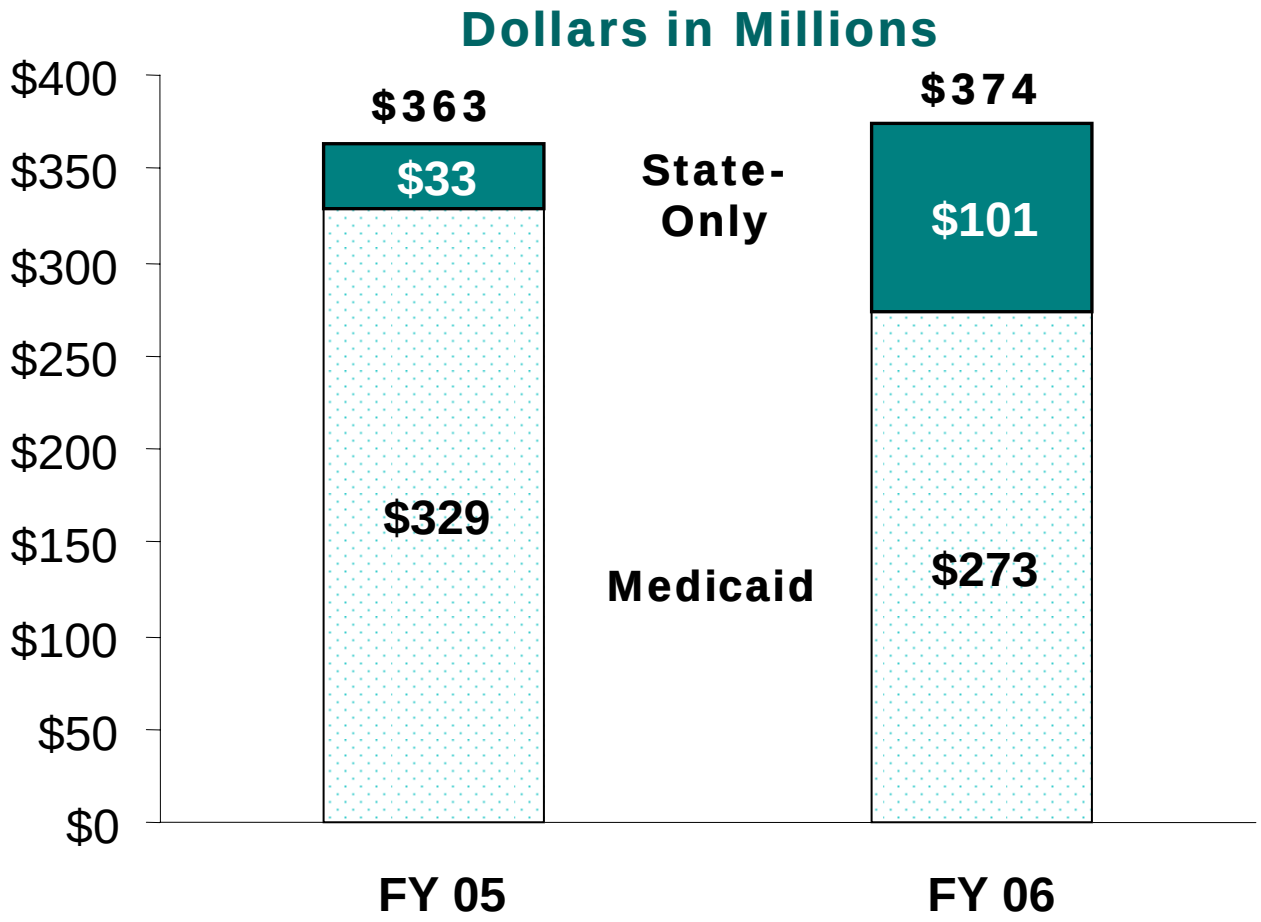
Allocation of 2006 Community Mental Health Funding

Staff Presentation to the

Joint Legislative and Executive Committee on Mental Health

October 18, 2005

There has been a major shift this biennium in the balance between Medicaid and non-Medicaid funding for community mental health services.



FY 05 and FY 06 Medicaid total does not include locally-match funds. FY 06 state-only total does not include $11.5 million earmarked for hospital rate increases, jail services, and special projects.

