

**GENERAL ASSEMBLY OF NORTH CAROLINA**

**Session 2013**

**Legislative Fiscal Note**

**BILL NUMBER:** House Bill 973 (First Edition)

**SHORT TITLE:** Funds/Two-Tiered Pay for Three-Way Contracts.

**SPONSOR(S):** Representatives Martin, Burr, Avila, and Hollo

**FISCAL IMPACT**

(\$ in millions)

Yes       No       No Estimate Available

	<b>FY 2013-14</b>	<b>FY 2014-15</b>	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>
<b>State Impact</b>					
General Fund Revenues:					
General Fund Expenditures:	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Special Fund Revenues:					
Special Fund Expenditures:					
State Positions:					
<b>NET STATE IMPACT</b>	<b>(\$2,000,000)</b>	<b>(\$2,000,000)</b>	<b>(\$2,000,000)</b>	<b>(\$2,000,000)</b>	<b>(\$2,000,000)</b>
<b>Local Impact</b>					
Revenues:					
Expenditures:					
<b>NET LOCAL IMPACT</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>

**PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:** Department of Health and Human Services

**EFFECTIVE DATE** July 1, 2013

**TECHNICAL CONSIDERATIONS:**

None

**BILL SUMMARY:** requires the Department of Health and Human Services (DHHS) to develop, implement, and measure a two-tiered payment system for inpatient psychiatric beds or bed days. Authorizes enhanced payments for inpatients assessed at higher acuity levels. Appropriates \$2 million for FY 2013-14 and \$2 million for FY 2014-15 for the purchase of local inpatient psychiatric beds. Requires DHHS to report on the plans effectiveness by March 1, 2014.

**ASSUMPTIONS AND METHODOLOGY:** S.L. 2008-107, Sec. 10.15 authorized and appropriated funding to be used to create local inpatient psychiatry beds. These beds would expand the array of community-based mental health services and reserve State psychiatric hospital beds for individuals with the greatest need for longer-term, institutional services. The beds were to be distributed across the State, according to need as determined by the Division of Mental Health/Developmental Disabilities/Substance Abuse Services (DMH/DD/SAS) within the Department of Health and Human Services (DHHS). S.L. 2008-107 directed DHHS to enter into three-way contracts with the Local Management Entities (LME) and community hospitals. Local inpatient psychiatric beds are managed by the LMEs, including determining to which hospital individuals should be admitted pursuant to involuntary commitment orders. Funds were appropriated to the Department to be placed in a statewide reserve and used only to pay for services authorized by the LMEs and billed by the hospitals through the LMEs.

S.L. 2012-142, the 2012 Appropriation Bill, appropriated \$38,121,644 for three-way contracts in FY 2012-13. This amount included \$9 million expansion funding provided to increase the number of contract beds from 145 to 180. However, the expansion funds could not be spent before January 1, 2013 and could be used only upon the determination by the Office of State Budget and Management (OSBM) that they were not needed for the Medicaid Program. Due to an anticipated Medicaid budget shortfall, the \$9 million will not be used to expand the number of three-way contract beds in the current fiscal year.

HB 973, *Funds/Two-tiered Pay for Three-Way Contracts*, directs DHHS to develop a two-tiered payment system that will provide an enhanced payment to hospitals for services to individuals with higher acuity levels as defined by the Department. The enhanced payment rate shall not exceed the lowest average cost per patient bed day among the State psychiatric hospitals. The current average costs per patient bed day are shown in the table below.

<b>State Psychiatric Hospital</b>	<b>Location</b>	<b>Average Costs per Patient Bed Day</b>
Broughton	Morganton	\$ 920
Central Regional	Butner	\$ 1,107
Cherry	Goldsboro	\$ 1,417

The bill directs the Department to ensure that the higher acuity level beds are distributed across the State in the LME catchment areas, including those served by the LME managed care organizations (LME/MCO).

HB 973 requires DHHS to establish performance measures to be used to assess the effectiveness of the two-tiered payment system and submit a report to the House Appropriations Subcommittee on Health and Human Services, the Senate Appropriations Committee on Health and Human Services, the Joint Legislative Oversight Committee on Health and Human Services, and the Fiscal Research Division no later than March 1, 2014.

Section 2

HB 973 appropriates \$2 million in each year of the FY 2013-15 biennium and directs that the funds are to be used only to purchase local inpatient psychiatric services at the enhanced rate for

individuals with higher acuity needs as defined by the Department. DHHS staff estimates that the appropriation will add 5-6 contracted beds at the enhanced rate and will fund approximately 2,000 bed days of treatment annually.

DMH/DD/SAS staff report that the Division has been exploring the feasibility of changing the three-way contract rate structure to allow for the delivery of enhanced inpatient services and had convened a work group to identify criteria necessary to ensure that these enhanced beds are appropriately used. The Division would incur some ongoing costs to administer, monitor, and report on the high acuity services provided under the enhanced payment rate. DMH/DD/SAS estimates that an additional 0.25 FTE program manager's time would be needed for this purpose. Assuming the annual salary for a Pay Grade 75 Program Manager at \$62,699, the cost of the additional 0.25 FTE would be \$16,874 (25% of the annual salary and FICA). This amount is considered minimal and could be accommodated within the Division's existing budget and resources. Therefore HB 973 is projected to have no potential fiscal impact.

**SOURCES OF DATA:** DHHS Division of Mental Health/Developmental Disabilities/Substance Abuse Services

**TECHNICAL CONSIDERATIONS:** None

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**DATE:** April 24, 2013



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