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FISCAL IMPACT REPORT

SPONSOR: SPAC DATE TYPED: 03/12/03 HB

SHORT TITLE: Medicaid Reimbursement Rates SB 212/SPACS

ANALYST: Weber

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY03	FY04	FY03	FY04		
			$1,241.1	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	$3,723.2		Recurring	Federal Funds

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION

Responses Received From

SUMMARY

Synopsis of Bill

Senate Public Affairs Committee Substitute for Senate Bill 212 amends existing law to provide that the Human Services Department (HSD) shall set the reimbursement rates for services rendered by physicians, dentists, optometrists, podiatrists and psychologists to Medicaid patients at not less than the percentage increase provided by HSD in the previous fiscal year for managed care organizations (MCO). This increase does not apply for managed care organization contractors. The effective date of this Act is July 1, 2004.

Significant Issues

The percent rate increase established for MCOs is the sum of many variables, most which do not affect the potential cost increase faced by the individual providers listed above. The MCOs function as insurance companies and are exposed to a variety of cost factors that include but are not limited to:

- Pharmacy costs
- Inpatient hospitalization
- Out-patient hospitalization
- Medicaid client transportation costs
- Increased utilization factors
- Contractual quality control requirements
- Outreach efforts

The additional parameters involved in an MCO environment result in percentage cost increases that exceed the requirements of the individual provider.

Utilization is an obvious example of increased costs that the MCOs must pay that the individual provider does not face. In the past few years, the number of times a client sees providers has increased. This utilization increase results in higher overall payments to providers, but does not increase their incremental costs. The MCOs must build utilization increases into percentage rate increases. Another obvious cost escalator MCOs must build into their rate is pharmacy cost. Double digit pharmacy cost increases must be covered by the annual MCO percent increases while the providers mentioned are not impacted at all by these increases. Recently there has been much concern regarding rising hospitalization costs due to various factors, but again the individual provider is not impacted.

Analysis of the Medical Consumer Price Index for 2002 shows the following percent increases for medical services referenced above:

- Prescription drugs and medical supplies—5.2%
- Inpatient hospital services—8.4%
- Out-patient hospital services—10.2%
- Physicians services—2.8%

This compares to the MCO contract increase of 5.97% in FY03 and 13.61% in FY02. Since parts of both fiscal years are in 2002, if an average between the two is taken it will approximate the MCO increase in 2002, or 9.79%. This is above the CPI increase of 2.8%.

For FY04, there is not an increase included in the HB 2 Medicaid appropriation for these providers. By making an annual increase mandatory, considerable flexibility is lost by both the legislature and executive in effectively managing the Medicaid program. Such requirements are the expenditure side equivalent of earmarking revenues. This will guarantee continued additional upward pressure on Medicaid total cost.

FISCAL IMPLICATIONS

The amounts show in the Appropriation Impact and Revenue sections above correspond to fee-for-service only increases at the estimated FY03/FY04 composite MCO contract increase of 6 percent. The impact is for physician services, dental services and other practitioners listed in the Medicaid projection. The current FY04 appropriation for these providers in HB 2 does not include this increase. It is anticipated that even though not applicable to MCO contract providers, increases of this nature would put upward pressure on the MCO contract and create additional hidden costs in the program.

MW/yr:njw