

Colorado Legislative Council Staff
STATE
FISCAL IMPACT

Drafting Number: LLS 05-0452	Date: January 16, 2005
Prime Sponsor(s): Rep. Romanoff Sen. Johnson	Bill Status: House Health & Human Services
	Fiscal Analyst: Janis Baron (303-866-3523)

TITLE: CONCERNING SUBSTANCE ABUSE TREATMENT UNDER THE "COLORADO MEDICAL ASSISTANCE ACT".

Fiscal Impact Summary	FY 2005/2006	FY 2006/2007
State Revenues		
State Expenditures		
General Fund	\$ 1,621,069	\$ 2,339,711
Cash Funds Exempt — Transfer	17,213	54,088
Federal Funds	1,643,294	2,339,711
FTE Position Change	0.3 FTE	1.0 FTE
Other State Impact: None		
Effective Date: Upon Signature of the Governor		
Appropriation Summary for FY 2005/2006:		
Department of Health Care Policy and Financing	\$ 3,264,363 Total	
	1,621,069 General Fund	
	1,643,294 Federal Funds	
Department of Human Services	17,213 Cash Funds Exempt - Transfer	
	0.3 FTE	
Local Government Impact: None		

Summary of Legislation

The bill adds outpatient substance abuse treatment as an optional service to the state's Medicaid program. On or before January 1, 2011, the State Auditor is required to submit a report to the Legislative Audit Committee analyzing the costs and savings to the Medicaid program as a result of adding this new service. On or before March 31, 2011, based upon the audit report, if the Legislative Audit Committee finds that providing outpatient substance abuse treatment resulted in an overall increase in Medicaid expenditures, the service is repealed.

State Expenditures

Department of Health Care Policy and Financing. The bill is assessed at having a total fiscal impact of \$3,264,363 in FY 2005-06 and \$4,679,422 in FY 2006-07. The following assumptions were used in identifying the bill's expenditure impact in the department:

Caseload — the caseload seeking outpatient substance abuse treatment is estimated at 4,479 in FY 2005-06 and 4,668 in FY 2006-07. The total Medicaid caseload for FY 2005-06 is estimated at 406,616 and 417,514 for FY 2006-07. Of these numbers, eligible children under the age of 12, foster care children under the age of 12, noncitizens ineligible for full Medicaid, and QMB/SLMB clients ineligible for full Medicaid were backed out of the total caseload. An 8% abuse and dependency rate was applied in the remaining caseload. A 25% utilization rate was applied to all categories seeking treatment, except foster care. It is assumed 100% of the eligible foster care caseload will receive this service because these children are in the custody of the state (estimated at 600 children annually).

Cost per Client — the annual cost per client is estimated at \$1,430 in FY 2005-06 and \$1,513 in FY 2006-07. Using FY 2003-04 actual cost data for outpatient substance abuse treatment for the Department of Human Services, Alcohol and Drug Abuse Services (ADAD), an inflationary factor of 20% was applied to arrive at the estimated cost per client. This higher inflationary rate was used rather than the acute care inflator of 5.78% for FY 2005-06 to account for costs related to Colorado providers other than ADAD. As part of the Medicaid program, clients can receive this new service from all qualifying providers, not just ADAD.

Medicaid Management Information System (MMIS) — one-time systems costs are estimated at \$44,450 in FY 2005-06. MMIS will require 350 hours of systems changes to add a new provider specialty code for outpatient treatment, to add a new general ledger code to the system to report changes associated with the diagnosis/procedures for the benefit, and to create a medical criteria audit to ensure appropriate procedures based on the diagnosis.

Estimated Savings — FY 2006-07 total expenditures reflect savings of \$2,436,741 in Medicaid medical costs. The methodology used to calculate savings is based on a 1997 report published by the Washington State Department of Social and Health Services (detailed spreadsheets are available in the Legislative Council, Fiscal Note office). The Washington study examined Medicaid medical cost savings resulting from substance abuse treatment by comparing 344 clients receiving treatment with 321 eligible clients who were not receiving treatment. Over a succeeding five-year period, for clients receiving treatment, Washington experienced an average of \$4,500 less per client in Medicaid medical costs than those who were not treated. It should be noted that multiple studies in other states indicate that substance abuse treatment consistently results in costs avoided. The table below illustrates "rough" savings resulting from the bill over a four-year period. Savings are not realized in year one. It is estimated that savings will exceed expenditures in FY 2008-09.

Additionally, numerous studies have shown the cost effectiveness of substance abuse treatment in several areas of state government. The National Center on Addiction and Substance Abuse at Columbia University released a report in January 2001 entitled "Shoveling Up: The Impact of Substance Abuse on State Budgets." The report

estimated that Colorado spent 12.4% of its state budget (in state dollars only) on expenditures related to substance abuse in 1998, or \$845.2 million.

	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
Costs (in millions)	\$3.2	\$7.1	\$7.8	\$8.6	\$9.5
Savings (in millions)	\$0.0	(\$2.4)	(\$7.4)	(\$9.7)	(\$11.2)
Net Difference	\$3.2	\$4.1	\$0.4	(\$1.1)	(\$1.7)

Department of Human Services, ADAD. The department will require 0.3 FTE and \$17,213 in FY 2005-06 and 1.0 FTE and \$54,088 in FY 2006-07 for licensing functions (General Professional IV). Under current law, ADAD is responsible for licensing DUI education and treatment programs in addition to any substance abuse treatment programs that receive state dollars. As of June 30, 2004, there were 635 licensed sites in the state, with nine treatment field managers responsible for licensing, monitoring, and providing technical support (approximately 70 sites per manager). On average, 48 licenses are issued annually for substance abuse treatment programs. With the addition of this new treatment service to the Medicaid program, it is estimated that 70 providers will seek state licensure to qualify for participation in the program.

The table below identifies the cost components of HB 05-1015.

Cost Components of HB 05-1015	FY 2005-06	FY 2006-07
Department of Health Care Policy and Financing		
Medicaid Caseload Eligible for Outpatient Substance Abuse Treatment	4,479	4,668
Annual Cost per Client	\$1,430	\$1,513
Subtotal — Medical Services Premiums (FY 2005-06 reflects only 6 months of costs — program implemented 1/1/2006)	\$3,202,700	\$7,062,073
Medicaid Management Information System Costs	\$44,450	\$0
Anticipated Savings in Medical Services Premiums Due to Addition of Outpatient Substance Abuse Treatment	\$0	(\$2,436,741)
Total — Department of Health Care Policy and Financing	\$3,247,150	
Department of Human Services — Alcohol and Drug Abuse Services — Total	\$ 17,213 0.3 FTE	\$54,088 1.0 FTE
TOTAL — HB 05-1015	\$3,264,363	\$4,679,422
General Fund	1,621,069	2,339,711
Federal Funds	1,643,294	2,339,711
Cash Funds Exempt	17,213	54,088
FTE	0.3	1.0

FY 2010-11. The State Auditor's office will require between \$100,000 and \$200,000 General Fund to analyze the costs and savings of adding outpatient substance abuse treatment as an optional program to the state's Medicaid program.

State Appropriations

For FY 2005-06, the Department of Health Care Policy and Financing should receive an appropriation for \$3,264,363. Of the total amount, \$1,621,069 is General Fund and \$1,643,294 is federal funds. Out of the total amount appropriated, the Department of Human Services should receive a cash funds exempt transfer appropriation of \$17,213 and 0.3 FTE.

Departments Contacted

Health Care Policy and Financing
Human Services
State Auditor's Office