BEHAVIORAL HEALTH Fiscal Academy

CalMHSA

California Mental Health Services Authority

PRESENTED BY:

Amie Miller, *Executive Director*

Ryan Caceres, *Director of Behavioral Health Financing*

Behavioral Health Fiscal Academy

BHFA Session 8

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Contract Provider Rate Setting Strategies

Core Funding Streams, Medi-Cal Payment Reform, and Strategic Use of Funds

Ryan Caceres

Director of Behavioral Health Financing
BHFA@calmhsa.org

Learning Objectives

- Develop CBO rate setting strategies that satisfy county priorities
- Understand factors that affect rate setting strategy implementation
- Implement contract structures that hedge county risks
- Creating win-win scenarios

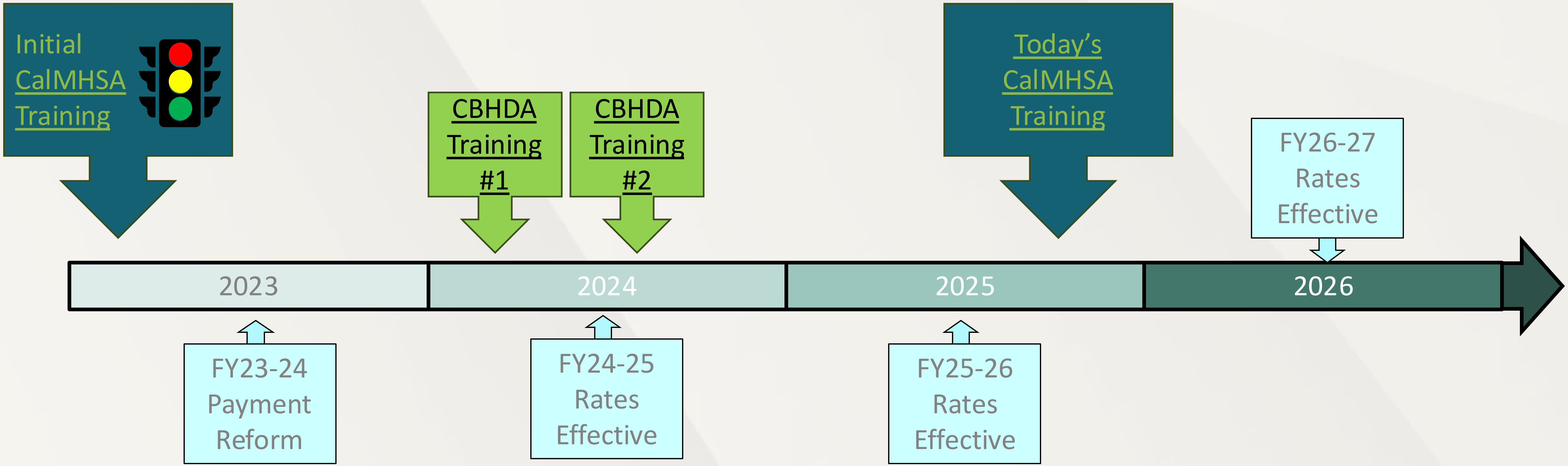
Session Roadmap

- Rate Setting Strategy Recap
- Factors Affecting Strategy
- County Priorities and Trade-Offs
- Assessing County Competitiveness
- Competitive vs. Uncompetitive Market Strategies
- Data Availability and Analytic Resources
- Data Techniques for Rate Setting
- Creating "Win-Win" Strategies for Counties and CBOs

CBOs Are Partners, Not Opponents

- Community-Based Organizations (CBOs) are essential partners in delivering behavioral health services and achieving county goals.
- Success for clients depends on collaboration – counties and CBOs share the same mission.
- Negotiations should never be adversarial; approach discussions with transparency and mutual respect.
- Analyze both perspectives: the CBO’s position, the county’s data, and the shared objectives.
- Aim for win-win solutions that ensure sustainability for CBOs and compliance for counties.

Payment Reform Timeline & Resources



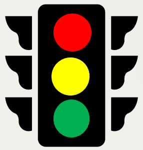
Rate Setting Strategies Recap

- DHCS set rates for Specialty Mental Health Services (SMHS) and Substance Use Disorder (SUD). These rates have been set by the State with input from CalMHSA & CBHDA.

