Department of Health and Social Services

Residential Care Facilities Cost Study

June 21, 2006

DRAFT

Table of Contents

Introduction for Residential Care Facilities Cost Study

Historical Context

The first Rate Study of Residential Child Care (RCC) system was completed by Erickson and Associates in 2000. As a result of this survey and the implementation of separately identified Level's of Care in the RCC system, a 23% across the board rate increase was calculated for these levels:

Level II	Emergency Assessment and Stabilization	128.00
Level III	Residential Treatment	171.00
Level IV	Residential Diagnostic Treatment	232.00
Level V	Residential Psychiatric Treatment (RPTC)	325.00

These rates were based on the delivery of the Behavioral Rehabilitation Services (BRS), a daily Medicaid reimbursed rate.

Current System

It is our intention to develop a comprehensive, department-wide Residential Care System that integrates OCS, DJJ and DBH out of home care services. Since 2000, we have experienced an exponential growth in RPTC services out of state. In an effort to increase service capacity in state, the Department of Health and Social Services (DHSS), in cooperation with providers and of other system stakeholders, has identified the following barriers to expansion of that system:

- the current reimbursement rates do not provide the necessary incentive for providers to accept and treat our most difficult children and adolescents
- the current BRS and RPTC reimbursement rates are insufficient to cover the cost of care
- some BRS providers have closed their programs due to insolvency

It is not the intention of DHSS to implement the recommendations of the report wholesale, as they have significant monetary and systemic implications. While the Department acknowledges the need to address the identified shortfalls in the current in-state system, it is also necessary to design a more sophisticated system of care that effectively addresses the severity and complexity of the individuals who will receive care in this system. In addition the treatment options in this system will need to include small therapeutic resource homes treating one child, group homes, treatment foster care and residential treatment centers that serve a larger number of children.

Recommendations

1. Stagger the implementation of rate increases:
   - Implement an 18% rate increase to the existing Residential Care Programs under OCS Levels II-IV and including the Non-Custody beds that may be used in those programs

Level II	Emergency Assessment and Stabilization	151.00

Level III	Residential Treatment	202.00
Level IV	Residential Diagnostic Treatment	274.00

Level V is not funded under OCS grants and will be considered in relation to a separate study reviewing the cost of secure or locked RPTC beds.

- Plan for an 18% rate increase as the new level system is implemented and the other treatment beds operating in the state are absorbed into the Level System.
- Develop a daily billing rate for all residential or treatment beds in the state.

2. Institute System of Care Workgroup that develops recommendations for integrated levels of care (build upon the current levels) which we can implement throughout Alaska.

3. Investigate the programmatic and financial impacts of allowing ancillary reimbursement for Case Management and Recipient Support Services in programs that bill the daily BRS rate. This would be utilized to provide necessary care to our more complicated youth to address limitations in the current rates based on application of a Level of Care Tool that supports additional funding for the client (institute a "Risk Increment"). We plan to use the process developed for the implementation of Individualized Service Funding of wrap-around services in our more complicated cases to inform any expansion of the standard BRS rates and hopefully improve treatment outcomes.

4. Commit to the periodic review of the reimbursement rates, so we avoid this situation in the future.

Cost Study Commentary:

1. Clinical Services Cost is covered separately through Medicaid and would not be an additive service cost to BRS.
2. Room and Board should be covered through a separate payment by the placing agency
3. Academic Education Expense is covered by the local School Districts and would not be an additive service cost to BRS.

Medicaid Services

1. Registered Nurse – These costs are already available through Medicaid.
2. Substance Abuse Counselors – These costs are already available through Medicaid.

Add-on Payments

1. FASD – utilize Recipient Support Services for no more than 90 days to stabilize based on completion of Level of Care Tool QA Review and Approval.
2. Suicide Watch – Utilize Recipient Support Services and Crisis Intervention for no more than 72 hours to stabilize.
3. New Facility Cost – This is a Capital Cost and should not be tied to any operational funding strategies.

