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SFA BILL ANALYSIS

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Senate Bill 272 (Substitute S-1 as reported)
Sponsor: Senator Joel D. Gougeon
Committee: Appropriations

CONTENT

This bill would amend Public Act 296 of 2000 (the FY 2000-01 Department of Community Health (DCH) appropriations act) to require the DCH to modify the risk-based intensity factor, used in the calculation of capitation rates paid to community mental health boards (CMHBs) under the Medicaid mental health managed care program. The purpose of this adjustment is to offset the unexpected financial risk sustained by the CMHBs when the DCH was required to change the reimbursement policy for the Medicaid coverage group referred to as spend down eligibles. This change was necessary due to a computational error, related to the spend down coverage group, that was discovered last fall during the revision to the Federal waiver under which the mental health managed care plan operates. This change in policy was effective January 1, 2001, and had the DCH not made the change, the State could have been subject to subsequent disallowances and penalties.

The bill would cause the CMHBs to be "held harmless" by increasing revenue to the CMHBs in direct proportion to their estimated revenue loss due to the January policy change. The resulting increase in revenue would be retroactive to January 1, 2001, and continue through the end of this fiscal year.

FISCAL IMPACT

The initial estimate of the revenue loss by the CMHBs due to the change in reimbursement policy over the last nine months of this fiscal year has been $20,000,000. However, having reviewed relevant caseload and payment data for two additional months following the policy change, i.e., February and March 2001, the Senate Fiscal Agency (SFA) now believes the actual revenue loss to be approximately $17,000,000, if both mental health and substance abuse payments are included.

Because this loss of revenue was not contemplated during the current-year budgeting process on the DCH budget, the return of this forgone revenue should be budget neutral. However, the administration has stated that its estimate of full-year spending for the mental health line item will slightly exceed the amount appropriated *even with the reduction in expenditures due to the policy change*. In other words, if these revenues were restored, the affected line item would be overspent by at least that amount.

Based on the review of the latest available data, the SFA also believes that a restoration of these forgone revenues would result in a Gross overexpenditure in the area of $11,000,000. This estimate assumes a restoration of revenue at the lower $17,000,000 level for mental health and substance abuse and holds all other things constant. Any additional actions by the administration, such as the proposed reimbursement policy change for Medicaid retroactive eligibles, would, in the SFA's estimation, significantly reduce the risk of an overexpenditure.

Date Completed: 3-12-01 Fiscal Analyst: J. Walker