

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION**

**May 2, 2011**

**TO:** Honorable Lois W. Kolkhorst, Chair, House Committee on Public Health

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

**IN RE: HB3744** by Gonzales, Veronica (Relating to the reimbursements for certain services provided to Medicaid recipients and reimbursement adjustments relating to those services.), **Committee Report 1st House, Substituted**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB3744, Committee Report 1st House, Substituted: a positive impact of \$8,201,700 through the biennium ending August 31, 2013.

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
2012	(\$648,700)
2013	\$8,850,400
2014	\$16,122,436
2015	\$16,628,658
2016	\$17,160,794

**All Funds, Five-Year Impact:**

Fiscal Year	Probable Savings/(Cost) from <i>GR Match For Medicaid</i> 758	Probable Savings/(Cost) from <i>Federal Funds</i> 555
2012	(\$648,700)	(\$5,631,300)
2013	\$8,850,400	\$11,949,600
2014	\$16,122,436	\$21,705,897
2015	\$16,628,658	\$22,387,432
2016	\$17,160,794	\$23,103,855

**Fiscal Analysis**

The bill would require the Health and Human Services Commission (HHSC) to convert the reimbursement methodology used under the Medicaid program for inpatient hospital services to an all patient refined diagnosis-related groups (DRG) methodology and establish a statewide standard dollar amount (SDA) rate based on the average of all hospital costs associated with providing services under the Medicaid program during the preceding fiscal year. In converting to the APR-DRG methodology, HHSC would be required to examine reimbursement methodologies that address historical disparities in healthcare provision. The bill permits HHSC to adjust rates to ensure equitable reimbursement of hospitals for inpatient services and to provide incentives for hospitals to provide higher quality of care.

HHSC would be required to establish a hospital value-based purchasing program that includes quality standards. HHSC would be permitted to reduce a hospital's reimbursement rates by two percent each fiscal year that the hospital fails to meet or make progress toward meeting the quality standards and to use 50 percent of the money saved to award hospitals that make progress toward meeting the quality standards. The bill would set limits on reimbursement rate reductions to phase them in over five years, and exempts certain hospitals. HHSC would be required to adjust Medicaid reimbursements to hospitals based on performance in reducing potentially preventable readmission and potentially preventable complications.

The bill would require HHSC to collect data and provide hospitals participating in the Medicaid program, exempting certain hospitals, with a confidential report on the hospitals' performance with respect to potentially preventable readmissions and complications. HHSC would be required to provide the report one year before reimbursements are adjusted.

The bill would require any relevant state agency to request any necessary waivers or preauthorizations from a federal agency prior to the implementation of the Act and would delay implementation until the waiver or authorization is granted.

### **Methodology**

HHSC assumes implementation activities including preparing an amendment to the Medicaid state plan, obtaining necessary federal approvals, promulgating rules, completing systems changes, hiring/training of staff, and conducting outreach can be accomplished by September 1, 2012.

According to HHSC, conversion to the APR-DRG reimbursement methodology would include a one-time automation cost of \$648,700 in General Revenue Funds (\$6.3 million in All Funds) in fiscal year 2012. Initial development costs are assumed to qualify for 90 percent federal participation and system changes for implementation are assumed to qualify for 75 percent federal participation.

HHSC assumes savings attributed to the provisions of the bill would include \$8.9 million in General Revenue Funds (\$20.8 million in All Funds) in fiscal year 2013, \$16.1 million in General Revenue Funds (\$37.8 million in All Funds) in fiscal year 2014, \$16.6 million in General Revenue Funds (\$39.0 million in All Funds) in fiscal year 2015, and \$17.2 million in General Revenue Funds (\$40.3 million in All Funds) in fiscal year 2016. Savings are assumed to be matched at the Federal Medicaid Assistance Percentage (FMAP).

### **Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 529 Health and Human Services Commission

**LBB Staff:** JOB, CL, JI, LL