- Counties need to negotiate rates with contracted providers in an amount that is less than the rate that the county receives from the state.

<table>
<tr><td rowspan="2">Impact of the Negotiated Rate
Assumptions: Medical Doctor
County’s Full Rate: $1,000 per hour
Federal Match (50%)</td><td>Scenario 1: Paying the CBO the full rate ($1,000):
County Cost = $1,000 → Medi-Cal Claim = $1,000 → FFP = $500
County's Net Cost = $500</td></tr>
<tr><td>Scenario 2: Paying the CBO 65% of the rate ($650):
County Cost = $650 → Claim = $1,000 → FFP = $500
County's Net Cost = $150</td></tr>
</table>

- Additionally, consider matching payment to risk using a tiered rate structure.
  - CalMHSA suggestion: Stratify CBOs and programs according to their risk into high, medium and low.
  - Other configurations can work, too, if aligned with county priorities.
    - ✅ Pay more for CBO with heavy field obligations in a highly acute population.
    - ❌ Pay the same amount for a poorly run CBO with massive operational inefficiencies.



Rate Setting Strategies Recap Cont.

- Collect data to inform decisions:
  - CalMHSA Step 1 templates – provider costs
  - Data from your EHR – analyzing productivity, place of service, etc.
  - Supplemental provider requests – asking CBOs to provide data that validates their assertions
  - Interactions with CBOs – good faith discussions

- Use incentives to achieve county priorities.

- Negotiate with CBOs with an understanding of the importance of their role in your county.

Factors that Affect Strategy

County Priorities: Tune your strategy to achieve your priorities

Competition: A competitive market with low barriers to entry enable CBOs to compete on price and focus on efficiency

Data Availability and Analytical Resources: Knowledge = Power

County Priorities

Provide care to all Medi-Cal members who need it.

Meet members in the community whenever possible.

Be a good steward of the county's funds.

Treat CBOs fairly. Pay them commensurate with the value they provide.

Anything you want. They're your priorities.

pri·or·i·ty – noun: a thing that is regarded as more important than another

Trade-offs may be required!

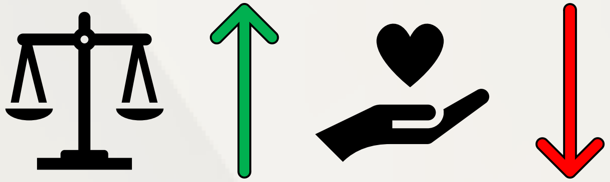
County Priorities: Trade-off Example #1

Example 1: Suppose there's a community-based organization (CBO) that provides a unique service, but it's less efficient than others. Because County A's rates are set to reflect value and efficiency, this CBO can't cover its costs and has to close.

What happens next?

- The unique service that only this CBO provided is temporarily unavailable.
- Clients who relied on that service experience a disruption.
- Another CBO may eventually step in and build capacity to offer the service, but there's a gap while that happens.

Key take away: By prioritizing fairness and value in rate setting, the county risks losing access to specialized services if providers can't operate efficiently. There's a trade-off between maintaining high standards and ensuring service continuity.



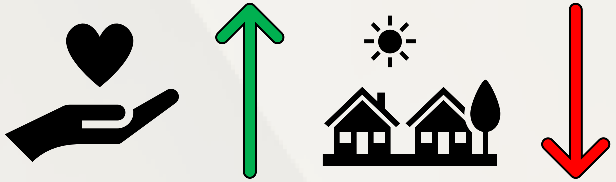
County Priorities: Trade-off Example #2

Example 1: County B wants to meet their county's unmet demand. To encourage more services, they incentivize CBO productivity by offering higher reimbursement rates for providers who meet or exceed productivity targets. This leads to an increase in services delivered in office settings and through telehealth, where providers can log more billable minutes efficiently.

What happens next?

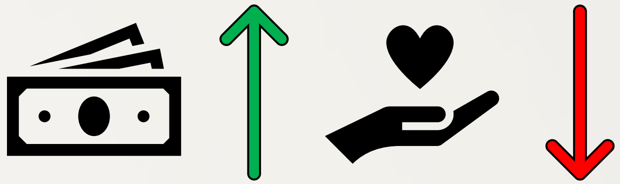
- The overall billable service volume rises
- The incentive unintentionally shifts provider behavior: Field-based services in the community decline because they are less time-efficient compared to office or telehealth sessions.
- Vulnerable populations who rely on in-person engagement but are less inclined to attend in-office sessions receive fewer services..