Estimated Rate Increases

The table below summarizes an estimated 18% rate increase to levels of care of Residential Care Facilities:

Residential Care Facilities Cost Study

Summary	Est 18% increase
BRS Custody Beds (includes geo Differential) - Levels II-IV	$2,124,541
Non Custody Beds (no geo Diff)	$598,491
RPTC Beds - Level V (no increase in bed capacity)	3,224,228
Treatment Foster Care Homes	2,558,555
Total	**$8,505,814**
Plus RPTC Additional Beds	1,281,150
Adjusted Total	**$9,786,964**

Below is a more detailed breakout of each level of care:

SFY	Daily Rate *	Level of Care	Total Beds	Current Estimated Cost	118%	Incremental Need
BRS Custody Beds						
2006	$ 128.00	Level II	77	$4,258,455	$5,024,977	$766,522
	$ 171.00	Level III	94	$6,274,350	$7,403,733	$1,129,383
	$ 232.00	Level IV	15	$1,270,200	$1,498,836	$228,636
		Subtotal	186	$11,803,005	$13,927,546	$2,124,541
** This daily rate listed is the normal rate; however the estimated costs include addt'l amount required for*						
Kawarek, North Slope Borough, Y-K, and Maniilaq daily rates.						

These are the licensed beds in current BRS programs that were not purchased under a grant with OCS. They are located around the state, and the numbers do not include a geographic differential.

SFY	Daily Rate	Level of Care	Total Beds	Current Estimated Cost	119%	Incremental Need
BRS Non-Custody Beds (no Geo differential)						
	$128.00	Level II	22	$1,027,840	$1,223,130	$195,290
	$171.00	Level III	34	$2,122,110	$2,525,311	$403,201
		Total	56	$3,149,950	$3,748,441	$598,491

The rate for secure RPTC care is being developed in a separate process.

SFY	Daily Rate	Level of Care	Total Beds	Current Estimated Cost	118%	Incremental Need
RPTC Beds						
2006	$ 325.00	Level V	151	$ 17,912,375	21,136,603	3,224,228
2007 w/increased beds	$ 325.00	Level V	211	$ 25,029,875	29,535,253	4,505,378

These homes are not currently identified by a Level of Care. When these programs are reimbursed under BRS they are paid at the Level III rate, and projection calculates the cost if these programs were to bill for BRS and a rate increase were instituted.

Treatment Foster Care Homes**			229	$ 14,214,195	$ 16,772,750	$ 2,558,555
*** Homes operated by CMHCs to provide therapeutic services to children who cannot return home.*						

Information in this report provides the Department with information to assist in policy and budget decision-making for the Residential Child Care treatment within the State. The estimated rate increase information provided above is presented for discussion purposes. Implementation of any rate increases is subject to funding being appropriated for this purpose.

Office of Rate Review Report

Why Department of Health and Social Service Office of Rate Review (ORR) studied the cost of providing residential care services for children.

ORR was asked by the Office of Children's services and the Division of Behavioral Health to study the cost related to providing therapeutic residential services for youth in Alaskan facilities in an effort to further support the Bring the Kids Home (BTKH) Initiative. The BTKH Initiative will require significant expansion of the treatment options for children in-state, and that requires a reasonable reimbursement system for care. The Divisions wanted ORR to undertake the study in order to:

1) Determine the actual cost of providing services.
2) Identify costs not already a part of provider's costs which can reasonably be expected to occur in the future.

Levels of service reviewed by ORR

ORR's cost study reviewed the cost associated with providing Levels II through V services as described in the Behavioral Rehabilitation Services Handbook, 2005 edition, Office of Children's Services, State of Alaska. A brief description of these levels of service (verbatim) follow:

Table 1: Description of levels of service

		Staff: Child Ratio	***Defining Characteristics***	***Length of stay***
Level 2	Emergency Stabilization and Assessment Center	1:5	Provide behavioral rehabilitation services (BRS) and temporary residential care for youth who are in immediate danger or need stabilization and assessment of needs services.	Usually less than 30 days, but OCS may approve 90 days
Level 3	Residential Treatment	1:5	Residential treatment programs provide 24-hour BRS and treatment for children with emotional and behavioral disorders. This level is for youth in need of and able to respond to therapeutic intervention, who cannot be treated effectively in a less restrictive environment.	Expected 6 – 12 month stay
Level 4	Residential Diagnostic Treatment Centers	1:3	Small therapeutic facilities with up to 9 bed capacity. Provide structured supervision 24 hours per day. Most youth will have a history of being physically and sexually abused and may have a history of delinquency and limited impulse control. Intensive treatment services include crisis intervention; accurate diagnosis i.e. behavioral, health, mental health, substance abuse, other; behavioral stabilization and management; Children and youth referred to these programs exhibit thought disorders, emotional disorders or behavioral disorders that include oppositional and conduct disorders. (Source: CAYNA, Technical Report No. 1, p.129).	Expected 9 – 12 month stay

