



**Colorado
Legislative
Council
Staff**

SB16-120

**FINAL
FISCAL NOTE**

FISCAL IMPACT: State Local Statutory Public Entity Conditional No Fiscal Impact

Drafting Number: LLS 16-0842
Prime Sponsor(s): Sen. Roberts
Rep. Coram

Date: September 6, 2016
Bill Status: Signed into Law
Fiscal Analyst: Bill Zepernick (303-866-4777)

BILL TOPIC: REVIEW BY MEDICAID CLIENT FOR BILLING FRAUD

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018	FY 2018-19
State Revenue			
State Expenditures	<u>\$188,000</u>	<u>\$858,509</u>	<u>\$865,806</u>
General Fund	35,350	270,970	270,868
Cash Funds	3,450	83,948	84,698
Federal Funds	149,200	497,404	504,053
Centrally Appropriated Costs	0	6,187	6,187
FTE Position Change	0.0 FTE	0.5 FTE	0.5 FTE
Appropriation Required: \$188,000 - Department of Health Care Policy and Financing (FY 2016-17).			
Future Year Impacts: Ongoing state expenditures increase.			

The final fiscal note has been updated to include costs to the Address Confidentiality Program beginning in FY 2017-18.

Summary of Legislation

The bill requires the Department of Health Care Policy and Financing (HCPF) to provide explanation of benefits (EOB) statements to Medicaid clients beginning July 1, 2017. The EOB statements must be distributed at least once every two months and the department may determine the most cost effective means of sending out the statements, including email or web-based distribution, with mailed copies sent by request only. The bill specifies the information to be included in the EOB statements, including the name of the client receiving services, the name of the service providers, a description of the service provided, the billing code for the service, and the date of the service.

Background

As part of its current quality control processes, HCPF sends a limited number of EOB statements to a sample of clients, primarily targeting high-cost procedures with greater potential for fraud or improper billing. In addition, HCPF is currently in the process of reprocurring

its Medicaid billing and claims system, the Medicaid Management Inform System (MMIS). The new system will include an online member portal to give Medicaid clients electronic access to EOB statements. In the new system, Medicaid clients will be able to print and save EOB statements and electronically report fraud or mistakes in billing.

In addition, HCPF currently has a number of processes in place to ensure proper billing under Medicaid, including the use of managed care, prior authorization reviews for certain services, a quality assurance review process, targeted use of EOB statements, and the Medicaid False Claims Act procedures. When fraud or improper billing is investigated and discovered, HCPF may recover the costs of services. These cost recoveries are applied in the Long Bill toward the costs of Medical Service Premiums for Medicaid clients and are adjusted through the annual budget process.

Assumptions

The fiscal note is based on the following data and assumptions:

- about 1.1 million unique clients receive medical services every two months under Medicaid;
- 15 percent of Medicaid clients will opt to receive EOB statements in the mail (165,000 clients every two months, resulting in about 2.0 million mailings per year);
- each EOB statement mailed costs \$0.53;
- for every 1,000 EOB statements mailed, 2 calls will be received at the Medicaid call center with questions or concerns about claims information (about 2,000 calls per year);
- each call will require an additional 20 minutes of staff time (670 hours per year);
- 10 percent of calls received (200 calls per year) will require additional follow-up and investigation regarding claims; and
- each follow-up case requires 2 hours of staff time (400 hours per year).

State Expenditures

Based on the assumptions above, the bill increases costs, primarily in HCPF, by **\$188,000 in FY 2016-17, \$858,509 and 0.5 FTE in FY 2017-18, and \$865,806 and 0.5 FTE in FY 2018-19**. These costs are paid using General Fund, cash funds, and federal funds. Table 1 on the following page summarizes the costs of the bill, which are discussed below.

Table 1. Expenditures Under SB 16-120			
Cost Components	FY 2016-17	FY 2017-18	FY 2018-19
Personal Services	\$0	\$24,268	\$24,268
FTE	0.0 FTE	0.5 FTE	0.5 FTE
Operating Expenses and Capital Outlay Costs	0	5,178	475
Information Technology System Modifications	138,000	0	0
Form Development Costs	50,000	0	0
EOB Statement Mailing Costs	0	524,700	524,700
Ongoing Vendor Costs	0	293,775	305,775
Address Confidentiality Program mailings (DPA)	0	4,401	4,401
Centrally Appropriated Costs*	0	6,187	6,187
TOTAL	\$188,000	\$858,509	\$865,806
General Fund	35,350	270,970	270,868
Hospital Provider Fee Cash Fund	3,450	83,948	84,698
Federal Funds	149,200	497,404	504,053
Centrally Appropriated Costs*	0	6,187	6,187

* Centrally appropriated costs are not included in the bill's appropriation.

Information technology system modifications. To allow Medicaid clients to opt-in to receiving EOB statements in the mail and to generate these new mailings, HCPF will have one-time costs of \$138,000 in FY 2016-17 to make modifications to the MMIS system. It is assumed that federal funds will cover 90 percent of these costs, subject to advanced federal approval. If federal approval is not received, additional state funds will be sought through the annual budget process to cover the state share of the cost at a lower federal matching rate.