Key take away: Prioritizing productivity without balancing service delivery expectations may increase billable production but reduce services in critical areas the county values.



County Priorities: Trade-off Example #3

Example 3: County C is in dire straits financially. They need to reduce spending and implement broad rate cuts to achieve that. By doing that, CBOs respond with less capacity for Medi-Cal, either through shifting their service offering or shutting down.



Competition

Is your county competitive?

- ❑ If a Community Based Organization (CBO) goes out of business, will the other CBOs be unable to quickly absorb their responsibilities?
- ❑ Do all your CBOs have unique roles?
- ❑ Can your CBOs dictate pricing terms or other demands?
- ❑ Are your CBOs influential with county executives?

If yes, your county may not have a competitive market. This will change your negotiation approach.

Competitive Market Strategies

Multiple providers of a service in a competitive marketplace result in:

1. Providers pushing for efficiency to survive and thrive.
2. Ways to "find" the right price, such as:
   a. A competitive bid where CBOs offer their best prices, and volume is directed to CBOs accordingly. High bidders may be excluded entirely or just given lower maximum contract amounts.
   b. County could maintain control over prices and carefully apply downward pressure to yield best prices without significant service disruption.

Key Insights

- ➢ Data analysis is necessary to understand how to best configure your payment structure.
- ➢ Counties still must set the priorities & ensure the rates incentivize those priorities.
- ➢ Counties still must provide oversight and engagement to prevent perverse incentives.
- ➢ An improper regulatory structure and excessively influential industry stakeholders can result in a competitive market that fails to control costs and satisfy customers (e.g., American health care)

Uncompetitive Market Strategies

- Summary of Uncompetitive Market Dynamics – County & CBOs
- CBO Requests to Anticipate & How to Respond
- Drilliilng Down Into Productivity & the Questions to Consider
- Drilliilng Down Into Productivity & the Data You Need
- Drilliilng Down Into Productivity with an Example
- CBO Conversations: Financial Performance
- Uncompetitive Market Strategies – Putting it all Together

Uncompetitive Market Strategies

Uncompetitive markets are unavoidable when there isn't the volume of a particular type of service to warrant multiple providers.

From the seller's (i.e., CBO's) perspective, the market is often uncompetitive with only one specialty behavioral health plan to sell to in each county.

The CBO and the county need each other – for better or for worse.

Rate discussions:

- CBO aren't easily replaceable, and no one is doing the exact same service.
- CBO may ask for more or to stay fixed to a percentage of the DHCS rate schedule. The easiest way to improve their finances is to ask for more money.
- Engage with the CBO to get beyond the "ask" and to understand the strength of their case.
- Make sure you are speaking the same language.
    - Verify definitions when discussing productivity, financial distress or other potentially ambiguous topics.

Uncompetitive Market Strategies

Possible CBO Conversations

CBO Request: "Please automatically pass along your annual inflation adjustment. We have inflation too."
County Response 1: Accounting for inflation is reasonable, but we also want to reevaluate the rates annually instead of assuming that they're appropriate in perpetuity.
County Response 2: Let's take a look at your financial results.

CBO Request: "Our productivity is 50% and we're still struggling."
County Response 1: Are you defining your productivity on a 2,080-hour year? I'm not suggesting your people should work that much, but we need to speak the same language.
County Response 2: Let's take a look at your productivity.

CBO Request: "County Z pays way more than you."
County Response 1: County Z may be paying too much, or there may be different factors at play.
County Response 2: Let's take a look at your productivity.

CBO Request: "We're going to lose $1 million this year. We need higher rates!"
County Response 1: Let's drill into your results to see how you're trending throughout the year.
County Response 2: Let's take a look at your financial results.

Uncompetitive Market Strategies

CBO Conversation Drilldown: Productivity

Quality productivity data can refocus the question from, "County, why are the rates so low?" to "CBO, what factors hurt your productivity?"