Level 5	Residential Psychiatric Treatment	1:3	RPTC programs provide 24-hour interdisciplinary, psychotherapeutic treatment in a "secure" or "semi-secure" facility for children with severe emotional or behavioral disorders	Indefinite stay
	Awake night staff ratio for all levels	1:12		

Current payment rates for levels of service

At the present time, if a level 2, 3 or 4 Provider has a Medicaid billing ID number, the Provider may separately bill the Medicaid program for clinical services provided to the Medicaid clients and still receive the BRS payment per day rates listed in the following table:

Table 2: Current per day payments per level of service

		BRS Payment	Core (Custody only)	Total Payment
Level 2	Emergency Stabilization and Assessment Center	$ 128.00	$ 40.00	$ 168.00
Level 3	Residential Treatment	171.00	40.00	211.00
Level 4	Residential Diagnostic Treatment Centers	232.00	40.00	272.00
Level 5	Residential Psychiatric Treatment Center	325.00	Not paid separately	325.00

Clinical services are defined as: individual psychotherapy, group psychotherapy, family psychotherapy, pharmacologic management and psychiatric evaluations and assessments.

The payment described as “core” is not paid from federal funds and is described in the BRS Handbook as a payment for room and board. Providers do not receive the core (room and board) payment for Medicaid non-custody youth, since room and board is not an allowable Medicaid expense for levels 2, 3 and 4.

Residential psychiatric treatment centers (Level 5) may not bill separately for clinical services.

Study methodology

Sample size

A judgmental sample of two different entities per level of care was selected. The participating sample providers were asked to voluntarily participate in the cost study. All participants that were asked to participate agreed to participate.

The following entities were selected for review.

Level 5
North Star Psychiatric Treatment Center, Anchorage
Alaska Children’s Services, Inc., Anchorage

Level 4
Juneau Youth Services, Inc., Juneau
Family Centered Services of Alaska, Inc., Fairbanks

Level 3
Juneau Youth Services, Inc., Juneau
Residential Youth Care, Inc., Ketchikan
Family Centered Services of Alaska, Inc., Fairbanks

Level 2
Juneau Youth Services, Inc., Juneau
Residential Youth Care, Inc., Ketchikan

Costs
All costs were reconciled to the Provider's audited financial statements and the Provider's working trial balance. Costs were then divided into different classifications of expense for the purpose of the cost study depending upon the level of service rendered.

Expense Classifications
Expense amounts were subdivided between those expense amounts that are allowable for the Medicaid program, those expense amounts that are allowable for the State alone and those expense amounts that are not allowable at all.

Allowable Medicaid Expenditures
The study utilized Medicare cost finding guidelines found in CMS Pub 15-1, Providers Reimbursement manual. Section 2101.1 of the manual defines a reasonable cost as: cost that is reasonable and the expectation is that the provider seeks to minimize its costs and that its actual costs do not exceed what a prudent and cost conscious buyer pays for a given item or service.

Additionally, reasonable cost must be related to patient care and some specific expense types are not allowable at all. For instance, the cost of meals sold to visitors, cost of drugs sold to other than patients, cost of operation of a gift shop, cost of alcoholic beverages, cost of gifts or donations, etc. (CMS Pub 15-1, section 2102.3) are all considered non allowable. Also, unallowable is the cost of vocational and scholastic training expense (CMS Pub 15-1, section 2104.5) and luxury items or services (CMS Pub 15-1, section 2104.3).

Residential Service Costs
Residential Service costs are the costs associated with BRS and RPTC levels of services.

