	($62,350,034)
2010	$155,656,998	($45,695,307)	$271,867,572	($68,434,533)

Fiscal Year	Change in Number of State Employees from FY 2005
2006	11.3
2007	16.0
2008	16.0
2009	16.0
2010	16.0

Fiscal Analysis

SECTION 1 would require an office of community collaboration to be established within HHSC.

SECTION 2 would require HHSC to ensure that the Medicaid finance system is optimized. The bill would authorize, rather than require, HHSC to perform tape matches of Medicaid recipients with insurers or to request information for each enrollee, beneficiary, subscriber, or policyholder of an insurer. The bill would cap reimbursement to insurers and plan administrators for data matches and would require reimbursement for administrative expenses associated with data matches.

SECTION 3 would require HHSC to modify or redesign its decision support system to allow for the more effective and systematic use of Medicaid data.

SECTION 4 would require HHSC to use existing resources to reduce Medicaid administrative requirements and to improve Medicaid administration by any method determined to be cost effective. The bill would require audits of certain Medicaid programs. The bill would authorize HHSC to enter into an agreement with a manufacturer to operate a pilot program to evaluate the benefits and cost-effectiveness of providers using graphical electronic medical record systems, in lieu of the manufacturer providing supplemental rebates.

SECTION 5 would require HHSC to establish fee schedules for dental services and durable medical equipment in long-term care facilities. The bill would require HHSC to implement a system to audit the Medicaid hospice care system to ensure correct billing for pharmaceuticals.

SECTION 6 would require HHSC to make every effort to improve its administration of Medicaid managed care contracts. The bill would require contracts between HHSC and a managed care organization to include requirements that Federally Qualified Health Centers (FQHCs) or Rural Health Clinics be reimbursed at specified allowable rates for services provided after regular business hours.

SECTION 7 would authorize, rather than require, HHSC to develop a system of selective contracting with providers for nonemergency inpatient hospital services to Medicaid recipients.

SECTION 8 would require HHSC to create and coordinate efficiencies for case management initiatives and optimize federal and state funding for case management services across all health and human services agencies.

SECTION 9 would require HHSC to implement a Medicaid recipient and provider education campaign to improve patient outcomes and maximize cost-effectiveness. The bill would require HHSC to identify and integrate funds currently being spent on education for Medicaid recipients.

MEDICAID TELEPHONE HOTLINE. The bill would require that by December 1, 2005, the Health and Human Services Commission (HHSC) must determine whether a Medicaid medical information telephone hotline pilot program is likely to result in net cost savings. The pilot program would have the following characteristics: a) physicians would be available by telephone to provide medical information for recipients; b) the pilot would include up to 100,000 Medicaid recipients in at least two counties; and c) at least 50 percent of the pilot participants must be in the Medicaid Health Maintenance Organization managed care model.

MEDICAID REIMBURSEMENT RATES, ONLINE MEDICAL CONSULTATIONS, HOSPITAL EMERGENCY ROOM USE REDUCTION. The bill would authorize HHSC to adopt Medicaid reimbursement rates for nursing services determined to provide a cost-effective alternative to hospitalization and, if cost-effective, for group appointments with providers for certain diseases and conditions specified by rule. The bill would authorize Medicaid reimbursement for a medical consultation provided by a physician or other health care provider using the Internet, as a cost-effective alternative to an in-person consultation, if an appropriate procedure code is developed by the Centers for Medicare and Medicaid Services. The bill would require HHSC to develop and implement a comprehensive plan to reduce the use of hospital emergency room services by Medicaid recipients.

THERAPISTS. The bill would amend the Human Resources Code, Section 32.027 to add subsection

1. The subsection would allow a recipient of medical assistance to receive services from a licensed psychologist, and licensed marriage and family therapist, as defined by Section 502.002, Occupations Code, a licensed professional counselor, as defined by Section 503.002, Occupations Code, or a licensed master social worker, as defined by Section 505.002, Occupations Code, if the selected person is authorized by law to perform the service or procedure.