For each type of funding, we plan to discuss four main topics

- Major factors affecting 2005-07 funding levels.
- Where things stood at the end of session.
- Significant new developments after session.
- Key policy issues for further study and discussion.

Medicaid Funding Allocations

Two major new federal requirements affected 2005-07 mental health Medicaid rates.

- Prohibition against using Medicaid managed care savings for non-Medicaid clients and services.

- Requirement that rates be "actuarially sound".

The savings prohibition resulted in the loss of about $41 million per year of federal funding.

- Medicaid rates were reduced by 23% to account for managed care savings that could no longer be used for non-Medicaid people and services.

- Total Medicaid funding for community mental health decreased about 17%, after accounting for caseload and vendor rate increases.

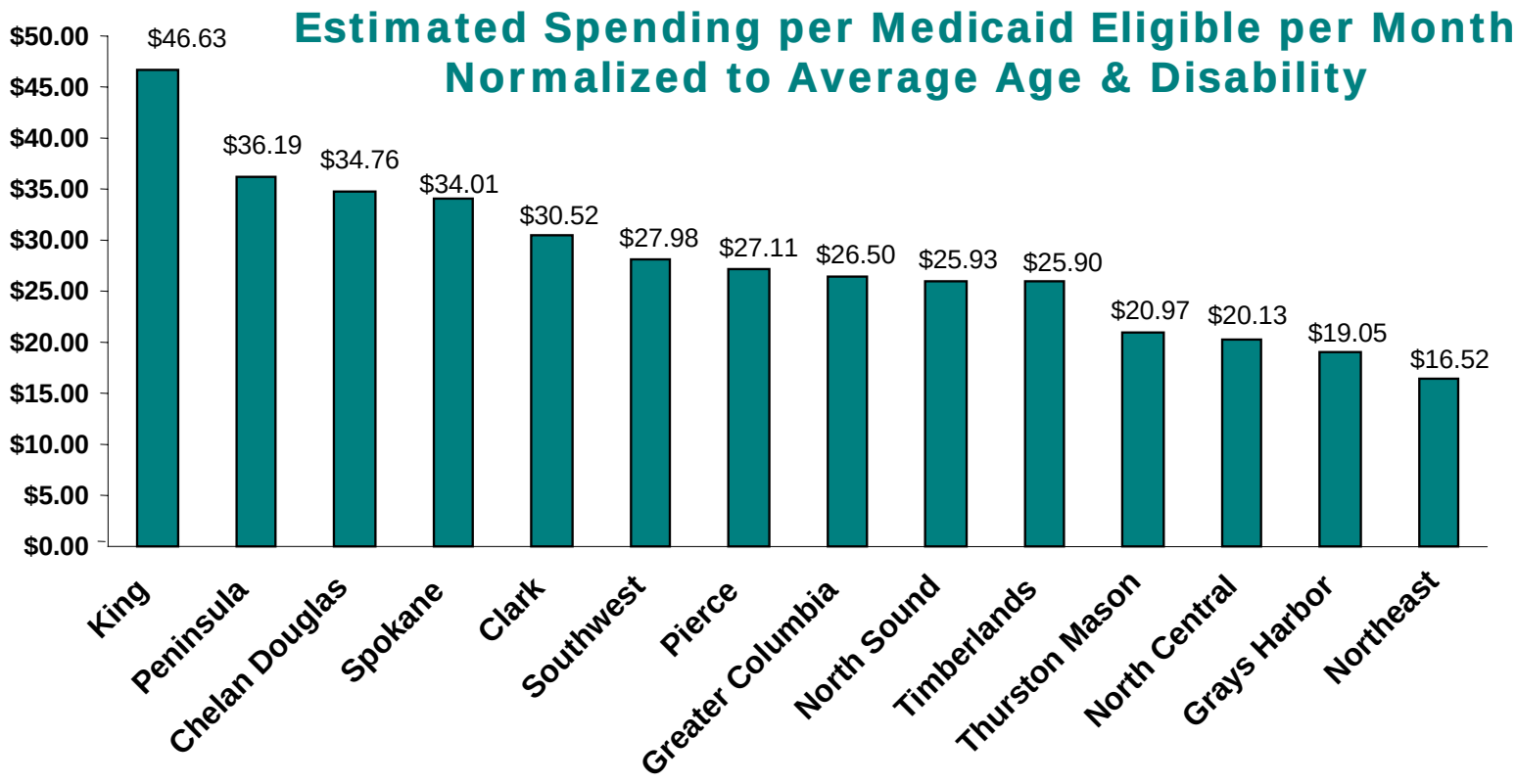
DSHS used a provider cost report study to address the requirement that Medicaid rates be "actuarially sound".

