Individual State Agency Fiscal Note

Bill Number: 5829 SB	Title: Behavioral health approps	Agency: 107-Washington State Health Care Authority

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

ACCOUNT	FY 2022	FY 2023	2021-23	2023-25	2025-27
General Fund-Federal 001-2		58,060,000	58,060,000	58,060,000	
Total $		58,060,000	58,060,000	58,060,000	

Estimated Operating Expenditures from:

	FY 2022	FY 2023	2021-23	2023-25	2025-27
Account					
General Fund-State 001-1	0	42,655,000	42,655,000	32,655,000	0
General Fund-Federal 001-2	0	58,060,000	58,060,000	58,060,000	0
Total $	0	100,715,000	100,715,000	90,715,000	0

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact . Factors impacting the precision of these estimates , and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia , complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia , complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

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Agency Approval:	Megan Atkinson	Phone: 360-725-1222	Date: 01/25/2022
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Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

See attached narrative.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

See attached narrative.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

See attached narrative.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2022	FY 2023	2021-23	2023-25	2025-27
001-1	General Fund	State	0	42,655,000	42,655,000	32,655,000	0
001-2	General Fund	Federal	0	58,060,000	58,060,000	58,060,000	0
		Total $	0	100,715,000	100,715,000	90,715,000	0

III. B - Expenditures by Object Or Purpose

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits					
C-Professional Service Contracts					
E-Goods and Other Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services		100,715,000	100,715,000	90,715,000	
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total $	0	100,715,000	100,715,000	90,715,000	0

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

IV. D - Capital FTE Detail: *List FTEs by classification and corresponding annual compensation . Totals need to agree with total FTEs in Part IVB*

NONE

Part V: New Rule Making Required

Bill Number: 5829 SB HCA Request #: 22-063

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

This bill includes a proposed rate increase and appropriation to the Health Care Authority (HCA) for Community Behavioral Health (CBH) agencies.

The rate increase provided in this bill would have a significant fiscal impact on the behavioral health rates paid as part of the Medicaid program. The timeline specified in the bill (rate increase effective July 1, 2022) will be difficult to achieve given the timeline for rate changes. In order for HCA to include this rate change in the July 1, 2022, rate update, the bill would need final action in early February. If the agency is unable to implement by July 1, then the rate increase will go into effect with the normal calendar year rates the following January. Regardless of the effective date of the rate increase, the bill would require cross divisional coordination in the agency to effectuate the required rate increase and to implement the post-rate increase reporting.

Section 1(1) – HCA shall work with managed care organizations (MCOs) to implement a seven percent average rate increase for covered inpatient, residential, or outpatient behavioral health services to Medicaid clients by licensed and CBH agencies. The rate increase shall be in comparison to rates established in the fiscal year ending June 30, 2022, and shall be effective July 1, 2022.

Section 1(2) – HCA shall require MCOs to track and report how funds provided are used by CBH agencies to improve employee recruitment and retention, including data on vacancy rates, turnover metrics, and wage growth. HCA shall report its findings to the governor and legislature annually by December 1st.

Section 2 – HCA is appropriated $10,000,000 for the fiscal year ending June 30, 2023, to provide bridge funding to CBH agencies participating in federal certified CBH clinic expansion grant programs to sustain their continued level of operations following expiration of federal grant funding during the planning process for adoption of the certified CBH clinic model statewide.

Section 3 – This act expires June 30, 2024. This expiration date results in the rate increase being temporary and ending in the middle of a contract year.

II. B - Cash Receipts Impact

Assumes a July 1, 2022, start date for the seven percent rate increase. If the final action on this bill isn't available in time for inclusion the in July rate update, the increase will go into effect January 1, 2023.

II. B - Estimated Cash Receipts to:

ACCOUNT	FY-2022	FY-2023	FY-2024	FY-2025
General Fund-Medicaid 001-C	-	58,060,000	58,060,000	-
Totals	**$ -**	**$ 58,060,000**	**$ 58,060,000**	**$ -**

II. C – Expenditures

Assumes a July 1, 2022, start date for the seven percent rate increase. If the final action on this bill isn't available in time for inclusion in the July rate update, the increase will go into effect January 1, 2023.

