

**LEGISLATIVE FISCAL ESTIMATE**  
**ASSEMBLY, No. 3334**  
**STATE OF NEW JERSEY**  
**220th LEGISLATURE**

DATED: DECEMBER 9, 2022

**SUMMARY**

- Synopsis:** Requires Medicaid reimbursement for covered behavioral health services provided by local education agency to student who is eligible Medicaid beneficiary.
- Type of Impact:** Annual State expenditure and revenue increases. Annual local revenue increase.
- Agencies Affected:** Department of Human Services; Local entities.

**Office of Legislative Services Estimate**

| <b>Fiscal Impact</b>          | <b><u>Annual</u></b>               |
|-------------------------------|------------------------------------|
| <b>State Cost Increase</b>    | \$140.9 million to \$252.8 million |
| <b>State Revenue Increase</b> | \$85.4 million to \$153.2 million  |
| <b>Local Revenue Increase</b> | \$140.9 million to \$252.8 million |

- The Office of Legislative Services (OLS) concludes that, subject to certain assumptions, this bill will result in an annual State cost increase of \$140.9 million to \$252.8 million to reimburse local education agencies for delivering Medicaid reimbursable services to eligible students. The State would receive between \$85.4 million and \$153.2 million annually from the federal government for these Medicaid reimbursements, resulting in a net annual State cost under the bill of between \$55.5 million and \$99.6 million.
- The OLS notes that this bill does not require local education agencies to provide new services to Medicaid-eligible students; rather, the bill reimburses the local agencies for services currently rendered.

**BILL DESCRIPTION**

This bill requires the Division of Medical Assistance and Health Services in the Department of Human Services, or a managed care organization contracted with the division to provide benefits to Medicaid beneficiaries, to reimburse a local education agency for behavioral health

services covered under Medicaid, delivered in-person or via telehealth, and provided to a student who is an eligible Medicaid beneficiary. Under the bill, a “local education agency” means a public authority legally constituted by the State as an administrative agency to provide control of and direction for kindergarten through grade 12 public educational institutions.

The division, in conjunction with the Department of Education and the Department of the Treasury, is required to assist a local education agency in implementing a plan to submit Medicaid claims for covered behavioral health services and obtain Medicaid reimbursements under the bill. To the extent possible, this system is to overlap with the claims and reimbursement procedures associated with the existing Special Education Medicaid Initiative program. The Special Education Medicaid Initiative is jointly operated by the Department of Education, the Department of Human Services, and the Department of the Treasury along with participating local education agencies, and allows for recovery of a portion of costs for Medicaid-covered services provided to Medicaid-eligible special education students.

## **FISCAL ANALYSIS**

### ***EXECUTIVE BRANCH***

None received.

### ***OFFICE OF LEGISLATIVE SERVICES***

The OLS concludes that, subject to certain assumptions, this bill will result in an annual State cost increase of \$140.9 million to \$252.8 million to reimburse local education agencies for delivering Medicaid reimbursable services to eligible students. The State would receive between \$85.4 million and \$153.2 million annually from the federal government for these Medicaid reimbursements, resulting in a net annual State cost under the bill of between \$55.5 million and \$99.6 million. This assumes that local education agencies currently expend between \$170.8 million and \$306.4 million to deliver Medicaid reimbursable behavioral health services to 57,588 Medicaid-eligible students. The estimate also assumes that the interim reimbursement rates paid under the existing Special Education Medicaid Initiative program reflect the actual cost of services.

The OLS notes that this bill does not require local education agencies to provide new services to Medicaid-eligible students; rather, the bill reimburses the local agencies for services currently rendered. Local education agencies would be responsible for between \$29.9 million and \$53.6 million of these existing expenditures, reflecting current Special Education Medicaid Initiative program policy as required under the bill. This estimate assumes that the cost of the services provided by local education agencies, and covered under the bill, will be identical prior to the bill’s implementation and following the bill’s adoption. In this scenario, there would be no local cost increase.

The bill directs that the system to submit Medicaid claims for covered behavioral health services and obtain Medicaid reimbursements is to overlap with the claims and reimbursement procedures associated with the existing Special Education Medicaid Initiative program. Currently, the program has a bundled rate methodology. Local education agencies are assigned a group by the State. Group assignment is based on multiple factors, including, but not limited to, participation rate, historical data, and expenditures. Each group has only one rate for all eligible services. The evaluation rate for all services is the same, regardless of a local education agency’s group assignment.