Clinical Psychological Services Cost
Clinical Psychological Services cost are the costs related to providing clinical services defined as: individual psychotherapy, group psychotherapy, family psychotherapy, pharmacologic management and psychiatric evaluations and assessments. These services may be billed separately for BRS levels 2, 3 and 4.

Room and Board
For levels 2, 3 and 4 the cost of room and board was segregated from overall cost, since Medicaid program rules do not allow the cost of room and board at this level of service. Since room and board is an allowable expense for level 5, this expense was not segregated for level 5. In addition, most of the Providers received a federal subsidy for school lunch programs. This federal subsidy was used to reduce the overall room and board costs, in accordance with Medicare principles that prohibit the federal government from paying the same expense twice.

All expense amounts related to clothing were separately segregated and identified since these expense amounts are not considered allowable Medicaid expenditures (not related to health care).

Academic Education Expense
For all levels of care, the entities had received direct services from the local school district for their local patient's academic education. The entities usually did not pay for these services directly, but did supply classroom space for their clients. All expense amounts related to academic education was separately segregated and identified, since these education expense amounts are not considered allowable Medicaid expenditures (not related to health care).

Supplies and Medical
All expense amounts related to student allowances (stipends) were separately segregated and identified since these expense amounts are not considered allowable Medicaid expenditures (not related to health care). All expense amounts that were payments for other health related services were separately identified as these expense amounts are not considered allowable for Residential Care providers. For all Medicaid patients, the entity that provided the service should bill the service directly to the Medicaid program and not the residential service provider. For non-Medicaid patients as these expense amounts are not related to Medicaid program patients, the expense amounts are not allowable.

In Kind Expense
Many of the entities had received the use of various buildings or land from a government Provider (local municipality) or in one case from a religious organization without any sort of monetary payment (rent expense) required. The organizations added In-Kind revenue and rent expense to their total expense, in order to account for the cost of capital in providing the services.

Since this expense amount was not actually incurred, it is not an allowable expense for the Medicaid program or for the State. If the entities recorded this type of expense, the expense amount was removed.

Occupied Bed Days
The facilities are paid the BRS daily payment rate not only when the bed is occupied, but also when the youth is on a treatment related visit, when the youth is on runaway status or detention or when OCS or DJJ requests the facility hold a bed for a new placement. The cost per patient day has been calculated based upon number of occupied bed days only.

Inflation Factor
All expense amounts were inflated to the State's 2007 fiscal year (starts 07/01/2006) using Global Insight's latest "Health-Care Cost Review," third quarter 2005, skilled nursing facility total market basket factors.

The indices from the skilled nursing facility total market basket were used, since it seems that the skilled nursing facility costs would be more like a therapeutic residential care setting than a Physician's office, hospital, or Home health agency.

For purposes of the cost study the expense amounts incurred for the year of the facility's latest audited financial statement was reviewed. The fiscal year ends for the various entities used in the study were: 06/30/2004, 12/31/2004 and 06/30/2005. Since different fiscal years were used, different inflation factors are necessary to inflate the costs to FY 2007 (see table 3).

Table 3: Inflation factors compounded

Facility Year End	**6/30/2004**	**12/31/2004**	**6/30/2005**
2005:02	2.9%	N/A	N/A
2005:04		1.5%	N/A
2006:02	3.3%	3.3%	3.3%
2007:02	3.3%	3.3%	3.3%
Compounded	9.8%	8.3%	6.7%

What ORR Found

Section I – Basic cost per day

The computed cost per day for the various levels of service, based upon the entities sampled, inflated to June 30, 2007, follows:

Table 4: Basic cost per day

Weighted Average cost per day	**Level 2**	**Level 3**	**Level 4**	**Level 5**
Residential Service Cost	$227.91	$243.20	$380.50	$355.96
Clinical Psychological Services	14.04	18.19	67.03	N/A
Room & Board Cost	22.45	26.66	19.58	N/A
Clothing	0.30	0.29	0.71	-
Academic Education	0.80	0.75	4.58	1.62
Program Supplies and Medical	-	0.89	-	-
Total per day cost of service	$265.52	$289.98	$472.39	$357.58

Section II – Estimated Cost of Unreported Capital

Since most of the Providers studied received the use of land and buildings without an obligation to pay for the use of this capital, the Providers stated the cost of capital has been understated in the total cost per day amount listed in table 4. Amounts noted in table 5 include the Provider's

reasonable estimate of the capital cost that would be incurred by a provider without cost free donated space. That amount was then inflated to FY 2007 and multiplied by each facility's total days of service to arrive at a weighted average per estimated day cost of unreported capital.