- Couldn't benchmark to private insurers, because of significant differences in Medicaid benefit package and target population.
- Couldn't benchmark to other states, because reliable comparisons not available.
- Providers submitted reports on CY 04 Medicaid services delivered and costs incurred.
- Funding sources not collected– methodology assumes all costs to be covered by state.
- Results analyzed for "actuarial soundness" for each of the 14 RSN geographic areas.
- Final results released in late May.

The 2005-07 budget did not anticipate any significant changes in Medicaid funding allocations.

- Initial DSHS reports indicated relatively minor geographic variations would be needed to comply with “actuarial soundness” requirements.
- Appropriations act directed DSHS to proceed with implementation of the 6-year phase-in to standard Medicaid rates initiated in FY 02.
- Governor vetoed, in case regional variations needed for actuarial soundness, but directed as much compliance with intent as possible.

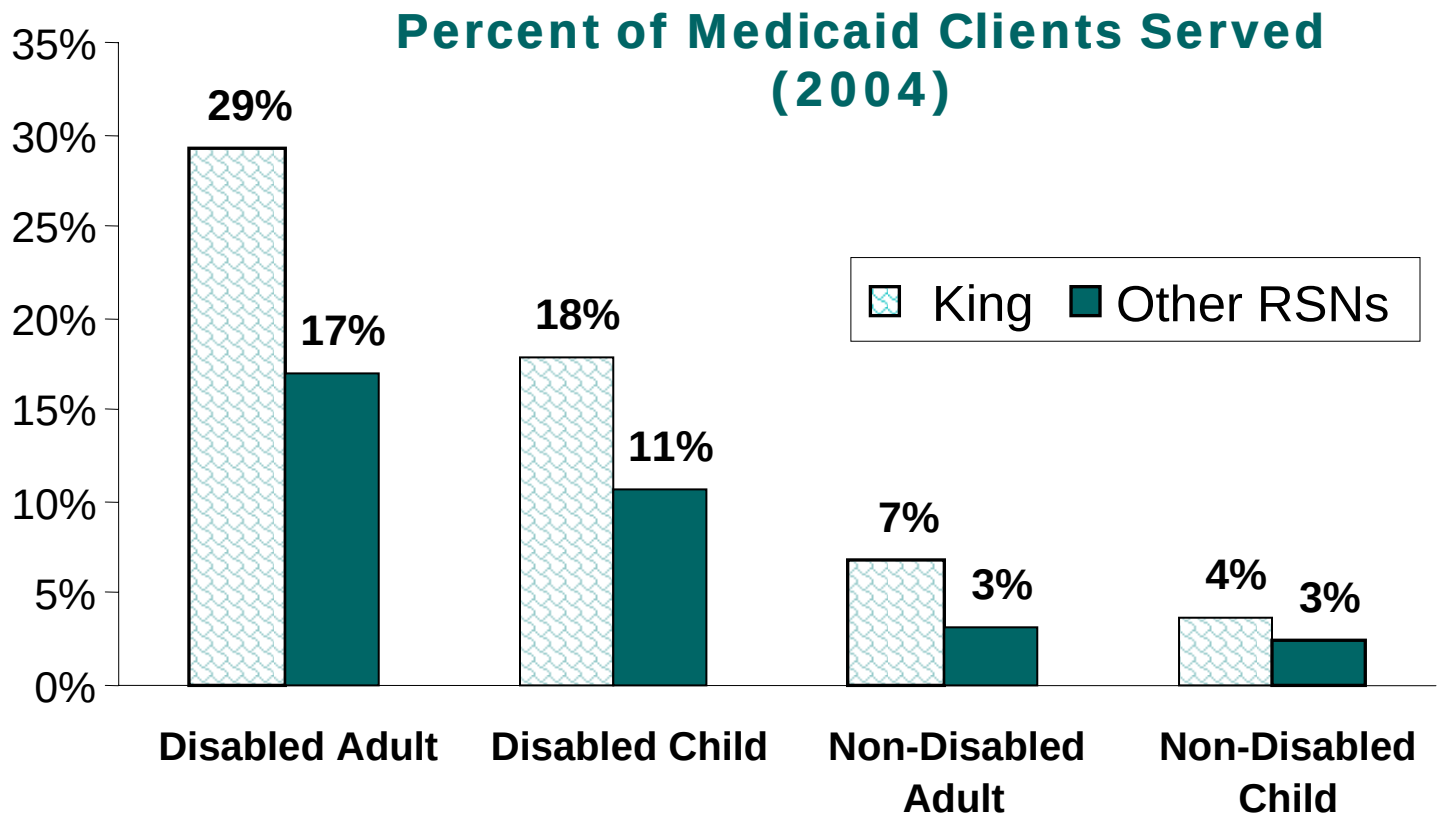
The actuary study in fact showed major variations in reported Medicaid spending, even after controlling for differences in client age and disability.



