

Fiscal Note

State of Alaska
2015 Legislative Session

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| Bill Version: | SB 74 |
| Fiscal Note Number: | 12 |
| (S) Publish Date: | 4/11/2015 |

Identifier: SB074-DHSS-HCMS-03-22-15
 Title: MEDICAID REFORM/PFD/HSAS/ER
 USE/STUDIES
 Sponsor: KELLY
 Requester: Senate Health & Social Services Committee

Department: Department of Health and Social Services
 Appropriation: Medicaid Services
 Allocation: Health Care Medicaid Services
 OMB Component Number: 2077

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

| | FY2016 Appropriation Requested | Included in Governor's FY2016 Request | Out-Year Cost Estimates | | | | | |
|-------------------------------|--------------------------------------|--|-------------------------|------------------|------------------|------------------|------------------|------------------|
| | | | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
| OPERATING EXPENDITURES | | | | | | | | |
| Personal Services | | | | | | | | |
| Travel | | | | | | | | |
| Services | 6,540.4 | | 4,390.4 | 4,390.4 | 4,390.4 | 4,390.4 | 4,390.4 | 4,390.4 |
| Commodities | | | | | | | | |
| Capital Outlay | | | | | | | | |
| Grants & Benefits | (9,393.7) | | (9,393.7) | (9,393.7) | (9,393.7) | (9,393.7) | (9,393.7) | (9,393.7) |
| Miscellaneous | | | | | | | | |
| Total Operating | (2,853.3) | 0.0 | (5,003.3) | (5,003.3) | (5,003.3) | (5,003.3) | (5,003.3) | (5,003.3) |

Fund Source (Operating Only)

| | | | | | | | | |
|----------------|------------------|------------|------------------|------------------|------------------|------------------|------------------|------------------|
| 1002 Fed Rcpts | (318.2) | | (1,393.2) | (1,393.2) | (1,393.2) | (1,393.2) | (1,393.2) | (1,393.2) |
| 1003 G/F Match | (2,535.1) | | (3,610.1) | (3,610.1) | (3,610.1) | (3,610.1) | (3,610.1) | (3,610.1) |
| Total | (2,853.3) | 0.0 | (5,003.3) | (5,003.3) | (5,003.3) | (5,003.3) | (5,003.3) | (5,003.3) |

Positions

| | | | | | | | | |
|-----------|--|--|--|--|--|--|--|--|
| Full-time | | | | | | | | |
| Part-time | | | | | | | | |
| Temporary | | | | | | | | |

Change in Revenues

| | | | | | | | | |
|--|--|--|--|--|--|--|--|--|
| | | | | | | | | |
|--|--|--|--|--|--|--|--|--|

Estimated SUPPLEMENTAL (FY2015) cost: 0.0 (separate supplemental appropriation required)
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2016) cost: 0.0 (separate capital appropriation required)
 (discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? Yes
 If yes, by what date are the regulations to be adopted, amended or repealed? 07/01/17

Why this fiscal note differs from previous version:

Not applicable, initial version.

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|--------------|--|--------|---------------------|
| Prepared By: | Margaret Brodie, Director | Phone: | (907)334-2520 |
| Division: | Health Care Services | Date: | 03/21/2015 03:30 PM |
| Approved By: | Sarah Woods, Deputy Director Finance & Management Services | Date: | 03/22/15 |
| Agency: | Health & Social Services | | |

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2015 LEGISLATIVE SESSION

Analysis

Section 2(a)(3) of this bill requires that the Department provide an Explanation of Benefits to recipients who receive Medicaid services. There is currently no comprehensive mechanism to notify recipients when a claim is filed and paid on their behalf.

We conservatively estimate that about 50% of all Medicaid eligibles receive a service in any given month. It would require the distribution of an explanation of benefits (EOB) to approximately 70,000 recipients each month.

Providing an explanation of benefits would require a system modification to automatically produce a benefit statement attached to each claim per recipient. We estimate that it will cost \$375.0 to modify the Xerox payment processing system to accommodate this aspect of the bill. This will be a one-time cost to be incurred in FY2016.

