Enclosure B

SFY 2005-06 SHORT-DOYLE/MEDI-CAL RATE ESTABLISHMENT PROCESS

Introduction

Negotiated Rate providers under Short-Doyle/Medi-Cal (SD/MC) will adhere to specific procedures as outlined below in establishing rates with the State Department of Mental Health (DMH). Rate establishment is based on historical costs similar to the cost reimbursement providers. The Negotiated Rate providers are governed by the provisions and requirements in the State Plan for Medicaid services. The annual rate establishment results in fixed SD/MC reimbursement rates for each service that provides incentives for productivity and efficiency at the local provider level. A separate negotiated rate will not be negotiated for Therapeutic Behavioral Services. As in prior years, TBS reimbursement will be controlled by the Mental Health Services maximum rates. The negotiated rates are **not** included in the annual performance contracts between the state and the counties.

DMH Control Methodology

1. Basis for Control

a. The service rates will be taken from the SFY 2004-05 cost report. Using SD/MC providers only, actual cost will be determined for each specific service function by legal entity (county and each contract provider will be separately calculated).

b. For each of the service functions and legal entities, use the data from the SFY 2004-05 cost report. Divide the total adjusted gross cost by the total number of actual service units (time base units) for all programs within that group to compute these service rates.

c. State control rates are established by updating SFY 2004-05 cost report rates. Updates are made with two types of inflation factors: (1) Medical Consumer Price Index will be used for hospital acute inpatient and (2) Home Health Agency Market Basket Index will be used for all non-hospital services.

2. New Requests

a. New requests for negotiated rates will not be honored unless SFY 2004-05 cost report data and actual units are submitted to DMH at the same time. The cost information must be for one full operating year. The start-up year is not considered a full operating year.

3. Submission Requirements

The negotiated rate proposal package must be postmarked or electronically transferred by December 31, 2005, and be received with authorizing signatures by DMH no later than January 14, 2006. If a county does not meet these timelines, the county must use the lower of cost, charges or the SD/MC Maximum Allowances (SMA). SFY 2004-05 becomes the base year for SFY

2005-06 negotiated rates. The cost report deadline is met when DMH receives the uploaded version of the cost report by December 31, 2005, and a signed hard copy of form MH 1940 is submitted with the cost report and is received by January 14, 2006.

a. If only one or neither of the cost report deadlines is met, the county may still elect to use negotiated rates, but the base year to determine control rates will be SFY 2003-2004 increased by the appropriate 2004 and 2005 inflation factors.

4. Justification Requirements

a. Proposed rates that exceed the state controls must provide justifications. Proposed rates in all cases will be limited to the SMA. Changes that significantly affect the rates from the most recent cost report may also be taken into consideration by DMH. Such changes are utilization patterns, client profile shifts which impact cost of service delivery, union contracts, changes in program design, and other unforeseen documented factors which impact the cost of service delivery. Quantifiable documentation must be provided for DMH to evaluate such changes.

Justifications must include

1. A brief letter by the county either concurring or not concurring with the legal entity's justification and why.
2. A brief program narrative identifying the changes over the last two years that are expected to affect the rates for the current year to exceed the state control rates.
3. A budget for the current year identifying the cost items included in developing the proposed rates and the projected units by service function. The budget should be developed from the most recent costs available projected for the year based on both past and current trends.
4. A summary page comparing cost and other data by major categories: (1) Salary and Employee Benefits, (2) Operating Expenses and (3) Occupancy Costs. Compare data from two years prior to the current year.
    - List the summary of the three categories. For example, reflect the cost for SFYs 2003-04 and 2005-06 by the major categories. Also calculate the difference between 2003-04 and 2005-06 in both dollars and percentage change.
5. Detailed data must be submitted for each major cost category that the legal entity feels causes the proposed rates to exceed the state control rates identified in item 1.c. For example:

    - In the **Salaries and Employee Benefits** category, job classification or title should be listed with full time equivalency (FTE), total salaries paid or expected to be paid in SFYs 2003-04 and 2005-06. Calculate the difference between SFY 2003-04 and SFY 2005-06 in dollars and percentage of increase or decrease compared to SFY 2003-04.
    - In the **Operating Expenses** category, list the various costs from the accounts such as office supplies, accounting, audits, medical or clinical supplies, telephone, training, mileage, etc. representing SFYs 2003-04 and 2005-06. Calculate the difference between

SFYs 2003-04 and 2005-06 in both dollars and percentage of increase or decrease compared to SFY 2003-04.

- In the **Occupancy Costs** category, list the different location addresses or cities, square footage, usage, lease payments, mortgage payments, and other costs that are classified as occupancy representing SFYs 2003-04 and 2005-06. Calculate the difference between SFYs 2003-04 and 2005-06 in both dollars and percentage of increase or decrease compared to SFY 2003-04.

5. Other Requirements

a. When a provider of service is being eliminated during the year in question, the applicable costs and units of service shall be excluded from the calculation of the countywide or contract provider rate(s).

b. The legal entity rates for each service function shall not exceed the approved SMA for the applicable period.

c. According to the State Plan, if reimbursement to a negotiated rate provider exceeds actual costs in the aggregate, 50% of Federal Financial Participation (FFP) that exceeds actual costs will be returned to the Federal government.

d. The remaining 50% of FFP, including local interest, shall be retained by the county mental health program and utilized exclusively for mental health service delivery and support costs. This may include capital expenses specific to mental health programs.