10 of the 14 RSN's reported spending less than the statewide average. All reported spending at least 20% less than providers in King County.

Reported Spending per Medicaid Enrollee	Difference from Statewide	
	Average	Highest
King	46%	0%
Peninsula	14%	-22%
Chelan Douglas	9%	-25%
Spokane	7%	-27%
Clark	-4%	-35%
Southwest	-12%	-40%
Pierce	-15%	-42%
Greater Columbia	-17%	-43%
North Sound	-19%	-44%
Timberlands	-19%	-44%
Thurston Mason	-34%	-55%
North Central	-37%	-57%
Grays Harbor	-40%	-59%
Northeast	-48%	-65%
AVERAGE	0%	-32%

These differences are primarily due to differences in the number of persons served, rather than to costs per person.



DSHS addressed these variations by basing FY 06 Medicaid rates 50% on each RSN's reported costs, and 50% on the statewide average.

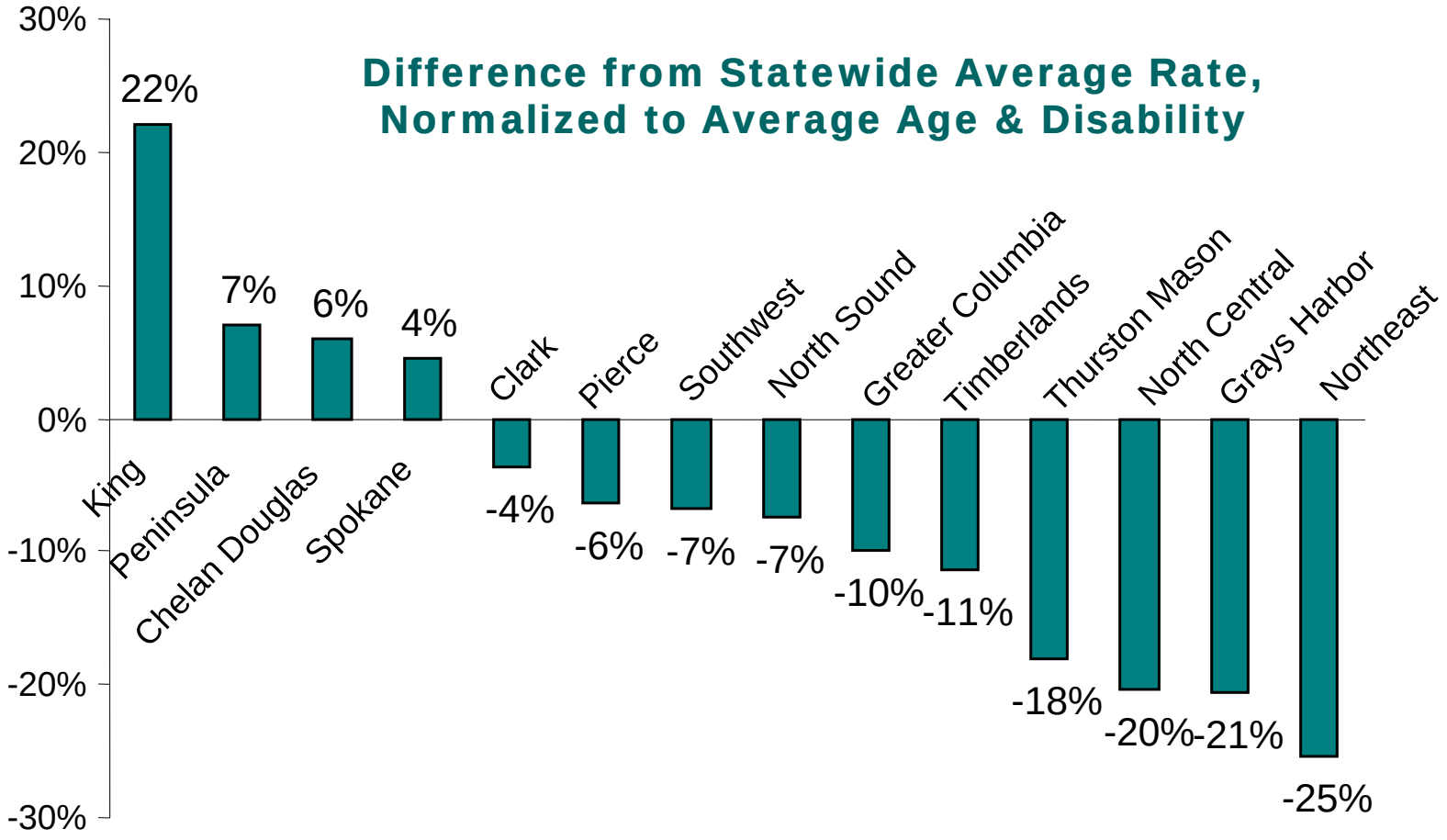
- Effect is to "smooth" variations: rate set at 105% of statewide average for an RSN with reported costs 10% above average, and at 95% of average for an RSN with costs 10% below.
- Rates set at bottom of "actuarially sound" range (i.e. assume 50% provider productivity, and 10% overhead), in order to operate within budgeted level.

Statewide, the new policy on managed care savings reduced Medicaid funding by 17% between FY 05 and FY 06.

