Methods and Standards for Establishing Payment Rates
Psychiatric Residential Treatment Facilities

Narrative Explanation of Reimbursement Formula

Under the Medicaid program, the State of Kansas pays psychiatric residential treatment facilities (PRTFs) for care and treatment provided to residents who are eligible for Medicaid benefits. The Department of Social and Rehabilitation Services (the Department) administers the PRTF program pursuant to an interagency agreement with the Kansas Health Policy Authority, the single state Medicaid agency.

There are two classes of PRTFs:

I. Class I is a PRTF that meets all:
   A. Requirements for Medicaid participation as specified in 42 CFR 441.151, and
   B. State standards and licensing requirements for a Class I PRTF including:
      1) Accreditation by the Joint Commission,
      2) Being licensed, but not Medicaid certified, as a psychiatric hospital, and
      3) Not refusing to admit any otherwise qualified Medicaid beneficiary who has a documented need for residential inpatient psychiatric treatment.

II. Class II is a PRTF that meets all:
   A. Requirements for Medicaid participation as specified in 42 CFR 441.151, and
   B. State standards and licensing requirements of a Class II PRTF.

The narrative explanation of the reimbursement formula for each class of PRTF is divided into three major sections: Historical Costs, Rate Calculations, and Payment Limits.

Narrative Explanation of Reimbursement Formula for Class I PRTF

1) Historical Cost

Cost Reports

Providers are required to submit information on all costs incurred during the fiscal period from July 1st through June 30th on a uniform cost report, the PRTF Financial and Statistical Report. It organizes the commonly incurred business expenses of PRTFs into five reimbursable cost centers (Administration; Facility Operating; Property; Room, Board, and Support; and Treatment) and one non-reimbursable/non-resident related cost center. Reporting of non-reimbursable/non-resident related costs allows total operating expenses to be reconciled to the PRTFs' accounting records. Cost reports are to be submitted by September 30th

The cost report and cost report instructions are provided in Attachment 1.

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Mid-Period Reports

To accommodate a mid-period treatment cost adjustment, a report of costs incurred during the six-month period starting immediately after the end of the cost report period described above. The mid-period report will be for costs incurred July 1st through December 31st. Mid-period cost reports are to be submitted by March 31st, using the same form and format as the annual cost report.

Allowable Costs

All cost reports are desk reviewed by the Department or its designee auditors. Adjustments are made, when necessary, to the reported costs in arriving at the allowable historic costs for the rate computations.

All mid-period reports are tested for reasonableness. The treatment cost center is desk reviewed. Adjustments are made, when necessary, to the reported costs in the Treatment cost center arriving at the allowable historic costs for the rate adjustments.

Change of Owner/Provider

When a non-arms length change of provider takes place or when an owner of real estate assumes the operations from the leasee, the PRTF will be treated as an on-going operation. In this situation, the related provider or owner shall be required to file the appropriate year end cost report or mid-period report in conformance with the schedule described above. The new operator or owner is responsible for obtaining historical cost information from the prior operator for the months needed to submit accurate and complete reports that includes costs incurred when the new operator was not involved in running the PRTF. The cost report information from the old and new operators shall be combined to prepare a 12-month cost report or a 6-month mid-period report in conformance to the schedule described above.

When an arms-length change in provider takes place, the new owner assumes the reimbursement rate of the old owner until the new owner can submit a full year or mid-period cost report in conformance with the schedule described above.

New Provider

The per diem rate for a new Class I PRTF will be based on a projected cost report reviewed by the Department for reasonableness. The Department will determine reasonableness by comparing projected costs with other similar PRTFs. In making these comparisons, the

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Department will make appropriate adjustments and allowances to account for staffing ratios and unique physical plant requirements needed to serve children and adolescents who have a higher acuity of mental illness compared with those served by other PRTFs. The approved initial rates will be paid until new rates can be established from a complete full year cost report period using the rate calculation methods described below. Once a new rate is established from a full year cost report period, a retrospective cost settlement will be made from the first day of operation of the new Class I PRTF to the date that the new prospective rate is set.

2) Rate Calculations

Reimbursement rates will be calculated for the payment rate period of January 1st through December 31st, with a mid period adjustment to the Treatment cost center effective for the payment rate period from July 1st through December 31st.

Inflation

Inflation will be applied to all allowable reported costs except:

1) Owner/Related Party Compensation
2) Interest Expense
3) Real and Personal Property Taxes

Inflation will be applied from the midpoint of each cost report period to the midpoint of the rate payment period. The inflation will be based on the Data Resources, Inc., National Skilled Nursing Facility Market Basket without Capital Index (DRI Index).

The DRI Indices listed in the latest available quarterly publication will be used to develop the inflation tables used for all payment schedules processed during the payment rate period. This may require the use of forecasted data. The inflation tables will not be revised until the next payment rate period.

