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Community Health Care Association of New York State

Business Planning and Considerations of Medicaid Rate Appeals

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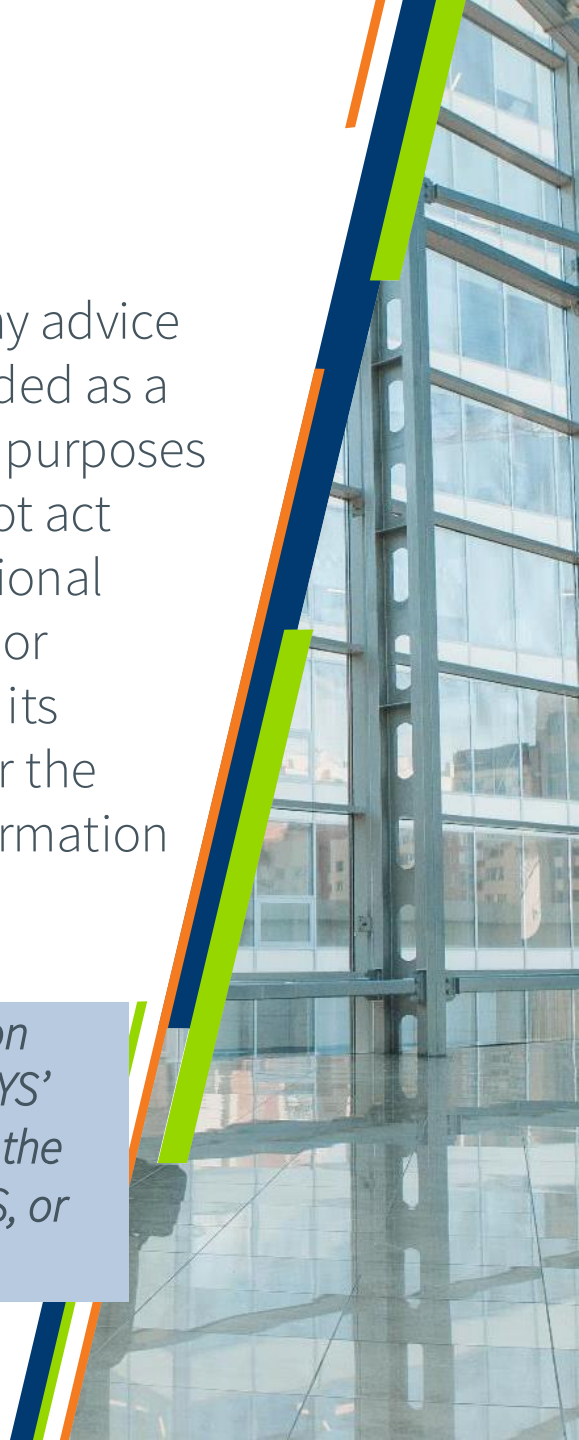

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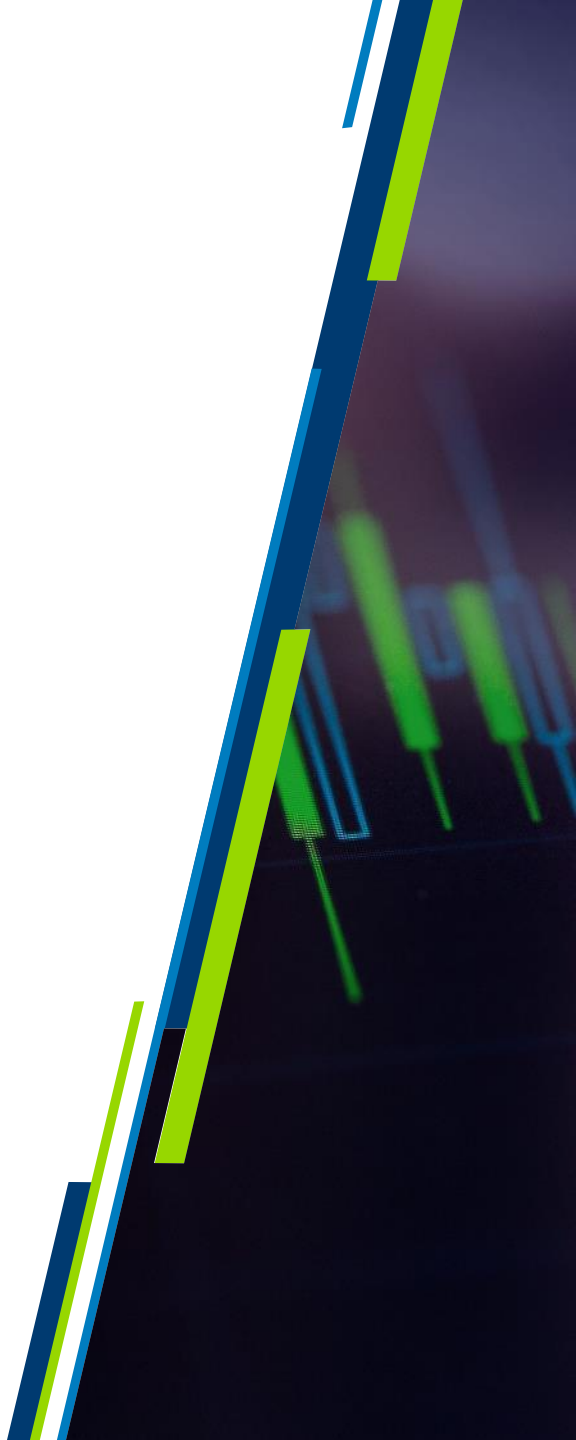
Agenda