Compliance with the "actuarial soundness" requirement, by RSN, caused Medicaid funding to decrease by less than 17% in 5 RSNs, and by more than 17% in 9.

	Change in Medicaid Funding FY 06 compared to FY 05	
	$'s in Millions	% Change
Chelan Douglas	($0.5)	-8.7%
Clark	($4.5)	-24.1%
Grays Harbor	($1.9)	-31.4%
Greater Columbia	($9.6)	-24.4%
King	($0.4)	-0.5%
NEWRSN	($2.4)	-38.0%
North Central	($3.4)	-31.8%
North Sound	($12.7)	-26.7%
Peninsula	($2.2)	-12.4%
Pierce	($10.9)	-24.7%
Southwest	($1.2)	-16.5%
Spokane	($0.7)	-2.4%
Thurston Mason	($4.5)	-31.6%
Timberlands	($1.1)	-17.2%
TOTAL	($55.9)	-17.0%

Even after “smoothing” and controlling for age and disability, there are significant differences in Medicaid payment rates.



Key questions raised by FY 06 Medicaid rate-setting

- What services, and what level of access to them, is the state seeking to buy with Medicaid managed care payments?
  - Is it the same in all RSN areas?
  - If so, should there be such large variations in payment rates?
- Why is the percentage of persons served so much lower in other RSNs than in King?
  - Are the 4 age/disability cells that are used for rate-setting too broad to account for differences in service need?
  - To what extent are the differences due to resource availability and payment mechanisms, rather than to differing client needs?