Per Diem Costs

Per diem costs are determined by dividing each PRTF's inflated allowable costs, for each cost center, by the total number of reported resident bed days. Total PRTF reimbursement will include the actual allowed inflated per diem costs for each of the Administration; Facility Operating; Property; Room, Board, and Support; and Treatment cost centers.

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Narrative Explanation of Reimbursement Formula

Mid-Period Rate Adjustment

The Treatment cost center will be adjusted for the difference between the inflated allowable per diem costs calculated for the full year rate payment period and the inflated allowable per diem costs calculated for the mid-period adjustment. This difference will be added to the rate currently in effect on July 1 and will be paid through the end of the rate payment period, December 31.

3) Payment Limits

Owner/Related Party/Director/Co-Director Limits

All Class I PRTFs cost related to owner/related party compensation will be limited. Since salaries and other compensation of owners and related parties are not subject to the usual market constraints, specific limits are applied to the reported amounts. First, amounts paid to non-working owners and directors are not an allowable cost. Second, owners and related parties who perform resident related services are limited to a salary chart based on the Kansas Civil Service classifications and wages for comparable positions. Owners and related parties who provide resident related services on less than a full time basis have their compensation limited by the percent of their total work time to a standard work week. The owners and related parties must be licensed or certified by the state to perform services requiring such credentials.

The compensation paid to owners and related parties shall be allocated to the appropriate cost center for the type of service performed. Each cost center has an expense line for owner/related party compensation. There is also a cost report schedule titled, "Statement of Owners and Related Parties." This schedule requires information concerning the percent of ownership (if over five percent), the time spent in the function, the compensation, and the description of the work performed for each owner and/or related party.

Comparable Private Pay Rates

Class I PRTFs are to be reimbursed the lower of the calculated Medicaid rate or their private pay rate. The Department maintains a registry of private pay rates. It is the responsibility of the facilities to send the Department their private pay rate updates so that the registry is current. When new Medicaid rates are determined, if the private pay rate reflected in the registry is lower, then the facility is held to that private pay rate until the facility sends notification that it has a higher private pay rate.

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Narrative Explanation of Reimbursement Formula for Class II

1) Historical Cost

Cost Reports

Providers are required to submit information on all costs incurred during the fiscal period from July 1st through June 30th on a uniform cost report, the PRTF Financial and Statistical Report. It organizes the commonly incurred business expenses of PRTFs into five reimbursable cost centers (Administration; Facility Operating; Property; Room, Board, and Support; and Treatment) and one non-reimbursable/non-resident related cost center. Reporting of non-reimbursable/non-resident related costs allows total operating expenses to be reconciled to the PRTFs' accounting records. Cost reports are to be submitted by September 30th.

The cost report and cost report instructions are provided in Attachment 1.

Mid-Period Reports

To accommodate a mid-period treatment cost adjustment, a report of costs incurred during the six-month period starting immediately after the end of the cost report period described above will be required. The mid-period report will be for costs incurred July 1st through December 31st. Mid-period cost reports are to be submitted by March 31st, using the same form and format as the annual cost report.

Allowable Costs

All cost reports are desk reviewed by the Department or its designee auditors. Adjustments are made, when necessary, to the reported costs in arriving at the allowable historic costs for the rate computations.

All mid-period reports are tested for reasonableness. The treatment cost center is desk reviewed. Adjustments are made, when necessary, to the reported costs in the Treatment cost center arriving at the allowable historic costs for the rate adjustments.

Change of Owner/Provider

When a non-arms length change of provider takes place or when an owner of real estate assumes the operations from the leasee, the PRTF will be treated as an on-going operation. In this situation, the related provider or owner shall be required to file the appropriate year end cost

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report or mid-period report in conformance with the schedule described above. The new operator or owner is responsible for obtaining historical cost information from the prior operator for the months needed to submit accurate and complete reports that includes costs incurred when the new operator was not involved in running the PRTF. The cost report information from the old and new operators shall be combined to prepare a 12-month cost report or a 6-month mid-period report in conformance to the schedule described above.

When an arms length change in provider takes place, the new owner assumes the reimbursement rate of the old owner until the new owner can submit a full year or mid-period cost report in conformance with the schedule described above.

New Provider

The per diem rate for a new PRTF will be the total of the state-wide median of each cost centers calculated at the last full year cost report until the new PRTF can report a full year cost report in conformance with the schedule described above.

Initial Cost Report:

The PRTFs will submit an initial cost report for the six-month period from October 1, 2007 through March 31, 2008.

2) Rate Calculations

Reimbursement rates will be calculated for the payment rate period of January 1st through December 31st, with a mid period adjustment to the Treatment cost center effective for the payment rate period from July 1st through December 31st.

Inflation

Inflation will be applied to all allowable reported costs except:

1) Owner/Related Party Compensation
2) Interest Expense
3) Real and Personal Property Taxes

Inflation will be applied from the midpoint of each cost report period to the midpoint of the rate payment period. The inflation will be based on the Data Resources, Inc., National Skilled Nursing Facility Market Basket without Capital Index (DRI Index).

