COLORADO DEPARTMENT OF HEALTH CARE POLICY & FINANCING

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Bill Ritter, Jr., Governor • Joan Henneberry, Executive Director

December 1, 2010

The Honorable Mary Hodge, Chair
Joint Budget Committee
200 East 14th Avenue, Third Floor
Denver, CO 80203

Dear Senator Hodge:

This letter is in response to Legislative Request for Information 15 which states:

The Department is requested to provide a report to the Joint Budget Committee by December 1, 2010 recommending benefit or service reductions to Medicaid Mental Health programs in order to achieve a $2,200,000 total fund savings between January 2011 and June 2011. In the report, the Department is requested to provide the following information:

> *(1) cost estimates for each of the benefit or service changes recommended;*
> *(2) input from the behavioral health organizations on how such benefit and service reductions will be implemented;*
> *(3) a description of any involvement that mental health advocacy groups had in providing input on the benefit or service changes recommended; and*
> *(4) an analysis of whether rate reductions could be enacted within the actuarially sound range in lieu of benefit or service reductions recommended or in combination therewith*

In this report, the Department will first discuss:

(4) an analysis of whether rate reductions could be enacted within the actuarially sound range in lieu of benefit or service reductions recommended or in combination therewith

Initially, in its November 2009 budget request, BRI-6 "Medicaid Program Reductions," the Department proposed a 2% reduction to the Behavioral Health Organizations' (BHOs') Calendar Year (CY) 2010 rates effective July 2010, in addition to the 2.5% rate cut effective September 2009. However, in December 2009, two of the BHOs' actuaries could not certify the CY 2010 rates as actuarially sound, which is required by 25.5-5-404(1)(l) C.R.S. (2010). As a result, the Department extended the two BHOs' September-to-December 2009 rates (FY 2009-10, quarter 2) through December of 2010 (FY 2010-11, quarter 2). In the FY 2010-11 Long Bill, the requested 2% reduction was delayed until January 2011, under the expectation that the Department and BHOs would jointly identify a way to achieve the savings while minimizing the impact on clients.

The Department and the BHOs met throughout the summer and early fall of 2010 to examine various mechanisms that would achieve the proposed savings between January

2011 and June 2011, while providing long-term financial stability for the BHOs and minimizing client impact. The outcome is that the Department will implement the "case rate" as an additional component to the rate-setting methodology so that the encounter rate and the case rate will reflect the base service cost and the efficiency gain or loss by the BHOs separately and explicitly. By assigning 25% of the efficiency reflected by the case rate back to BHOs, the rate reductions can be enacted within the actuarially sound range in lieu of benefit or service reductions.

The Case Rate as Proposed Rate Reform

Reform to the BHO rates is a required step for the Department, regardless of the current savings requirements, as the current methodology is not aligned with the Department goals. The Department requested funding to begin rate-setting reform in its January 2008 budget request, S-14 "Implement Mental Health Audit Findings". Upon approval of the budget request, the Department hired two contractors to assist the Department in creating or updating three documents that would improve the quality of the data utilized in rate-setting. The BHOs implemented the recommended reforms in January 2010 and the Department has already seen an improvement in the pricing of the data and the data quality. The final step for the Department is to implement the adjustments to the rate-setting methodology, so that the data will be used to set a rate that promotes efficiencies, improves client satisfaction, and incentivizes cost containment.

Currently, the rate-setting methodology consists of two components: the per member per month cost based on the BHO's most recent year of encounter data ("encounter rate") and the historical rate. The encounter rate is calculated using the most recent year of encounter data available, and reflects the BHO's actual utilization rate and the service unit cost for that year. For example, CY 2009 encounter data is incorporated in the CY 2011 rates. Additionally, the historical rate for this year is the CY 2010 capitation rates; the Department incorporates these rates into the current rate to offset any extreme unit cost and member month fluctuation experienced in CY 2009.

Under direction from the Centers for Medicare and Medicaid Services (CMS), the Department has gradually put more weight on the encounter data when calculating the final rate. However, increasing the weight of the encounter data has created a "ratchet" effect. Any savings achieved during the base year for providing efficient or effective services is quickly removed when the new encounter data becomes incorporated. Under the current methodology, unless services are cut, the BHOs will become financially unstable because of the increased weight of the encounter rate. This was seen in December 2009 when two of the BHOs' actuaries could not certify CY 2010's rate. The ratchet effect created a CY 2010 point estimate rate that was at the lowest point that could be certified by their actuaries. When the 2.5% rate reduction was incorporated into the rate, their actuaries could not certify the rate as actuarially sound.

