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January 12, 2018

The Honorable Senator Peter Courtney, Co-Chair
The Honorable Representative Nancy Nathanson, Co-Chair
Joint Committee on Ways and Means
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairpersons:

NATURE OF THE REQUEST

The Oregon Health Authority (OHA), in response to the budget note included in House Bill 5026 (2017), requests acknowledgement of this report, which includes:

- How OHA conducted its adult residential mental health provider rate analysis process,
- Results of OHA's provider rate analysis, and
- A proposed schedule to develop a standardized rate-setting methodology that aligns with OHA's policy goals, including linking provider payment to client acuity.

Additionally, OHA requests an appropriation of \$152,500 General Fund and \$2 million General Fund be set aside as a Special Purpose Appropriation. These funds would stabilize reimbursement for providers paid the lowest rates (as identified during the initial rate review) while OHA conducts a more robust review and develops rate standardization options for all providers.

HB 5026 (2017) Budget Note:

The Oregon Health Authority shall conduct a rate analysis, including but not limited to provider costs as well as expected revenues from billing for rehabilitative services. The agency shall report to the Interim Joint Committee on Ways and Means by November 30, 2017 with a proposed plan for a standard rate or set of rates, a proposed schedule to move all providers to these rates, an analysis of the cost, and plans for funding both the Medicaid and non-Medicaid components. The plan should prioritize increasing rates for providers with the greatest disparity in rates, that is, providers who receive the lowest rates compare to more recent providers who typically receive higher rates.

Contingent on available funding, the agency will implement at least the first phase of the plan beginning January 1, 2018. If the agency is unable to fully fund the plan within their existing budget, they should request additional funding during the 2018 legislative session.

AGENCY ACTION

In recent years, Oregon has engaged in significant efforts to help adults with mental illness live successfully in the community. The Oregon Performance Plan particularly supports the earlier discharge of Oregon State Hospital residents by improving their linkages to community services and transitioning individuals to the most integrated, community-based setting possible.

Adult residential mental health providers are integral to ensuring individuals' access to care in integrated settings. In recognition, OHA is working to redesign reimbursement practices for these providers to align with the following policy goals:

- Transition individuals to a level of care in the community that maximizes personal choice
- Standardize rates based upon client acuity and level of care needs
- Maximize federal financial participation where allowable and appropriate
- Incentivize good outcomes for individuals
- Align program and community supports, provider rates and county contracts with the Oregon Performance Plan
- Fully integrate physical and behavioral health services into the coordinated care organization (CCO) service model, to include residential rehabilitation services and residential personal care/habilitation services.

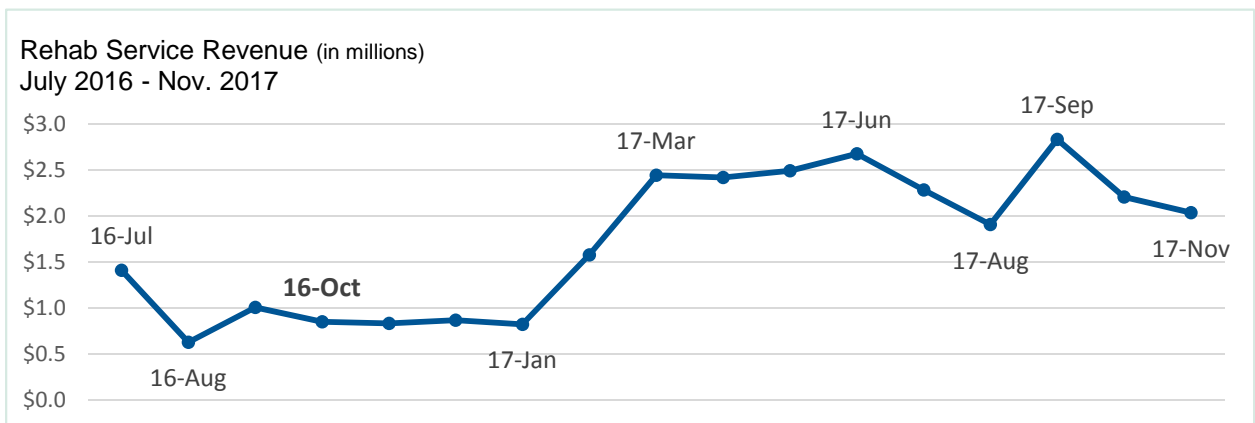
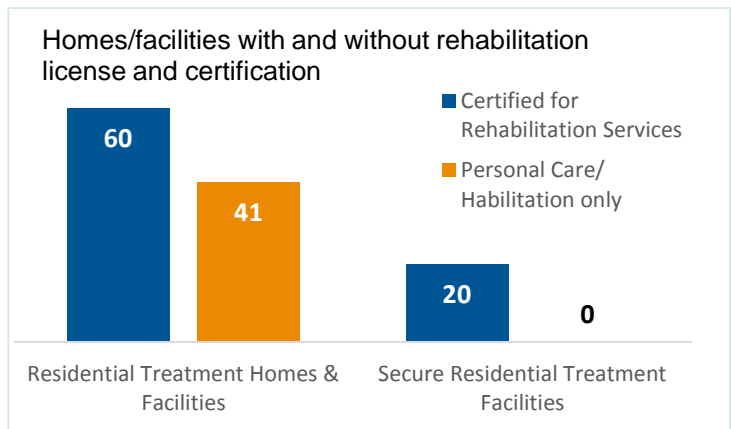
OHA's efforts must take into account the complex environment in which mental health services are provided, including Oregon's housing crisis. The housing crisis has reduced available rental stock and raised rents. These factors limit the availability of community-based housing and supports that can successfully transition residents to the most integrated settings. In turn, this affects rate standardization efforts, and the transition of residential services to CCOs.

