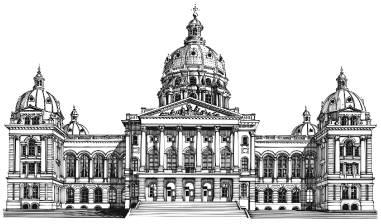
ISSUE REVIEW

Iowa Legislative Fiscal Bureau



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State Capitol
Des Moines, IA 50319
December 30, 1997

Financing Mental Health Services in Iowa

ISSUE

In 1995, the State of Iowa began a process to share with counties the costs of adult mental health services. This ***Issue Review*** provides an overview of financing mechanisms, managed care, and State and county relationships in funding and service delivery within the adult and child mental health systems.

AFFECTED AGENCIES

Department of Human Services
Department of Revenue and Finance
County Governments

CODE AUTHORITY

Section 331.438 and 331.439, Code of Iowa
Chapter 426B, Code of Iowa
Senate File 69 (Property and Income Tax Act)

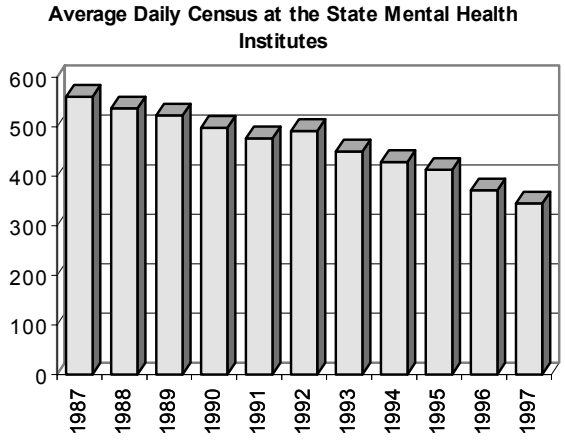
BACKGROUND

Senate File 69 (Property and Income Tax Reduction Act of 1995): Senate File 69, passed during the 1995 Legislative Session, provided property tax relief to counties in an effort to reduce property taxes attributable to county funding of mental health care. The State provided for a three-year transition period. During that timeframe the State phased-in responsibility for approximately 50.0% of the expenditures for Mental Health/Mental Retardation/Developmental Disability (MH/MR/DD) services. The State also required a system of managed care for adult mental health services and appointment of Central Point Coordinators (CPCs) in each county to serve as single points of entry into the mental health delivery system. The spending limitations of the system were intended to alleviate political pressure to continually increase available funds for MH/MR/DD services. Related legislation directed counties to develop and submit to the State County Management Committee annual Mental Illness/Mental Retardation plans to manage MH/MR/DD services.

Historical Census at the Mental Health Institutes and State Hospital Schools: The State operates four Mental Health Institutes (MHIs) including Cherokee MHI, Clarinda MHI, Independence MHI, and Mount Pleasant MHI. The State also operates the Woodward and Glenwood State Hospital Schools. Due to the recent development of new medications, the reduction in length of stays, the implementation of a managed care contract for Medicaid clients, and the introduction of expanded community-based services in the 1980s, the average daily censuses at the State facilities has decreased significantly. Since FY 1987, the average daily census at the Mental Health Institutes has decreased by 38.5%, from 561 clients in FY 1987 to 345 clients in FY 1997. During the same time period, the State Hospital Schools' population has decreased by 39.0%, from 1,113 clients in FY 1987 to 679 clients in FY 1997. **Figure 1** depicts the decline in population at the four Mental Health Institutes.

The principal reasons for the declining caseload are shorter lengths of stay and greater utilization

Figure 1



of community-based programs. The number of admissions at the four Institutes increased by 40 (1.4%) in FY 1997 compared to admissions in FY 1990, indicating that any change in admission rates to the four Institutes is not responsible for the declining population.

Appendix 1 summarizes the annual censuses for the State's Mental Health Institutes, Hospital Schools, Training School, and Juvenile Home for FY 1987 through FY 1997.

Managed Care for Medicaid Clients: In 1994, Iowa issued a managed care contract to Merit Behavioral Care, Corp. for behavioral health services under a federal "freedom of choice" waiver, which allows a state to require Medicaid beneficiaries to receive services through a managed care organization. All mental health services funded for Medicaid beneficiaries, with the exception of Psychiatric Medical Institutions for Children (PMICs), were included in the Iowa Mental Health Access Plan (MHAP) implemented in March 1995. A similar plan for substance abuse services was implemented in September 1995. Medicaid beneficiaries under the age of 65 receive mental health and substance abuse services through these two Plans. Children receiving Rehabilitative Treatment and Support (RTS) services are enrolled in the Plans and subsequently receive mental health and substance abuse treatment.