Key questions raised by FY 06 Medicaid rate-setting

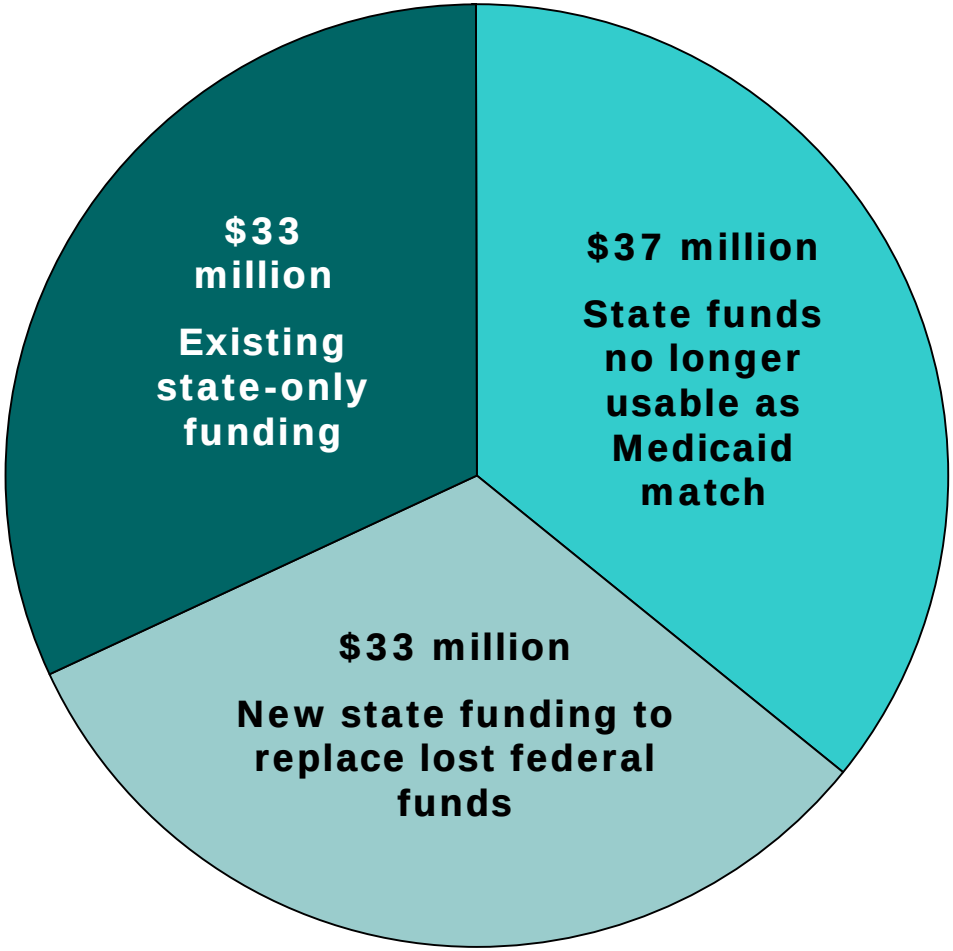
- Should the primary determinant of Medicaid payment rates be reported spending in each of the 14 different RSN areas?
  - Is what's actually been provided in each area, and the cost of providing it, the best way to decide how much the state should pay in the future?
  - Is it reasonable for payment rates to vary substantially across the state because of differences in practice patterns?
  - Does there need to be an explicit assumption regarding the extent to which costs are to be covered by local and private fund sources?

Non-Medicaid Funding Allocations

The Legislature provided $80 million in new state-only funding for 2005-07

- $67 million to support the $82 million of non-Medicaid services previously covered with federal savings
- $10 million for jail projects
- $3 million for other innovative projects

Holding the $13 million earmarked for jails & special projects aside, a total of $103 million per year was provided for non-Medicaid services



The budget bill directed that two criteria be used to allocate the $103 million per year.

- First, the FY 03 level of non-Medicaid crisis, inpatient, & residential services in each RSN was to be funded.
- Second, remaining funds were to be distributed according to RSN population.

Using a narrow reading of the proviso criteria, $65.6 million would be distributed for "core services", and $37.6 million according to population.