Table 5: Estimated cost of capital calculation

Facility	Level of Care	Additional routine per day Cost of Capital	Inflation Factor	Inflated to 06/2007	# of days	Total
North Star Residential Treatment Center	5	N/A				
Alaska Children's Services, Inc.	5	$6.85	6.7%	$7.31	18,085	$132,182
Family Centered Services of Alaska, Inc.	4	10.00	9.8%	10.98	2,960	32,501
Juneau Youth Services Inc.	4	12.60	9.8%	13.84	2,929	40,525
Family Centered Services of Alaska, Inc.	3	N/A				
Residential Youth Care, Inc.	3	6.59	6.7%	7.03	2,101	14,773
Juneau Youth Services Inc.	3	7.98	9.8%	8.76	5,071	44,432
Juneau Youth Services Inc.	2	7.35	9.8%	8.07	3,778	30,490
Residential Youth Care, Inc	2	6.59	6.7%	7.03	2,101	14,773
					$37,025	$309,677
Weighted average estimated cost of capital						$8.36

Section III – Estimated cost of room and board with cost of unreported capital and without federal lunch subsidies.

Table 6 adds the cost per day for room and board if the unreported cost of capital was included and the amount of the federal lunch subsidy had not been subtracted from cost.

Table 6: Estimated cost of room and board with cost of unreported capital and without federal lunch subsidy

Weighted Average cost per day	**Level 2**	**Level 3**	**Level 4**
Room & Board cost	$22.45	$26.66	$19.58
Additional Room & Board cost with in-kind capital	4.90	6.18	10.72
Additional Room & Board cost without federal subsidy	3.70	4.06	8.05
Total per day cost of room and board	$31.06	$36.90	$38.34

Appendix A – Estimated Cost of Additional Services

In addition to conducting the cost study ORR also asked study participants if there were any additional services that could be provided which would significantly improve patient care provided the funding was available.

Estimated cost for Registered Nurse (R.N.)
One participant stated that most of the clients were taking psychiatric drugs and the facility would like to hire an R.N. to oversee some of the tasks associated with the drugs. Additionally, the R.N. position could do physical screenings for the newly arrived youth, in order to see what additional types of health care related service might be necessary. Management also noted that the Level 4 young ladies seem to utilize Emergency room services quite frequently for problems related to the stomach. If the R.N. evaluated these patients most likely the number of Emergency room visits would decrease. Management also stated that they are seeing patients now that come in with higher health care needs than in the past. Many youths now have dual diagnosis, various health problems and eating disorders. At the present time the organization does not accept some patients with severe health problems since they do not have the medical staffing required. Management feels that if they had this position they might be able to start accepting this type of client. Management estimates that they would only require the services of 1 full time equivalent (FTE) R.N. and that the R.N. could provide services for all of their residential patients. Table 7 shows how the reasonable estimate of $7.90 per day has been calculated.

Table 7: Estimated cost for 1 R.N. calculated on a per day rate

Wage per hour at 11/2004	$32.29[1]
Fringe benefits rate of 28%	9.04[2]
Per hour wage and benefit	41.33
1 FTE (52 weeks x 40 hours)	2,080
Total Salary 2004	85,969
Inflated to 2007 (8.3%)	7,135[3]
Estimated Yearly expense for R.N.	$93,104
Estimated Yearly expense for R.N.	$93,104
Total # of patient days	11,778
Per day estimated cost amount for R.N.	$7.90

[1]Alaska Department of Labor & Workforce development, November 2004 Alaska Wage Rates Statewide, OES code 29-1111 Registered Nurses, mean experienced wage rate.
[2]Estimated Fringe benefits rate of 28% is taken from cost studies of Juneau Youth Services, Inc.
[3]Alaska Department of labor & Workforce development is for November 2004, so factor for 12/31/2004 entity was used to inflate salaries and benefits.

