

Funding for the Adult Disability Services System (County Mental Health and Disability Services Funding)

ISSUE

This **Issue Review** examines the history of the Adult Disability Services System funding structure including; the county levy, state appropriations, the Iowa Health and Wellness Plan, and funding options going forward.

AFFECTED AGENCIES

Department of Human Services and Counties

CODE AUTHORITY

Iowa Code Section [331.438](#), [331.439](#), and [331.440](#)

HISTORY OF COUNTY MENTAL HEALTH AND DISABILITY SERVICES FUNDING

County Mental Health and Disability Services Property Tax Levy

In 1995, the General Assembly enacted [SF 69 \(Property and Income Tax Act\)](#) that changed the way the county mental health and disability services system was funded and how the county mental health property tax was levied. Unlike other property tax levies that are calculated based on a dollar rate per \$1,000 of property valuation, the county mental health and disability services levy was capped at a dollar amount. Counties were then allowed to choose to lock in their FY 1994 actual expenditures or their FY 1996 net expenditures as their new levy dollar cap. After FY 1996, with no option to increase the county levy and no growth in the rate due to increased property value, the state became responsible for funding all new growth in the system, and as a result of the dollar limit freeze, county property tax rates for the levy declined between 1996 and 2013 as property valuations increased.

State Appropriations

The State General Fund appropriations for the county adult disability services system have been complex, with four main appropriations distributed to counties annually. Those appropriations include:

- Property Tax Relief
- Community Services
- State Cases
- Allowed Growth

Funding for the system has ebbed and flowed over time. Typically more new money is appropriated in good economic years and reductions during recessions. **Attachment 1** is a chart showing state appropriations for the period FY 1995 through FY 2014.

Property Tax Relief

The Property Tax Relief appropriation, first appropriated in FY 1996, provided property tax relief to counties but did not provide new adult disability services. County levy caps statewide were reduced from \$214.2 million to \$125.8 million once the \$88.4 million General Fund appropriation was fully implemented in FY 1998. The law was designed to allow counties to levy additional funds to reach the \$214.2 million levy cap if the state did not provide the \$88.4 million in property tax relief as promised. All counties received the same property tax relief allocation each year as long as they complied with all statutory filing requirements.

Community Services

The Community Services appropriation, first appropriated in FY 1995 to provide additional services in all 99 counties, was distributed based 50.0% on county population and 50.0% on the poverty level. This appropriation ranged from \$28.7 million in FY 1994 to \$14.2 million in FY 2010, and was reduced gradually over time due to various across-the-board budget reductions and other cuts. When new money was added back to the system, the preference of the counties was to generally add the money to the Allowed Growth formula and not Community Services.

State Cases

The State Cases appropriation was provided to counties for services to individuals with no county of legal settlement. Legal settlement is a term used to describe the county that is required to fund many Mental Health and Disability Services (MHDS), including the nonfederal share of certain Medicaid charges, costs at the Mental Health Institutes (MHIs), State Resource Centers, and county-based community services. To gain legal settlement in a county, a person must continuously reside in a county for a period of one year. However, a person that moves to another county to receive services would not become legally settled in that county until they reside there for one year without services. Individuals who move in from out of state that need services within the first year of residency would qualify for funding from the State Cases appropriation because they would not qualify for legal settlement in any county. The State Cases appropriation grew from approximately \$3.0 million in FY 1995 to \$11.2 million in FY 2013. Legal settlement was eliminated beginning in FY 2014, with payment for services now based only on residency. However, counties still received an appropriation in FY 2014 from the Social Services Block Grant (SSBG) using the FY 2013 State Cases distribution.

Allowed Growth

The Allowed Growth appropriation, beginning in FY 1998, provided all growth in the adult disability services system for counties above the \$214.2 million base year levy cap. Allowed Growth distribution was based on a complex formula that took into account; population, percentage of the county's levy limit levied, fund balance, and net county expenditures. The formula was adjusted regularly with the goal of more certainty of county allocations and to try to get the money where it was most needed. The average Allowed Growth appropriation increase was 1.93% between FY 1998 to FY 2013, but increases varied greatly, ranging from a 4.71% decrease in FY 2002 to a 6.95% increase in FY 2008. There were many external factors that influenced the General Assembly's decision making for Allowed Growth funding. Some of those external factors include:

- The state added the Medicaid Adult Rehabilitation Option (ARO), subsequently replaced with Habilitation Services, that allowed counties to provide services using Medicaid funding. This enabled counties to shift individuals from services that were 100.0% county-funded to services that were funded approximately 62.0% by the federal government and 38.0% by the counties.
- The General Assembly reduced Allowed Growth funding to force counties to use excessive fund balances.
- Iowa experienced two recessions between FY 1998 and FY 2013, with both recessions resulting in reductions to the Allowed Growth appropriation. The federal government did

provide additional Medicaid matching funds that helped to offset the cuts during the recession. However, this led to a cliff effect once federal stimulus was no longer available.