CONTINUOUS ELIGIBILITY FOR CHILDREN IN MEDICAID. The bill would maintain a period of six months of eligibility for children in Medicaid.

INTEGRATED CARE MANAGEMENT AND DISEASE MANAGEMENT. The bill would require the Health and Human Services Commission (HHSC) to develop an integrated care management model of Medicaid managed care. The bill would authorize HHSC to require each ASO to incorporate disease management into the integrated care management model.

PRESCRIPTION DRUGS. The bill would require HHSC to disclose to pharmaceutical manufacturers prior to or during supplemental rebate agreement negotiations any clinical edits or clinical protocols that might be imposed on a particular category of drugs on the preferred drug list during the contract period.

Methodology

SECTION 1. HHSC estimates annual savings of $395,500 in General Revenue and $1,000,000 in All Funds in fiscal years 2008-2010 resulting from providing stakeholders information on appropriate utilization. HHSC estimates that one full-time equivalent position (FTE) would be needed for the office. The costs related to this FTE are included in general staffing estimates below.

SECTION 2. HHSC indicates that the cost of reimbursement for data matches would not be significant.

SECTION 3. HHSC estimates costs of $1,065,386 in General Revenue and $2,130,772 in All Funds in fiscal years 2006-2007 for hardware and software purchases, license maintenance, and server leases. HHSC estimates annual savings of $395,500 in General Revenue and $1,000,000 in All Funds in fiscal years 2008-2010. HHSC indicates that better data collection and analysis would result in policies that lead to better utilization and cost savings.

SECTION 4. The pilot of graphical electronic medical record systems could result in a loss of supplemental rebate revenue. The revenue loss could potentially be offset by savings achieved by the pilot. The fiscal impact of this provision is not included in the fiscal analysis.

SECTION 5. HHSC estimates annual savings of $791,000 in General Revenue and $2,000,000 in All Funds in fiscal years 2008-2010 resulting from fee schedules and better utilization. HHSC indicates that audit requirements could be fulfilled using existing resources.

SECTION 6. HHSC estimates that four FTEs would be needed in its Medicaid and CHIP Division to meet the contract management requirements of the bill. The costs related to this item are included in general staffing estimates below. HHSC indicates that there would automation costs to reimburse FQHCs and Rural Health Clinics for after-hour care, but that a reduction in emergency care may offset the costs. The fiscal impact of this provision is not included in the fiscal analysis.

SECTION 7. No fiscal impact is anticipated.

SECTION 8. HHSC estimates savings of $2,000,000 in General Revenue and $4,000,000 in All Funds in fiscal year 2007 and subsequent annual savings of $3,164,000 in General Revenue in fiscal years 2008-2010 from the optimization of case management systems. Savings represent five percent of current spending on targeted case managment services. HHSC estimates that three FTEs would be needed in its Medicaid and CHIP Division. The costs related to these FTEs are included in general staffing estimates below.

SECTION 9. HHSC estimates cost of $1,500,000 in General Revenue and $3,000,000 in All Funds in

fiscal year 2006 for an education campaign including direct mailings to recipients, public service announcements, presentations and newsletters to provider associations, and notices to recipients. HHSC estimates savings of $1,976,500 in General Revenue and $5,000,000 in All Funds in fiscal year 2007 due to prevention and a reduction in emergency care. Savings would continue to accrue at approximately the same levels for fiscal years 2008-2010.

GENERAL STAFFING. HHSC estimates that implementation of the bill would require 8 additional FTEs not already included in costs above for an additional cost of $483,377 in General Revenue and $966,754 in All Funds in fiscal years 2006-07.

MEDICAID TELEPHONE HOTLINE PILOT. The pilot would not be implemented unless it was determined to be cost effective. It is assumed that Federal Participation would not be available; 100% General Revenue is assumed for vendor cost. According to HHSC, information received from the Centers for Medicare and Medicaid Services and the state of South Carolina suggest that a federal participation would not occur. The cost of the pilot would be $450,000 in General Revenue in FY2006 and $600,000 in subsequent years. In order to be cost-effective, there would have to be $1,144,456 in Client Services Savings in FY2006 and $1,517,835 in FY 2007 in order to get state savings of $450,000 in FY2006 and $600,000 in FY2007, using the Medicaid client services matching rate. Savings in subsequent years would have to total $1,519,067.