	Allocation of State-Only Funds, per Appropriations Act *Dollars in Millions*			
RSN	**Core Services**	**Population**	**Total**	**% of Total**
Chelan Douglas	$0.65	$0.59	$1.24	1.2%
Clark	$2.10	$2.22	$4.31	4.3%
Grays Harbor	$1.05	$0.40	$1.45	1.4%
Greater Columbia	$5.90	$3.64	$9.54	9.4%
King	$20.39	$10.34	$30.73	30.4%
NEWRSN	$0.33	$0.41	$0.74	0.7%
North Central	$1.21	$0.78	$1.98	2.0%
North Sound	$9.54	$5.90	$15.45	15.3%
Peninsula	$2.12	$1.92	$4.04	4.0%
Pierce	$14.73	$4.30	$19.04	18.8%
Southwest	$0.67	$0.55	$1.22	1.2%
Spokane	$4.75	$2.50	$7.25	7.2%
Thurston Mason	$1.53	$1.56	$3.08	3.0%
Timberlands	$0.62	$0.55	$1.17	1.2%
TOTAL	**$65.6**	**$35.7**	**$101.2**	**100.0%**

Note: Total does not add to $103 million because MHD is holding back 2% of the funding for performance incentive payments, as allowed by RCW 71.24.035.

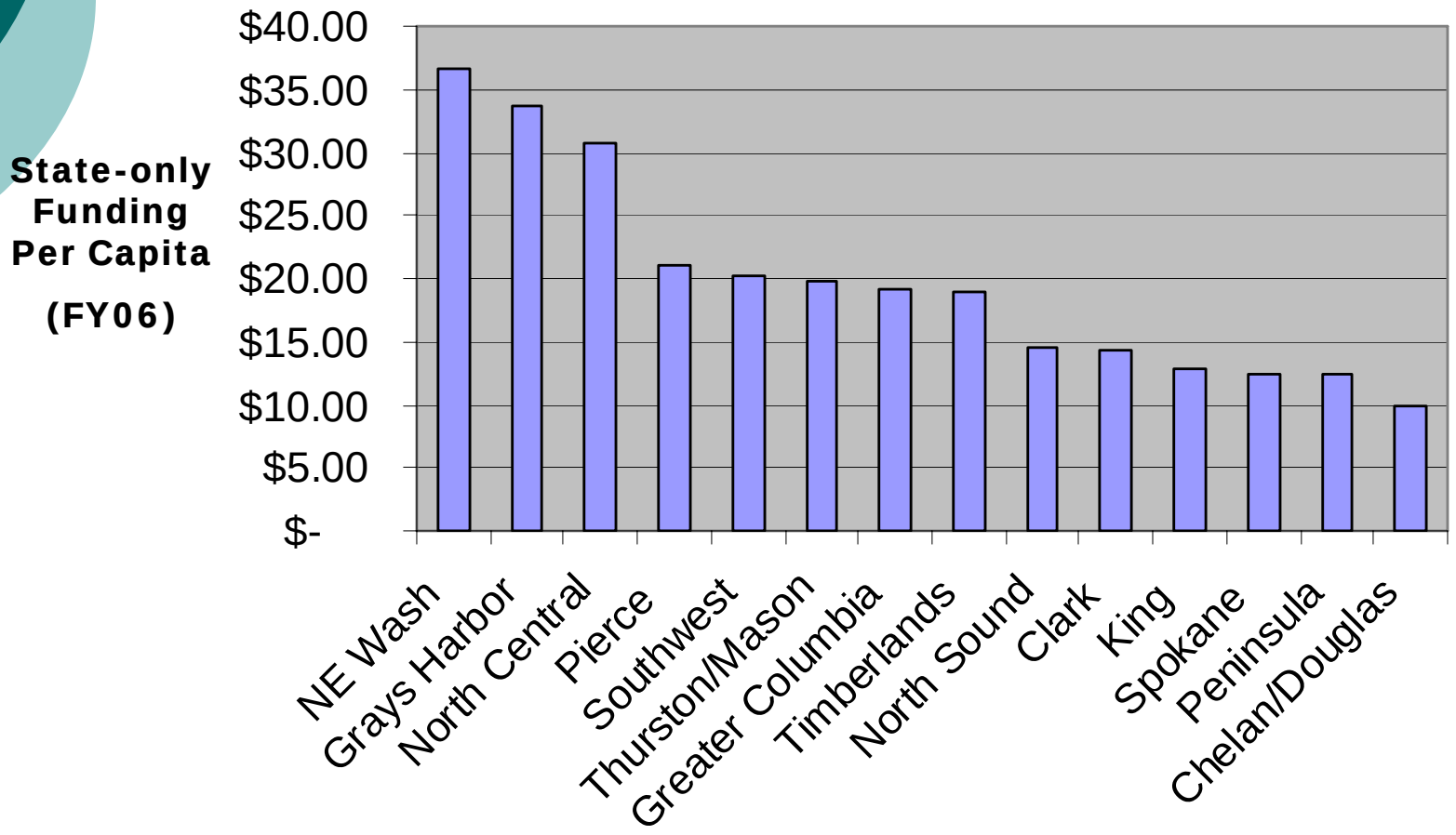
Because of the major shifts in Medicaid funding levels, half the RSNs would have lost 6% to 29% of their funding if the state-only proviso criteria were applied narrowly.