The Medicaid managed mental health care plan, and the Medicaid portion of the managed substance abuse care plan, are both operated in a capitated at-risk environment. The contractors receive a designated amount of money each month per enrollee, regardless of whether the enrollee

receives services. The MHAP is anticipated to expend $48.0 million in Medicaid appropriations (combined State and federal funds) for FY 1998. The Medicaid portion of the Iowa Managed Substance Abuse Care Plan will total an estimated $8.0 million.

The Legislative Fiscal Bureau is currently preparing an ***Issue Review*** entitled "The Integrated Access (IA) Plan" which will provide greater detail on managed care, and is expected to be released in January 1998. A second ***Issue Review*** entitled "History of Child Welfare Services Paid by the Medical Assistance Program" provides an historical overview of RTS services and is anticipated to be available in December 1997.

CURRENT SITUATION

***Populations Served*:** The recipients of mental health services in Iowa include persons with the following diagnoses:

- Mental Retardation - an IQ of approximately 70 or below and an inability to meet standards for the person's age in specified skills.
- Chronic Mental Illness - a severe and persistent mental or emotional disorder that seriously impairs personal relations, living arrangements, or employment.
- Developmental Disability - a substantial functional limitation in several life activities, caused by mental or physical impairment, manifested before the age of 22, and likely to continue indefinitely.

***Sources of Public Funding*:** Funding for mental health services in Iowa is provided by State, federal, and county governments.

- **Federal Funding** - The Medical Assistance Program provides federal funds for individuals of qualifying categorical groups (such as recipients of Family Investment Program or Supplemental Security Income benefits) with incomes and resources below specified levels. Once private insurance is exhausted, the federal government provides 63.55% of the costs of mental health care for eligible individuals. The Medical Assistance Program requires a 36.45% match by the State, and in Iowa, the match is provided through the Mental Health/Developmental Disabilities Community Services Fund (which combines State and county resources).
- **Counties** - Counties provide a portion of the non-federal share of costs for individuals eligible for Medical Assistance. Billing to counties is limited to $98.72 per day at Woodward and $81.25 per day at Glenwood. (The State pays the amount that exceeds this cap.) Counties also pay 80.0% of the cost of services for adults not eligible for Medical Assistance with legal settlement in the county, and pay 80.0% of the cost of services for children not eligible for Medical Assistance, ***except Intermediate Care Facilities for the Mentally Retarded (ICF/MR) and services provided under the Home and Community-Based Waiver, which are paid by the State***. Gross expenditure for all services funded by the MH/DD Community Services Fund is estimated to be $214.2 million plus $6.2 million in appropriated growth in FY 1998, of which $125.8 million (57.1%) is anticipated to be county funds. (Gross expenditure excludes federal Medicaid funds which do not typically flow through the counties' MH/MR/DD Services funds.)
- **State** - the State contribution for mental health services includes:

⇒ *Residential care for mentally retarded juveniles.* In FY 1998, the State appropriated $10.4 million for Intermediate Care Facilities for the Mentally Retarded (ICF/MR) for children.

⇒ *State Cases, i.e., persons without a "County of Legal Settlement" and therefore without a county of responsibility.* The State Cases Program provides treatment for persons with mental illness, mental retardation, or other developmental disability, who because of relocation or homelessness, have no discernible home county and no county willing to accept the financial responsibility of treatment. There were 550 total State Cases at a cost of $5.5 million in FY 1997. The DHS estimates 600 State Cases costing $6.9 million in FY 1998 and nearly 800 State Cases costing $9.2 million in FY 1999.

⇒ *Property Tax Relief.* In FY 1998, the State appropriated $95.0 million to the Property Tax Relief Fund, of which $88.4 million was appropriated to counties to reduce taxes on property and $6.6 million was appropriated to fund the nonfederal share of services for children under the Medical Assistance Program. The State also provided an allowed growth factor adjustment of $6.2 million in FY 1998 and $12.5 million in FY 1999.