Contractor to prepare and distribute 70,000 letters monthly - \$15.0/month
 Operations/overhead/staff costs to answer explanation of benefit questions - \$75.0/month
Postage - \$34.0/month
 Total - \$124.0 x 12 = \$1,488.0

Section 2(a)(4) of the bill expands use of telemedicine for primary and urgent care. **Section 5(d)(1)** requires the department to identify legal barriers that prevent the expanded use of telemedicine as part of a managed care demonstration project for Denali KidCare. These provisions intend to decrease costs associated with travel to hub locations by increasing access to various levels of care via real time and store-and-forward delivery in recipients' home community. In Medicaid, telemedicine services are considered the same as a face-to-face visit as long as it falls within the scope of the practitioner's license. Telemedicine services are available to a wide array of providers that fall within the scope of Medicaid's coverage provisions. The department already has a number of telemedicine initiatives underway to coordinate and expand these efforts across tribal and non-tribal providers. The Department anticipates no additional cost or savings as result of this section.

Section 2(a)(5) of the bill directs the Department to enhance Medicaid fraud prevention, detection and enforcement. Additional systems changes will be needed to accommodate a projected 3,000 additional Medicaid providers for an estimated cost of \$200.0. Ongoing maintenance costs of \$20.0 per month plus \$275.0 of initial start-up contractor staff costs will be needed.

Xerox contractual costs: \$200.0 + \$240.0 + \$275.0 = \$715.0

Section 2(a)(7) of the bill would require the department to design and adopt regulations to address Medicaid reform for pharmacy initiatives, establish a prescription drug monitoring program and develop strict guidelines for the prescribing of narcotics.

The department has implemented numerous pharmacy initiatives during the last 5 years. Previously implemented initiatives include program coverage reforms, claims pricing and payment reforms, increased usage of generic medications, prior authorizations, quantity limits, therapeutic duplication edits, independent expert reviewers of atypical requests for high doses of pain medications, and independent expert reviewers of psychotropic medication regimens for foster children.

Research and development of new claims processing edits, payment rates, and program coverage rules occur continuously and are already incorporated into the department's workflow.

To meet the prescription monitoring database HCS will need \$85.0 for an RSA with the Department of Commerce,

Analysis Continued

Section 2(a)(8) of the bill requires the Department to implement enhanced care management. In **Section 5**, this legislation proposes to design and initiate a managed care demonstration project on or before October 1, 2015. Because of the potential overlap between enhanced care management and other provisions of the legislation, we are not able to determine savings at this time.

Section 2(a)(9) of the bill requires a redesign of the Medicaid payment process. This section converts the process from a fee-for-service model that incentivizes volume, to an outcome-based model that incentivizes efficient care. \$1,150.0 will be needed for one-time systems changes and consultation work to design and implement payment methodology changes, provider education, and policy documentation. The Department is not able to provide specific cost savings associated with this section at this time.

Section 2(a)(11) of the bill requires medical services to be provided in the home community of the recipient, potentially through use of telemedicine or other diagnosis and treatment in recipients' home communities unless unavailable. Currently, travel is only authorized when medically necessary and when the service required is not available in the recipient's home community. Travel is authorized to the closest, available, appropriate provider. We do not project any additional costs or savings as a result of this addition.

Section 5 of the bill requires the Department to initiate a managed care demonstration. The demonstration project is to ensure sustainability while reducing the cost of medical assistance payments and increasing access to and improving the quality of care available to all medical assistance recipients. Based on prior experience it is uncertain we will get an offer with a reasonable expectation that it will reduce costs. We will not enter into a contract if anticipated savings do not offset the cost of the contract. Therefore, we have assumed administration fees are offset by reductions in service spending. Increased Medicaid cost as a result of the administrative case management fee:

| | | |
|-----------------------------------|-------------|-----------|
| 2013 Denali KidCare Recipients: | 47,987 | |
| Estimated Administrative Fee | \$3.85 PMPM | |
| <u>Months in a year</u> | | <u>12</u> |
| Yearly Medicaid Increase in Costs | \$2,217.0 | |

Section 6 of the bill requires the Department to implement a demonstration project to reduce non-urgent use of emergency department services by Medicaid recipients by September 1, 2015.

- Development of an electronic exchange, \$150.0 one-time
- Alaska Prescription Drug Monitoring Program, \$85.0 annually
- Increase Alaska Medicaid Coordinated Care Initiative contract (current contract cost is \$3.85 per client per month) to manage this population: $\$3.85 \times 7,800 \times 12 = \360.4 .

The estimated cost savings is based upon a Medicaid emergency room over-utilizer population of 7,800. The Department believes that it can reduce the number of emergency room visits by this over-utilizer group by 30% with case management.

Number of paid ER visits in FY2014 - 114,570
 Average price per ER visit FY2014 (only for physician services) - \$613.39
 Assumes over-utilizer made at least five trip to ER in FY2014 - $7,800 \times \$613.39 \times 5 = \$23,922.2 \times 30\% = \$7,176.7$