Form development. HCPF will have costs to design an EOB statement form that is understandable to Medicaid clients. To this end, \$50,000 in FY 2016-17 is required to conduct two rounds of focus groups with Medicaid clients in both English and Spanish to test the effectiveness and fine-tune the EOB statement to be distributed. This cost is split evenly between General Fund and federal funds.

Personal services. Based on the call and investigation volume assumed above, HCPF requires an additional 0.5 FTE per year beginning in FY 2017-18. As shown in Table 1, costs for these staff include personal services costs (\$24,268 per year) and standard operating expenses and capital outlay costs (\$5,178 in the first year and \$475 in the second year). For these costs, 50 percent will be paid with federal funds, and the remainder paid from the General Fund and Hospital Provider Fee Cash Fund.

EOB statement mailing. Assuming 15 percent of client opt to receive EOB statements in the mail, HCPF will have costs of \$524,700 per year beginning in FY 2017-18. This cost may vary in future years depending on growth in Medicaid enrollment, client decisions on opting to receive paper copies, and the extent to which HCPF is able to combine EOB statements with other required mailings. For now, the fiscal note assumes EOB statements will be mailed separately to requesting clients from other mailings. These costs are paid using General Fund, cash funds, and federal funds. For these costs, 50 percent will be paid with federal funds, and the remainder paid from the General Fund and Hospital Provider Fee Cash Fund.

Ongoing vendor costs. In addition to the direct mailing costs, the claims processing vendor for HCPF will have additional costs to manage the EOB process and archive documents mailed to Medicaid clients. These costs are estimated at \$293,775 in FY 2017-18 and \$305,775 in FY 2018-19. For these costs, 75 percent will be paid with federal funds, and the remainder paid from the General Fund and Hospital Provider Fee Cash Fund.

Potential cost recoveries. By increasing access to EOB statements, the bill may result in the discovery of fraud or other improper billing of services under Medicaid. Given the various other avenues described in the Background section that HCPF uses to identify fraud and improper billing, it is unknown to what extent the broader use of EOB statements will increase cost recoveries from providers. To the extent cost recoveries increase under the bill, the fiscal note assumes they will be accounted for through the annual budget process and applied toward the costs of Medical Services Premiums for Medicaid clients.

Address Confidentiality Program mailings. By increasing the number of required mailings to Medicaid clients, the Address Confidentiality Program (ACP) in the Department of Personnel and Administration will have increased costs of \$4,401 per year beginning in FY 2017-18 to forward additional mailings to victims of domestic violence participating in the program. About half of the 2,700 ACP participants are also Medicaid clients. This cost estimate is based on two EOB statements per year mailed to Medicaid clients enrolled in the ACP and an average postage and envelope cost of \$1.63 per statement.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 2.

Cost Components	FY 2016-17	FY 2017-18	FY 2018-19
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$0	\$4,012	\$4,012
Supplemental Employee Retirement Payments	0	2,175	2,175
TOTAL	\$0	\$6,187	\$6,187

Local Government Impact

By increasing access to EOB statements, the bill may result in additional phone calls to county departments of human services about Medicaid billing issues. It is assumed that counties will refer these callers to HCPF for assistance and that any local increase in workload will be minimal.

Effective Date

The bill was signed into law by the Governor on June 8, 2016, and became effective on August 10, 2016.

State Appropriations

Consistent with this fiscal note, for FY 2016-17, the bill includes an appropriation of \$188,000 to the Department of Health Care Policy and Financing, of which \$35,350 is from the General Fund, \$3,450 is from the Hospital Provider Fee Cash Fund, and \$149,200 is federal funds.

Departmental Difference

HCPF estimates that its costs under the bill are **\$194,471 in FY 2016-17, \$1,068,496 and 2.0 FTE in FY 2017-18, and \$1,071,090 and 2.0 FTE in FY 2018-19**. In addition to some minor differences in calculations and assumptions, the main difference between the fiscal note and the HCPF estimate are as follows: (1) HCPF assumes 20 percent of Medicaid clients will request to be mailed an EOB statement, and (2) HCPF estimates that 2.0 FTE for call center and investigative staff are required to accomplish the workload generated by the new EOB statement mailings.

The fiscal note does not include the full department estimate for several reasons. To the first assumption, the fiscal note assumes a lower opt-in rate given that most clients will not be interested in receiving an EOB statement. If the actual rate is higher, the fiscal note assumes that additional resources can be requested through the annual budget process once more accurate data is known. Concerning the required staffing, the fiscal note and HCPF actually estimate a similar increase in workload to receive calls and investigate billing issues; however, HCPF believes that two full-time workers would must be hired to accomplish the required work given that it is spread across two divisions in the department. In line with fiscal note common policies, the fiscal note only includes 0.5 FTE based on the actual number of hours of increased workload under the bill. It is assumed that the marginal increase in staffing under this bill will contribute to the hiring of full-time workers if overall resources in the department necessitate and allow for staff to be hired.

State and Local Government Contacts

Health Care Policy and Financing Information Technology Personnel