Estimated cost for Provider proposed addition of Substance Abuse Counselors
Another current trend which two or more of the facilities detailed and discussed is that more and more of the youths have substance abuse issues.

One facility would like to receive a grant, to be used to train all of the mental health aides on substance abuse issues, while another facility would like to hire two substance abuse counselors with the idea being that each counselor would spend ½ day at each home and really get to know the children and work with them. The estimated cost to hire 2 substance abuse counselors has been computed on a per day rate in table 8.

Table 8: Estimated cost for Substance Abuse Counselors

Wage per hour at 11/2004	$22.13[1]
Fringe benefits rate of 28%	6.20[2]
Per hour wage and benefit	28.33
2 FTE (52 weeks x 40 hours)	4,160[3]
Total salary 2004	117,838
Inflated to 2007 (8.3%)	9,781
Estimated yearly expense for counselors	$127,618
Estimated yearly expense for counselors	$127,618
Total # of patient days	11,778
Per day estimated cost for counselors	$10.84

[1]Alaska Department of Labor & Workforce development, November 2004 Alaska Wage Rates Statewide, OES code 21-1014 Mental Health Counselors, mean experienced wage rate.
[2]Estimated Fringe benefits rate of 28% is taken from cost studies of Juneau Youth Services, Inc.
[3]Alaska Department of labor & Workforce development is for November 2004, so factor for 12/31/2004 entity was used to inflate salaries and benefits

Incentives to expand services
Study participants were asked what the State could do in order to stimulate Providers to increase capacity, so the State could "bring the kids home." The ideas that seemed the most practical and intrinsically make sense follow:

Provider proposed add-on payment for Fetal Alcohol spectrum disorders (FASD)
ORR was informed by the study participants that the majority of the patients that are being treated in other States are some of the most complex cases and a high percentage of that population have FASD issues that adds to the complexity of their mental illness (ORR was quoted as much as 60% of the population).

These patients are viewed as some of the neediest patients and typically need the greatest amount of care. However, with this type of patient, establishment of a routine is critical and it is during the establishment of such routines that this type of patient tends to "act-out." Usually, with this type of patient, a routine may be established in as little as six to eight weeks. In order to establish a routine with this sort of patient a 1 staff person to 1 patient ratio is needed.

In order to get this type of resource-intensive patient accepted at a facility in Alaska the participant recommended that the State pay a per day add-on amount for the first six to eight weeks. The State could control costs by authorizing the extra payment for only those patients for which the service is direly needed and specify the number of days the per day payment is

preauthorized for—the State could also mandate that this payment is only available for eight weeks or less without exception.

Table 9: Estimated additional per day cost calculation for FASD

		Levels 2 & 3	**Levels 4 & 5**
Wage per hour at 06/2004	$14.09[1]		
Fringe benefits rate of 28%	3.95[2]		
Per hour wage and benefit	18.04		
Inflated to 2007 (9.8%)	1.77[3]		
Estimated Hourly expense for MH Aide	19.80		
# of hours patient is awake	16		
Per day add-on amount for 1:1 care	$316.84	$316.84	$316.84
Less direct labor already included in rate:			
Staff ratio for levels 2 & 3 = 1:5 = 20%		80%	
Staff ratio for levels 2 & 3 = 1:3 = 33%			66%
Estimated additional per day cost for FASD or suicide watch patients		$253.47	$209.12

[1]The wage per hour of a mental health aide came directly from the cost study of Juneau Youth Services, Inc. (JYS)
[2]Estimated Fringe benefits rate of 28% is taken from cost studies of Juneau Youth Services, Inc.
[3]Inflation factor for a 06/30/2004 is necessary since wage is from 06/30/2004 provider.

As caring for difficult patients with FASD issues has not been included in the cost, estimated cost of the providing the additional services necessary could be pre-authorized by the Department on a case-by-case basis for the length of time as desired.

