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## Department Of Mental Health

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### Act 79 Inpatient Rate review process update

#### Background

On August 28 and 29, 2011, the Vermont State Hospital sustained widespread damage resulting from heavy rains and flooding in the aftermath of Hurricane Irene. Beginning August 29, 2011, patients at the Vermont State Hospital were evacuated from VSH to protect the safety and security of the patients and staff and placed in the designated hospitals in Vermont.

In addition to placements in community residential settings and the medical unit within Southern State Correctional Facility, patients were transferred to the following facilities:

- Brattleboro Retreat (BR)
- Fletcher Allen Medical Center (FAHC)
- Rutland Regional Medical Center (RRMC)

The units at these hospitals serve individuals participating in the Vermont Medicaid program, individuals with commercial coverage and individuals who are uninsured or underinsured.

Act 79, An Act Related to Reforming Vermont's Mental Health System, was signed by the Governor on February 12, 2012. Act 79 includes the following requirements:

#### *Sec. 33b. COST-BASED REIMBURSEMENT FOR ACUTE HOSPITAL SERVICES*

*(a) The department of mental health shall ensure that hospitals are paid reasonable actual costs for providing necessary care to persons who otherwise would have been cared for at the Vermont State Hospital as defined by the department. The department shall contract with a third party with experience in psychiatric hospital care and expenses to conduct a comprehensive fiscal review to determine if the department's cost reimbursement methodology reflects reasonable actual costs.*

*(b) The department of mental health shall report to the joint fiscal committee regarding the fiscal review described in subsection (a) of this section on or before September 1, 2012.*

Two of these facilities have undertaken some construction to serve high acuity patients over the long term. However, construction costs will be reimbursed separately and will not be a component of the financial reviews.

#### Rate Setting and Settlement Process Update

The Agency of Human Services contracted with Mark Podrazik, from Burns and Associates (B&A) to complete the annual cost settlement process. He was also instrumental in setting the rates for Fletcher Allen. B&A assisted the Department of Vermont Health Access (DVHA) implement methodology to pay for inpatient hospital services to diagnosis related groups (DRGs) in 2008. They conducted a rate update for DVHA in 2012. The update included inpatient psychiatric cases. Mark Podrazik has also conducted analyses of BR data for the Green Mountain Care Board in 2012 and has set inpatient psychiatric hospital rates in two

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other states besides Vermont.

- **Rutland Regional Medical Center.** The Department of Mental Health is purchasing capacity of their 6 bed Psychiatric Intensive Care Unit (PICU). While renovations are being completed, the care for the person who otherwise would have been cared for at the VSH (referred to as Level I) are being cared for in their 19 bed Psychiatric Inpatient Services Unit (PSIU). An interim rate was set for this period of time based on direct unit expenses, expenses outside of the psychiatric unit (for example, pharmacy and lab) and for indirect expenses allocated. In addition, projected revenues from other sources was subtracted from this amount. The interim rate for RRMC was set at **\$1,272 per day**. RRMC also submitted a budget for the six bed unit. The interim rate for this unit, using the same method, is **\$1,650 per day**.
- **Brattleboro Retreat.** The State is purchasing a 14 bed capacity from BR on their Tyler 4 unit. Additional beds are being used for Level I care, as needed, on their other psychiatric units. A similar process to the one used for RRMC was used to set the rate for the BR. The interim rate for BR is **\$1,350 per day**.
- **Fletcher Allen Health Care.** Fletcher Allen is different from RRMC and BR in that the state is purchasing Level I beds as needed, rather than buying the full capacity of a unit. It was determined that the rate for the Level I patients would be based on the identification of incremental cost. Baseline costs for fiscal year 2011 were reported and inflated to come up with the fy12 and fy13 baseline expenses. The rate was set on the difference between the baseline expense and their projected budget and divided by the projected number of Level 1 days. The interim rate for FAHC is **\$1,857 per day**.

In each example above, the rate per day was evaluated against other benchmarks such as current rates paid by Medicaid, Medicare and commercial payers and the historical cost per day at VSH. Other factors that were considered in the final rate for each facility included the costs to serve this more challenging population, the effect on the hospital's other patients, and the capacity at each facility. All costs will be substantiated in the settlement process.

### Settlement Process

For the basis of the year end cost settlement, the interim rate will be applied to all patients that meet Level I eligibility criteria. Accounting systems are in place to capture revenues and expenses distinctly for the units at RRMC and BR. FAHC will also maintain a distinct accounting method to track the line items for which incremental expenses will be calculated. At the close of each provider's fiscal year, this information will be reviewed by Burns and Associates (the consultant) to determine if the provider was over or underpaid for allowable expenses. Determination will be made based on allowable expenses less all incremental payments from the State as well as any other payers.

If, after completion of that review, there is a difference between costs determined by the consultant and actual costs incurred, the provider may request that the State review the disallowed expenditures. The provider may appeal the State's decision to deny in whole or in part, reimbursement for actual costs incurred.