	Possible FY 06 Allocations, in Millions			Difference from FY 05	
RSN	**Medicaid** (DSHS's 50/50 Approach)	**State-Only** (Proviso Criteria Only)	**Total**	**Dollars**	**Percent**
Chelan Douglas	$5.2	$1.2	$6.4	$0.2	3.4%
Clark	$14.1	$4.3	$18.4	($1.3)	-6.5%
Grays Harbor	$4.2	$1.4	$5.6	($0.9)	-13.8%
Greater Columbia	$29.7	$9.5	$39.3	($2.8)	-6.6%
King	$77.5	$30.7	$108.2	$17.9	19.8%
NEWRSN	$3.8	$0.7	$4.6	($1.9)	-28.8%
North Central	$7.3	$2.0	$9.3	($2.2)	-19.1%
North Sound	$35.1	$15.4	$50.5	$0.5	1.0%
Peninsula	$15.5	$4.0	$19.5	($0.1)	-0.6%
Pierce	$33.3	$19.0	$52.4	$3.8	7.8%
Southwest	$6.1	$1.2	$7.3	($0.7)	-9.0%
Spokane	$26.6	$7.2	$33.9	$2.2	7.0%
Thurston Mason	$9.7	$3.1	$12.8	($2.4)	-15.8%
Timberlands	$5.3	$1.2	$6.4	($0.7)	-9.3%
TOTAL	**$273.2**	**$101.2**	**$374.5**	**$11.7**	**3.2%**

In response to this, the Governor decided to use part of the non-Medicaid funding to assure that no RSN received fewer total funds in FY06 than in FY05

	Allocation of FY 06 State-Only Funds to Maintain FY 05 RSN Funding Levels, in Millions				
RSN	Core Services	Population	Hold Harmless	Total	% of Total
Chelan Douglas	$0.65	$0.17	$0.22	$1.03	1.0%
Clark	$2.10	$0.63	$2.87	$5.59	5.5%
Grays Harbor	$1.05	$0.11	$1.19	$2.35	2.3%
Greater Columbia	$5.90	$1.03	$5.39	$12.32	12.2%
King	$20.39	$2.92	$0.00	$23.32	23.0%
NEWRSN	$0.33	$0.11	$2.14	$2.59	2.6%
North Central	$1.21	$0.22	$2.74	$4.17	4.1%
North Sound	$9.54	$1.67	$3.82	$15.03	14.8%
Peninsula	$2.12	$0.54	$1.51	$4.17	4.1%
Pierce	$14.73	$1.22	$0.00	$15.95	15.8%
Southwest	$0.67	$0.16	$1.12	$1.94	1.9%
Spokane	$4.75	$0.71	$0.00	$5.46	5.4%
Thurston Mason	$1.53	$0.44	$3.52	$5.49	5.4%
Timberlands	$0.62	$0.16	$1.05	$1.83	1.8%
TOTAL	**$65.6**	**$10.1**	**$25.6**	**$101.2**	**100.0%**

There is significant variation in the amount of non-Medicaid funding available per person.



Key state-only policy issues

- What is the benefit package RSNs should provide to non-Medicaid clients? What about non-Medicaid services to Medicaid clients?
- To what extent should the benefit package be consistent across RSNs?
- How should funding be distributed? Based on historical expenditures (to preserve existing capacity)? Based on total population? Based on low-income population? On other factors?