Chairman Kreidt and members of the Long-Term Care Committee, I am JoAnne Hoesel with the Department of Human Services (DHS) and Cabinet Lead for Program and Policy which includes the Developmental Disabilities Division (DD). I am here to provide a status report of the study of the methodology and calculations for the ratesetting structure for public and private licensed developmental disabilities and home and community-based service providers pursuant to Section 1 of 2009 House Bill No. 1556.

As noted in earlier testimony to this committee, DHS contracted with Burns & Associates, Inc. (B&A) to analyze the assessment tools and criteria used to identify individuals who are medically fragile and/or behaviorally challenged. B&A was tasked to evaluate the adequacy and appropriateness of compensation for developmental disability providers serving people with extraordinary behavioral and medical needs.

The contract requires eight (8) deliverables.

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<th>Final Data Request</th>
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<td>2</td>
<td>Three Day On-Site Visit and Materials</td>
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<td>Evaluation of the Current Reimbursement, Appropriation, Assessment and Change Request System</td>
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B&A uses a number of sources in their evaluation.

1. A detailed walk-through of the current system provided by staff of the DD Division with supporting documentation,
2. Focus groups, interviews, and written comments received from stakeholders,
3. Quantitative analysis of assessments, claims, and payments/costs,
4. B&A, Inc.’s experience with rate-setting systems and assessments in other states,
5. Review and analysis of assessments used in other states and in North Dakota,
6. A survey of providers asking for estimated costs related to reimbursement and assessment activities,
7. A report from DHS on the administrative costs related to provider budgeting, rate-setting, audit, and reconciliation as well
as administrative and use of the progress assessment review (PAR) and Oregon assessment tools.

The interim report was received July 7, 2010. Today’s testimony is a synopsis of the interim report. The interim report will be revised by B&A based on feedback received by August 5, 2010.

I. Overview of Current System

Assessments
The currently used Oregon Behavioral, Oregon Medical, and PAR were reviewed to see how well they perform in predicting provider rates.

Reimbursement System
The reimbursement system currently used is retrospective and cost-based. The State makes payments in the current year based on an interim rate setting process that is driven by submittal of a budget by providers. Final payments are cost settled after an audit. A target number of budget limitation is used to control both interim rates and cost settlement. Providers do make requests for exceptions/enhancements based on the special needs of their clients. The consultant has found that over 50% of clients were budgeted and processed as exceptions. Exceptions increase time for providers and state staff.

Interim rates are established based on the assumption that providers are 95% occupied. If a provider experiences higher occupancy they will owe DHS at the time of cost settlement and if they experience less than 95%, they can experience a loss. This was done many years ago to control costs and avoid scattered openings while leaving only the most difficult to serve clients not chosen.
Cost reports are submitted by providers and desk reviewed by DD staff. The cost reports are then transferred to the provider audit unit. In general, provider audits are two years subsequent to the year for which they are used to reconcile interim rates. Audits are very comprehensive.

II. **Findings Related to Current System**

**Assessment Findings**

- **Oregon Behavioral** - discontinue for both child and adults as it predicts no costs nor appropriately identifies individuals.
- **Oregon Medical** does have predictive value for children but it is no better than the currently used PAR to predict costs for adults. If both the PAR and Oregon Medical are used, it results in a duplication of effort with no added value.
- **PAR** is seen as a powerful tool and predicts 43.1% of the current DD expenditures.

B&A identified the **Support Intensity Scale (SIS)** for consideration. It is the most frequently used tool today and is considered state of the art. It is used in twenty (20) states, two Canadian Provinces, and several European countries.

**Findings related to reimbursement systems**

- The current ‘bucket’ system plus the cost-based reimbursement process is seen by providers to adequately pay in total for services and supports but the dollars are not always distributed
to the individuals who are medically fragile and/or behaviorally challenged.

- B&A found that most providers recognize that they receive about five percent more than their estimated costs during the interim rate-setting process because of the occupancy factor of 95% and they monitor spending and set aside funds for the year-end payback.
- In their analysis, it appears that bucket payments may be targeting the same individuals who are identified through the PAR in the reimbursement system – this will result in duplication.