⇒ *Adults at State Hospital Schools whose costs exceed the per diem cap amount.* Of the 36.45% match required under the Medical Assistance Program for eligible adults at State Hospitals, counties' costs are limited to $98.72 and $81.25 per day at Woodward and Glenwood respectively. The State pays any remaining costs associated with the mental health care of eligible adults. In FY 1996, the State expended $2.5 million for State Hospital School costs exceeding per diem cap amounts and federal funding.

⇒ *Community Services Fund.* The State appropriated $17.4 million to the Community Services Fund in FY 1998. The Fund encourages service improvement and coordination and enables counties to provide mental health services at the community level, thereby preventing institutional placement of disabled individuals.

⇒ *"Up-front" cost of institutions* (except Glenwood which is net-State budgeted beginning in FY 1998 as described below). Counties and the Medical Assistance Program reimburse a portion of the cost to the State General Fund. Details of specific appropriations to the State Hospital Schools and Mental Health Institutes follow.

***Funding of the State Hospital Schools*:** The total cost of operating the State Hospital Schools in FY 1997 was $63.6 million. At Woodward, the General Assembly makes an up-front appropriation of all operating expenses of the School. All receipts and reimbursements from the Woodward State Hospital School are then deposited in the General Fund. The Glenwood State Hospital School uses net-State budgeting under which the General Assembly appropriates only the State share of operating expenses. The State share of Glenwood's estimated FY 1998 expenditures is $3.1 million. All receipts and reimbursements from Glenwood are deposited into a Glenwood operating account.

***Funding of the State Mental Health Institutes*:** The total cost of operating the State Mental Health Institutes in FY 1997 was $42.0 million. The General Assembly makes up-front appropriations of all operating expenses of the Institutes. All receipts and reimbursements are then deposited in the General Fund. The Independence MHI is currently conducting a pilot net-State budgeting project (on paper only) in anticipation of a future conversion to this form of budgeting. In FY 1996, the net-State share of expenditures was 61.2% of total appropriations.

***Funding of Community-Based Services*:** Community-based services include treatment for Mental Illness, Chronic Mental Illness, Mental Retardation, and Developmental Disabilities. The total FY 1996 cost of $213.3 million for Community-Based Services was distributed as shown in **Figure 2**.

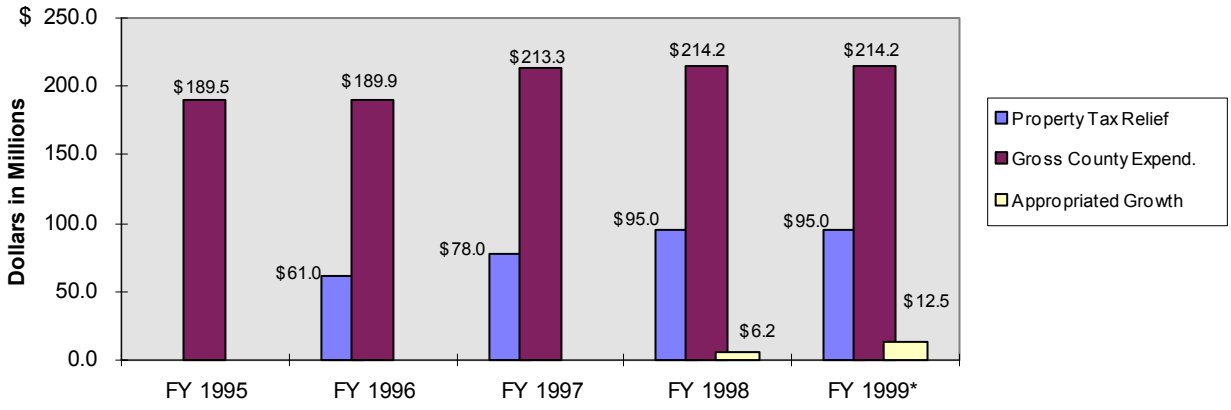
Figure 2

Community-Based Service	FY 1996 Expenditure ($ in millions)
Mental Illness	$ 21.1
Chronic Mental Illness	53.4
Mental Retardation	130.0
Developmental Disabilities	8.7
Total	$ 213.3

***Implementation of SF 69 initiatives*:** The State made standing appropriations of $61.0 million in FY 1996, $78.0 million in FY 1997, and $95.0 million in FY 1998 and subsequent years. In exchange, counties agreed to reduce property taxes on a dollar-for-dollar basis and to cap the amounts levied for Mental Health/Mental Retardation/Developmental Disabilities (MH/MR/DD) services to a baseline amount. In each year, the amount appropriated by the State is first reduced by $6.6 million to fund the nonfederal share of the costs of Medical Assistance services provided to minors with mental retardation. The State also appropriates growth for costs associated with new clients and inflation. House File 255 (Mental Health Allowed Growth Factor Adjustment Act), passed during the 1997 Legislative Session, provides the first allowed growth factor adjustment of $6.1 million in FY 1998 and $12.5 million in FY 1999. The growth factor provides a 2.89% increase to net county expenditures. **Figure 3** details property tax funding relief from FY 1995 through FY 1999.