- Does the CBO have higher-than-average amounts of meetings, trainings, PTO and holidays?
- Is the CBO leaving money on the table through its billing practices (e.g., missing add-on codes and modifiers, just missing cut-off for extra 15 minutes)?
- Could CBO change staff compensation structure to encourage higher productivity?
- Is CBO utilizing AI notetaking to protect staff's time?
- Can best practices from other CBOs be shared?
- Are any county practices or requirements administratively burdensome? What can you do to help them be more efficient?
- Are county referrals operating efficiently and fairly?
- Is there something you didn't understand about the work they're asked to do?
- Could the CBOs benefit from county-led trainings to promote awareness of EHR data?

Uncompetitive Market Strategies Cont.

CBO Conversation Drilldown: Productivity

Sources of productivity data:

1) Reliable FTE data source with EHR claims (preferred approach)
    a. Monthly or quarterly files that count client-facing FTEs assigned by each CBO (274 data may be a good source).
    b. Collect a year of staff FTE data (for a period that has sufficient claim run-out).
    c. Gather EHR claims for the same period.
    d. By CBO and program, calculate hours of service from EHR and divide by average.
        a. Example: CBO A participates only in an FSP program and has an average of 10.5 client-facing FTEs during FY24-25. You measure 5,460 hours of billable service. What is the productivity?
            i. $Productivity = \frac{5{,}460\ hours}{10.5 \times 2{,}080\ hours} = 25\%$
2) Use productivity data furnished by CBO
    a) Review CBO’s method in detail.
    b) Verify total utilization ties to EHR.
    c) Confirm fractional FTEs are counted as such.
    d) Ensure a full year’s worth of data are used.

Uncompetitive Market Strategies

Productivity Example: FTE Count + EHR

Select fields from a hypothetical FTE count

Field Name	Example Data
Program	North County Clinic
LastName	Smith
FirstName	Jane
NPINumber	1234567891
ProviderType	Provider Type (SMHS) - Marriage and Family Therapists
TaxonomyCode	Marriage and Family Therapist (106H00000X)
FTEProgram	100
FullTimeEquivalent	80
ServiceType	Mental Health Services, Targeted Case Management, Crisis Intervention, Intensive Care Coordination, Intensive Home-Based Services

Jane is an 80% of full-time LPHA who dedicates 100% of her time to the North County Clinic

When aggregating across months and people, always add the minutes and FTE counts and calculate the percentage at the end (don't add percentages!)

Service Month	NPI Number	Billed Minutes
July 2024	1234567891	4,160

$$Jane's\ July\ Productivity = \frac{4{,}160}{\frac{2{,}080 \times 80\%}{12} \times 60} = 50\%$$

Then, do the same for each month of the year…

July + August +…+ June = Jane

Do the same for any other LPHA's serving the program…

Jane + Bob = Total LPHA Productivity for North County Clinic

Uncompetitive Market Strategies

CBO Conversation Drilldown: Financial Performance

Quality financial data can allow you to see whether the concerns over CBO rates are matched by shaky financials. Use audited financial data, keeping in mind the following:

- What net gain or loss does the financial data show for the period being measured?
- The financial data is a view of the past. What has changed since then? Have rates gone up? Has productivity improved? You will need to identify the changes and project them into the future to see if the problem has already been fixed (or worsened).
- Are there other lines of business comingled in the financial data, distorting your view?
- Are there any one-time expenses that distort the financial results?
- Does the CBO earn money from other revenue streams which should be counted in a profit/loss analysis?
- Are there any line items or groups of expenses that seem out of line (e.g., high ratio of leadership-to-staff salaries)?

If the CBO can't show you audited financial data that isn't distorted, then ask them to show you their analysis that demonstrates financial distress for the services in question.

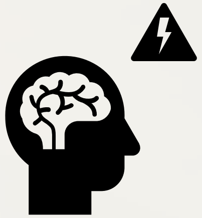
Uncompetitive Market Strategies

Putting It All Together

- The CBO and the county should have a shared understanding of the facts (i.e., productivity, financial performance and the trajectory of these items) and the future expectations, which may include:
  - Operational improvements for CBO.
  - Streamline county administrative requirements.
  - Rate adjustments aligned with the county's priorities.
- If the CBO isn't nimble enough to adapt to fair rates, you could implement a phasing in of the new rates over time, giving the CBO time to adjust its operations