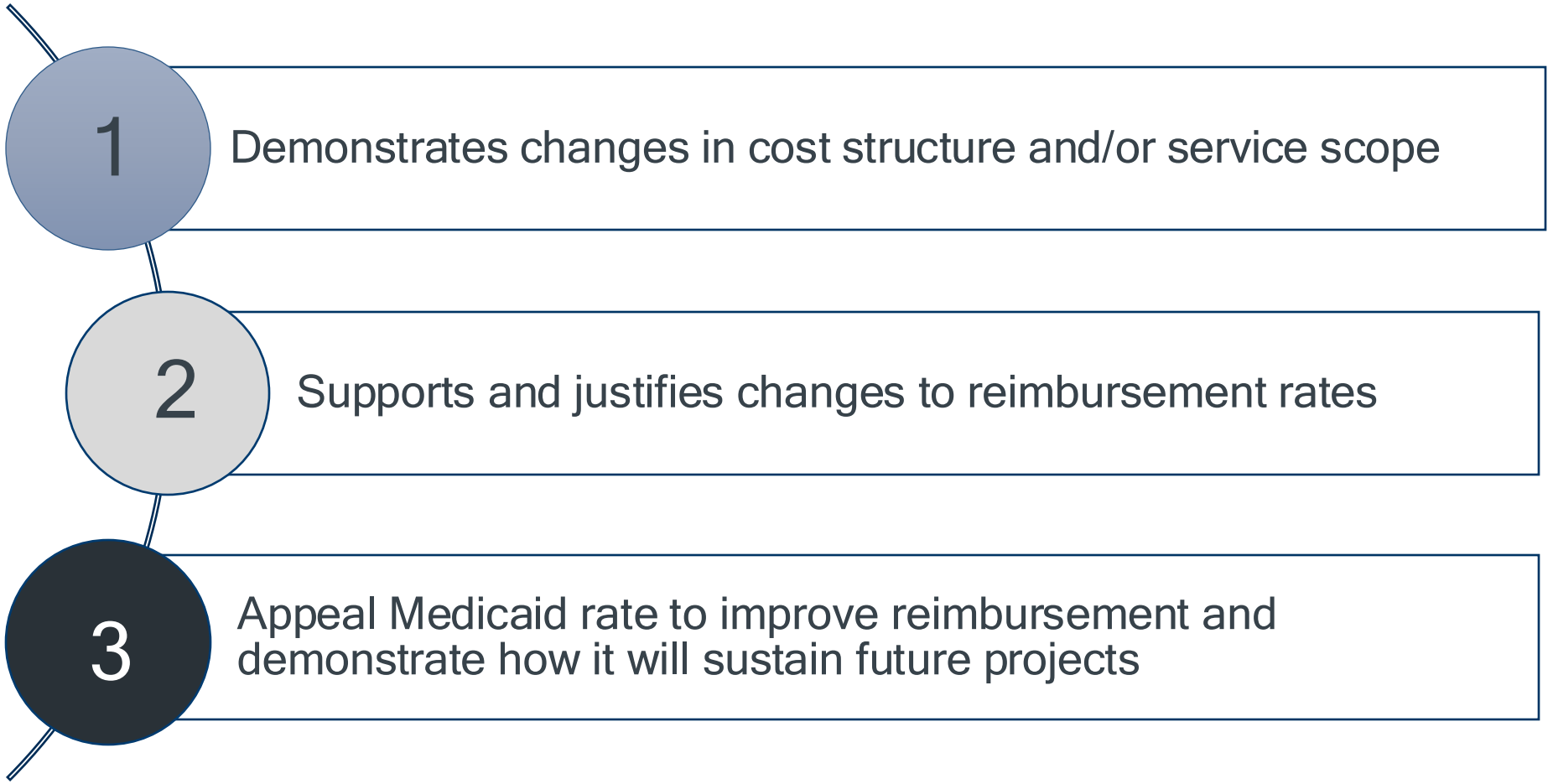
01 Business Planning and Keys to Success

02 Medicaid Rate Appeals and the Impact on Business Planning

03 Questions and Discussion



Business Plan Strategies Intersection with Rate Appeal Opportunities



Business Planning - Process

Environmental Scan
Understand external factors in the changing healthcare landscape that may help/hinder your strategic initiatives.

