

Department of Health Services
Behavioral Health

JLBC: John Malloy
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DESCRIPTION	FY 2005 ACTUAL	FY 2006 ESTIMATE	FY 2007 JLBC
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	120.9	122.0	122.0
Personal Services	2,568,200	3,150,900	3,150,900
Employee Related Expenditures	775,400	1,218,900	1,218,900
Professional and Outside Services	464,100	449,600	449,600
Travel - In State	60,900	87,500	87,500
Travel - Out of State	5,400	11,300	11,300
Other Operating Expenditures	3,289,400	3,928,800	3,928,800
Equipment	107,300	28,500	28,500
OPERATING SUBTOTAL	7,270,700	8,875,500	8,875,500
SPECIAL LINE ITEMS			
Administration			
Medicare Clawback Payments	0	0	11,482,000
Medicaid Special Exemption Payments	13,750,200	15,850,300	17,526,500
Proposition 204 Administration	5,088,400	6,230,500	6,230,500
Children's Behavioral Health			
Children's Behavioral Health Services	9,351,800	9,351,800	9,351,800
CBH State Match for Title XIX	233,118,000	265,932,200	294,164,500
Proposition 204 Children's Behavioral Health Services	2,460,300	3,146,900	3,693,400
Seriously Emotionally Handicapped Children	26,000	500,000	500,000
Seriously Mentally Ill			
Seriously Mentally Ill Non-Title XIX	60,991,000	61,116,700	61,116,700
Seriously Mentally Ill State Match for Title XIX	145,550,300	161,122,000	187,550,200
Proposition 204 Seriously Mentally Ill Services	142,264,800	158,811,500	184,423,700
Court Monitoring	224,000	197,500	197,500
Arnold v. Sarn	35,268,600	37,696,400	37,468,900
General Mental Health/Substance Abuse			
Mental Health Non-Title XIX	2,447,300	2,447,300	2,447,300
Substance Abuse Non-Title XIX	14,635,400	14,635,400	14,635,400
Mental Health and Substance Abuse State Match for Title XIX	72,379,000	80,839,300	84,321,200
Proposition 204 General Mental Health and Substance Abuse	70,032,100	75,592,500	80,383,200
PROGRAM TOTAL	814,857,900	902,345,800	1,004,368,300
FUND SOURCES			
General Fund	259,966,700	339,614,900	385,221,900
<u>Other Appropriated Funds</u>			
Substance Abuse Services Fund	2,500,000	2,500,000	2,500,000
TTHCF Medically Needy Account	29,424,800	30,424,800	30,424,800
SUBTOTAL - Other Appropriated Funds	31,924,800	32,924,800	32,924,800
SUBTOTAL - Appropriated Funds	291,891,500	372,539,700	418,146,700
<u>Expenditure Authority Funds</u>			
Federal Title XIX Funds	476,156,900	529,806,100	586,221,600
Tobacco Litigation Settlement Fund	46,809,500	0	0
SUBTOTAL - Expenditure Authority Funds	522,966,400	529,806,100	586,221,600
SUBTOTAL - Appropriated/Expenditure Authority Funds	814,857,900	902,345,800	1,004,368,300
Other Non-Appropriated Funds	56,216,100	58,515,300	58,353,200
Federal Funds	43,991,200	47,289,900	46,740,800
TOTAL - ALL SOURCES	915,065,200	1,008,151,000	1,109,462,300

CHANGE IN FUNDING SUMMARY

	FY 2006 to FY 2007 JLBC	
	\$ Change	% Change
General Fund	45,607,000	13.4%
Other Appropriated Funds	0	0.0%
Expenditure Authority Funds	56,415,500	10.6%
Total Appropriated/Expenditure Authority Funds	102,022,500	11.3%
Non Appropriated Funds	(711,200)	(0.7%)
Total - All Sources	101,311,300	10.0%

COST CENTER DESCRIPTION — The Behavioral Health program administers most mental health services for the state including both adult and children’s behavioral health services, substance abuse treatment and seriously emotionally handicapped children. Most services are provided through contracts with 5 Regional Behavioral Health Authorities (RBHAs) which then subcontract for provision of services with a provider network.

PERFORMANCE MEASURES	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2007 JLBC
• % of RBHA Title XIX clients satisfied with services Comments: Satisfaction surveys are completed biennially, therefore there is no information to report for FY 2004.	88	NA	75.4	90
• % of Title XIX population that is enrolled in a behavioral health service	9	11.2	12.6	13.5

RECOMMENDED CHANGES FROM FY 2006

Title XIX Caseload and Inflation

The JLBC recommends an increase of \$102,022,500 for expected growth in the Title XIX Behavioral Health Programs. This amount consists of \$45,607,000 from the General Fund and \$56,415,500 from Federal Title XIX Expenditure Authority (EA).