Data Availability & Analytic Resources

Knowledge = Power



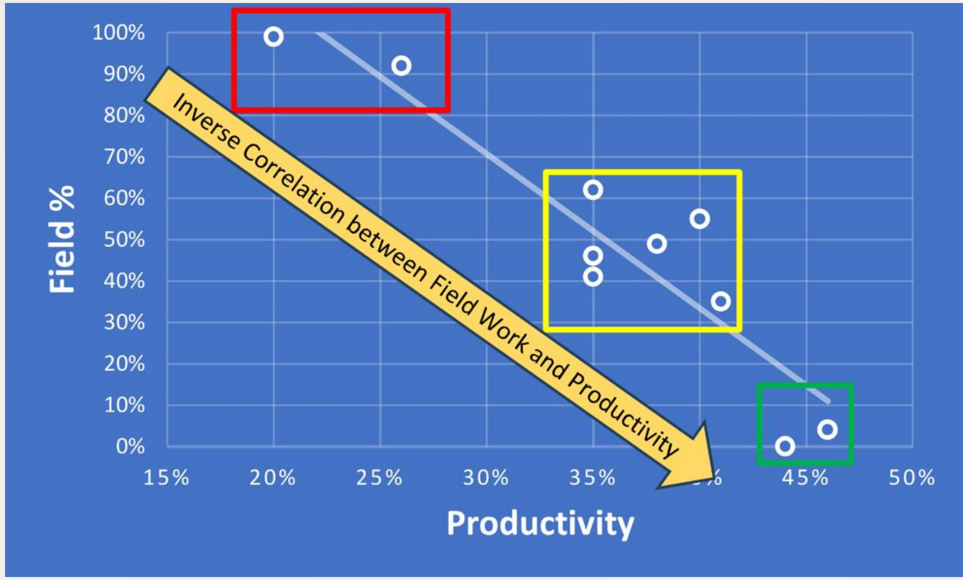
- Productivity and financial results data is essential in the uncompetitive market, but good data is also needed in a competitive market.
- Good data will help you design rate structures that promote your priorities.
- “Match payment to risk”, but how do we determine risk?
  - Risk is more than just cost. Many factors affect cost, but not all factors deserve payment (e.g., inefficient operations).
- The hypothetical data from CBHDA Training #1 identifies a major driver of productivity, but there may be others that would help explain the data even better.

Data Availability & Analytic Resources Cont.

Knowledge = Power

- Process for developing payment-differentiating variables:

1) Develop a theory of what drives costs (e.g., field work, homelessness, high acuity conditions).
2) Pull utilization data from EHR to test the theory.
3) Determine the correlation between the utilization and cost data or proxy data (e.g., productivity) if you don't have cost data.
   a. Strong vs. weak
   b. Positively correlated vs. negatively correlated
4) If the correlation is strong enough, make a judgement about whether the adjustment and its incentives would align with your priorities.
5) Try to avoid having multiple adjusters that are highly correlated with each other (e.g., schizophrenia adjustment and homelessness) as that could cause double-counting or other undesirable results.



Source: CBHDA Training #1

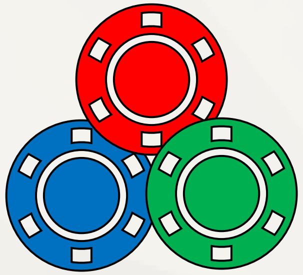
Data Techniques

Garbage In, Garbage Out

- A data driven process for rate setting isn't enough – the methods must be sound
- Data Quality
  - What is the source of your data? Is it known to be accurate? Can it be corroborated against control totals?
  - Always ask yourself (or the CBO) the question, "How do I know this is right?"
- Statistical Methods
  - Data can have seasonal patterns, so use a full 12 months.
  - Look at monthly data to determine if completion has fallen off in recent months. If so, use an older period or estimate an adjustment to account for missing data.
  - As rate adjustments stack on top of each other, the risk of problems with your statistics increases. Limit your different rating adjustments.
- Trends and forecasted data
  - Observe multiple years of data to distinguish between normal seasonal patterns and intra-year changes. Forecast intra-year improvements forward if likely to persist.
  - Recognize ways the past needs to be adjusted to the future, such as:
    - Trend to account for inflation
    - Known or expected policy changes

The techniques in here resemble those described in Session 4: Forecasting Patient Revenue. **Both are using past data to project the future**, but just for different purposes.