ADULT DISABILITY SERVICES REDESIGN

[Senate File 525 \(FY 2012 Adult Disability Services Redesign Act\)](#), enacted during the 2011 Legislative Session, included a number of major provisions that laid the groundwork for redesign of the system and specified the intent for future legislative changes. [Senate File 525](#) specified that it was the intent of the General Assembly to implement the following:

- Shift funding responsibility for the nonfederal share of Medicaid from the counties to the state.
- Reorganize the system to be administered by counties on a regional basis in a manner that provides multiple points of access in the region for both Medicaid and non-Medicaid funded services.
- Replace legal settlement as the basis for determining financial responsibility for Adult Disability Services with a determination based on where an individual resides.
- Meet the needs of consumers with disabilities in a responsive and cost-effective manner.

In addition, the Act required the Department of Human Services (DHS) to design a workgroup process to support the work of the interim committee for Mental Health and Disability Services and to make recommendations on eligibility criteria, Medicaid and non-Medicaid core services, outcome and quality measures, provider accreditation, and regional service plans. Many of the recommendations made by the Workgroups were implemented in [SF 2315 \(FY 2013 Adult Disability Services Redesign Act\)](#), enacted during the 2012 Legislative Session.

MEDICAID BUYOUT AND TRANSITION

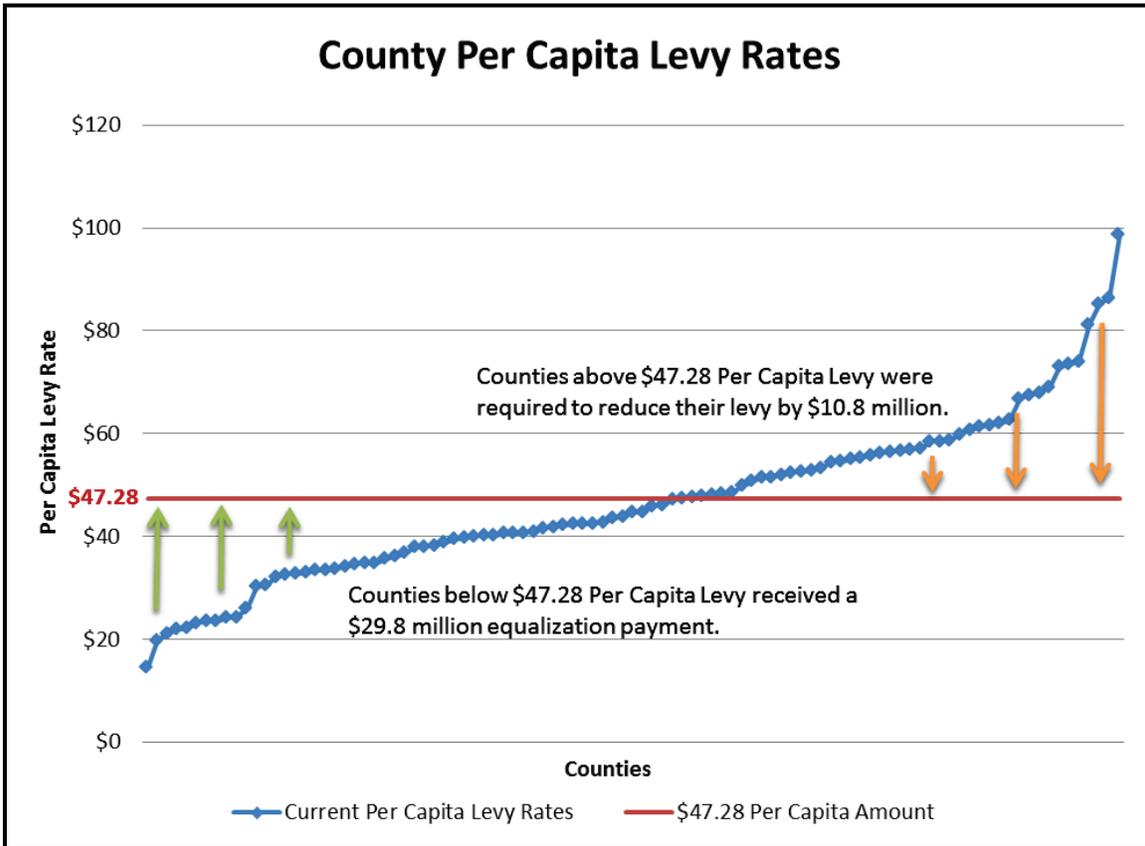
One of the major provisions implemented by [SF 2315](#) shifted the responsibility for payment of Medicaid services from the counties to the state. The Medicaid services that were shifted to the state included the Intellectual Disabilities Waiver, Habilitation Services, Intermediate Care Facilities for Individuals with Intellectual Disabilities, and the State Resource Centers. Medicaid services that were previously paid for by the counties cost the state \$240.9 million in FY 2013. As part of this shift, or “Medicaid county buyout,” the state retained and appropriated to Medicaid approximately \$190.9 million in General Fund appropriations that were previously distributed to the counties and made up the remaining \$50.0 million with a new General Fund appropriation to Medicaid.