After negotiation with the BHOs, the Department is adding a third component to the rate-setting methodology: a "case rate" adjustment. The case rate is the BHO statewide

average cost per client by diagnosis category. The case rate is calculated by the Department using the priced BHO encounter data. The Department has calculated and compared CY 2009's case rate with CY 2008's case rate and found that all of the BHOs have lowered their costs per client, which indicates that the BHOs have become more efficient since CY 2008. The Department recommends allowing the BHOs to keep a certain portion of the efficiency gain because it will encourage the BHOs to continue to reduce their costs per client, which will create future savings for the State. For CY 2011, the actual calculation shows that the Department can reimburse the BHOs with 25% of the efficiency gain as a margin for maintaining financial stability, while still meeting the budget appropriation, which includes the $4.4 million cut for calendar year 2011. That makes the efficiency gain sharing possible.

The BHOs can accept the estimate point rate with the $4.4 million rate cut without service reductions because the case rate allows for a portion of the efficiency gain to be given back to the BHOs, rather than directly reducing the rate if the BHO generates savings. This removes the BHOs fear of the "ratchet" effect, as they will be rewarded for achieving efficiencies instead of punished. Additionally, the case rate retains a cost containment mechanism. Under the current cost based rate, the BHOs are incented to provide expensive services in order to maximize reimbursement. The case rate eliminates this incentive and instead rewards the BHOs if they provide services that are less than the statewide average cost. Therefore, the BHOs will be incented to continue to decrease their costs in order to achieve maximum savings. Finally, the BHOs want to achieve the savings through a mechanism that does not harm the clients, which is possible through implementation of the case rate.

Future Rate Reforms

The case rate adjustment will become a permanent part of the rate-setting methodology, so that if the BHOs demonstrate they have achieved service delivery at a lower case rate, some portion of that savings would be built into the next rate setting, incenting continued efficiency. However, if there is no demonstrated decrease in the case rate, then the BHOs will not have additional monies built into their next rate. To continue incenting the BHOs to reduce costs, the Department and the BHOs are currently exploring two potential options for future rate setting processes. Should the BHOs and the Department agree on these potential options, the Department may request changes to its appropriation through the regular budget process.

The first initiative would increase the Department's evaluation of prevention and early intervention services relative to other services provided. Prevention and early intervention services are crucial for improving customer satisfaction, controlling cost, and identifying at-risk populations. The encounter data indicates which encounters were provided as prevention and early intervention services and the Department would begin its evaluation using the CY 2011 encounter data. If there are any savings from the case rate for CY 2011, the Department may offset those savings by increasing reimbursement for prevention and early intervention services within the rate. This would encourage the

BHOs to increase their prevention and early intervention services while simultaneously controlling their costs each year.

The second initiative would incorporate an incentive payment for outcome and quality of performance. Building an incentive into the rates for outcome and quality of performance would improve client satisfaction as well as control costs. Prior to implementation, the Department would identify performance measures that are self-financing and align with the Department goals. Upon agreement of performance measures with the BHOs, the Department may implement incentive payments effective January 2013, subject to budget approval. If the Department wants to implement incentive payments, any requested changes for the CY 2013 rates would be requested during the FY 2012-13 budget cycle.

The Department anticipates that the adjustments to the rate-setting methodology will drive future rates to be lower than previous years. Since the BHOs will be incented to contain their costs, the Department anticipates that the proposed initiatives can be financed using the ongoing savings generated from the case rate adjustment, which will decrease the base budget over time. As mentioned above, when necessary, the Department may request changes to its appropriation through the regular budget process.

Alternatives to Rate Reform

The Department will now address:

(1) cost estimates for each of the benefit or service changes recommended;
(2) input from the behavioral health organizations on how such benefit and service reductions will be implemented; and
(3) a description of any involvement that mental health advocacy groups had in providing input on the benefit or service changes recommended;

The Department, the BHOs, and the stakeholders unanimously recommend achieving the $2.2 million reduction through implementation of the case rate because the case rate will not impact client care. The Department anticipates that the BHOs' actuaries will certify the rates upon implementation of the case rate adjustment; however, the Department has evaluated a potential reduction in service requirements and administrative responsibilities and has obtained stakeholder opinion on these options.

