

Department of Legislative Services
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FISCAL AND POLICY NOTE
Revised

House Bill 1034 (Delegate Costa, *et al.*)

Health and Government Operations

Finance

**Community Services Reimbursement Rate Commission - Developmental
Disabilities and Community Mental Health Services - Rate Adjustments**

This bill requires that, beginning in fiscal 2012, fees paid by the Department of Health and Mental Hygiene (DHMH) to a community developmental disabilities services provider and a community mental health services provider for approved services rendered to an eligible individual be aligned with the annual cost adjustments for units of State government in the Governor's proposed budget. The inflationary cost adjustments used to establish the inflationary cost adjustment for providers may not be less than 0% or exceed 4%. The bill repeals language that makes the adjustment contingent on the limitations of the State budget and requires the Community Services Reimbursement Rate Commission (CSRRC) to determine a weighted average cost structure of providers by studying certain categories of costs and assessing the average cost structure of providers. In addition, the bill requires DHMH, in consultation with specified community services stakeholders, to conduct a study for purposes of recommending a plan to develop a rate-setting methodology for providers, and include in its study, among other things, the future role of CSRRC and other entities involved in the rate-setting process. DHMH must submit a preliminary report by December 1, 2012, and final report with its findings and recommendations by January 1, 2013.

The bill terminates June 30, 2016.

Fiscal Summary

State Effect: Expenditures (both general funds and federal funds) increase by an indeterminate but potentially significant amount beginning in FY 2012 due to the requirement that service providers paid by the Developmental Disabilities Administration (DDA) and the Mental Hygiene Administration (MHA) be aligned with the annual cost adjustments for units of State government in the Governor's proposed budget. DHMH can handle the bill's study requirements with existing resources.

Local Effect: None.

Small Business Effect: Potential meaningful revenue increase for small service providers beginning in FY 2012.

Analysis

Bill Summary: In its annual report, CSRRC must describe its findings on the impact of the annual inflationary cost adjustment on the financial condition of providers and on any additional recommendations regarding rate-setting methodologies to align provider rates with reasonable costs.

Current Law: CSRRC is an independent unit that functions within DHMH. CSRRC makes recommendations on the amount by which rates for DDA and MHA providers should be increased; the commission terminates September 30, 2011.

CSRRC must develop or refine methodologies for calculating DDA and MHA rate update factors; review data in DDA annual cost reports and use the data to develop relative performance measures of providers; and evaluate proposed regulatory changes by DHMH, DDA, and MHA that affect the rates paid or the rate structure.

CSRRC must assess the extent and amount of uncompensated care providers deliver; the level of and changes in wages paid by providers to direct support workers; providers' ability to operate and be financially solvent; the incentives and disincentives in the rate-setting methodologies used by DDA and MHA and in alternative methodologies; how to build incentives to provide quality care into the rate-setting methodology; and the impact of changes in regulations on costs and whether the rates have been adjusted to provide for those costs.

CSRRC must issue a report annually by October 1 to the Governor, the Secretary of Health and Mental Hygiene, and the General Assembly on its findings and recommendations. The commission's findings and recommendations must be considered annually in developing the budgets of DHMH, DDA, and MHA.

Chapter 256 of 2006 requires that, *subject to limitations of the State budget*, DHMH 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 have to be adjusted using the update factor recommended by CSRRC. Annual adjustments are funded with due regard to the expenditures necessary to meet the needs of individuals receiving services, and the annual rate of change for the

fees may not exceed 5%. Notwithstanding the charges annually set for services to these individuals, DHMH reimburses providers for approved services rendered.

Background: DHMH currently reimburses 200 DDA service providers and 2,950 MHA service providers. DDA and MHA service providers have not received rate increases in either the fiscal 2010 or 2011 budgets. In fact, MHA providers actually received a rate decrease in fiscal 2010. Prior to that, MHA and DDA have been allocated funds for rate increases in fiscal 2005 through 2009, ranging from 0% to 4%.

Prior to fiscal 2009, funds were budgeted from DDA and MHA to support CSRRC in its mission to assess the adequacy of reimbursement rates for community service providers in the DDA and MHA community. However, in the fiscal 2009 and 2010 budgets, funds were not directly appropriated to support the commission, but rather budget bill language in each year restricted funding from DDA and MHA to that purpose. For a variety of reasons, the commission has not been active for some time. The department is working to rejuvenate the commission.

State Fiscal Effect: State agency budgets have been constrained in recent years but have varied a great deal, with some agencies receiving increases and others realizing reductions. In addition, State budgets have received additional support in fiscal 2010 and 2011 due to federal funds allocated through the American Recovery and Reinvestment Act of 2009 (ARRA), which will have terminated by the time the bill's required update factor begins in fiscal 2012. However, if economic conditions improve dramatically, State budgets will likely increase despite the loss of ARRA funding.

The fiscal 2011 budget includes just under \$748 million for DDA service providers and about \$714 million for MHA service providers. Although increases for State agencies may be less than the rate increases proposed by CSRRC in some years, Legislative Services advises that, given the history of low or no rate increases for service providers and the fact that rate increases are not currently required by statute, expenditures would increase under the bill by an indeterminate but possibly significant amount beginning in fiscal 2012 due to the bill's requirement if State agency budgets are increased.

For illustrative purposes only: If State agencies, on average, receive a 1% increase in fiscal 2012, DDA and MHA service provider costs increase by \$14.6 million (\$9 million general funds, \$5.6 million federal funds) in fiscal 2012. If State agencies, on average, receive a 3% increase in fiscal 2012, DDA and MHA service provider costs increase by \$43.8 million (\$19.4 million general funds, \$24.4 million federal funds) in fiscal 2012.

If the State's economy does not take a dramatic turn for the better, State agency budgets will continue to be constrained. Therefore, estimating an update factor that is equivalent

to the cost adjustments for units of State government in fiscal 2012 and beyond is nearly impossible; nevertheless, it will be limited to 0% to 4% per the bill's parameters.

Small Business Effect: Revenues for small service providers reimbursed by DHMH could increase for approved services rendered in fiscal 2012 and future years.

Additional Information

Prior Introductions: None.

Cross File: SB 633 (Senator Middleton, *et al.*) - Finance and Budget and Taxation.

Information Source(s): Department of Health and Mental Hygiene, Department of Legislative Services

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