Due to the cost of buying out the Medicaid Program, the counties received no general distribution of state funds for the remaining non-Medicaid county Mental Health and Adult Disability services for FY 2013. The state did provide an \$11.6 million dollar supplemental appropriation to a transition fund for counties that met certain criteria. Counties were eligible for funding if they needed additional resources to pay for current services under the county plan. A total of \$11.6 million was distributed from the fund to 26 counties in March 2013.

\$47.28 PER CAPITA AND COUNTY LEVY STRUCTURE

[Senate File 2315](#) also created a new mental health and disability services levy that began July 1, 2013. The old formula was eliminated and replaced with a new formula that distributed funding on a per capita basis. The new levy has a cap of \$125.8 million, the same dollar amount as the current levy; however, it is converted to a county per capita dollar amount based on general population with a new dollar target of \$47.28 per capita. In any fiscal year that a county base year levy cap is less than the per capita dollar amount, the state will provide an equalization payment to make up the difference and bring a county to \$47.28 per capita. If a

county currently levies more than the per capita amount, they will be required to reduce their levy to the per capita rate of \$47.28. The new system will be in effect for two fiscal years, FY 2014 and FY 2015, and if not acted on by the Governor and General Assembly, will be repealed July 1, 2015. The table below is a graphical representation of shifting dollars.



The new per capita structure implemented in FY 2014 allowed 54 counties to receive equalization funds to bring their county levies up to the new \$47.28 per capita target. The equalization payment totaled \$29.8 million to those counties below the target. There were 45 counties above the target and they were required to reduce the maximum amount they could levy by \$10.8 million. The net effect to the system equals \$144.8 million, distributed equally based on population, available for non-Medicaid services in addition to the funds previously provided for the State Cases Program. With the new levy, every county had \$47.28 available per capita to provide non-Medicaid adult disability services.

BUDGET IMPACT

With the shifting funds from county to State Medicaid and changes to the funding formula, the state has increased funding significantly since FY 2012. Part of the increase is due to decreases in the Federal Medical Assistance Percentage (FMAP) rate that is used to calculate the state vs. federal share of Medicaid expenditures. The rate has decreased from 61.19% federal share in FY 2012 to 58.35% federal share in FY 2014. In addition the counties realized approximately \$75.0 million in savings from federal stimulus related to the American Recovery and Reinvestment Act of 2009 and appropriations in FY 2012 were reduced allowing counties to use their fund balances. Counties have also shifted more individuals from county-only funded services to Medicaid-funded services. The chart below shows state appropriations and the county property tax levy over the past three fiscal years.

| Appropriation | Actual FY 2012 | Actual FY 2013 | Estimated FY 2014 |
|--|-----------------------|-----------------------|--------------------------|
| MH Property Tax Relief | \$ 81,199,911 | \$ 0 | \$ 0 |
| MH/DD Growth Factor | 64,697,893 | 0 | 0 |
| MH/DD Community Services | 14,187,556 | 0 | 0 |
| MI/MR/DD State Cases | 12,169,482 | 0 | 0 |
| Social Services Block Grant (federal funds) | 12,381,763 | 12,381,763 | 12,381,763 |
| Risk Pool/Transition/Equalization Funding | 11,167,465 | 11,600,000 | 29,820,478 |
| State Medicaid (Not Distributed to Counties) | 0 | 240,943,165 | 248,171,459 |
| Total Appropriations | \$ 195,804,070 | \$ 264,924,928 | \$ 290,373,700 |
| County Property Tax Levy | \$ 118,301,338 | \$ 122,171,801 | \$ 114,965,492 |
| Total County and State Funds | \$ 314,105,408 | \$ 387,096,728 | \$ 405,339,192 |