Figure 3

Property Tax Relief Funding History



Ninety-eight county Mental Illness/Mental Retardation plans have been approved by the State County Management Committee, and the remaining county, Woodbury, is currently negotiating

approval of its plan. Since implementation of managed care for adult mental health services, access to services has increased. Whereas 5.5% of Medical Assistance recipients utilized mental health services each month under the previous fee-for-service mental health care payment system, 7.2% of Medical Assistance enrollees accessed mental health services under the new managed care system.

LEGISLATIVE CHALLENGES FOR 1998

***Integrated Access (IA) Plan*:** The DHS contract with Merit Behavioral Care, Corp. expires on June 30, 1998. On May 15, 1997, the Department issued a draft Request for Proposal (RFP) to renegotiate a managed care contract for mental health services and substance abuse treatment. Subsequent to receipt of public comment, the DHS issued a second draft RFP in September which added incorporation of managed care for Rehabilitative Treatment and Support (RTS) Services, consisting of the treatment portion of Group Foster Care, Foster Care, Family Centered, and Family Preservation Services.

The Draft RFP combines mental health, substance abuse, and the specified child welfare services to Iowans eligible for Medical Assistance into one contract, to be bid both statewide and regionally. The new contract will be identified as the Integrated Access (IA) Plan. Some of the major areas of discussion since release of the second Draft RFP include:

- A possible federal audit and the potential resulting loss of federal funds for treatment services, if any, found to be ineligible for Medicaid match.
- Inflexibility with respect to current rehabilitation treatment services (the restrictions which currently apply to service provision included in Iowa's State plan.)
- The lack of integration between behavioral health services and child welfare/juvenile justice services, including existing incentives for cost-shift among entities responsible for payment.
- The value of community-based decision-making and the impact on service design and delivery, particularly the impact on the efforts of decategorization at the county level.

A Work Group of various stakeholders in the Child Welfare and Juvenile Justice service system has been appointed to consider the various options concerning inclusion of RTS services in the IA Plan, and other service delivery issues. The Work Group is scheduled to make recommendations to the General Assembly by February 1, 1998. **Appendix 2** lists the goals, principles, and members of the IA Plan Work Group.

***Allowed Growth Formula for Mental Health*:** Pursuant to SF 69, (Property and Income Tax Act of 1995), a State County Management Committee was given the task of reviewing mental health funding issues affecting counties and the State and to make growth recommendations to the Governor by November 1, 1996. The Committee was directed to develop a formula for appropriating growth dollars to the counties. In FY 1997, HF 255 (Mental Health Allowed Growth Factor Adjustment Act) appropriated an increase of $6.2 million for FY 1998 and an additional $6.3 million in FY 1999. The General Assembly may wish to study the process used to calculate future Allowed Growth Factor Adjustments, and determine if the formula or some components thereof should be codified to ensure consistency and ease of determination.

***Relationship to Children's Services*:** At present, services for children include:

- Psychiatric Medical Institutions for Children (PMICs) accessed through the Child Welfare System.
- Mental Health Institutes accessed through Central Point Coordinators or the Mental Health Access Plan.
- Rehabilitative Treatment and Support (RTS) services accessed through the Iowa Mental Health Access Plan by Medicaid-eligible children and through the child welfare system by non-Medicaid-eligible children.

The proposed IA Plan integrates RTS services and Mental Health Institutes into one delivery contract, but maintains a distinct point of access for PMICs. The General Assembly may wish to consider the extent to which services for children should be integrated and accessed through a single point of entry.