Behavioral Health Services (BHS) Title XIX enrollment growth is expected to be 3.6% from June 2006 to June 2007. This consensus estimate represents the average of 3 different enrollment forecasts from the JLBC Staff, AHCCCS and an econometric model developed by the Economic and Business Research Program at the University of Arizona. This latter model uses economic variables such as population growth and various employment measures in estimating AHCCCS caseload growth.

The recommended increase is also based on an expected capitation rate growth of 7%. BHS capitation rate growth

was 11.4% in FY 2006, 12.8% in FY 2005 and 11.7% in FY 2004.

Table 1 summarizes the FY 2007 General Fund projections. (Please see *Other Issues for Legislative Discussion for information on DHS’ FY 2006 shortfall estimates.*)

Included in *Table 1* are estimated Clawback payments in FY 2006 and FY 2007. There are no savings associated with Medicare Part D prescription drug benefits in the various Title XIX Special Line Items because capitation rate adjustments were already adjusted in FY 2006 to account for the savings due to the prescription drug benefit. (For more information on the Clawback as well as the Medicare Modernization Act, please see the *AHCCCS Summary section.*)

State monies provide approximately a 33% match to the Federal Funds (EA) received. A decrease in the Federal Medical Assistance Percentage (FMAP) means the state

Table 1

General Fund Title XIX Behavioral Health Projections

	FY 2006 <u>Appropriated</u>	FY 2006 Revised	FY 2007 <u>Recommended</u>	FY 2007 Above <u>FY 2006 Appropriated</u>
CBH	\$ 87,498,400	\$ 88,492,400	\$ 98,258,300	\$10,759,900
Proposition 204 CBH	1,035,400	1,102,000	1,233,700	198,300
SMI	53,013,200	55,968,900	62,646,400	9,633,200
Proposition 204 SMI	52,252,900	55,558,600	61,602,100	9,349,200
GMH/SA	26,598,200	25,369,500	28,165,400	1,567,200
Proposition 204 GMH/SA	24,871,900	24,227,300	26,850,000	1,978,100
Medicaid Special Exemption Payments	5,215,200	5,246,400	5,854,300	639,100
Medicare Clawback Payments	0	4,227,100	11,482,000	11,482,000
Total	\$250,485,200	\$260,192,200	\$296,092,200	\$45,607,000

will pay approximately \$5 million more in state match in FY 2007. These amounts are incorporated into the estimates below. The increase also includes changes in behavioral health services and Medicaid Special Exemption Payments but does not address any changes in administrative costs.

Operating Budget

The JLBC recommends \$8,875,500 for the operating budget in FY 2007. This amount consists of \$4,274,800 from the General Fund and \$4,600,700 from Federal Title XIX Expenditure Authority. These amounts are unchanged from FY 2006.

Special Line Items

ADMINISTRATION

Medicare Clawback Payments

The JLBC recommends \$11,482,000 from the General Fund for new Medicare Clawback Payments costs in FY 2007. This amount would fund the following adjustments:

	FY 2007
Clawback Payments	GF \$11,482,000

The JLBC recommends an increase of \$11,482,000 from the General Fund for new Clawback Payments. As part of the Medicare Modernization Act (MMA) effective January 1, 2006, DHS will no longer be required to pay for prescription drugs for members that are also eligible for Medicare. Instead, DHS will be required to make "Clawback" payments to Medicare based on 90% of the estimated prescription drug cost of this population. This reflects estimated FY 2007 Clawback costs for both the Seriously Mentally Ill and General Mental Health/Substance Abuse populations. (Please see the AHCCCS Summary section for more information on the Clawback and other provisions of the MMA.)

Medicaid Special Exemption Payments

The JLBC recommends \$17,526,500 for Medicaid Special Exemption Payments in FY 2007. This amount consists of \$5,854,300 from the General Fund and \$11,672,200 from Federal Title XIX Expenditure Authority. These amounts would fund the following adjustments:

Title XIX Caseload and Capitation	GF 639,100
Rate Growth	EA 1,037,100

The JLBC recommends an increase of \$1,676,200 in FY 2007 for increased Medicaid Special Exemption Payments related to Title XIX caseload and capitation rate growth. This amount consists of \$639,100 from the General Fund and \$1,037,100 from Federal Title XIX Expenditure Authority.

