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

SPONSOR Kane **ORIGINAL DATE** 02/13/14 **LAST UPDATED** **HB** 336

SHORT TITLE Corrections Dept. Cost Saving & Health Bills **SB**

ANALYST Chenier

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY14	FY15	FY16	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total NMCD Impact		($1,800.0)	($1,800.0)	($3,600.0)	Recurring	General Fund
Total HSD Impact		$341.0	$341.0	$682.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From
New Mexico Corrections Department (NMCD)
Human Services Department (HSD)

SUMMARY

Synopsis of Bill

House Bill 336 would require the Corrections Department (NMCD) to implement or leverage existing state-of-the-art clinical code editing technology to "further automate resolution and enhance cost containment for the health care items and services" that it provides or obtains under contract.

The stated purposes of using the pre-payment technology are:

- for faster claims processing;
- to reduce the number of pended or rejected claims;
- to have an efficient, consistent, and transparent claims resolution process; and
- to prevent delays in provider payment.

The stated expected outcomes from using the technology are to:

- identify payments that are improper due to non-fraudulent reasons;
- audit claims;
- obtain provider review of audit results; and
- recover payments that the department identifies as overpayments.

The bill also lists the automated reviews NMCD would be required to perform. Definitions are provided in the bill.

HB 336 requires, to the extent permissible by federal law, that NMCD shall require inpatient hospital and healthcare services to be billed to the state's Medicaid program. This includes having an automated claims payment detection, prevention and recovery solutions to identify services that are eligible for Medicaid billing.

FISCAL IMPLICATIONS

The immediate impact from this bill relates to the provision for Medicaid to pay for hospital and other medical residential stays such as in nursing facilities, to the extent allowed by federal rules. NMCD would experience decreased costs as these costs would now be shifted to Medicaid but HSD would experience increased costs in payment of claims, computer system changes, and an impact on staffing.

Over a three year period the medical vendor for NMCD paid an average of $1.8 million per year for an average of 455 days spent in the hospital for 293 inmates. The in-hospital stays are included in the medical vendor per diem rate. The NMCD is amending the medical contract to remove inmate hospital stays from the reimbursement rate. By doing so NMCD estimates it will save $1.8 million annually.

Conversely, HSD would become responsible for the state share of payments to the medical facility for NMCD inmates and possibly county jail inmates. The state share would be approximately 30 percent of the payment made to the health care providers; the remainder would be paid from federal matching funds. Currently, when an inmate enters one of these facilities, the entire payment comes from NMCD at payment rates that appear to be significantly higher than the Medicaid payment rate.

The majority of the financial impact to HSD would be avoided if NMCD agreed to be responsible for paying the state share of Medicaid payments to HSD, as HSD could determine this cost and bill NMCD.

Under federal eligibility rules, all inmates would most likely have to be treated equally, meaning that county and city facilities would also be able to have inpatient hospital and other residential medical facilities bill Medicaid for services allowed under the federal rules.

City and county jails may have a larger percentage of inmates who would qualify as eligible for Medicaid because the incarceration would typically be for shorter periods of time and may include individuals already eligible for Medicaid, such as those eligible through the Social Security Income with disability or age standards, and the new Alternative Benefit Plan now available under Medicaid due to the federal Patient Protection and Affordable Care Act (PPACA). Also, the teenage population in county and city detention facilities may also qualify for Medicaid inpatient and residential services.

If the Medicaid program covered 300 hospital stays with an average of 4 days stay (a total of 1,200 hospital days); at an average cost of $2,500 per day, the estimated cost to HSD would be approximately $3 million in additional healthcare costs for which approximately 70 percent of the money would come from federal matching funds and 30 percent from state general funds, the latter of which would constitute about $900 thousand in new costs to HSD annually.

If HSD were required to cover NMCD inmates only, the cost to HSD at the reduced Medicaid rate based on 455 hospital days would be $341 thousand at the 30 percent matching rate.

The estimated costs for the changes to the ASPEN eligibility system are $22 thousand.

