F I S C A L   I M P A C T   R E P O R T

SPONSOR Ingle **ORIGINAL DATE** 2/13/09 **LAST UPDATED** **HB**

SHORT TITLE Annual Medicaid Reimbursement Rate Increases **SB** 325

ANALYST Earnest

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY09	FY10	FY11	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total			$0.1*		Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

***See Fiscal Implications Section**

SOURCES OF INFORMATION
LFC Files

Responses Received From
Human Services Department (HSD)
Health Policy Commission (HPC)
Department of Health (DOH)

SUMMARY

Synopsis of Bill

Senate Bill 325 amends the Public Assistance Act to require the Human Services Department (HSD) to provide yearly reimbursement rate increases to physicians, dentists, optometrist, podiatrists and psychologist for services rendered to Medicaid fee-for-service or managed care patients. The reimbursements “shall include gross receipt taxes paid.” The bill would be effective July 1, 2010.

FISCAL IMPLICATIONS

HSD estimates that the bill would require a significant increase in general fund appropriations to implement the rate increases. For example, a one percent rate increase for the providers listed in the bill would cost approximately $3.5 million. Of that amount, approximately $1 million would be state funds. A decrease in currently available services may be necessary to off-set costs if there were no additional general funds available.

In addition, HSD notes that the bill would limit the flexibility of managed care organizations (MCOs) to negotiate reimbursement rates. That limitation could require higher managed care capitation rates and greater general fund need for the program. MCOs may settle with providers on differing rates as necessary to assure statewide access but also keep costs down. Providers in one geographic area may get higher rates because it is necessary to assure access to care in that area.

SIGNIFICANT ISSUES

HSD reports that historically the department has taken a thoughtful approach to increasing provider rates, using the following criteria:

- Historical increases;
- Promoting preventive care;
- Establishing parity among rates paid for similar services;
- Provider costs;
- Providers' dependence on Medicaid as a funding stream;
- Rates as compared to Medicare.

According to HSD, SB 325 would only require rate increases for certain providers. Other providers may not receive any increases. When rates become unbalanced, it can lead to shifts in the provider network and potentially cause access to care problems for those consumers needing services that are reimbursed at lower rates. Having an automatic rate increase in statute removes all flexibility that an agency might have to respond to changing budgetary exigencies and environmental demands. HSD must maintain this ability to increase or decrease rates based on the current budget and the factors listed above.

A recent LFC evaluation noted that the Legislature, in FY07 and FY08, put more than $100 million in state and federal funds in the Medicaid program for provider rate increases. Such rate increases become part of base year costs of the Medicaid system. Moreover, New Mexico's Medicaid fee schedule for many common provider procedures appears adequate compared to neighboring states, Medicare and commercial insurance.

ADMINISTRATIVE IMPLICATIONS

HSD estimates that approximately 500 hours of staff time would be required on an annual basis to determine the rate increase amount and make the necessary system adjustments.

RELATIONSHIP

SB 325 relates to HB 372 and HB 270, which would also mandate automatic cost of living increases for certain Medicaid direct services providers and home and community-based Medicaid waiver providers.

ALTERNATIVES

The Legislature maintains the authority to appropriate funding for provider rate increases.

BE/mt