II. C - Operating Budget Expenditures

Account	Account Title	Type	FY-2022	FY-2023	FY-2024	FY-2025
001-1	General Fund	State	-	42,655,000	32,655,000	-
001-C	General Fund	Medicaid	-	58,060,000	58,060,000	-
		Totals	**$ -**	**$ 100,715,000**	**$ 90,715,000**	**$ -**

II. C - Expenditures by Object Or Purpose

		FY-2022	FY-2023	FY-2024	FY-2025
N	Grants, Benefits & Client Services	-	100,715,000	90,715,000	-
	Totals	**$ -**	**$ 100,715,000**	**$ 90,715,000**	**$ -**

This bill requires HCA to implement a seven percent managed care rate increase and provide $10 million GF-S in bridge funding to specified providers. MCOs must use the seven percent rate increase funds to increase reimbursement for licensed and certified CBH agencies serving Medicaid clients. HCA is assuming that the language in section 1(1) would limit the rate increase to CBH agencies and would exclude services provided by hospital-based providers. HCA estimates that the seven percent rate increase would increase Medicaid services costs by just under $91 million per 12 month period.

For purposes of this fiscal note, HCA assumes the rate increase starts July 1, 2022, and concludes June 30, 2024 (the expiration date of the bill). Thus, the rate increase is in effect for 24 months as detailed in the table below.

July 1, 2022 start date	FY 23	FY 24	FY 25	Total
Behavioral Health				
GFS	32,175,000	32,175,000		64,350,000
GFF	57,168,000	57,168,000		114,336,000

Physical Health (CHIP Only)				
GFS	480,000	480,000		960,000
GFF	892,000	892,000		1,784,000

Total				
GFS	32,655,000	32,655,000		65,310,000
GFF	58,060,000	58,060,000		116,120,000

Premiums for clients enrolled in the Children's Health Insurance Program (CHIP) are paid for out of HCA's physical health budget. All other premiums are paid for out of HCA's behavioral health budget. The tables above include the total premium cost as well as a breakdown of the costs specific to each budget unit.

Key assumptions include:

- Start date is assumed to be July 1, 2022.

- Estimates are based on calendar year (CY) 2022 managed care rates.
- The October Caseload Forecast Council (CFC) forecast informs caseload assumptions (this is the current forecast).
- Only services provided by licensed and certified CBH agencies paid for under the behavioral health portion of the capitation rate are assumed to be eligible for this rate increase.
- These estimates assume that services delivered by CBH agencies account for approximately 80-90% of the BH portion of the managed care capitations rate
- Services provided by hospital-based providers are assumed to be ineligible for this rate increase.
- Wraparound with Intensive Services (WISe) case rates are assumed to be eligible for this rate increase.

Section 1(1) directs HCA to implement this rate increase July 1, 2022. Managed care rates are developed on a calendar year basis. HCA faces significant challenges implementing rate changes that do not align with the normal rate development timeline. Federal rule 42 CFR 438.3 directs states to submit MCO rates no later than 90 days prior to the effective date of the contract. In order to complete a July mid-year rate update on time, HCA would need to have rates, including all conversations with CMS regarding the directed payment proposed in this bill, completely finalized by April 1. Inherent in this timeline is the operational reality that the details of the rate increase would need to be finalized and enacted in February. The timeline needed to operationalize a July 1 rate increase does not typically align with Legislative deliberations and a final budget.

Additionally, MCOs have communicated that they need a number of months (generally 6 months when the scope or complexity of the change is unknown) to re-contract with providers and update their systems in order for a smooth transition for a significant rate change. Complex mid-year rate updates also jeopardize HCA's ability to complete calendar year rate development on time.

For context, during calendar year 2021, HCA implemented several mid-year rate increases. What was learned from that work effort is that significant mid-year rate changes disrupt the agency's calendar year rate development and jeopardize compliance with CMS requirements regarding timely filing of rate documents. Specifically, the January 1, 2022, rate documentation should have been filed with CMS October 1, 2021. The agency submitted those documents December 20, 2021.

The reporting requirements in section 1(2) would require managed care contracting changes. While executing these contract changes could be accomplished within existing resources, HCA may have challenges updating contracts in time for the July 1, 2022, start date required in the bill. MCOs will likely need to survey all providers directly to capture the reporting data required. It is unclear who will be responsible for auditing the related expenditures, HCA or the MCOs. Section 1(2) also requires a report due on December 1, 2022. Given the timeline for implementation of the rate increase specified here, the first report is unlikely to have any findings of value.

Part IV: Capital Budget Impact

None.

Part V: New Rule Making Required

None.