The Medical Assistance Division could initially implement a process that bypasses the need to change the eligibility system immediately by building on an existing method for handling special claims. This would require approximately 1 FTE to handle the issues and the claims, which could then continue to coordinate with all correctional facilities as additional facilities began to participate in the process.

Total state general funds, first year:

Claims payment:	$900,000 recurring
1 FTE	$ 37,500 recurring
ASPEN Changes	$ 22,000 non-recurring
TOTAL:	$959,500

NMCD provided the following:

> If the legislation is referring to a billing system, the legislation should require NMCD to enter into partnership with the Human Services Department to use its Medicaid billing system. This would accomplish two things. First, NMCD would not need to implement a separate system. A separate system would require NMCD to request an appropriation to cover the cost of the development and implementation of the system; and this system would have to be given less priority than NMCD's essential implementation of critical changes to its current system to ensure that inmate discharges and releases are done appropriately. Second, NMCD would be able to leverage an existing system used by HSD for the same purpose. Moreover, HSD is the state agency responsible for Medicaid, and NMCD would be required to go through HSD regardless of whether or not there is state legislation in place. Overall, not implementing another system would potentially save the state millions of dollars.

SIGNIFICANT ISSUES

NMCD entered into a Memorandum of Understanding with HSD to have Medicaid pay for inmate hospital stays and to train NMCD staff on how to enroll inmates before they are released from prison and on how to submit an in-hospital claim to Medicaid for payment.

NMCD stated that they have identified what changes will be made within the prison to include not just Medicaid but all other available social services that will help provide stability to those offenders released from prison. Prison and Probation and Parole staff have received training, and those dealing with inpatient status will be certified to meet the federal guidelines. The only thing lacking at this time is funding to buy computers that can be used as kiosks for offenders to check the status of their benefits or apply for additional benefits while visiting a Probation and Parole Office.

In March 2012, when responding to questions on "Eligibility Changes under the Affordable Care Act of 2010" in issuing final rules, the Centers for Medicaid and Medicaid Services confirmed that the federal view was that:

> ". . . [Federal Financial Participation] is available only for inpatient services in a medical institution that is not part of the penal system."

HB 336 intends to require NMCD to take advantage of that provision by requiring inpatient hospitals and other residential medical facilities to bill the Medicaid program for inpatient stays for Medicaid recipients who, except for the inpatient hospital admission, are otherwise considered incarcerated.

In order for the intent of the bill to be realized, the Medicaid program would have to ensure that Medicaid-eligible individuals who become incarcerated but otherwise continue to meet the eligibility requirements do remain eligible Medicaid recipients. In doing this, the Medicaid program would have greater exposure to potential mispayments for health services, which do not qualify for federal funding. Because of the high potential of federal recoupment of any funds mis-paid for incarcerated individuals, the HSD Medicaid payment system would have to be enhanced with a new edit to ensure that payments were made only for inpatient services for these recipients.

OTHER SUBSTANTIVE ISSUES

North Carolina saved $11.5 million per year. The analysis by the North Carolina State Auditor found that the inpatient cost to the state for Medicaid-eligible inmates in 2008 – 2009 was $26.5 million for inmates without Medicaid versus $3.3 million for those with Medicaid. Additionally, to realize these savings, the NMCD realized it would have to obtain or train Medicaid eligibility specialists and establish procedures to determine Medicaid eligibility for inmates and ensure that Medicaid eligibility was not terminated when inmates returned from medical institutions. Federal reimbursement is available to offset some of the administrative costs that the department may incur.

ALTERNATIVES

NMCD offered the following amendment to add a new section:

> The State shall implement and or leverage an existing state-of-the art clinical code editing technology solutions to further automate claims resolution and enhance cost containment through improved claim accuracy and appropriate code correction. The technology shall identify and prevent errors or potential overbilling based on standardized medical service billing protocols such as those widely accepted and referenceable by the American Medical Association and the Centers for Medicare and Medicaid Services. The edits shall be applied automatically before claims are adjudicated to speed processing and reduce the number of pended or rejected claims and help ensure a smoother, more consistent and more open adjudication process and fewer delays in provider reimbursement.

EC/jl