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

SPONSOR: Sandoval DATE TYPED: 03/01/01 HB 884

SHORT TITLE: Negotiation with Managed Care Entities SB

ANALYST: Wilson

## APPROPRIATION

| Appropriation Contained | | Estimated Additional Impact | | Recurring or Non-Rec | Fund Affected |
|---|---|---|---|---|---|
| FY01 | FY02 | FY01 | FY02 | | |
| | | See Narrative | | | |

(Parenthesis ( ) Indicate Expenditure Decreases)

## SOURCES OF INFORMATION

Human Services Department (HSD)
Health Policy Commission (HPC)

## SUMMARY

Synopsis of Bill

HB 884 would establish procedures whereby managed care rates would be negotiated by and made available to the Legislative Finance Committee by January 1 of each year for implementation in the subsequent fiscal year.

Significant Issues

HSD claims it would be difficult, and in some cases impractical, to negotiate managed care rates by January 1 for the coming fiscal year. Currently, negotiations take place midway through the third quarter of the fiscal year for the following fiscal year. This allows program changes mandated by the Health Care Financing Administration, the state Legislature and the United States Congress, as well as deficiencies in activities identified by the HSD to be incorporated into the agreement.

The January 1 deadline would force HSD to conduct negotiations prematurely. Any requirements or changes identified from the time of negotiations through the end of the fiscal year could not be incorporated into the final agreement. Changes after that would not be incorporated until the following fiscal year, a full eighteen months after the change was recommended.

HSD says that HB 884 would violate the constitutional separation of powers because the Legislature would control the contract process not only for HSD but its MCO contractors and subcontractors. The MCOs frequently need to replace or add additional subcontractors, depending on the needs of their Medicaid managed care population. Medicaid law requires adequate access and sufficient number of

health care professionals to accommodate the needs of the Medicaid population. There is no way for the MCOs to anticipate all the changes that may occur throughout a contract year, requiring new or renegotiated contracts. In addition, there could be a need for HSD to increase or decrease rates throughout a contract year, requiring amendments to contracts or new contracts if an MCO drops out. HSD and the MCOs need to continue to have the flexibility to negotiate and amend contracts throughout a contract year.

**FISCAL IMPLICATIONS**.

HSD says that compliance with the provisions of HB 884 would require additional funds for automated systems, contracts, and personnel, the cost of which are undetermined at this time.

**ADMINISTRATIVE IMPLICATIONS**.

HSD claims that compliance would be administratively cumbersome and require additional FTEs.

**RELATIONSHIP**

Relates to: SB 648, Consult Legislature for Medicaid Change

**OTHER SUBSTANTIVE ISSUES**

The HPC has provided the following:

- In recent years, the HSD has been criticized for information systems problems, accountability and performance expectations, rapid change without accounting for infrastructure, and an unwieldy bureaucracy that could not pay adequate attention to the various divisions and functions of the agency.

- The SALUD! program has been criticized by providers, advocates, and consumers from the beginning, charging that the rapid shift to Medicaid managed care and the emphasis on cutting costs compromised patient care and patient rights, resulted in profits to managed care organizations (MCOs), and adversely affected safety net, community-based providers.

- Legislators, advocates, providers, and consumers have voiced concerns over the operation of the Medicaid managed care program, and the difficulty in retrieving program, cost, and outcome information from HSD.

- Consumers, advocates, and providers have noted the need for quality assurance and continuous quality improvement in the Medicaid managed care program.

- SB884 provides for ongoing, statutory oversight by the legislature and LFC of the Medicaid managed care program rates prior to contract renewal.

DW/ar