Delaware Health and Social Services

Office of the Secretary

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MEMORANDUM

TO: Cerron Cade
Director, Office of Management and Budget

Ruth Ann Jones
Controller General

FROM: Molly K. Magarik, MS
Cabinet Secretary, Department of Health & Social Services

DS MKM

DATE: May 5, 2021

SUBJECT: FY 2021 Grants-in-Aid Bill -- Section 42 Epilogue - Report & Submission

In compliance with Section 42 of the Fiscal Year 2021 Grants-in-Aid Bill, please find the attached memo and documents to provide an update on the Department of Health & Social Services work this fiscal year on studying rate methodologies to address the recommendations of the *Independent Study of Rate Methdologies for Services delivered by Divisions within DHSS.*

If you have any questions, please do not hesitate to reach out.

MKM:mls

Attachments

pc: Sarah Noonan-Davis, Deputy Secretary, DHSS
Dava Newnam, DMS Director, DHSS
Michele Stant, DMS Deputy Director, DHSS
Christine Dolan, Budget Manager, DHSS
Victoria Brennan, Chief of Fiscal Policy, CGO
Emily Molinaro, Senior Fiscal & Policy Aanlyst, OMB

FY 2021 Update on the Rate Methodology Roadmap & Recommendations

Background:
The Fiscal Year (FY) 2021 Grants-in-Aid (GIA) Bill includes language that requires the Department of Health and Social Services (DHSS) to continue its work on studying rate methodologies and to address the recommendations of the *Independent Study of Rate Methodologies for Services Delivered by Divisions within DHSS*.

The 2020 Independent Study of Rate Methodologies included nine (9) recommendations for DHSS. The first six (6) were applicable for all methodologies and the last three (3) were specific to certain categories of service. The recommendations are available in Appendix A of this memo. DHSS engaged with the consultant Burns and Associates, a division of Health Management Associates (B&A/HMA), to implement Recommendation #2 from the 2020 rate methodology study.

> ***Recommendation 2:*** *DHSS is encouraged to develop a long-term roadmap for assigning the periodicity of updates of rates for all of its medical services.*
>
> *More specifically, any guiding roadmap should also include the following:*
> - *Tracking if Medicare has a methodology in place that could be considered in whole or in part by DHSS;*
> - *Tracking whether DHSS will incorporate a value-based component to its rate methodology or quality reporting on the services being paid;*
> - *An identification of the resources (both internal and external) to change methodologies and later to update rates periodically;*
> - *Current resources and identified gaps in resources to complete the work;*
> - *Modes of communication to external stakeholders required when changes occur (e.g., in person meetings with providers, briefings to legislators, written provider bulletins, and updated provider billing manuals);*
> - *The timing and cadence of updates to align with annual legislative budget preparations; and*
> - *The timing needed to introduce value-based initiatives into each rate methodology where it is warranted and any associated quality-based reporting.*

Executing Recommendation #2 is the cornerstone of implementing any of the other recommendations for rate setting. Consequently, B&A/HMA provided DHSS with the tools to implement the remaining rate setting steps.

In compliance with the Epilogue, DHSS reviewed the preliminary findings with legislative stakeholders and community/provider stakeholders in late January and early February 2021. Information and feedback provided during and after these sessions was integrated into the final roadmap presentation.

The deliverables for DHSS included a PowerPoint presenting the Activities Related to DHSS Provider Rate Changes: Building a Roadmap. This included:

- An overview of the 12 key activities in rate development
- A proposed roadmap for rate development
- Key questions for conducting a rate rebase
- Status of work toward initial recommendations from June 2020

For convenience, the Proposed Roadmap for Rate Development and Status of Initial 9 Recommendations from the June 2020 Report are included in Appendix B.

In addition to the information presented in the overview, B&A/HMA provided Questionnaires for each of the 13 Services subject to a rate rebase and a Summary of Research on Other State Rate Methodologies for Services Subject to Rate Rebase. The Questionnaires answered the key issues highlighted in Recommendation #2 for each of the 13 services eligible for rate rebases, including: Divisions involved in the service; information from neighboring states; data sources needed; methodology components to consider in a rebase; duration of the methodology rebase (including times for systems adjustments); whether systems changes would be needed; and additional resources (internal and external) needed to complete a methodology rebase.

Although not part of Recommendation #2, DHSS asked B&A/HMA to review rate setting methodologies and processes for surrounding states. Overall, B&A/HMA concluded that there are many different approaches in the surrounding states to how services are defined and how their rates are set. This information is a useful tool for understanding what other information is available.