Provider proposed add-on payment for Suicide watch patients

Similarly to the FASD patients, patients which are at high risk of suicide are often sent to other States for services as this type of patient is much more expensive to treat since 1 on 1 care is needed for this type of patient until such time as the crisis has passed. The providers recommend that the State pay a "suicide watch" add-on payment for this level of care with a provision that prior to payment of this premium; a condition for this type of payment may be that the State must preauthorize a payment of this per day premium based upon an assessment of the client's condition. The per day estimated costs are computed in the same manner as the FASD premium because the person rendering the one-on-one care in both cases would most likely be a mental health aide and the 1:1 services would only be necessary while the patient was awake. However, this service would be needed 24 hours per day, so the payment amount would be higher.

Table 10: Estimated additional per day cost calculation for Suicide Watch.

		Levels 2 & 3	**Levels 4 & 5**
Wage per hour at 06/2004	$14.09[1]		
Fringe benefits rate of 28%	3.95[2]		
Per hour wage and benefit	18.04		
Inflated to 2007 (9.8%)	1.77[3]		
Estimated Hourly expense for MH Aide	19.80		
# of hours patient is awake	24		
Per day add-on amount for 1:1 care	$475.26	$475.26	$475.26
Less direct labor already included in rate:			
Staff ratio for levels 2 & 3 = 1:5 = 20%		80%	
Staff ratio for levels 2 & 3 = 1:3 = 33%			66%
Estimated additional per day cost for Suicide watch patients		$380.21	$313.67

[1]The wage per hour of a mental health aide came directly from the cost study of Juneau Youth Services, Inc. (JYS)
[2]Estimated Fringe benefits rate of 28% is taken from cost studies of Juneau Youth Services, Inc.
[3]Inflation factor for a 06/30/2004 is necessary since wage is from 06/30/2004 provider.

New Facility estimated cost

There is a risk of business failure to every entity that decides to offer new services. If the entity is already an established provider and the new services bankrupt the entity, the State loses the new services and the services that were already being offered by that entity. So both the State and the entity have a strong desire to see the new venture succeed. The problem with providing this type of service from the Provider's view point is that the initial investment in capital and labor is steep, while during the first year of operations the facilities will run at less than full capacity.

During this study two new entities were reviewed.

The cost of one new level 3 facility was compared between fiscal year 2004 and fiscal year 2005. The difference in the cost per day was $55.41, this amount inflated to FY 2007 becomes $70.39 per day.

One provider already provided level 4 services in one home (for boys) and added a new level 4 home (for girls) in FY 2004. The difference in the cost per day between the two homes was $213.44, this amount inflated to FY2007 becomes $234.36 per day.

Due to there being so many items that are purchased and expensed in the first year of business, the difference in cost is significant and understandable. Not only furnishings for a residential area, but also office furnishings necessary for professional health care personnel. In addition, per the principles of Medicare reimbursement, any items costing less than $1,000 are expensed in the year purchased.

The State could share the risk with the Provider and pay an additional per day amount for all new starts for a 12 month period. The risk amount paid could be one half of the additional expense amount, since the higher costs of these services have already been included in the costs per day of each level of care. However, the State should limit any new facility payment to a one year period, as the State wants to provide an incentive to the providers to reach full utilization capacity as quickly as possible. The State should mandate that the new facility only qualify for the new facility per day rate one time for one specific location, in order to remove the possibility of numerous changes in ownership, which would qualify the same facility for multiple new facility payments.

Table 11: Estimated cost calculation for a new start

	Routine per day cost inflated to 2007	**# of Patient days**	
Lighthouse--Level 4	537.45	953	
Wallington--Level 4	323.88	1,976	
	213.57	2,929	625,552
Chena Ridge--Level 3-- 2004	319.70	585	
Chena Ridge--Level 3--2005	279.04	1,264	
	40.66	1,849	75,186
Total Difference in expense		4,778	700,738
Weighted average per day cost of capital add-on			146.66
To assume 1/2 of the risk			2
Estimated per day cost for new starts			$73.33

Finally, ORR wishes to thank the many facility personnel who gave freely of many hours of labor on very short notice to assist the State in determining the cost of the services rendered. Also, for all of the shared ideas on how the rate setting system could be built with enough flexibility in it, in order to address the very different needs of each SED patient. The reviewer would like to add that the various ideas on how this system could be developed to address the very different needs of the individual patients were all taken from the study participants. As one CEO said: "the State needs us just as much as we need the State and whether the State realizes it or not—we're a partnership."