This line item provides the funding necessary for insurance premium tax payments by DHS. The department is required to pay a 2% tax on the capitation payments it pays

to RBHAs. Therefore, any increases in capitation payments associated with caseload growth and inflation necessitate an increase in premium tax payments. The amount excludes premium tax payments for the behavioral health capitation revenue from developmentally disabled clients, which is funded in the Department of Economic Security's budget.

Proposition 204 Administration

The JLBC recommends \$6,230,500 for Proposition 204 Administration in FY 2007. This amount consists of \$2,031,000 from the General Fund and \$4,199,500 from Federal Title XIX Expenditure Authority. These amounts are unchanged from FY 2006.

The implementation of Proposition 204, passed by the voters in November of 2000, expanded categories of eligibility for Title XIX services, including behavioral health services, up to 100% of the federal poverty level. This line item provides funding for the administrative component of this expansion.

CHILDREN'S BEHAVIORAL HEALTH (CBH)

Children's Behavioral Health Services

The JLBC recommends \$9,351,800 from the General Fund for CBH Services in FY 2007. This amount is unchanged from FY 2006. This line item provides General Fund monies for prevention programs and for treatment of Non-Title XIX eligible children.

Children's Behavioral Health State Match for Title XIX

The JLBC recommends \$294,164,500 for CBH State Match for Title XIX in FY 2007. This amount consists of \$98,258,300 from the General Fund and \$195,906,200 from Federal Title XIX Expenditure Authority. These amounts would fund the following adjustments:

Title XIX Caseload and Capitation	GF 10,759,900
Rate Growth	EA 17,472,400

The JLBC recommends an increase of \$28,232,300 in FY 2007 for Title XIX Children's Behavioral Health caseload and capitation rate growth. This amount consists of \$10,759,900 from the General Fund and \$17,472,400 from Federal Title XIX Expenditure Authority. The recommended amount assumes 7% growth in the monthly capitation rate (from \$50.71 to \$54.26), and 3.6% growth in client population from June 2006 to June 2007.

This line item funds behavioral health treatment to Title XIX eligible children. The recommended amount provides capitation payments for an average of approximately 468,223 eligible children per month. DHS receives a monthly capitation payment from AHCCCS for every child eligible for Title XIX behavioral health services, although only an estimated 6.9% of the eligible population will utilize services.

Proposition 204 Children’s Behavioral Health Services

The JLBC recommends \$3,693,400 for Proposition 204 CBH Services in FY 2007. This amount consists of \$1,233,700 from the General Fund and \$2,459,700 from Federal Title XIX Expenditure Authority. These amounts would fund the following adjustments:

Title XIX Caseload and Capitation	GF	198,300
Rate Growth	EA	348,200

The JLBC recommends an increase of \$546,500 in FY 2007 for Proposition 204 Children’s Behavioral Health caseload and capitation rate growth. This amount consists of \$198,300 from the General Fund and \$348,200 from Federal Title XIX Expenditure Authority. The recommended amount assumes 7% growth in the monthly capitation rate (from \$50.71 to \$54.26), and 3.6% growth in client population from June 2006 to June 2007.

This line item provides behavioral health treatment to children eligible for Title XIX pursuant to Proposition 204. Because most children were already eligible for Title XIX prior to the implementation of Proposition 204, this population is very small. The recommended amount would provide capitation payments for an average of approximately 6,021 eligible children per month in FY 2007. DHS receives a monthly capitation payment from AHCCCS for every child eligible for Title XIX behavioral health services, although only an estimated 6.9% of the eligible population will utilize services.

Seriously Emotionally Handicapped Children

The JLBC recommends \$500,000 from the General Fund for Seriously Emotionally Handicapped Children in FY 2007. This amount is unchanged from FY 2006. This line item provides General Fund monies for a portion of the cost of residential treatment and educational services for children referred by school districts. Referrals are based on an inability to educate the children in a conventional school environment due to a serious emotional handicap. Funding is also provided for this program through the state Department of Education and local school districts.

SERIOUSLY MENTALLY ILL (SMI)

SMI is a population of adult patients with more long-term or ongoing mental illness than those funded through the General Mental Health Special Line Items.

Seriously Mentally Ill Non-Title XIX

The JLBC recommends \$61,116,700 for SMI Non-Title XIX services in FY 2007. This amount consists of \$30,691,900 from the General Fund and \$30,424,800 from the Medically Needy Account of the Tobacco Tax and Health Care Fund. These amounts are unchanged from FY 2006. This line item provides funding for treatment for SMI clients that are not eligible for Title XIX coverage.