Background on Adult Mental Health Residential Rates

Historically, OHA renegotiated provider rates on an individual basis, based upon provider-submitted costs. In 2007, OHA worked to standardize these individually negotiated rates; however, this effort was incomplete and only addressed approximately 50 percent of the individually negotiated rates. As a result, 58 providers continue under a bundled personal care (PC)/habilitation rate from pre-2007 that is neither risk-adjusted nor tied to patient acuity. Meanwhile, others receive biennially updated operating budgets through OHA county pass-through contracts.

Prompted by a request from Oregon Residential Providers Association in July 2016, OHA conducted a rate review and found residential providers were rendering rehabilitative services, but not claiming them for payment. While all residential homes and facilities provide personal care or habilitation services, not all providers are certified and licensed to render rehabilitation services, as shown in the chart below.

As a result, on October 29, 2016, OHA provided technical assistance to providers certified to render (and bill) for these services. As shown in the chart below, revenues increased following the training.



Encouraged by these results, OHA proceeded with the rate standardization effort, rather than continuing to renegotiate individual provider rates, an inconsistent process that did not align with OHA’s policy goals.

Adult Mental Health Residential Rate Standardization and Transition Project

OHA has taken the following steps to develop a comprehensive total revenue picture of all adult residential providers, including Medicaid and non-Medicaid funding streams:

1. Requested residential provider submissions of cost allocation plans (CAPs). Over half of the 127 residential providers submitted CAPs.
2. Analyzed contract, budget, Medicaid Management Information System claims and CAPs data.
3. Contracted with actuarial vendor, Optumas, for data analysis assistance to address the rate standardization objectives.

4. Shared multiple data sets with Optumas, including claims and client needs assessment data, for further analysis.

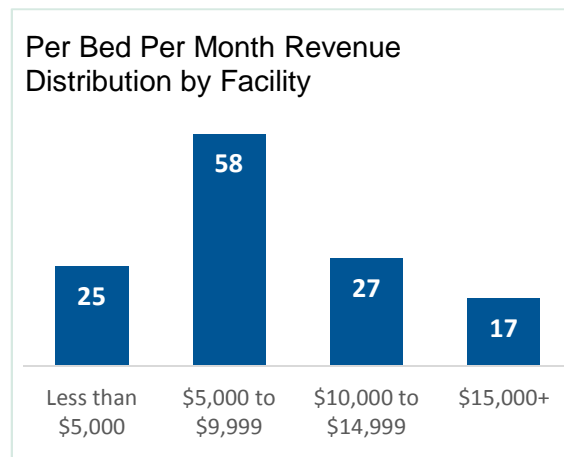
Data Analysis and Preliminary Findings for Rate Standardization

Optumas' preliminary analysis:

- Revealed wide variation in current rates across providers, as shown in the chart below.
- Indicated Oregon does not pay providers according to client acuity, and the current payment methodology does not support Oregon's policy goals.
- Offered general comparisons of Oregon to other states such as Nebraska, New York, and New Jersey, where states have moved towards risk-adjusted, client assessment-based payment focused on client needs. Identified some preliminary hypotheses using available data.