Hedge Your Bets



- You've developed a thoughtful set of CBO rates that matches payment to risk, paying more for services that require more resources.
- But you're still up at night worrying:

  - What if utilization comes in higher than I expect?
  - What if utilization shifts to the services for which we're paying the highest share of the DHCS rate?
  - What if the county runs out of money?
- You could hedge your risk with a contractual device to reduce payment after utilization thresholds have been crossed. For example:
  - Pay 70% of the DHCS rate until CBO collects $1,000,000 through contract.
  - Drop down to 50% of the DHCS rate thereafter.
- Be careful not to incentivize CBOs to underproduce. The ideal hedge to this risk is by pushing rates down and utilization up (see next 3 slides).
- Protect yourself from being on the hook to pay CBOs without matching funds. Set a policy to pay the CBOs for **approved** claims only.
  - Pay them most of the claimed amount up front, but withhold a small amount and reconcile the settlement against their actual approved claims.

Creating the "Win-Win"

$$Productivity = \frac{5{,}000}{10 \times 2{,}080} = 24\%$$

(We encourage using a 2,080-hour work year for productivity discussions)

- Trade-offs may be required when prioritizing, but win-wins are still possible.
- CBO productivity and efficiency enables lower CBO rates.
- The federal support for Medi-Cal amplifies the impact to the county of any savings (aka "leveraged savings").
- Improving efficiency benefits the CBO even with lower rates because it allows the county and CBO to split the gains.
- The scenarios below show two paths for County A, which has the following characteristics:
  - 60% federal support
  - 1 CBO with 10 FTEs
  - Full DHCS rate of $200 / hour (pretending there's only one provider type)

Scenario 1: Status Quo

CBO rate for 1 hour of service: $140 (70% of DHCS rate)

Annual hours of service: 5,000 (24% Productivity)

$$County\ Obligation = 5{,}000 \times \$140 - 5{,}000 \times 60\% \times \$200 = \$100{,}000$$

$$CBO\ Revenue = 5{,}000 \times \$140 = \$700{,}000$$

Scenario 2: Improved CBO Productivity

CBO rate for 1 hour of service: $130 (65% of DHCS rate)

Annual hours of service: 6,000 (29% Productivity)

$$County\ Obligation = 6{,}000 \times \$130 - 6{,}000 \times 60\% \times \$200 = \$60{,}000$$

$$CBO\ Revenue = 6{,}000 \times \$130 = \$780{,}000$$

What about the staff being asked to be more productive for nothing?

Creating the “Win-Win”

Scenario 1: Status Quo
CBO rate for 1 hour of service: $140 (70% of DHCS rate)
Annual hours of service: 5,000 (24% Productivity)
$County\ Oligation$
$= 5{,}000 \times \$140 - 5{,}000 \times 60\% \times \$200 = \$100{,}000$
$CBO\ Revenue = 5{,}000 \times \$140 = \$700{,}000$

Scenario 2: Improved CBO Productivity
CBO rate for 1 hour of service: $130 (65% of DHCS rate)
Annual hours of service: 6,000 (29% Productivity)
$County\ Obligation$
$= 6{,}000 \times \$130 - 6{,}000 \times 60\% \times \$200 = \$60{,}000$
$CBO\ Revenue = 6{,}000 \times \$130 = \$780{,}000$

Scenario 3: Scenario 2 + Higher Wages
Same assumptions as Scenario 2 except:
- CBO increases wages by 20%
- Direct care workers wages = 50% of total expenses
- CBO expenses = $700,000 (equals Scenario 1 revenue)