Seriously Mentally Ill State Match for Title XIX

The JLBC recommends \$187,550,200 for SMI State Match for Title XIX in FY 2007. This amount consists of \$62,646,400 from the General Fund and \$124,903,800 from Federal Title XIX Expenditure Authority. These amounts would fund the following adjustments:

Title XIX Caseload and Capitation	GF	9,633,200
Rate Growth	EA	16,795,000

The JLBC recommends an increase of \$26,428,200 in FY 2007 for Title XIX Seriously Mentally Ill caseload and capitation rate growth. This amount consists of \$9,633,200 from the General Fund and \$16,795,000 from Federal Title XIX Expenditure Authority. The recommended amount assumes 7% growth in the monthly capitation rate (from \$72.81 to \$77.91), and 3.6% growth in client population from June 2006 to June 2007.

This line item provides behavioral health treatment to Title XIX eligible SMI adults. The recommended amount would provide capitation payments for an average of approximately 226,218 eligible adults. DHS receives a monthly capitation payment from AHCCCS for every adult eligible for Title XIX behavioral health services, although only an estimated 4.2% of the eligible population will utilize services.

Proposition 204 Seriously Mentally Ill Services

The JLBC recommends \$184,423,700 for Proposition 204 Seriously Mentally Ill (SMI) Services in FY 2007. This amount consists of \$61,602,100 from the General Fund and \$122,821,600 from Federal Title XIX Expenditure Authority. These amounts would fund the following adjustments:

Title XIX Caseload and Capitation	GF	9,349,200
Rate Growth	EA	16,263,000

The JLBC recommends an increase of \$25,612,200 in FY 2007 for Proposition 204 SMI caseload and capitation rate growth. This amount consists of \$9,349,200 from the General Fund and \$16,263,000 from Federal Title XIX Expenditure Authority. The recommended amount assumes 7% growth in the monthly capitation rate (from \$72.81 to \$77.91), and 3.6% growth in client population from June 2006 to June 2007.

This line item provides behavioral health treatment to SMI adults who are Title XIX eligible pursuant to Proposition 204. The recommended amount would provide capitation payments for an average of approximately 209,399 eligible adults. DHS receives a monthly capitation payment from AHCCCS for every adult eligible for Title XIX behavioral health services, although only an estimated 4.2% of the eligible population will utilize services.

Court Monitoring

The JLBC recommends \$197,500 from the General Fund for Court Monitoring in FY 2007. This amount is unchanged from FY 2006. This line item provides funds for the state share of the expenses incurred by the Office of

the Court Monitor, which was established as a result of the *Arnold v. Sarn* lawsuit.

Arnold v. Sarn

The JLBC recommends \$37,468,900 for *Arnold v. Sarn* in FY 2007. This amount consists of \$27,500,000 from the General Fund and \$9,968,900 from Federal Title XIX Expenditure Authority. These amounts would fund the following adjustments:

FMAP Adjustment EA (227,500)

The JLBC recommends a decrease of \$(227,500) in Federal Title XIX Expenditure Authority in FY 2007 to account for the expected standard change in the FMAP from Federal Fiscal Year (FFY) 2006 to FFY 2007.

This line item provides additional funding in order to address the requirements of the *Arnold v. Sarn* lawsuit. It is the intent of the Legislature that this funding be used throughout the state for all persons who meet the same criteria as those covered in the *Arnold v. Sarn* lawsuit. Funding in this line item does not represent all of the resources dedicated to addressing the *Arnold v. Sarn* lawsuit.

GENERAL MENTAL HEALTH AND SUBSTANCE ABUSE

General Mental Health and Substance Abuse (GMH/SA) funding assists adults who do not qualify as SMI.

Mental Health Non-Title XIX

The JLBC recommends \$2,447,300 from the General Fund for Mental Health Non-Title XIX services in FY 2007. This amount is unchanged from FY 2006. This line item provides funding for mental health treatment services for adults who require treatment but are not diagnosed SMI and are not eligible for the Title XIX program, as well as general mental health services for children and for substance abuse services and prevention.

Substance Abuse Non-Title XIX

The JLBC recommends \$14,635,400 for Substance Abuse Non-Title XIX services in FY 2007. This amount consists of \$12,135,400 from the General Fund and \$2,500,000 from the Substance Abuse Services Fund. These amounts are unchanged from FY 2006.