STAFF CONTACT: Deb Anderson (Ext. 16764) Margaret Buckton (Ext. 17942)

Appendix 1
Institutions Historical Census

	Cherokee					Clarinda				Independence				Mt Pleasant				MHI Total
Fiscal Year	Census	Out-patient Cases	Avg Daily Cost	$ Per Diem	Per Diem $ Cap	Census	Avg Daily Cost	$ Per Diem	Per Diem $ Cap	Census	Avg Daily Cost	$ Per Diem	Per Diem $ Cap	Census	Avg Daily Cost	$ Per Diem	Per Diem $ Cap	Inpatient Census
1987	173					87				171				130				561
1988	155					76				176				130				537
1989	149					79				164				131				523
1990	138			145	123	63		161	165	169		181	155	128		123	121	498
1991	125			172	129	60		197	173	170		180	162	122		141	127	477
1992	153		262	195	137	68	260	220	183	186	241	223	172	85	214	162	135	492
1993	124		334	203	141	68	238	254	189	176	282	250	178	82	169	228	139	450
1994	116	207	343	255	145	67	252	292	195	172	283	266	183	74	175	506	143	429
1995	98	247	418	334	149	68	244	301	200	171	285	330	188	76	170	403	147	413
1996	80	288	496	306	150	69	247	280	206	153	322	303	193	70	191	367	151	372
1997	71	200	525	395	157	71	255	335	211	138	312	341	198	66	203	365	155	345
Capacity	110					83				181				80				

	Woodward				Glenwood			
Fiscal Year	Census	Avg Daily Cost	$ Per Diem	Per Diem $ Cap	Census	Avg Daily Cost	$ Per Diem	Per Diem $ Cap
1987	465				648			
1988	451				611			
1989	440				603			
1990	411		183	184	575		137	159
1991	395		202	193	551		178	167
1992	379	224	230	205	516	207	203	177
1993	340	259	251	211	488	213	228	182
1994	327	266	261	217	452	224	231	188
1995	290	293	286	224	429	232	240	193
1996	277	297	314	229	410	246	250	198
1997	279	282	329	235	400	249	261	203
Capacity	266				373			

	Toledo		Eldora	
Fiscal Year	Census	Avg Daily Cost	Census	Avg Daily Cost
1987				
1988				
1989				
1990				
1991				
1992	92	140	171	131
1993	92	151	174	139
1994	92	150	185	130
1995	91	152	192	127
1996	92	156	192	129
1997	92	136	184	161
Capacity	92		185	

Appendix 2
IA Plan Work Group

Appendix 1
Institutions Historical Census

	Cherokee					Clarinda				Independence				Mt Pleasant				MHI Total
Fiscal Year	Census	Out-patient Cases	Avg Daily Cost	$ Per Diem	Per Diem $ Cap	Census	Avg Daily Cost	$ Per Diem	Per Diem $ Cap	Census	Avg Daily Cost	$ Per Diem	Per Diem $ Cap	Census	Avg Daily Cost	$ Per Diem	Per Diem $ Cap	Inpatient Census
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1988	155					76				176				130				537
1989	149					79				164				131				523
1990	138			145	123	63		161	165	169		181	155	128		123	121	498
1991	125			172	129	60		197	173	170		180	162	122		141	127	477
1992	153		262	195	137	68	260	220	183	186	241	223	172	85	214	162	135	492
1993	124		334	203	141	68	238	254	189	176	282	250	178	82	169	228	139	450
1994	116	207	343	255	145	67	252	292	195	172	283	266	183	74	175	506	143	429
1995	98	247	418	334	149	68	244	301	200	171	285	330	188	76	170	403	147	413
1996	80	288	496	306	150	69	247	280	206	153	322	303	193	70	191	367	151	372
1997	71	200	525	395	157	71	255	335	211	138	312	341	198	66	203	365	155	345
Capacity	110					83				181				80				

	Woodward				Glenwood			
Fiscal Year	Census	Avg Daily Cost	$ Per Diem	Per Diem $ Cap	Census	Avg Daily Cost	$ Per Diem	Per Diem $ Cap
1987	465				648			
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	Toledo		Eldora	
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1988				
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1992	92	140	171	131
1993	92	151	174	139
1994	92	150	185	130
1995	91	152	192	127
1996	92	156	192	129
1997	92	136	184	161
Capacity	92		185	

Appendix 2

Treatment Component of Child Welfare Services Work Group

In response to the concerns raised about the placement of portions of Iowa's Juvenile Justice/Child Welfare Services in the second draft of the Managed Care RFP, the leadership of the Legislature has created a Treatment Component of Child Welfare Services Work Group.