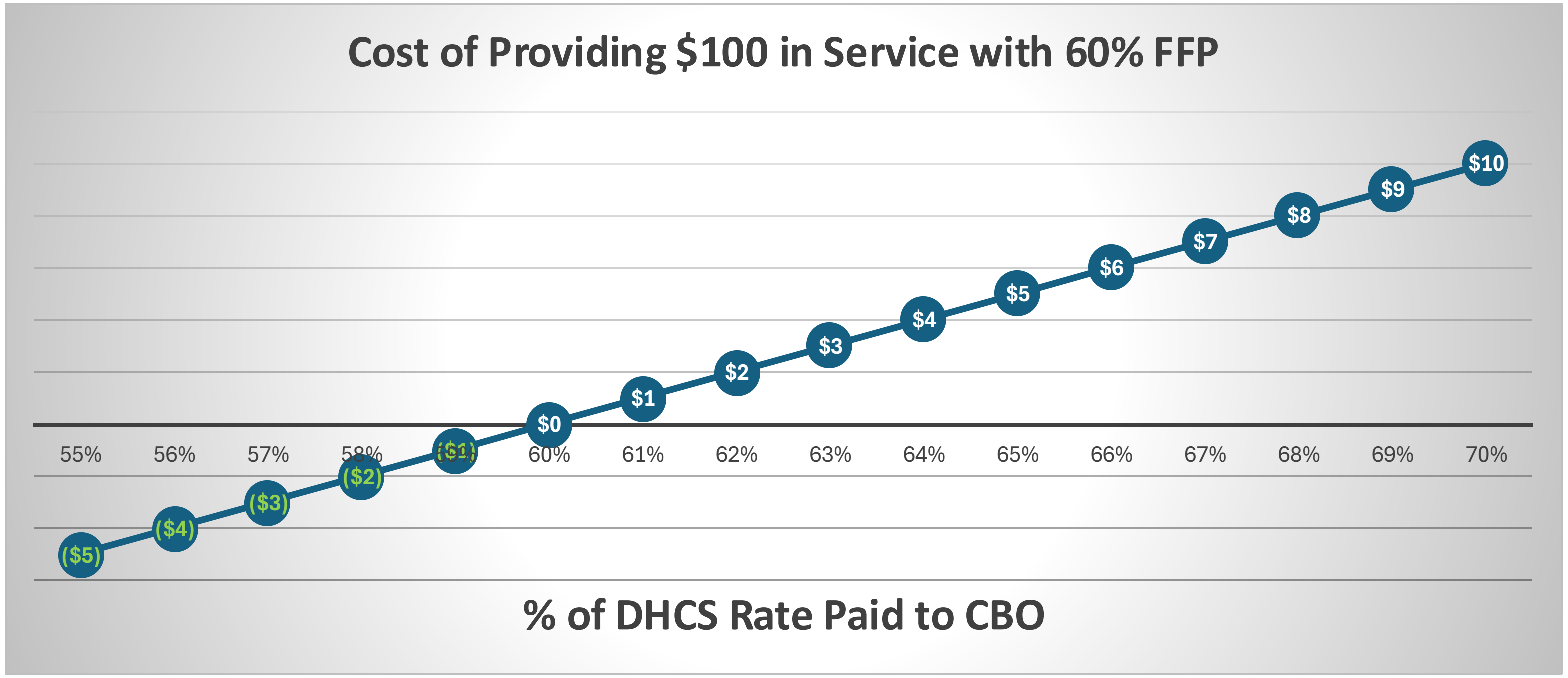
$\boldsymbol{County\ Obligation}$
$= 6{,}000 \times \$130 - 6{,}000 \times 60\% \times \$200 = \$\mathbf{60,000}$
$\boldsymbol{CBO\ Revenue} = 6{,}000 \times \$130 = \$\mathbf{780,000}$
$\boldsymbol{CBO\ Expenses} = \$700{,}000 \times (1 + 20\% \times 50\%)$
$= \$\mathbf{770,000}$
$\boldsymbol{CBO\ Net\ Margin} = \$780{,}000 - \$770{,}000 = \$\mathbf{10,000}$