This line item provides funding for drug and alcohol abuse services for adults who are not eligible for the Title XIX program.

Mental Health and Substance Abuse State

Match for Title XIX

The JLBC recommends \$84,321,200 for General Mental Health and Substance Abuse (GMH/SA) State Match for Title XIX in FY 2007. This amount consists of \$28,165,400 from the General Fund and \$56,155,800 from Federal Title XIX Expenditure Authority. These amounts would fund the following adjustments:

**Title XIX Caseload and Capitation GF 1,567,200
Rate Growth EA 1,914,700**

The JLBC recommends an increase of \$3,481,900 in FY 2007 for Title XIX GMH/SA caseload and capitation rate growth. This amount consists of \$1,567,200 from the General Fund and \$1,914,700 from Federal Title XIX Expenditure Authority. The recommended amount assumes 7% growth in the monthly capitation rate (from \$31.75 to \$33.97), and 3.6% growth in client population from June 2006 to June 2007.

This line item provides mental health and substance abuse treatment to Title XIX eligible individuals. The recommended amount would provide capitation payments for an average of approximately 218,249 eligible adults per month. DHS receives a monthly capitation payment from AHCCCS for every adult eligible for Title XIX behavioral health services, although only an estimated 10.8% of the eligible population will utilize services.

Proposition 204 General Mental Health and Substance Abuse

The JLBC recommends \$80,383,200 for Proposition 204 GMH/SA in FY 2007. This amount consists of \$26,850,000 from the General Fund and \$53,533,200 from Federal Title XIX Expenditure Authority. These amounts would fund the following adjustments:

**Title XIX Caseload and Capitation GF 1,978,100
Rate Growth EA 2,812,600**

The JLBC recommends an increase of \$4,790,700 in FY 2007 for Proposition 204 GMH/SA caseload and capitation rate growth. This amount consists of \$1,978,100 from the General Fund and \$2,812,600 from Federal Title XIX Expenditure Authority. The recommended amount assumes 7% growth in the monthly capitation rate (from \$31.75 to \$33.97), and 3.6% growth in client population from June 2006 to June 2007.

This line item provides mental health and substance abuse treatment to individuals who are eligible for Title XIX pursuant to Proposition 204. The recommended amount would provide capitation payments for an average of approximately 209,399 eligible adults per month. DHS receives a monthly capitation payment from AHCCCS for every adult eligible for Title XIX behavioral health services, although only an estimated 10.8% of the eligible population will utilize services.

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JLBC RECOMMENDED FORMAT — Operating Lump Sum with Special Line Items by Program

JLBC RECOMMENDED FOOTNOTES

The amount appropriated for Children's Behavioral Health Services shall be used to provide services for non-Title XIX eligible children. The amount shall not be used to pay for either federally or nonfederally reimbursed services for Title XIX eligible children, unless a transfer of

monies is reviewed by the Joint Legislative Budget Committee.

On a monthly basis, the department shall provide information to the Joint Legislative Budget Committee by program for all populations on the number of new and Non-Title XIX clients reviewed for Title XIX eligibility under Proposition 204 as well as the number that convert from Non-Title XIX status or that are newly enrolled.

It is the intent of the Legislature that the total amount available in the *Arnold v. Sarn* Special Line Item be used for the population covered by the *Arnold v. Sarn* lawsuit in counties with a population of over 2 million or more persons and for seriously mentally ill persons that meet the same criteria as those covered by the *Arnold v. Sarn* lawsuit in counties with populations of less than 2 million persons.

It is the intent of the Legislature that the percent attributable to administration/profit for the regional behavioral health authority in Maricopa County is 9% of the overall capitation rate.

JLBC RECOMMENDED STATUTORY CHANGES

The JLBC recommends amending statute to limit annual capitation rate adjustments made by the department to include only utilization and inflation, unless previously approved by the legislature. Any programmatic changes or other policy decisions that might otherwise affect capitation payments would be approved by the full Legislature (*Please see the Arnold v. Sarn Lawsuit discussion below for more information.*)

The JLBC recommends a permanent law change eliminating the Suicide Prevention Program in FY 2007.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

Arnold v. Sarn Lawsuit

The *Arnold v. Sarn* lawsuit was filed in 1981, claiming that the Seriously Mentally Ill in Maricopa County were not receiving adequate treatment. In 1986, the Maricopa County Superior Court ruled that the state had violated its statutory duty and in 1989, the Supreme Court upheld the trial court's decision.

