HB 1096

Department of Legislative Services

Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 1096 (Delegate Hammen)
Health and Government Operations

Department of Health and Mental Hygiene - Substance Abuse Services

This bill requires the Department of Health and Mental Hygiene (DHMH) to contract with an Administrative Service Organization (ASO) to carve out a delivery system for substance abuse services in the Medicaid program. The bill also requires DHMH to convene a workgroup to study and make recommendations regarding the redesign of the State's delivery of substance abuse services, including the role of the Alcohol and Drug Abuse Administration (ADAA) in providing benefits.

The bill takes effect July 1, 2010, while the workgroup and reporting requirements take effect July 1, 2009.

Fiscal Summary

State Effect: Medicaid expenditures (50% general funds/50% federal funds) increase by $18,000 in FY 2011 related to one-time contracting costs associated with the transition to an ASO for substance abuse services. Medicaid expenditures in future years reflect administrative costs charged by the ASO to provide substance abuse services to Medicaid recipients. Special fund revenues decrease by $256,000 in FY 2012 due to the loss of managed care organizations (MCO) premium tax revenue. Future year revenues reflect the premium tax revenue loss associated with an assumed annual 6% inflation rate for all substance abuse services provided by MCOs.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
SF Revenue	$0	($256,000)	($271,300)	($287,600)	($304,800)
GF Expenditure	$9,000	$645,700	$684,500	$725,500	$769,100
FF Expenditure	$9,000	$645,700	$684,500	$725,500	$769,100
Net Effect	($18,000)	($1,547,400)	($1,640,200)	($1,738,600)	($1,843,000)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: The bill has a minimal operational effect on local health departments that have to bill the ASO rather than MCOs or the Medicaid fee-for-service system for substance abuse services it provides to Medicaid recipients.

Small Business Effect: Minimal.

Analysis

Bill Summary: ADAA must design and monitor the system and reimburse providers on a fee-for-service basis at a uniform rate determined by DHMH. DHMH has to use the same ASO that provides specialty mental health services in the Medicaid program and require the ASO to bill the Medicaid program for services provided to enrolled individuals.

To support the workgroup required by the bill, ADAA must survey local drug and alcohol abuse councils to determine the substance abuse benefits provided in each jurisdiction as well as the financial eligibility requirements for individuals served, and provide the workgroup with that information by September 1, 2009. DHMH must submit the workgroup's findings and recommendations to the General Assembly by December 1, 2009.

Current Law/Background: Medicaid delivers substance abuse treatment via MCOs, which have their own contractual arrangements with providers, and a fee-for-service system. However, under the current Medicaid program, while most substance abuse services are covered, some are not because of federal rules, and some are only covered for certain Medicaid populations. For example, coverage under the Primary Adult Care (PAC) program within Medicaid is limited to accessing the drug Buprenorphine, but not the counseling and other services that accompany the use of that treatment.

Treatment gaps are filled through ADAA's treatment grant-based system, with grants made to local jurisdictions that in turn contract for services or in some cases deliver services directly. Local grants are supplemented by statewide contracts for certain residential services, services primarily directed to court-involved individuals. Income data collected by ADAA indicates that a large portion of clients served in ADAA funded programs are probably eligible for Medicaid, including PAC. In fiscal 2006, for example, for those admissions where income information is known, over half reported having family incomes below $10,000. However, reimbursement for substance abuse services under ADAA's treatment grants is higher than under Medicaid fee-for-service or the MCOs.

As a result of waivers under the authority of Section 1115 of the federal Social Security Act, beginning in fiscal 1998, the State established a program of mandatory managed care for Medicaid recipients. While primary mental health services stayed within the managed care structure, specialty mental health services to Medicaid enrollees were carved out and funded through the public mental health system. While the Mental Hygiene Administration oversees the carved-out system, it contracts with the ASO, APS Healthcare Inc., to administer the system.

Medicaid spending on substance abuse services, including inpatient detox, is expected to total about $38.3 million in fiscal 2010, assuming no rate increases or service expansion. ADAA funding for substance abuse treatment programs is expected to total $136.5 million in fiscal 2010.

State Revenues: DHMH advises that the State taxes premiums paid to MCOs, and that the revenue generated from the tax is paid into the Rate Stabilization Fund. The tax rate is 2% of all MCO premiums which is expected to generate over $100 million in fiscal 2009. The State contributes 1% (the other 1% is a federal match), but receives 2% from the MCO premium tax. Under the bill, the State loses the benefit of the federal match of the MCO tax for substance abuse services since the State does not tax ASOs in the same way. Therefore, special fund revenues decrease by $255,956 in fiscal 2012, the first year that DHMH expects substance abuse services to be provided through the ASO. Future years reflect the premium tax revenue loss associated with an assumed 6% inflation rate for substance abuse services provided by MCOs.

State Expenditures: DHMH advises that it is in the process of rebidding its current ASO contract that provides mental health services to Medicaid recipients. The contract currently being rebid takes effect June 30, 2009, one year before the bill takes effect, and will be effective at least until June 30, 2011. Since the bill requires that substance abuse services be provided by the same ASO that provides mental health services, it is assumed that DHMH will add substance abuse services during the next rebidding cycle, which will be for the contract beginning June 30, 2011 (fiscal 2012).

Therefore, Medicaid expenditures (50% general funds/50% federal funds) increase by $18,000 in fiscal 2011 for two ADAA consultants to assist in the design of the ASO contract for substance abuse services and to assist in training the State's provider system on billing for substance abuse services under the ASO. Consultants are expected to be terminated at the end of fiscal 2011.

Medicaid expenditures increase by $1.3 million in fiscal 2012 to provide substance abuse services to Medicaid recipients through the ASO rather than through MCOs and the fee-for-service system. This estimate reflects the same services for the same population; the additional expenditures are related to administrative costs charged by the ASO at 3%

of all substance abuse expenditures. Future years reflect a 3% administrative cost on all substance abuse services provided under the ASO, with an annual service cost inflation rate of about 6%.

DHMH and ADAA can handle responsibilities associated with the workgroup and its reporting requirements with existing resources.

Local Effect: Montgomery and Harford counties advise that, when mental health services were carved out and offered through an ASO, reimbursement rates were set lower than local health department costs to provide the services. However, Legislative Services advises that, given the recent discussion surrounding the substance abuse service delivery system, along with the recognition that Medicaid reimbursement for such services is already too low – per the Substance Abuse Treatment Workgroup report released in January 2009 – DHMH will likely ensure that reasonable rates for substance abuse services are established in any ASO contract.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Allegany, Harford, Montgomery, Talbot, and Wicomico counties; Baltimore City; Department of Health and Mental Hygiene; Maryland Insurance Administration; Department of Legislative Services

Fiscal Note History: First Reader - March 4, 2009
ncs/mwc

Analysis by: Sarah K. Volker

Direct Inquiries to:
(410) 946-5510
(301) 970-5510