However, due to inconsistency in provider reporting and gaps in available data, the analysis to date is inconclusive.

Therefore, OHA will collect additional data and conduct further analysis before proposing a methodology to standardize rates across all providers.



To supplement Optumas' analysis and identify the providers who would most benefit from rate standardization, OHA reviewed additional criteria to find the lowest and most disparate rates currently paid to residential providers. The analysis revealed the following, which are not mutually exclusive:

- Four providers have rates below those adjusted in 2007.
- 58 providers receive bundled PC/habilitation rates that have not been adjusted since 2007.
- 41 providers are not certified to render rehabilitation services onsite, and thus may be limited in the ability to increase rehabilitation revenues based upon the October 2016 technical assistance.

Recommendations

Longer-term, OHA recommends a more robust review of provider reimbursement rates using additional data to develop rate standardization options for all providers. Rate standardization will address the inconsistent rate methodology applied to programs as the residential system developed over time and would support transitioning these services to coordinated care organizations.

This longer-term review will include:

- Analysis of provider costs, operating budgets, and audited financials.
- Additional technical assistance and analysis to determine how to sustain providers to maximize Medicaid funds and meet our policy goals.
- Level of care data collection with the 1915(i) Independent Quality Assurance (IQA) vendor, KePRO, to support the development of client-focused rate options.

Shorter-term, OHA recommends reviewing rates for providers with the lowest and most disparate rates and making adjustments as appropriate. These adjustments will help ensure provider financial solvency and continued capacity as OHA continues to develop a rate standardization methodology for all providers.

During this interim review OHA will first review the rates of providers with per bed per month residential revenue in the lowest quartile of all providers and with operating margins of less than 10 percent. To determine the need for rate adjustments, OHA will evaluate additional factors such as bundled rates, lack of certification for provision of rehabilitation services, and age of contract (especially those prior to 2007). To accomplish this review, OHA will request current operating budgets and audited financials from all providers.

OHA will utilize an estimated \$1 million General Fund from its existing Oregon Health Plan budget to support interim rate adjustments, beginning no earlier than April 2018. OHA estimates requiring a minimum of \$2,152,500 in additional General Fund for both implementation of provider rate adjustments and technical assistance with rates analyses. Rate standardization is expected to more clearly identify future funding needs later in the biennium.

OHA will proceed concurrently with the interim rate review and the rate standardization analysis.

Project Milestone Summary

The following table shows OHA’s proposed plan toward rate standardization.

Identify and develop interim rate review process	Feb. 2018
Identify factors determining the providers with the lowest and most disparate rates	<i>Jan. 2018</i>
Identify data gaps, request additional data collection & conduct analysis to determine interim rate reviews	<i>Feb. 2018</i>
Rate adjustments where indicated	April – July 2018
Plan additional expenditure and service need	June 2018
Coordinate client level of care data collection with IQA	<i>Jan.- June 2018</i>
Identify best mechanisms to gain complete expenditure data	<i>Jan. 2018</i>
Analyze additional data to identify correlations between cost and acuity	<i>April - June 2018</i>
Develop rates standardization options	Oct. 2018
Review analysis for rate methodology options	<i>June – Aug. 2018</i>
Develop fiscal impact analysis of options	<i>Sep. 2018</i>
Propose standardized rate methodology	<i>Oct. 2018</i>
Plan phased roll-out	

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ACTION REQUESTED

Acknowledge receipt of this report and approve the following budget request:

Increase General Fund appropriation in the Health Systems Division by \$152,500,
Increase Federal Funds limitation by \$152,500, and
Establish a Special Purpose Appropriation in the amount of \$2,000,000 from the General Fund.

OHA would need approximately \$4 million in Federal Funds limitation along with the \$2,000,000 General Fund Special Purpose Appropriation.

LEGISLATION AFFECTED

Oregon Laws 2017, Chapter 545, section 1, subsection 1.

Sincerely,



Patrick Allen
Director

CC: Linda Ames, Legislative Fiscal Office
Tom MacDonald, Department of Administrative Services
George Naughton, Department of Administrative Services
Ken Rocco, Legislative Fiscal Office