

**Department of Legislative Services**  
Maryland General Assembly  
2006 Session

**FISCAL AND POLICY NOTE**  
**Revised**

Senate Bill 447

(Senator Lawlah, *et al.*)

Finance

Health and Government Operations and Appropriations

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**Department of Health and Mental Hygiene - Developmental Disabilities and  
Mental Health Services - Cost-of-Living Adjustment**

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This bill requires that beginning in fiscal 2008 the Department of Health and Mental Hygiene (DHMH) must annually adjust the fees paid to a community developmental disabilities services provider and a community mental health services provider for approved services rendered to an eligible individual. The fees must be adjusted using the update factor recommended by the Community Services Reimbursement Rate Commission (CSRRC). The bill stipulates that the annual adjustments are subject to the limitations of the State budget and must be funded with due regard to the expenditures necessary to meet the needs of individuals receiving services. The annual rate of change for the fees may not exceed 5%. Notwithstanding the charges annually set for services to these individuals, DHMH must reimburse these providers for approved services rendered to an eligible individual as provided in this bill.

The bill takes effect July 1, 2006.

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**Fiscal Summary**

**State Effect:** No effect in FY 2007. Assuming the current level of services is maintained, general fund expenditures would increase by \$15.0 million and federal fund expenditures would increase by \$10.1 million in FY 2008. Future year expenditures reflect cumulative increases in expenditures over the FY 2007 base amount. To the extent service providers would receive rate increases in the absence of this legislation, the additional expenditures resulting from this bill would be less.

(\$ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	15.0	30.5	46.4	62.8
FF Expenditure	0	10.1	20.6	31.3	42.4
Net Effect	\$0	(\$25.1)	(\$51.0)	(\$77.7)	(\$105.2)

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

**Local Effect:** None.

**Small Business Effect:** Significant. Community services providers that are considered small businesses would experience a significant increase in payments for services provided and a minimal savings in administrative costs due to reduced staff turnover.

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## Analysis

**Current Law:** The Secretary of Health and Mental Hygiene must adopt rules and regulations that set charges for services DHMH provides for the physically ill, aged, mentally retarded, and developmentally disabled and other recipients of services in or through State-operated clinics; day care, day treatment, and day hospital care; group homes and small residential homes; inpatient care in regional and State hospitals and centers; and inpatient and outpatient care of any other kind.

The Secretary must require political subdivisions and grantees to set, subject to the Secretary's approval and modifications, charges for services provided by the political subdivisions or grantees and that are supported wholly or partly by State or federal funds administered by DHMH.

Charges for services must be set annually.

CSRRC was created in 1996 as an independent unit within DHMH; it terminates September 30, 2008. The commission is charged with: (1) developing methodologies for calculating Developmental Disabilities Administration (DDA) and Mental Hygiene Administration (MHA) rate update factors; (2) reviewing data in DDA annual cost reports and using data to develop relative performance measures of providers; (3) studying the variation of DDA provider transportation costs and recommending whether rates should be adjusted to include such costs; (4) working with MHA to expand the use of any billing data collected by a third-party administrator for the public mental health system to evaluate performance; (5) reviewing the changes in payments for and utilization of psychiatric rehabilitation services associated with the shift to case rates; and (6) evaluating proposed regulatory changes by DHMH, DDA, and MHA that affect the rates paid or the rate structure. By October 1 of each year, the commission must issue a

report to the Governor, the Secretary of Health and Mental Hygiene, and the General Assembly on its findings.

Chapters 109 and 110 of 2001 require DHMH to increase rates of reimbursement for community service providers to eliminate the wage disparity over a five-year period. This requirement came from concern that direct care staff employed by private providers were not being compensated at the rate of comparable employees in State residential centers.

**Background:** CSRRC, in its January 2006 report, recommended wage update factors of 3.8% for MHA rates and 2.4% for DDA rates. The fiscal 2007 budget includes a 4% increase for most community mental health services providers. The fiscal 2007 budget also includes \$16.2 million for the fifth and final year of the DDA direct care wage increase for community providers as required by Chapters 109 and 110 of 2001.

Community developmental disabilities services providers last received a cost-of-living increase in fiscal 2002, which was 2%. Community mental health services providers generally received no increase from fiscal 2002 to 2006, a time when the community mental health fee-for-service system was struggling with budget deficits. While some small categories of rates increased (for example, in fiscal 2003 rates for outpatient services to children and adolescents increased by an average of 27.3%), other provider categories were effectively reduced (for example, the fiscal 2005 switch from fee-for-service to case rates for rehabilitation services).

**State Expenditures:** No effect in fiscal 2007. The fiscal 2007 budget assumes \$602,199,615 for community developmental disabilities services provider payments under DDA and \$281,401,325 for community mental health services provider payments under MHA.

DDA and MHA expenditures could collectively increase by \$25,146,041 in fiscal 2008 (\$15,009,616 general/\$10,136,425 federal). This estimate reflects the following assumptions:

- the current level of community developmental disabilities and community mental health services are maintained;
- an estimated fiscal 2008 budget of \$616,652,406 for community developmental disabilities services provider payments under DDA and \$292,094,575 for community mental health services provider payments under MHA;

- CSRRC will continue recommending rate increases of 2.4% for community developmental disabilities services providers and 3.8% for community mental health services providers;
- DDA and MHA would not otherwise increase community providers' rates; and
- the following general fund/federal fund split for expenditures: 60.94% general funds/39.06% federal funds for community developmental disabilities services provider payments; and 58% general funds/42% federal funds for community mental health services provider payments.

**Exhibit 1** shows the expenditures by administration and fund type for fiscal 2008 through 2011.

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**Exhibit 1**  
**DDA and MHA Community Based Providers Cost-of-living Increase**

	<b>DDA – 2.4% Increase</b>			
	<b><u>FY 2008</u></b>	<b><u>FY 2009</u></b>	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>
General Funds	\$8,807,531	\$17,826,442	\$27,061,807	\$36,518,821
Federal Funds	<u>5,645,260</u>	<u>11,426,006</u>	<u>17,345,491</u>	<u>23,407,042</u>
<b>DDA Total</b>	<b>\$14,452,791</b>	<b>\$29,252,448</b>	<b>\$44,407,298</b>	<b>\$59,925,863</b>
	<b>MHA – 3.8% Increase</b>			
General Funds	\$6,202,085	\$12,639,850	\$19,322,249	\$26,258,580
Federal Funds	<u>4,491,165</u>	<u>9,152,995</u>	<u>13,991,974</u>	<u>19,014,834</u>
<b>MHA Total</b>	<b>\$10,693,250</b>	<b>\$21,792,845</b>	<b>\$33,314,223</b>	<b>\$45,273,414</b>
	<b>Total DDA and MHA Expenditures</b>			
General Funds	\$15,009,616	\$30,466,292	\$46,384,056	\$62,777,401
Federal Funds	<u>10,136,425</u>	<u>20,579,001</u>	<u>31,337,465</u>	<u>42,421,876</u>
<b>Overall Total</b>	<b>\$25,146,041</b>	<b>\$51,045,293</b>	<b>\$77,721,521</b>	<b>\$105,199,277</b>

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 843 (Delegate Gaines, *et al.*) – Health and Government Operations and Appropriations.

**Information Source(s):** Department of Health and Mental Hygiene; *Community Services Reimbursement Rate Commission: Annual Report*, January 2006; Department of Legislative Services

**Fiscal Note History:** First Reader - February 26, 2006  
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