These tools and resources will be available on the DHSS website at:
https://dhss.delaware.gov/dhss/dms/rmp/ratemethologyreport.html

Appendix A – The 9 Recommendations from the *Independent Study of Rate Methodologies for Services Delivered by Divisions within DHSS*.

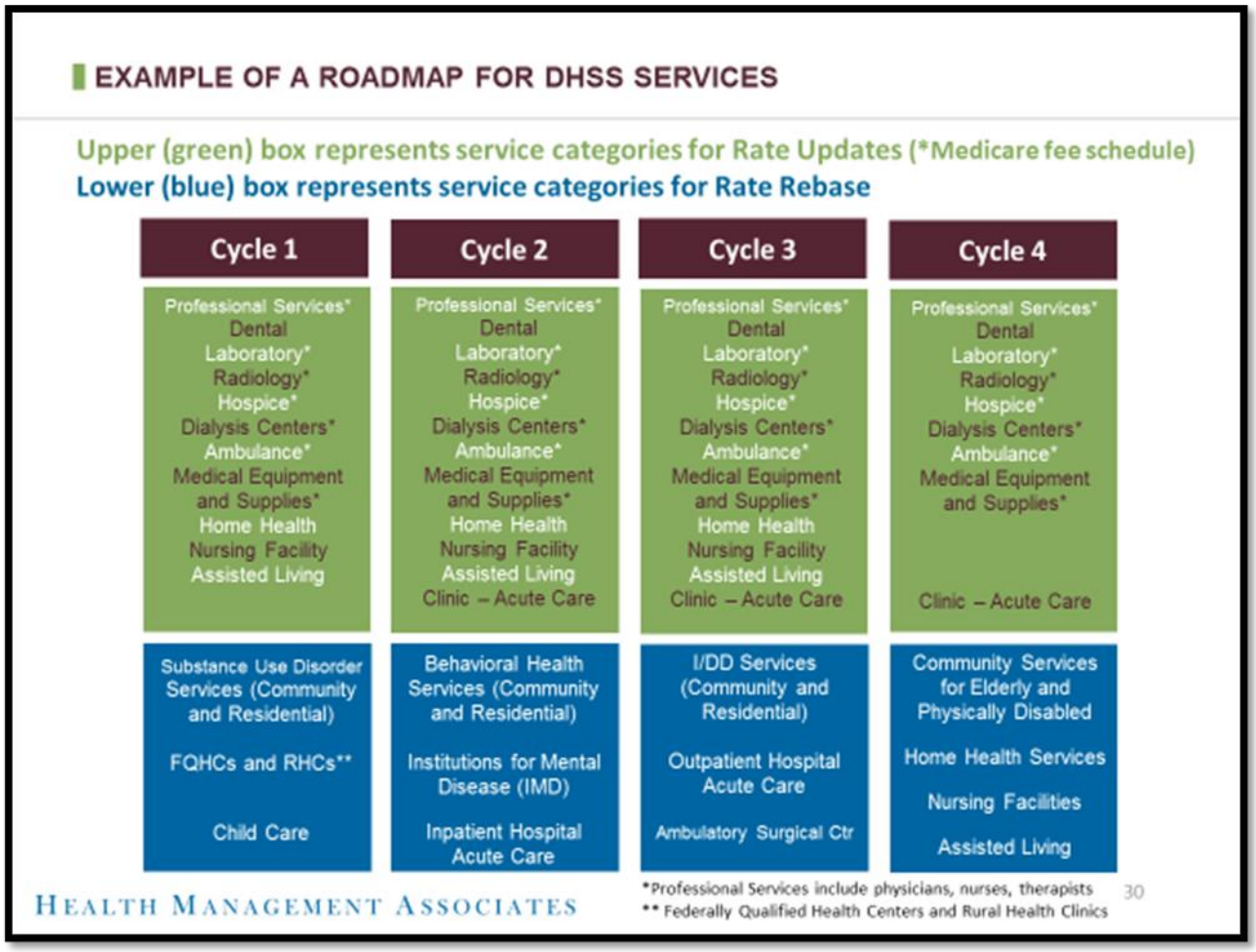
1. DHSS is encouraged to build rate methodologies that are specific to each service that is purchased and not to build a uniform "one size fits all" methodology. That being said, some service categories can have rate methodologies that are common in the way that they are built. The difference lies in accounting for variations based on the definition of the service being purchased.
2. DHSS is encouraged to develop a long-term roadmap for assigning the periodicity of updates of rates for all of its services.
3. B&A recommends that DHSS consider augmenting the existing staff currently used to develop and maintain rate methodologies and to clearly define roles and responsibilities for the staff that perform this function.
4. B&A recommends to all DHSS Divisions that a more formalized Public Notice process be initiated to inform providers and other stakeholders when rate changes are being contemplated.
5. B&A recommends that when rate methodology changes are undertaken, DHSS should build a project-specific work plan that incorporates periodic meetings with the providers affected by the rate change throughout the project.
6. B&A recommends that, for each major category of service, there should be a dedicated section in the Provider Manual that describes the rate methodology in detail and that this section is updated timely when any rate changes occur.
7. With respect to opportunities to modernize the rate methodology for HCBS (non-medical services), B&A recommends that DHSS develop a process to capture provider actual costs as well as independent market-based costs to use as a comparison when setting HCBS rates. Rates for these services can be built on a model that is built "from the ground up" and specific to the Division's needs.
8. B&A recommends that Divisions that use the contracting method to pay providers to develop a rate corridor that they are willing to accept from providers in the bid process that is driven by market data.
9. Whereas the DMMA has built more refinement and processes into the services that it is responsible for than some of the other Divisions, B&A does offer some specific recommendations related to the methodology for some acute health care services:
    - For inpatient hospital services, DHSS should consider changing its reimbursement methodology from a per discharge rate that is not based on patient acuity to a per discharge rate based on patient acuity using a diagnosis related grouping (DRG) system.

