

Department of Legislative Services  
Maryland General Assembly

FISCAL NOTE

House Bill 1294 (Delegate Heller)

Appropriations

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**Residential and Nonresidential Child Care Centers and Nonpublic  
General Education Schools - Per Child Rate Settings**

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This bill requires private residential or nonresidential child care programs and nonpublic general education schools licensed by the State to establish a per child rate per service, subject to the State’s allowable cost policy, and to charge all purchasers the same rate. In effect, it allows rates for these services to be set by providers, since there is no provision for State review or approval of rates. Residential or nonresidential child care programs and nonpublic general education schools are required to: (1) submit rates to the Special Secretary for Children, Youth, and Families by April 1 of each year; (2) submit any rate changes after April 1 of each year; and (3) submit rate changes by three months before the scheduled change is to take place. The Special Secretary must publish the rates by June 15 each year and is authorized to require an audit of any residential or nonresidential child care programs and nonpublic general education schools.

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**Fiscal Summary**

**State Effect:** Expenditures increase by \$7.9 million (\$6.0 million general funds and \$1.9 million federal funds) in FY 1999. Future year expenditures increase with annualization and inflation. Revenues would not be affected.

(in millions)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
GF Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditures	6.0	8.7	9.3	10.1	10.8
FF Expenditures*	1.9	2.6	2.8	3.0	3.3
Net Effect	(\$7.9)	(\$11.3)	(\$12.1)	(\$13.1)	(\$14.1)

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

\*Federal fund expenditures are reimbursable by the federal government

**Local Effect:** None.

**Small Business Effect:** Meaningful.

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## Fiscal Analysis

**Background:** Rates for residential care of children and nonpublic special education services are determined annually by the State. The Office for Children, Youth, and Families (OCYF) is the main staffing agency for rate determination for both types of service. Residential rates are established by the Interagency Rate Committee staffed by OCYF, with all State and local agencies purchasing services from private providers charged the rate established by the State. The rate determination process involves providers submitting budgets to the State with a rate based on allowable costs and the number of children anticipated to be served. Those budgets are reviewed by OCYF for errors and then classified and compared with like providers according to service type, facility size, and service intensity, with rates adjusted accordingly. The current system does not necessarily reimburse providers for the full cost of their services.

Fiscal 1998 budget bill committee narrative expressed concern that the current provider rate methodology for residential children's services did not encourage efficiency or adequately reimburse providers. The budget committees asked OCYF to report on plans to redesign the residential services rate setting structure to encourage efficiency and the development of additional resources. The study proposes the establishment of a provider-requested rate setting methodology to establish rates for children's services. Providers with rates in excess of what is considered necessary and reasonable could justify their higher costs based on program content. If it was determined that the additional program content did not merit additional costs, budgets would be set at the maximum permitted by what is necessary and reasonable. If the budgets of contracting agencies are insufficient to fully fund set provider rates, cost containment measures will be applied equally to all providers. The rates for providers of new programs will be developed using the same necessary and reasonableness tests. This system will be phased-in over three years.

### **State Expenditures:**

#### *Rates Established by the Interagency Rate Committee*

Expenditures for providing children's residential services could increase by an estimated \$7.1 million in fiscal 1999 for the Departments of Health and Mental Hygiene (\$143,000), Juvenile Justice (\$926,000), and Human Resources (\$6.1 million). The information and assumptions used in calculating the estimate are stated below:

- the cost difference between provider-requested rates and

State-approved rates is \$10.4 million in fiscal 1998 (of which 15% is private pay);

- annual inflation increase of 7.5% a year based on the three other states with provider-set rates;
- federal fund reimbursement of an average of 23% of costs; and
- a 90-day start-up delay due to the bill's October 1, 1998 effective date.

Future year expenditures reflect: (1) annualization; and (2) 7.5% annual increases in provider rates.

#### *Developmental Disabilities Administration*

The services funded by the Developmental Disabilities Administration (DDA) are not covered by rates established by the Interagency Rates Committee. Expenditures for providing services to children with developmental disabilities could increase by an estimated \$761,279 in fiscal 1999, of which \$720,324 is general funds and \$41,105 is federal funds. The information and assumptions used in calculating the estimate are stated below:

- 140 children in residential services at an average annual cost of \$39,500;
- \$8 million in proposed fiscal 1999 budget for non-residential services;
- annual inflation increase of 7.5% a year based on the three other states with provider-set rates;
- 50% federal fund reimbursement for 37 children in residential services; and
- a 90-day start-up delay due to the bill's October 1, 1998 effective date.

Future year expenditures reflect: (1) annualization; and (2) 7.5% annual increases in provider rates.

**Additional Comments:** "Allowable costs" are costs eligible to be included in the rates for appropriate services. Therefore, the "State's allowable cost policy" does not provide any budgetary constraint ceiling on the amount that agencies are to pay for children's services.

**Small Business Effect:** The bill would favorably affect small businesses who provide children's services by increasing revenues. Fiscal 1999 revenues could increase by an estimated \$9.2 million, including \$904,000 from the Department of Health and Mental Hygiene, \$926,000 from the Department of Juvenile Justice, \$6.1 million from the Department of Human Resources, and \$1.3 million from private pay clients.

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**Information Source(s):** Office for Children, Youth, and Families; Maryland State Department of Education; Department of Health and Mental Hygiene (Developmental Disabilities Administration); Department of Human Resources; Department of Legislative Services

**Fiscal Note History:** First Reader - March 4, 1998

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