

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE
Revised

Senate Bill 426 (Senator Kasemever)

Budget and Taxation

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

This emergency bill requires the Departments of Education; Health and Mental Hygiene; Human Resources; Juvenile Justice; and Budget and Management, in consultation with the Office for Children, Youth, and Families, to redesign the rate setting structure for private residential or nonresidential child care programs and nonpublic general education schools to achieve equitable treatment for all providers. The departments must redesign the rate setting structure by September 1, 1998 and submit an implementation plan to the budget committees by October 1, 1998. The Department of Education will be the lead agency in redesigning the rate setting structure. The redesigned rate setting structure is to be used in preparing the fiscal 2000 State budget.

Fiscal Summary

State Effect: None. Net State expenditures would not be affected, since resources would be transferred between agencies. Revenues would not be affected.

Local Effect: None.

Small Business Effect: Potential meaningful.

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: The bill's effect is to transfer primary responsibility for interagency rate setting of children's services from OCYF to the Maryland State Department of Education (MSDE). OCYF has one position and associated operating general fund expenditures (\$72,425) which would be transferred to MSDE to carry out the bill's requirements. Therefore, net State expenditures would not be affected.

Small Business Effect: The bill would affect small businesses who provide children's services. The effect will vary for each provider, depending on the rate setting structure developed by the State.

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

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