- For outpatient hospital services, DHSS should consider changing its reimbursement to a more sophisticated rate structure that incentives value and efficiency such as the Medicare Outpatient Prospective Payment System or 3M's Enhanced Ambulatory Patient Grouping.
- Although the actual per diem rates paid may differ from Medicare's, DHSS should consider immediately migrating to CMS's new methodology to pay for nursing facilities since the current methodology that has been in place for over 20 years will not be supported by CMS beginning in October 2020.

Appendix B: Deliverables from Burns & Associates, a division of Health Management Associates

Graphic 1: Example of a Rate Setting Roadmap for DHSS Services

This is a copy of Slide 30 from B&A/HMA's Activities Related to DHSS Provider Rate Changes: Building a Roadmap presentation. The Roadmap establishes a periodicity for identify when rates should be updated and/or rebased to allow for uniformity and regular reviews of service rate setting processes.



Graphic 2: Status of the Initial 9 Recommendations Made in the June 2020 Report

This is a copy of slide 42 from the B&A/HMA's Activities Related to DHSS Provider Rate Changes: Building a Roadmap presentation updated on March 31, 2021. As indicated in the slide below, developing a roadmap completes one of the major recommendations from the study. The remaining recommendations either pertain to specific services or are specific to rate setting processes. If DHSS follows the roadmap as outlined, the recommendations will be considered as part of each service's rate setting and rebasing process.

STATUS OF INITIAL 9 RECOMMENDATIONS MADE IN JUNE 2020 REPORT

1. DHSS is encouraged to develop a long-term roadmap for assigning periodicity of updates for rates.
   - Completed. Described in this presentation and supporting materials.
2. Consider changing inpatient hospital reimbursement methodology.
3. Consider changing outpatient hospital reimbursement methodology.
4. Consider migrating to CMS's new methodology to pay nursing facilities.
   - Inpatient services currently slated for Cycle 2 of 4 in the Roadmap. Outpatient services slated for Cycle 3 of 4. Nursing facilities slated for Cycle 4 of 4.
5. Modernize rate methodologies for home- and community-based services (HCBS) by building rates "from the ground up" that are specific to each Division's needs.
   - This process has already begun with the building of rates for substance use disorder services (in process now) and will continue for HCBS services in Cycles 2, 3 and 4.
6. For Divisions that do not set individual rates, leverage information from Recommendation #5 to establish acceptable rate corridors in contract negotiations.
   - Information will be factored into new contract negotiations as rates for comparable services are rebased for services in Cycles 1 through 4 of the Roadmap.
7. Build a project-specific work plan for each rate rebase that includes stakeholder feedback.
   - Questionnaires have been completed for each rate rebase category to help build the project-specific work plans. Estimated timeframes for each project are listed in Slide 31.
8. Utilize a more formalized Public Notice process to inform stakeholder of rate changes.
9. Update Provider Manuals for each major category of service to describe rate updates.
   - Recommendation #8 is Step 10 of the 12 Steps in Rate Development that was created. Recommendation #9 is Step 11 of the 12 Steps (refer back to slide 9 for details).

HEALTH MANAGEMENT ASSOCIATES

42