Department of Planning and Budget
2006 Fiscal Impact Statement

1. **Bill Number** HB 757

House of Origin ☐ Introduced ☐ Substitute ☐ Engrossed

Second House ☒ In Committee ☐ Substitute ☐ Enrolled

2. **Patron** Hamilton

3. **Committee** Appropriations

4. **Title** Medicaid reform: disease management and enhanced technology

5. **Summary/Purpose:** This bill requires the Board of Medical Assistance Services to implement an effective disease management for individuals with chronic illnesses. The bill also requires, insofar as feasible, the implementation of numerous technology enhancements including:

(1) electronic funds transfer technology and electronic benefits cards;
(2) electronic real-time utilization review;
(3) e-prescribing;
(4) point-of-sale submission of claims and payments prior to dispensing of prescription drugs;
(5) point of contact electronic submission (when possible) for authorization and payment for other covered health services; and
(6) online recipient eligibility review and verification.

In addition, the bill includes several provisions which encourage the Department of Medical Assistance Services (DMAS) and health care providers to expand the use of electronic health records technology, particularly in the area of claims processing. Lastly, the bill encourages DMAS to provide assistance grants (with such funds as may be appropriated) to providers to facilitate their use of electronic health records.

6. **Fiscal Impact Estimates are**: Final. SEE ITEM 8.

Expenditure Impact (Department of Social Services Only):

Fiscal Year	*Dollars*	*Positions*	*Fund*
2006-07	110,848	-	GF
2006-07	110,848	-	Federal
2007-08	31,764	0.25	GF
2007-08	31,764	0.25	Federal
2008-09	31,764	0.25	GF
2008-09	31,764	0.25	Federal
2009-10	31,764	0.25	GF
2009-10	31,764	0.25	Federal
2010-11	31,764	0.25	GF
2010-11	31,764	0.25	Federal
2011-12	31,764	0.25	GF
2011-12	31,764	0.25	Federal Funds

7. **Budget amendment necessary:** SEE ITEM 8 for DMAS impact. A budget amendment is required for Item 342 for the Department of Social Services impact. In addition, if the intent of the legislation is for DMAS to implement an e-prescribing program or to make significant enhancements to its existing electronic system capabilities, a budget amendment would be needed in Item 307, service area 49901. However, since the enhancements called for in the bill are to be implemented "insofar as feasible," DMAS will implement such enhancements to the extent its current appropriation is sufficient.

8. **Fiscal implications:** DMAS is not assuming any fiscal impact from the Disease State Management (DSM) wording in this legislation. The bill mandates the implementation of an effective disease management program for individuals with chronic illnesses. Furthermore, it allows for, but does not mandate, the contracting for care counseling and patient training services. DMAS is currently implementing an expanded DSM program for its fee-for-service population under a waiver program (the "Healthy Returns" program) that focuses on individuals with diabetes, asthma, coronary artery disease (CAD) and congestive heart failure (CHF). In addition, the introduced budget includes funding to implement a DSM pilot program targeting childhood obesity in Southwest Virginia. Also, each of the managed care organizations that contract with DMAS to provide services through the managed care program provide DSM services for various conditions. The table below summarizes the conditions served:

Managed Care Organizations Disease Management Programs (2005)

CareNet	Asthma, Diabetes, Depression, CHF, High-risk Pregnancy
VA Premier	Asthma, Diabetes
Anthem	Prenatal, CHF, CAD, Asthma, Diabetes
Optima	Asthma, Diabetes, Prenatal, Cerebral Vascular Disease, Cardiopulmonary Disease, Schizophrenia
AMERIGROUP	Asthma, Diabetes, HIV/AIDS

Since this legislation does not mandate DSM for any specific disease states, DMAS' current program meets the mandates of the legislation. DMAS will continue to evaluate the DSM program and will consider expansions to other disease states in the future as appropriate. If the intent of the bill is to increase the number of chronic conditions covered immediately, this will result in a fiscal impact (costs for adding new conditions, staffing, and procuring a new contractor).

Enhanced Technology

The bill requires DMAS, insofar as feasible, to implement various enhancements to its current electronic technology capabilities and to implement a new e-prescribing program. Because the bill states that these enhancements are to be implemented "insofar as feasible," DMAS assumes there is no mandate to enhance its current systems beyond what can be accomplished within current funding levels. Similarly, if additional funding is appropriated for this purpose, DMAS would be able to make further enhancements that are "feasible" within the limits of the additional appropriation.