The chart below lays out the current reimbursement rates under the Special Education Medicaid Initiative, which will be the basis for this fiscal analysis:

**Special Education Medicaid Initiative Interim Billing Bundled Rates**

| Description of Service              | Group A Rate | Group B Rate | Group C Rate |
|-------------------------------------|--------------|--------------|--------------|
| Evaluation (per evaluation)         | \$1,788.55   | \$1,788.55   | \$1,788.55   |
| Medical Transportation (Round Trip) | \$29.31      | \$29.31      | \$29.31      |
| Service (per diem)                  | \$30.99      | \$61.98      | \$92.97      |

The Division of Medical Assistance and Health Services NJ FamilyCare data dashboard indicated that, as of August 2022, there are 752,239 people, ages 0 through 18, enrolled in Medicaid. Prorating that amount to account for only those aged 5 through 18 (or school aged children) in Medicaid results in 543,282 individuals. Moreover, according to the Kaiser Family Foundation, in 2020, 10.6 percent of children ages 3 through 17 in New Jersey received mental health care. Applying that rate to the number of school aged children in Medicaid results in 57,588 children receiving mental health care in the Medicaid program.

The OLS assumes that each of those children received one school based evaluation, as well as one school-based counseling session per school week (estimated at 38 weeks per school year), during a school year, for an annual cost of between \$170.8 million and \$306.4 million. The low end of this range represents all schools at Group rate A, and the high end of the range represent all schools at Group Rate C.

This estimate assumes that:

- (1) There are no medical transportation costs for these services. To the extent medical transportation costs are incurred, this estimate would increase;
- (2) The cost of the services provided by local education agencies, and covered under the bill, will be identical prior to the bill’s implementation and following the bill’s adoption, as the bill does not require these local agencies to provide new services to Medicaid-eligible students; and
- (3) The interim reimbursement rates reflect the actual cost of services. The OLS notes that under Special Education Medicaid Initiative program, there is also a cost-settlement process, a “retrospective cost based” approach that compares interim reimbursements to reported annual expenditures. This process requires local education agencies to demonstrate that the interim reimbursements paid for school-based services accurately reflects the actual cost of providing medical services.

Unlike other Medicaid claims, the local education agencies, as the service providers, are responsible for a portion, or 17.5 percent, of the costs of the service under the Special Education Medicaid Initiative program. The State pays for 32.5 percent of the total claim cost, and the federal government pays for 50 percent of the total claim cost. Using these percentages, the total cost of the bill is divided among these three sources as follows:

| Total Claim Cost                   | Local Education Agency Portion (17.5%) | State Portion (32.5%)            | Federal Portion (50%)             |
|------------------------------------|--|----------------------------------|-----------------------------------|
| \$170.8 million to \$306.4 million | \$29.9 million to \$53.6 million       | \$55.5 million to \$99.6 million | \$85.4 million to \$153.2 million |

As local education agencies will receive the State and federal portions, totaling \$140.9 million to \$252.8 million, in the form of reimbursements for behavioral health services delivered to Medicaid eligible students, the net cost savings for the local agencies under the bill is between \$111.0 million and \$199.2 million.

The OLS notes a few caveats to this estimate. First, if the cost settlement process determines that a local education agency's actual expenditures exceed the amount received in interim reimbursement payments, the local agency will receive a settlement. This would increase the State and federal costs of the bill, as well as the revenue received by the local education agencies. Conversely, if the cost settlement process determines that a local education agency's actual expenditures were lower than the amount received in interim reimbursement payments, the State and federal costs would decrease, as well as the revenue for the local agencies.

Second, this estimate assumes that the number of Medicaid eligible children receiving mental health care in local education agencies before the bill's implementation will remain stable after the bill's adoption. It is possible, however, that expanding school-based Medicaid coverage of behavioral health services will increase the number of Medicaid eligible children receiving behavioral health services in a school environment. Such an increase would result in an increase in net revenue for local education agencies and an increase in costs for the State and federal government. Moreover, it is also possible that the bill's adoption may decrease the number of Medicaid eligible children seeking behavioral health services outside of local education agencies as in-school services become readily accessible due to increased funding. To the extent such a shift occurs, non-school based State Medicaid expenditures would decrease, as well as the federal Medicaid matching funds received by the State for such services.

Finally, this bill impacts Medicaid services delivered under the fee-for-service system and the managed care system. Currently, 97.3 percent of NJ FamilyCare beneficiaries are enrolled in the managed care system. Managed care organizations are paid via a monthly per beneficiary capitation payment. When developing capitation rates, the contracted actuary utilizes encounter claims data from the fiscal year that is two years prior to the rate setting period, managed care organization financial reports, and monthly beneficiary data collected by the organizations and the department. It is possible that a variety of factors in the capitation rate setting process, which the OLS cannot determine, would influence State costs incurred under this bill.

*Section: Human Services*

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This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).