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The DRI Indices listed in the latest available quarterly publication will be used to develop the inflation tables used for all payment schedules processed during the payment rate period. This may require the use of forecasted data. The inflation tables will not be revised until the next payment rate period.

Per Diem Costs

Per diem costs are determined by dividing each PRTF's inflated allowable costs, for each cost center, by the total number of reported resident bed days. Total PRTF reimbursement will include the actual allowed inflated per diem costs for each of the cost centers for Administration; Facility Operating; Property; and Room, Board, and Support or the upper payment limit for each of these cost centers, whichever is less, plus the actual allowable inflated per diem for the Treatment cost center.

Mid-Period Rate Adjustment

The Treatment cost center will be adjusted for the difference between the inflated allowable per diem costs calculated for the full year rate payment period and the inflated allowable per diem costs calculated for the mid-period adjustment. This difference will be added to the rate currently in effect on July 1 and will be paid through the end of the rate payment period, December 31.

Initial Rates

The PRTFs will submit an initial cost report for the six-month period from October 1, 2007 through March 31, 2008. These cost reports will be used to set rates starting July 1, 2008.

Rates Set for the Cost Reporting Period of July 1, 2009 through June 30, 2010

Rates set for this cost reporting period will be the rate established based on the July 1, 2009 through June 30, 2010 cost report or the rate paid based on the mid-period adjustment effective July 1, 2010 adjusted for inflation based on the DRI, whichever is greater.

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3) Payment Limits

Cost Center Limits

Cost center limits are established for the Administration; Facility Operating; Property; Room, Board, and Support cost centers by determining the median per diem cost of all PRTFs plus a percent of the median. Cost center limits will be calculated as follows:

Administration	125% of median
Facility Operating	135% of median
Property	110% of median
Room, Board, and Support	120% of median

Treatment costs will not be subject to a cost center limit.

Owner/Related Party/Director/Co-Director Limits

All PRTFs' costs related to owner/related party compensation will be limited. Since salaries and other compensation of owners and related parties are not subject to the usual market constraints, specific limits are applied to the reported amounts. First, amounts paid to non-working owners and directors are not an allowable cost. Second, owners and related parties who perform resident related services are limited to a salary chart based on the Kansas Civil Service classifications and wages for comparable positions. Owners and related parties who provide resident related services on less than a full time basis have their compensation limited by the percent of their total work time to a standard work week. The owners and related parties must be licensed or certified by the state to perform services requiring such credentials.

The compensation paid to owners and related parties shall be allocated to the appropriate cost center for the type of service performed. Each cost center has an expense line for owner/related party compensation. There is also a cost report schedule titled, "Statement of Owners and Related Parties." This schedule requires information concerning the percent of ownership (if over five percent), the time spent in the function, the compensation, and the description of the work performed for each owner and/or related party.

Comparable Private Pay Rates

PRTFs are to be reimbursed the lower of the calculated Medicaid rate or their private pay rate. The Department maintains a registry of private pay rates. It is the responsibility of the facilities to send the Department their private pay rate updates so that the registry is current.

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When new Medicaid rates are determined, if the private pay rate reflected in the registry is lower than the Medicaid rate, the facility is held to that private pay rate until the facility sends notification that it has a higher private pay rate.

JUN 29 2010

OS Notification

State/Title/Plan Number: Kansas 10-06

Type of Action: SPA Approval

Required Date for State Notification: 6/29/2010

Fiscal Impact: FFY 10 $ 289,248 FFY 11 $765,040

Number of Services Provided by Enhanced Coverage, Benefits or Retained Enrollment: 0

Number of Potential Newly Eligible People: 0
or
Eligibility Simplification: No

Provider Payment Increase: No or Decrease: No

Delivery System Innovation: No

Number of People Losing Medicaid Eligibility: 0

Reduces Benefits: No

Detail:

Kansas now certifies PTRFs as class I or class II facilities with class I having to meet more stringent requirements because they treat a more acute population. This plan separates the two types of facilities and establishes cost based per diem rates for each class. As a group, class I facilities will have higher rates because their patients are more costly to treat.

The real interest in making this change may be that the State is having separate conversations with CMS disabled and elderly staff about using the more expensive rates to prices home and community based waivers for this population. Those discussions are ongoing, and regardless of their outcome, the State will now pay the cost per diem rates for these institutional psychiatric services.

The State funds payments with appropriations and does not make supplemental payments and does not have any UPL issues.

Other Considerations:
This plan amendment has not generated significant outside interest and we do not recommend the Secretary contact the governor.

This OSN has been reviewed in the context of the ARRA and approval of the OSN is not in violation of ARRA provisions.

CMS Contact:
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National Institutional Reimbursement Team