Several of the technology enhancements mentioned in this bill are already in place at DMAS, as described below:

- Electronic Funds Transfer (EFT): DMAS currently utilizes this technology and is a payment option that health care providers may request. However, not all providers have this capability and it is costly for the smaller providers to implement this technology. If EFT technology were to be mandated for all providers, there would be increased costs for those providers who currently do not use this technology. The current EFT process involves a weekly remittance cycle; any proposal to move to a system of real-time electronic funds transfers would generate significant administrative costs for DMAS. In addition, the Commonwealth would realize substantially less interest on these funds which now accrues to the general fund.

- Electronic Benefit Cards: DMAS provides these cards to all Medicaid eligible recipients. These cards have magnetic stripes that contain information that allow eligibility verification and service limit information be returned to the provider when used in a swipe card system.

- Prospective Electronic Real-Time Utilization Review: DMAS recently secured a contract with a new prior authorization (PA) and utilization review (UR) vendor. The new vendor and PA/UR program will include significant enhancements in the current PA/UR system, including web-based prior authorization.

- Point-of-Sale (POS) Processing of all outpatient pharmacy claims: The department's new Medicaid Management Information System (MMIS) and POS system now process over 95 percent of pharmacy claims electronically.

- On-Line Recipient Eligibility Review and Verification System: DMAS provides on-line Internet access through a secure recipient eligibility verification system. DMAS is currently developing an enhanced secure web portal to simplify access and make it more efficient for providers to obtain needed information.

In summary, DMAS has already implemented most of the system capabilities included in the bill. Any substantial enhancements beyond current DMAS initiatives would have an additional financial impact. Many of the components, if implemented fully, would be beneficial to DMAS, but would carry a large financial impact that extends beyond DMAS. Some components would represent significant investments in information technology systems, especially for providers such as small physician practices.

"E-prescribing" is an electronic system capability included in the bill that DMAS has not implemented. Through this system, rather than write a prescription on a paper form and hand it to the patient, the prescribing physician would send an e-mail prescription through a secure, wireless connection to the pharmacist.

The Centers for Medicare and Medicaid Services (CMS) recognized Florida as a 'best practice' state in implementing e-prescribing technology. In estimating the possible impact in Virginia, a similar phased-in approach as Florida was used. Florida initiated a pilot project that established and deployed "smart" hand held devices with providers. This technology can include the Medicaid preferred drug list (PDL), patient specific prescription histories, extensive drug information, medication alerts for drug and allergy interactions, therapeutic alternatives for non-preferred medications, and includes full e-prescribing functionality.

Based on the Florida model, DMAS has calculated an estimated administrative fiscal impact of $4,428,000 in the first year ($2,214,000 GF), $5,180,000 in the second year ($2,590,000 GF) and $4,285,000 in the third year and beyond. This assumes a phased-in implementation of e-prescribing technology beginning with 1,000 key medical providers in FY 2007 and 1,000 additional providers in FY 2008.

The largest fiscal impact is the monthly recurring cost of the technology and software. This price, which included the handheld devices, was taken from an estimated price given to DMAS by the Florida Medicaid agency. In addition, $556,000 in the first year was projected to develop the infrastructure and perform additional information management analysis regarding electronic health records. DMAS would require $365,000 in the first year, and $200,000 each remaining year for the consulting work and data transmittals from the fiscal agent to the vendor. DMAS assumed $200,000 for each of the first two years to perform security and HIPAA certification and credentialing for the providers. Training costs, postage, printing and provider communications were assumed to be $250,000 in each of the first two years and $50,000 yearly after that. (A 50 percent federal financial participation is assumed for the e-prescribing program.)

Again, the bill includes the language "insofar as feasible," DMAS assumes it would not incur these costs unless the required funding was appropriated to the agency so that it would be "feasible" to implement this electronic system enhancement.

The final provision of the bill calls for the Director of DMAS to provide assistance grants (with such funds as may be appropriated) to those providers without electronic health records technology. No fiscal impact is assumed for costs related to this provision since DMAS would not provide any assistance grants without specific funds being appropriated for this purpose.

Department of Social Services

The Department of Social Services (DSS) has the responsibility of determining eligibility, for among others, the state Medicaid program. This bill would require changes to the department's eligibility determination system to automatically monitor certain functions. Development would take place in the first year using approximately two contractual positions and then programmer effort would be reduced to maintenance estimated at requiring 0.5 position of effort annually. The fiscal impact on DSS is reflected in ITEM 6.

The usage of the system will require changes in local benefits administrative processes. However the financial impact on local staff functions could not be estimated because a reasonable basis for calculating the number client records that may eventually require a hands-on review could not be determined.

9. **Specific agency or political subdivisions affected:** Department of Medical Assistance Service, Department of Social Services and the Board of Pharmacy.

10. Technical amendment necessary: No.

11. Other comments: None.

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cc: Secretary of Health and Human Resources