IOWA HEALTH AND WELLNESS PLAN

[Senate File 446 \(FY 2014 Health and Human Services Appropriations Act\)](#), enacted during the 2013 Legislative Session, included the new Iowa Health and Wellness Plan that provides an insurance benefit, including mental health coverage, to individuals with family income up to [138.0% of the federal poverty level](#) (\$21,400 for a family of two), effective January 1, 2014. This is significant because it provides coverage to 150,000 individuals not previously covered, a number of whom receive mental health care paid for by their county. The change should significantly reduce non-Medicaid expenditures currently paid for by the counties since they will be able to shift those costs to Medicaid. The DHS estimates the savings to the counties could be up to \$60.0 million when fully implemented.

Due to the significant windfall of anticipated savings, the legislation required counties to reduce their \$47.28 equalization cap by 80.0% of the savings shown in the previous year from shifting non-Medicaid services to Iowa Health and Wellness Plan services. The savings reduction would first be applied against state appropriations received through the \$47.28 equalization formula and second to the county property tax levy. Savings from the state equalization appropriation will be deposited in the property tax relief fund. For FY 2015, the reduction will be based on an annualized estimate of FY 2014 expenditures because only a half year of data will be available. The DHS will be responsible for annually certifying the amount that will be offset by October 15.

OPTIONS FOR THE FUTURE

Hold the Course

There are any number of options that the General Assembly can take going forward including making no major changes and extending the current \$47.28 per capita distribution appropriation and formula past the sunset at the end of FY 2015. A number of changes made to the Adult Disability System over the last several years including the buyout of Medicaid from the counties, regionalization of the county management structure, the design of a standard set of core services counties are required to provide, a new per capita funding formula, and the Iowa Health and Wellness Plan that covers mental health services will be implemented on January 1, 2014. The General Assembly may consider simply extending the \$47.28 per capita levy for several more years, allowing more data to be collected on the effectiveness of the distribution, and not make any other major changes to the system. With all of the recent changes that have been made over a very short period of time, it has been difficult to draw any conclusions on their effectiveness. It may be beneficial to let those changes take effect and see what impact the Iowa Health and Wellness Plan and the Affordable Care Act have on the system once they are implemented in January before making any other major changes.

Rebase the County Adult Disability Services Levy

Another option to consider would be to rebase the county property tax levy. The current mental health levy ranges from \$0.20 per \$1,000 of property valuation in Dickinson County to \$2.20 per \$1,000 of property valuation in Wapello County and is locked in at a dollar cap. This wide variation has been a significant hindrance to any changes in the funding formula or in creating equity in the system and has also been a barrier to the formation of regions.

Equity among counties could be created by establishing a standard levy rate for all counties and then providing state appropriations based on population or individuals served. This would make appropriations to counties more equitable and simple, no longer favoring counties that have lower levy rates or subsidizing property tax payers in the larger, more property-rich counties that have experienced population growth since the levy was frozen. If the levy rate had a standardized rate cap, the amount levied could be adjusted over time allowing for changes in property valuation and shifts in population. The savings from the Iowa Health and Wellness Plan could also be incorporated into a funding formula to reduce the property taxes needed.

Buying Out the Adult Disability Services Levy

The General Assembly may also consider buying out the county property tax levy entirely and funding the system with General Fund appropriations. With the new Iowa Health and Wellness Plan, the Department estimates there will be up to \$60.0 million in savings to the counties and those savings could be used to help offset the property taxes levied. If the resources are available for property tax relief, the General Assembly could buy out the levy entirely making the state responsible for the entire system. This option has both positive and negative outcomes. If the state were to buy out the counties, it would give the state more authority to create a standardized system statewide. The downside is the county property tax levy historically provides a more stable funding source and is less reactive to economic recessions than the State General Fund. In addition, if the state were to take over funding for the system, a number of decisions would be necessary regarding the responsibility for managing services traditionally administered by the counties. The state would have to determine whether to continue to contract with counties to provide service administration, shift administration to the DHS, or use a third-party managed care contractor such as [Magellan](#), which currently manages mental health services for Medicaid.

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