



**Andy Beshear**  
GOVERNOR

## CABINET FOR HEALTH AND FAMILY SERVICES

**Eric Friedlander**  
SECRETARY

275 East Main Street, 5W-A  
Frankfort, Kentucky 40621  
Phone: (502) 564-7042  
Fax: (502) 564-7091

September 26, 2023

Jennifer Hays, Staff Administrator  
Interim Joint Committee on Appropriations & Revenue  
Legislative Research Commission  
Capitol Building, Room 160  
702 Capital Avenue  
Frankfort, Kentucky 40601

Dear Ms. Hays,

In accordance with House Bill 1 from the 2022 Regular Session, the Cabinet for Health and Family Services, Department for Behavioral Health, Developmental and Intellectual Disabilities (DBHDID) entered into a contract with Appalachian Regional Healthcare (ARH) in July of 2022. The contract provides for state General Fund up to the amount of \$14,600,000 annually for state fiscal years 2023 and 2024 to support contracted psychiatric services for Hospital District IV under KRS 210.300.

The Cabinet has a long-standing relationship with ARH for the provision of psychiatric hospital services for Hospital District IV, which includes Bell, Breathitt, Clay, Floyd, Harlan, Jackson, Johnson, Knott, Knox, Laurel, Lee, Leslie, Letcher, Magoffin, Martin, Owsley, Perry, Pike, Rockcastle, Whitley, and Wolfe counties. Senate Bill (SB) 239 of the 1990 Regular Session directed the Cabinet for Health and Family Services (then the Cabinet for Human Resources) to develop and operate a 100-bed psychiatric facility in Eastern Kentucky. The 1990 General Assembly also authorized the construction of Appalachian Region Hospital (ARH) Psychiatric Center and ensured a contractual agreement between ARH and the Cabinet for at least 15 years. The 100-bed facility, which opened in 1993, was developed to serve Kentuckians who reside in the 21 Eastern Kentucky counties mentioned above.

As a distinct part unit of a private acute care hospital, ARH can receive Medicaid and Medicare payments for services. Historically, a \$6 million psychiatric access supplemental payment (PASP), authorized pursuant to 907 KAR 10:815, provided funding to cover uncompensated costs related to the involuntary hospitalization of individuals not covered by a third-party payor. A memorandum of understanding between DBHDID and ARH previously outlined the requirements for the operation of the fourth state psychiatric hospital. DBHDID provided approximately \$1.8 million in General Fund to the Department of Medicaid Services to cover the match associated with the PASP.

Beginning in 2019, ARH made the decision to regionalize those services allowing individuals on involuntary psychiatric commitments to be served closer to their homes. The DBHDID continued to contract for the operation of 100 beds but allowed for some of those beds to be provided at the ARH Harlan and ARH Highlands (Prestonsburg) locations. Additionally, in 2021,

the Department for Medicaid Services submitted a state plan amendment to CMS which allowed for the provision of supplemental funding to ARH through the Medicaid Hospital Rate Improvement Payment Program (HRIP) in lieu of the previously authorized PASP. At that point, the DBHDID entered a performance-based contract with ARH utilizing the \$1.8 million General Fund to further support ARH's continuation as the fourth state psychiatric hospital.

As previously mentioned, pursuant to HB 1 of the 2022 Regular Session, the current contract between the DBHDID and ARH provides an annual amount of \$14,600,000 of potential General Fund reimbursement for uncompensated costs related to involuntary psychiatric hospitalizations. Of that amount, \$6,885,429 was expended by ARH in FY 2023. Attached is a report provided by ARH which details those expenditures, as well as improvements to services which were made or are currently planned through the provision of additional funding.

Please let us know if you need additional information.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Eric Friedlander', is positioned below the word 'Sincerely,'.

Eric Friedlander  
Cabinet Secretary

Cc: Jenny Bannister, Deputy Director, Budget Review