Department of Planning and Budget
2014 Special Session I Fiscal Impact Statement

1. **Bill Number:** SB 5006

House of Origin	☒	Introduced	☐	Substitute	☐ Engrossed
Second House	☐	In Committee	☐	Substitute	☐ Enrolled

2. **Patron:** Stanley

3. **Committee:** Commerce and Labor

4. **Title:** Medicaid Regional Care Organizations

5. **Summary:** The bill requires the Department of Medical Assistance Services (DMAS), subject to approval of the federal Centers for Medicare and Medicaid Services, to enter into contracts in regions of the Commonwealth with a regional care organization (RCO). Under the contracts, an RCO will provide medical care to Medicaid beneficiaries and receive capitated payments from DMAS. DMAS is required to enroll a majority of the Commonwealth's Medicaid beneficiaries into RCOs. An RCO may contract with any willing health care provider to provide services in a Medicaid region if the provider is willing to accept the payments and terms offered to comparable providers. In order to be certified as an RCO, an organization is required to be certified by DMAS as meeting eligibility requirements, including financial standards and service delivery network requirements.

6. **Budget Amendment Necessary**: No. See Item 8.

7. **Fiscal Impact Estimates:** Indeterminate. See Item 8.

8. **Fiscal Implications:** This bill would impose significant change on the delivery of health care services through the Medicaid program in the Commonwealth. The key current Medicaid delivery model is managed and integrated care through private health plans. These health plans cover more than 70 percent of Medicaid recipients and are at full risk for the costs of their care. While the remaining populations are in the fee for service delivery system, the department, as directed by the legislature, is aggressively moving them into managed care.

   The bill would have a fiscal impact (whether or not as a savings or cost is indeterminate), however the bill's implications are fairly complex and there is not enough information to quantify the fiscal impact at this time. Based upon the timeline and need to seek federal approval it is unlikely that implementation of an RCO service delivery model would occur in the current biennium; therefore a budget amendment is not anticipated.

   The bill requires that the Department of Medical Assistance Services (DMAS):
   - establish geographic regions that are capable of supporting at least two RCOs or alternate providers;

- contract with at least one RCO and make capitated payments to the RCO if DMAS believes the RCO can provide beneficiaries better, more efficient and less costly care than the current program;
- enroll a majority of Medicaid beneficiaries into RCOs;
- establish procedures for denial of claims, appeals and addressing grievances of beneficiaries;
- establish criteria for probationary and full certification of RCOs;
- establish quality standards and service delivery requirements;
- adopt requirements for health information technology, data analytics, etc. for RCOs;
- conduct financial audits of RCOs;
- take action to ensure payments to RCOs meet all requirements for federal funding;
- create a quality assurance committee;
- obtain independent evaluation of cost savings, patient outcomes, and quality of care for each RCO;
- adopt regulations for the termination of certification of RCOs;
- contract for case management services with a probationary RCO; and
- engage in appropriate state supervision to promote state action immunity under state and federal antitrust laws.

The bill requires that DMAS establish regions by October 1, 2015, and a schedule of implementation for a process of certifying an RCO with the intent of having it meet all requirements by October 1, 2018. Based on this timeline and the significant efforts likely necessary to create RCOs, it is expected that the first RCOs would not be operational at the earliest until FY 2018. Therefore, no significant fiscal impact is expected until the 2016-18 biennium.

As the bill is implemented, DMAS would be shifting the current service delivery structure, which is a combination of managed care and fee-for-service, to an RCO model. The agency should be able to shift existing resources administering the current system over to the RCO system as it is implemented. However, there is little information available to indicate whether or not moving to the RCO model would require greater administrative resources or less than what currently exists in the agency. The bill does require new administrative activities for which the agency does not currently handle, but the details of any fiscal impact are unknown without further detailed study.

In addition, the other major fiscal impact centers on whether or not moving to an RCO system would result in lower or higher costs than the current managed care service delivery system in Medicaid. Certainly the concept of an RCO model is to encourage quality and cost-effectiveness in health care. However, there is no information available to determine whether or not such a model is more cost-effective than the current Medicaid delivery system. Therefore, any significant fiscal impact on the Commonwealth is dependent on

whether the net costs of an RCO model are higher or lower than the costs of the existing system and would therefore require more or less state funding.

9. **Specific Agency or Political Subdivisions Affected:** Department of Medical Assistance Services.

10. **Technical Amendment Necessary:** No.

11. **Other Comments:** None.