Goal:

The goal of the Work Group is to recommend a strategy, or strategy options to the Iowa General Assembly by February 1, 1998 regarding the manner in which Iowa can develop a more flexible and holistic system for child welfare and juvenile justice services, in particular services funded through Medicaid as rehabilitative treatment services. One responsibility of the Work Group is to make a recommendation on whether to "de-link" child welfare/juvenile justice services from the Iowa Plan. The Work Group will make a recommendation to the Legislature on the linkage issue by January 12, 1998.

Principles:

The Work Group will agree to its own set of principles by which to assess and distinguish among different options and strategies for achieving the goals, but these principles are expected to include principles similar to the following:

1. Developing a flexible service delivery system that responds holistically to children and families, and is contoured to child, family, and community needs and assets;

2. Providing for quality review based upon performance objectives;

3. Supporting local design and decision-making through decategorization boards;

4. Reinvesting savings resulting from more efficient delivery of services (particularly as it applies to reducing lengths of stay in residential treatment) to enhance other elements of the service system;

5. Creating a delivery system across behavioral health and substance abuse treatment and child welfare, and also across child welfare and education and special education, other health services, and community systems of support to children and families which is seamless for those who use services and coordinated by those who provide and fund services;

6. Creating a system that reduces or eliminates incentives for cost-shifting based upon payment responsibility;

7. Fostering innovation and experimentation in developing cost-effective services;

8. Insuring that, whenever possible, families are preserved and, when placement is necessary, that permanency plan goals are achieved in a timely fashion, with minimal disruptions to the child;

9. Simplifying paperwork and reporting mechanisms which still maintain accountability standards over expenditures. Meet worker needs to provide appropriate care and treatment, and meets the needs of the quality assurance and performance accountability systems; and

10. Providing a strong data system, available at the state and community level. For continued oversight and quality improvement.

Reporting to the Legislature:

The co-chairs of the Work Group shall regularly report to the legislative leadership, and to the chairs and ranking members of the Human Resources committees and the Joint Human Services Appropriations Subcommittee. The Work Group will submit regular reports to the Human Services Restructuring Task Force, and to the Joint Human Services Appropriations Subcommittee. The final report will be submitted to the Legislature and the Governor.

Membership:

Charles Bruner, Des Moines Co-Chair (Child and Family Policy Center)
Arlene Dayhoff, Cedar Rapids Co-Chair (Public Citizen)
Dr. James Austin, Sioux City (Superintendent, Sioux City Community Schools)
Marc Baty, Cedar Rapids (Linn/Jones County DHS Area Administrator)
Julie Beckett, Iowa City (Public Citizen)
John Calhoun, Sioux City (Juvenile Court Officer, 3rd Judicial District)
Beth Crowell, (CPC, Harrison, Monona, and Shelby Counties)
Mary Dubert, Davenport (Director, Scott County Community Services)
Carol Finkel, Kansas City MO (Health Care Financing Administration Liaison)
Roger Gutmann, Des Moines (President, Lutheran Social Services of Iowa)
Patricia Hendrickson, Davenport (Chief Juvenile Court Officer, 7th Judicial District)
Don Herman, Des Moines (Division Administrator, Department of Human Services)
Steve Huston, Eldora (Superintendent, State Training School)
Mary Nelson, Des Moines (Division Administrator, Department of Human Services)
Diane Dethmers Paca, Garner (Vice-Chair, Iowa Council on Human Services)
Charles Palmer, Des Moines (Director, Department of Human Services)
Sara Petersen, Waterloo (North Iowa Juvenile Services)
Mike Riepe, Mt. Pleasant (Henry County Attorney)
Ralph Rosenberg, Ames (Coalition for Family and Children's Services in Iowa)
Julie Schmidt, Atlantic (Cass County Supervisor)
Dr. Edward Schor, Des Moines (Medical Director, Division of Family and Community Health, Department of Public Health)
Ted Stilwill, Des Moines (Director, Department of Education)
Sally Stutsman, Iowa City (Johnson County Supervisor)
Gretchen Tegeler, Des Moines (Director, Department of Management)
Tom Wilson, Davenport (President, Family Resources, Inc.)
Representative of the Foster Parents Association
Administration for Children, Youth, and Families Liaison, Chicago, IL

Health Care Financing Administration, Washington, DC
Administration for Children, Youth, and Families, Washington, DC

Meetings:

This work group will meet at least twice between now and the first of the year. The first meeting will be a 3 day retreat, in Des Moines, on November 17-19. It is tentatively set for the Hotel Fort Des Moines.