

Department of Legislative Services  
 Maryland General Assembly  
 2008 Session

FISCAL AND POLICY NOTE

Senate Bill 242 (Senator Kelley, *et al.*)  
 (Chair, Joint Committee on Access to Mental Health Services)

Finance

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

This bill requires that fees paid by the Department of Health and Mental Hygiene to a community developmental disabilities services provider and a community mental health services provider for approved services rendered to an eligible individual be adjusted using the update factor recommended by the Community Services Reimbursement Rate Commission. The bill repeals language which makes the adjustment contingent on the limitations of the State budget.

The bill takes effect July 1, 2008.

Fiscal Summary

**State Effect:** DHMH expenditures could increase by \$36.3 million in FY 2009 (\$20.5 million in general funds and \$15.8 million in federal funds) due to the requirement that service providers paid by the Developmental Disabilities Administration and the Mental Hygiene Administration be subject to an update factor recommended by CSRRC. Future years reflect the compounding impact of mandating the use of the update factor. The Governor’s proposed FY 2009 budget includes a total of \$13.3 million (\$8.8 million in general funds and \$4.4 million in federal funds) for a rate increase. **This bill establishes a mandated appropriation beginning in FY 2010.**

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	20.5	41.7	63.7	86.4	110.0
FF Expenditure	15.8	32.2	49.2	66.8	85.0
Net Effect	(\$36.3)	(\$74.0)	(\$112.9)	(\$153.2)	(\$195.0)

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

**Local Effect:** None.

**Small Business Effect:** Potential meaningful revenue increase for small service providers.

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## Analysis

**Current Law/Background:** The Secretary of Health and Mental Hygiene adopts rules and regulations to 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 requires 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.

Chapter 256 of 2006 requires that, *subject to limitations of the State budget*, beginning in fiscal 2008, 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 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. 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. DHMH currently reimburses 200 DDA service providers and 2,810 MHA service providers.

CSRRC was created in 1996 as an independent unit within DHMH; it is currently scheduled to terminate September 30, 2008. The commission is charged with • developing methodologies for calculating DDA and MHA rate update factors; • reviewing data in DDA annual cost reports and using data to develop relative performance measures of providers; • studying the variation of DDA provider transportation costs and recommending whether rates should be adjusted to include such costs; • 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;

- reviewing the changes in payments for and utilization of psychiatric rehabilitation services associated with the shift to case rates; and
- 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 has to issue a report to the Governor, the Secretary of Health and Mental Hygiene, and the General Assembly on its findings.

**State Fiscal Effect:** For the purposes of this estimate, Legislative Services averaged CSRRC's recommended update factor for MHA and DDA service providers over the past five years (fiscal 2005-2009). This yielded update factors of 3.83% for the 2,810 MHA service providers and 3.34% for the 200 DDA service providers. While MHA and DDA have been allocated funds for rate increases over the past five years, ranging from 0%-4%, they are not mandated by statute. Therefore, Legislative Services assumes that, absent the bill, future year rate increases would be 0%.

DHMH expenditures could increase by \$20,505,001 (general funds) and \$15,841,408 (federal funds) in fiscal 2009 due to increasing payments to MHA service providers by 3.83% and DDA service providers by 3.34%. The Governor's proposed fiscal 2009 budget includes \$5.1 million for MHA service providers and \$8.1 million for DDA providers, which translates to a 1.5% increase for all providers subject to the update factor. This estimate accounts for anticipated expansion in the program for fiscal 2009. Future years reflect the same annual MHA and DDA rate update factors of 3.83% and 3.34%, respectively. Future year expenditures do not further account for program expansion as it is difficult to make a reliable needs assessment for MHA and DDA services in fiscal 2010 and beyond.

Future years reflect the compounding impact of mandating the use of the update factors.

**Small Business Effect:** Revenues for small service providers reimbursed by DHMH would increase for approved services rendered in fiscal 2009 and future years. MHA service providers' revenue for approved services would increase by 3.83% annually, and DDA service providers' revenue for approved services would increase by 3.34% annually.

**Additional Comments:** Legislative Services notes that, while the bill mandates the update factor in fiscal 2008, legislation can only apply to a particular fiscal year if it was enacted before July 1 of the preceding fiscal year. Since the bill would take effect on the first day of fiscal 2009 (July 1, 2008), the bill could not apply until fiscal 2010.

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## Additional Information

**Prior Introductions:** None.

**Cross File:** HB 210 (Delegate Benson)(Chair, Joint Committee on Access to Mental Health Services) – Health and Government Operations.

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

**Fiscal Note History:** First Reader - February 12, 2008  
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Analysis by: Sarah K. Harvey

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510