MEDICAID REIMBURSEMENT RATES, ONLINE MEDICAL CONSULTATIONS, HOSPITAL EMERGENCY ROOM USE REDUCTION. Implementation of the reimbursement rates authorized under the bill would cost $60.7 million in All Funds, including $23.8 million in General Revenue, in 2006 rising to $73.7 million in All Funds, including $29.2 million in General Revenue, in 2010. It is assumed that adoption of these reimbursement rates would not be cost-effective, as required by the bill, and therefore would not be implemented. No cost is included for this provision. HHSC estimates online medical consultations would cost $1.2 million in All Funds, including $0.5 million in General Revenue, each year. It is assumed that reimbursement for these consultations would not be cost-effective, as required by the bill, and therefore would not be implemented. The hospital emergency room use reduction initiatives would result in an estimated net savings of $4.3 million in All Funds, including $1.6 million in General Revenue, in 2006 and in 2007; estimated net savings in subsequent years would be $2.6 million in All Funds, including $0.9 million in General Revenue. These amounts include a net savings of $1.8 million in All Funds, including $0.7 million in General Revenue, in both 2006 and 2007 for a two year pilot providing financial incentives to non-hospital providers for providing services outside of normal business hours. Also included are additional net savings of $3.5 million in All Funds, including $1.4 million in General Revenue, in 2006 and $3.6 million in All Funds, including $1.4 million in General Revenue, in each subsequent year for payment of a fee to hospital emergency rooms that refer non-emergent patients to alternative settings. A cost of $1.0 million in All Funds, including $0.5 million in General Revenue, is included for a health care literacy program; potential savings related to this program cannot be estimated.

Additional Cost. HHSC estimates a general staffing need of 8.0 FTEs to implement various sections of the bill. It is assumed that staffing costs would begin in April 2006; therefore only 3.3 FTEs would be needed in 2006. The estimated cost is $0.2 million in All Funds, including $0.1 million in General Revenue, in 2006 and $0.5 million in All Funds, including $0.2 million in General Revenue, in each subsequent year.

THERAPISTS. The Health and Human Services Commission estimate is based on the exceptional item, Restore Optional Adult Medicaid Services. It is adjusted to reflect only the mental health portion and includes a 20% increase in the cost to reflect the additional providers assumed in the bill.The additional provider types would require a change to the claims processing system, at a cost of $200,000 in fiscal year 2006 only. It is assumed to be matched by the federal government at 75%. This results in a cost of $28.7 million General Revenue in fiscal year 2006 and $31.8 million General Revenue in fiscal year 2007.

CONTINUOUS ELIGIBILITY FOR CHILDREN IN MEDICAID. The estimate of savings related to six-month continuous eligibility in Medicaid is $605.1 million in All Funds, including $238.6 million General Revenue for 2006 and 2007. These savings are currently reflected in both the Senate and House version of the General Appropriations Bill.

INTEGRATED CARE MANAGEMENT AND DISEASE MANAGEMENT. HHSC analysis of the Integrated Care Management model are contained in the March 17, 2005 report titled, “Financial Impact of Proposed Integrated Care Management (ICM) Model." The net savings resulting for the 2006-07 biennium would be $7,186,808 in General Revenue. The HHSC cost analysis compares the current Fee-For-Service (FFS) and ICM delivery models. According to HHSC, the provisions related to disease management are projected to generate savings in the 2006-07 biennium in the amount of $8,300,000 million in General Revenue.

PRESCRIPTION DRUGS. HHSC estimates costs of $0.2 million in General Revenue in fiscal year 2006 and $0.2 million in fiscal year 2007 from delaying clinical edits and thus not realizing clinical edit savings.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 302 Office of the Attorney General, 304 Comptroller of Public Accounts, 454 Department of Insurance, 529 Health and Human Services Commission, 537 Department of State Health Services, 539 Department of Aging and Disability Services

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