Since the initial filing in 1981, the state has been in negotiations with the plaintiffs to resolve the lawsuit. In 1991, a plan was approved by the court to address deficiencies in the state's rendering of services to the Seriously Mentally Ill in Maricopa County. The state, however, was later found to be out of compliance and entered into another agreement in 1995 entitled "The Stipulation for Exit Criteria and Disengagement."

In 1998, the Court approved supplemental provisions to the 1995 agreement which included the requirement that the Office of the Court Monitor conduct independent reviews of the behavioral health system to monitor

compliance with the exit stipulation. Reports by the Court Monitor have found that the state is not in compliance with the requirements of the lawsuit.

To address deficiencies outlined by the Court Monitor, the State has developed a Corrective Action Plan (CAP), which includes specific requirements with targeted completion dates as well as specific funding requirements.

In FY 2006, the Executive recommendation included a 20% capitation rate increase to the Seriously Mentally Ill Special Line Item in order to fund provisions of *Arnold v. Sarn*. The Legislature did not approve this level of funding and instead utilized a capitation rate growth of 8%. Despite this lack of legislative approval, the department included a \$13 million adjustment in its rates, increasing the overall SMI capitation rate by 15.4%. This resulted in a \$(5.5) million General Fund shortfall in the agency's budget (*see FY 2006 Shortfall discussion below for more information*).

A General Appropriation Act footnote requires the JLBC to review capitation rate adjustments to Title XIX programs. Given the full Legislature's initial rejection of the funding request, the Committee gave an unfavorable review to the proposed capitation rate adjustments. DHS, however, proceeded to implement these higher rates. As a result, the JLBC does not recommend supplemental funding.

Enhanced Behavioral Health Services Oversight

In light of concerns related to the delivery of services to the Seriously Mentally Ill (SMI) in Maricopa County, the JLBC Staff recommends that the Department of Health Services add the following performance measures:

- Percent of Priority Clients that have Case Managers
- Percent of Priority Clients that have Clinical Teams, which includes the client, nurse, physician, case manager and vocational specialist (if applicable)
- Percent of Priority Clients that have 6 month periodic reviews
- Percent of Priority Clients with an Individual Service Plan (ISP) with a functional assessment and long-term view within 90 days of enrollment

Past performance reports have indicated that improvements are needed in the quality of assessments of clients as well as the formation of Individual Service Plans. These measures will assist the Legislature in ascertaining the effectiveness of the delivery of services to the SMI population in Maricopa County.

FY 2006 Shortfall

The current JLBC estimate for a FY 2006 shortfall is \$20,880,500. This amount consists of \$9,706,600 from the General Fund and \$11,173,900 from Federal Title XIX Expenditure Authority.

Table 2 displays the expected allocations of the FY 2006 General Fund shortfall.

Table 2

	FY 2006 GF Shortfall
CBH	\$ 993,600
Proposition 204 CBH	66,600
SMI	2,955,700
Proposition 204 SMI	3,305,700
GMH/SA	(1,228,700)
Proposition 204 GMH/SA	(644,600)
Medicaid Special Exemption Payments	31,200
Medicare Clawback Payments	<u>4,227,100</u>
Total	\$9,706,600

The primary cause for the FY 2006 shortfall is higher than budgeted capitation rates in both the Children's Behavioral Health (CBH) and Seriously Mentally Ill (SMI) categories. The FY 2006 appropriated budget assumed capitation rate growth of 8% for these 2 categories. Actual rates (which were given an unfavorable review by the JLBC in July) were 10.7% for the CBH population and 15.4% for the SMI population. These rates would have been even higher except for the fact that the rates were adjusted downward

for savings from Medicare Part D implementation. As a result, even though FY 2006 caseload are below appropriated levels (approximately 3% across all categories), both the CBH and SMI populations are estimated to have a shortfall in FY 2006.

This shortfall can be partly offset, however, due to savings in the General Mental Health/Substance Abuse category. Savings can be generated from this population because of slower than budgeted population growth (currently running 2% below appropriated levels) as well as capitation rate adjustments that came in below appropriated levels (5.4% compared to 8%).

In addition to these shortfalls, DHS will need \$4.2 million in FY 2006 in order to pay the department's portion of the state's Clawback payment. In July 2005, DHS adjusted its capitation rates downward in order to account for savings that will generate due to the implementation of Medicare Part D. As a result, the agency does not have monies available in its budget to pay for the Clawback payment, as the capitation rates have already assumed these savings.

SUMMARY OF FUNDS - SEE AGENCY SUMMARY