**Other State Reimbursement Systems**

- Other states that base payment on the needs of individuals do not use cost-based reimbursement systems.
- Most states that adjust payment based on assessed need, include all of an individual’s needs and not a subset such as the medically fragile and/or behaviorally challenged.

**Administrative Burden**

- North Dakota’s reimbursement system is slow and very resource intensive.

“Burns & Associates has found the current system to be inefficient; staffing is inadequate to handle the workload. Providers and the state agency are continuously ‘chasing their tails’ to discover where they really began at least two years ago. It is very difficult to manage a provider agency, DD, and appropriated dollars when key information on expenditures is not known for several years into the future.”
III. Options Identified for Adults and Children

Four options for serious consideration by North Dakota have been offered by B&A—two options for adults and two options for children. One of the options for children and adults retains the current cost-based reimbursement system. The others involve moving to a perspective reimbursement process.

**Adults**

A – Revise and shorten the PAR – the PAR identifies individuals that are behaviorally challenging and medical fragile. Keep the cost-based, retrospective reimbursement process.

B – Adopt a new assessment tool and move to a perspective reimbursement process. The Supports Intensity Scale (SIS) is recommended.

**Children**

C- Pilot Child SIS – This tool is still in development stages but North Dakota could become a pilot site. This tool is used for children over 5 years of age up to the age of 16. B&A continues to look for an under 5 assessment tool. None found to date meet the needs of North Dakota. This option involves moving to a perspective reimbursement process.

D- Oregon Medical tool and add the Cal locus or other such tools. This options focuses on identifying those who have challenging behaviors and keeps the current cost-based, retrospective process.

IV. Cost Estimates
Options A and D assume no change in the cost-based retrospective reimbursement structure. Options B and C Adult and Child SIS, contemplate moving to a resource allocation framework. It should be noted that Option A revised PAR could also be used as the basis of a resource allocation model and it would result in similar program savings reports for Options B and C SIS.

“Replacing the PAR with the SIS would be more costly initially both in terms of time and dollars as it requires new assessments to be performed on all consumers and the results of those assessments to subsequently be used to develop a resource allocation model and prospective rates. This process would take an estimated two years. The rate-setting and resource allocation model is twelve to fifteen months with nine months overlapping the SIS assessment processing. The cost estimates are for a five year period of time with Years 1 and 2 as development years.”

Information on the assumptions made in arriving at the cost estimates are identified in details in the Interim Report.

**Impact on people served**
Table 6.1

**Provider impact of Options**
Table 6.2

**State Impact of Options**
Table 6.3

**Overview of the cost estimate of the five-year project comparing the current system versus the four options**
Table 7.3
V. Summary and Conclusion of Interim Report

B&A identify the administrative burden on providers and state in the current system and state that, “The process of accounting for every dollar and ensuring that providers are paid according to their own individual costs is a tremendous task. Our estimate is that approximately $2.6 million per year is spent just to operate the reimbursement system. This includes the provider’s costs but since their costs are reimbursed by the State it is really all State and Federal cost. About $1 million per year of State staff resources are committed to this process every year.”

“Adopting a prospective rate system that paid a fixed fee for each unit of service such as an hour or day of service provided would free the State staff from having to audit and prepare reconciliations once the cost-base system is closed out. The State could use filed cost reports to perform rebasing periodically (e.g. every three to five years) or could choose to audit the year used in rebasing. This audit process is not done by a number of states. Because of the demands of health care reform on state Medicaid agencies, North Dakota will need to weigh this project in the context of the additional population, physician reimbursement, eligibility, and system changes required by the Patient Protection and Affordability Care Act.”

In summary, the Interim Final Report will be revised by B&A based on feedback from the State and stakeholders received by August 5, 2010.
In addition to these revisions, the Final Report will add graphics and print features designed to make the report more reader friendly and to highlight key findings.

I’d be happy to answer any questions.