The 2.5% rate reduction implemented in September 2009 with the new BHO contract was not associated with any reduction in administrative or service requirements. To compensate for this cut, the BHOs and their provider partners initiated a variety of measures to reduce administrative overhead and improve efficiency. These measures were implemented differently across the BHOs and Community Mental Health Centers (CMHCs), but served overall to preserve access to services and programs for clients. These measures included: staff hiring freezes, staff salary freezes, staff salary reductions, renegotiation of property leases, provider rate reductions, furlough days for staff and managers, reducing employer contributions to staff benefit packages, reducing FTE via

layoffs, raising productivity standards for staff, using unpaid interns to assist with clinical caseloads, eliminating certain management positions, re-engineering service delivery to reduce cost per client served, reducing travel and training budgets, eliminating capital improvement funding, suspending or deferring acquisition of new equipment, reducing association memberships and conference attendance, reducing staff meetings, and streamlining job duties and associated performance measures.

If the proposed CY 2011 rates are not certified as actuarially sound, or if additional budget cuts are required, it is probable that current administrative and/or service requirements will need to be modified.

After much consideration, the BHOs proposed the following potential changes to contract requirements. Discussion of implementation processes and timelines has been deferred based on the recent acknowledgement that rate reform efforts should achieve the required cost savings for January to June 2011.

- Implement paperwork streamlining measures: Paperwork streamlining efforts have been underway since fall 2009 but the resulting draft proposal has not yet been reviewed by stakeholders and will not be ready for implementation until at least late spring 2011.
- Reduce documentation on required evidence-based practices (EBPs) to (2) Adult and (2) Youth EBPs per BHO with one outcomes measure. BHOs currently utilize many EBPs and would continue to do so; this change would represent a reduction from the significant increase in EBPs that was required in the 2009 contract.
- Eliminate (5) core performance indicators that are viewed as operationally problematic and/or redundant.
- Individual BHO efforts to reduce cost per client served through a combination of any/all of the following:
    - Reduce inpatient recidivism
    - Reduce ER utilization
    - Decrease cost/episode of care by diagnosis
    - Increase use of peer services to supplement/compliment traditional services
    - Increase movement from high intensity services to recovery services
- BHO-specific proposal requirements to be negotiated with the Department. Examples:
    - Not hiring a proposed Deputy Director
    - Cancel/defer implementation of Child Psychiatrist Consultation Program
    - Cancel/defer implementation of education for the elderly, adult respite, etc.
- Revise access to care standards as proposed below.
    - Emergency services: 95% of requests will be met in person within one (1) hour (rural/frontier areas – 2 hours) and 100% of requests will be met in person within two (2) hours (rural/frontier areas – 3 hours). No change to contact within 15 minutes by phone.
    - Urgent services: within 24 hours (no change from current contract)

- Routine appointments: 95% of requests will be met within seven (7) business days and 100% of requests will be met within ten (10) business days

Input from the Department's two major stakeholder groups has been solicited via e-mail and personal presentations by Department staff. One of these groups is the Department's Mental Health Advisory Committee (MHAC), which is composed of state staff, advocates, and mental health consumers and family members, and addresses Medicaid mental health policy and issues. The second group is the statewide Mental Health Planning and Advisory Council (MHPAC), which is tasked with reviewing and advising the state concerning proposed and adopted plans for mental health services, and developing and taking advocacy positions concerning mental health legislation and regulations. Each group was provided with a summary of the proposed changes above, minus the associated cost savings, and asked to rank the changes from most preferable to least preferable. The Department emphasized to stakeholders that it expects the case rate methodology to achieve the desired savings and does not recommend implementing contract changes at this time. Therefore, estimated cost savings data collected several months earlier was not included with the stakeholder summary. While input is still being received, stakeholder response is strongly in favor of avoiding program and service changes, if possible. Stakeholders have been advised that if program/service changes appear necessary in the future, these options, as well as any others that have been developed, will be presented to them for review along with the estimated cost savings associated with each potential change.

If you require further information or have additional questions, please contact the Department's Budget and Finance Office Director, John Bartholomew, at john.bartholomew@state.co.us or 303-866-2854.

Sincerely,

Sue Williamson for Joan Henneberry

Joan Henneberry
Executive Director

JH/sc

Cc: Representative Cheri Gerou, Vice-Chair, Joint Budget Committee
Senator Pat Steadman, Joint Budget Committee
Senator Kent Lambert, Joint Budget Committee
Representative Jon Becker, Joint Budget Committee
Representative Mark Ferrandino, Joint Budget Committee
Senator Brandon Shaffer, President of the Senate
Senator John Morse, Senate Majority Leader
Senator Mike Kopp, Senate Minority Leader
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