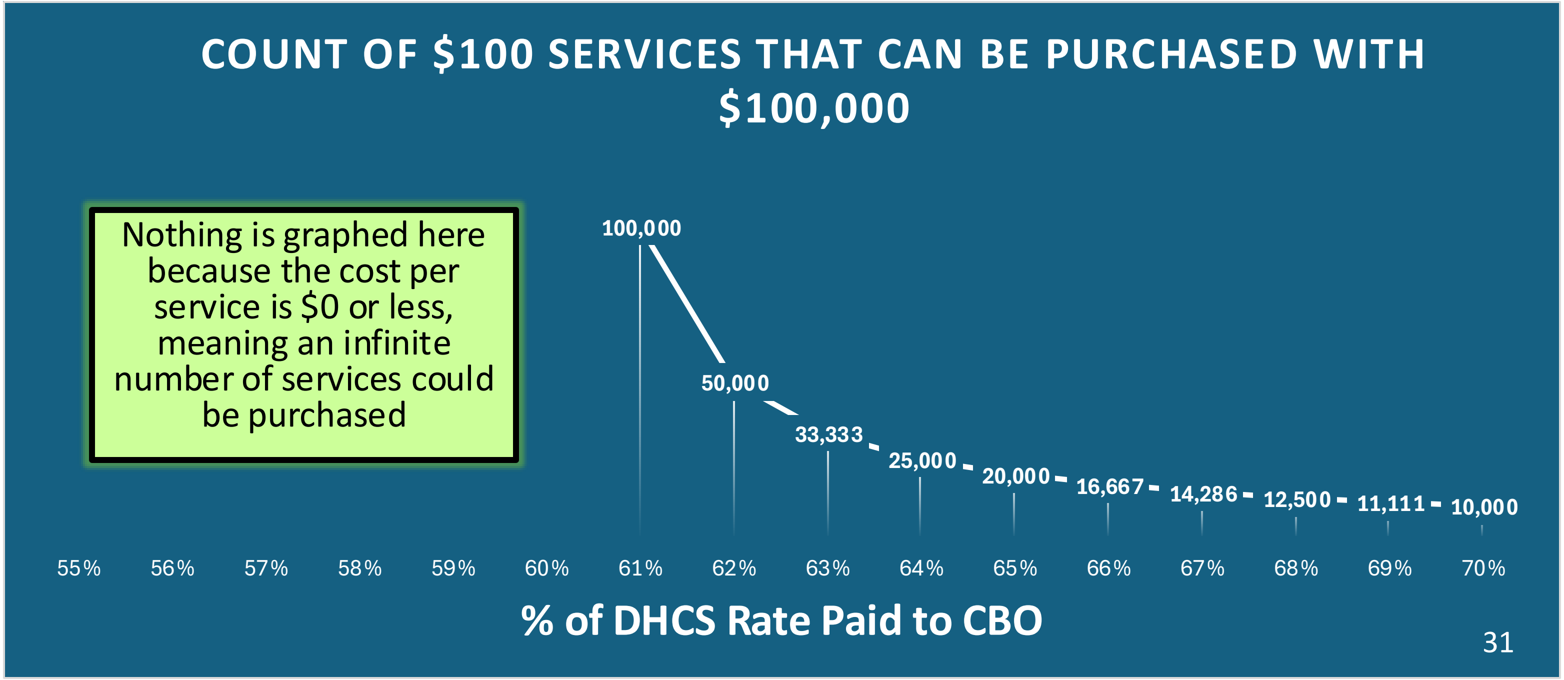
Scenario 4: Scenario 3 + Administrative Savings
Same assumptions as Scenario 3 except:
- County agrees to streamline administrative requirements, resulting in $20,000 in CBO savings
- County reduces CBO hourly rate to $129

$\boldsymbol{County\ Obligation}$
$= 6{,}000 \times \$129 - 6{,}000 \times 60\% \times \$200 = \$\mathbf{54,000}$
$\boldsymbol{CBO\ Revenue} = 6{,}000 \times \$129 = \$\mathbf{774,000}$
$\boldsymbol{CBO\ Expenses}$
$= \$700{,}000 \times (1 + 20\% \times 50\%) - \$20{,}000$
$= \$\mathbf{750,000}$
$\boldsymbol{CBO\ Net\ Margin} = \$774{,}000 - \$750{,}000 = \$\mathbf{24,000}$

Creating the "Win-Win"

- ➢ Going from Scenario 1 to Scenario 2 generated more CBO revenue at less expense to the County
- ➢ "Leverage" from the federal match is the magic ingredient
- ➢ Leverage accelerates as the % of DHCS rate paid to CBO approaches FFP
- ➢ Win-win opportunities exist for administrative reductions and CBO consolidation
- ➢ Takeaways for CBO rate setting
  - ➢ Encourage efficiency and productivity in rate structures
  - ➢ Zero-sum thinking is wrong and hurts the county and CBO
  - ➢ County and CBO are in it together
  - ➢ Tug-of-war on rates may always exist, but collaboration unlocks real opportunities.
- ➢ Failing to become productive and efficient may harm counties in future phases of payment reform (e.g., capitation)





Q&A

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Thank You!

Ryan Caceres

Director of Behavioral Health Financing
BHFA@calmhsa.org

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