Market Assessment and Demand Analysis
Identify gaps within the community and define strategies for addressing need and quantify demand.

Build out Assumptions for Operations and Capital
Develop the tactics required to implement to turn the strategic initiative into reality. Address Who, What, Where and How?

Develop Financial Projections to Evaluate Growth and Sustainability
Build out financial information to confirm profitability and sustainability for expansion activity.

Business Planning – Environmental Scan

To understand external factors in the changing healthcare landscape that may help/hinder your budgeting and profitability.

Changes to Federal, State, and Local Policies:

- Federal: Public Charge Rule, Medicaid requirements, Health Center funding updates, etc.
- State: Safety-net funds for uninsured, changes to State Medicaid budget, etc.
- Local: Initiatives to support primary care services and integrated care

Changes in Reimbursement:

- Types of billable providers and service delivery settings
- New reimbursable services (e.g. telemedicine, care management, collaborative care)
- Value-Based payment initiatives and opportunities for quality-driven incentives

Other environmental factors that affect strategic planning:

- Partnerships, mergers, or closures of area providers
- Healthcare reform activities (Medicaid Waivers, etc.)
- Grant funding opportunities for capital needs or program expansion

Business Planning – Market Assessment

Which Market Factors will Influence Success of Service Expansion

Factors to Assess:

- Trends in demographic data by location
- Population by payer type and trends (concentrations of Medicaid enrolled, uninsured)
- Proximity of special populations (public housing complexes, homeless shelters)
- Availability of other service providers (FQHCs, hospitals, private practices, mental health and substance use treatment facilities) – now and planned
- Your own current patient origin data and trends

May need to drill down to the census tract level depending on the population density of your area!

Business Planning – Market Assessment

Examples:

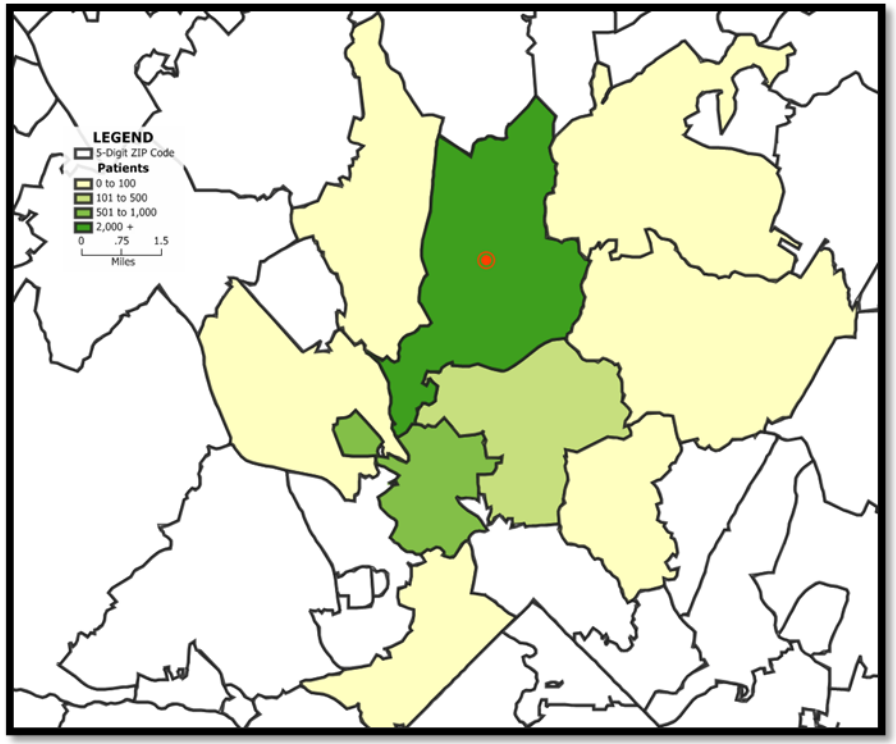
Patient Origin Data

Darker Color:
High Concentration
High Rate of Change

Lighter Color:
Low Concentration
Low Rate of Change

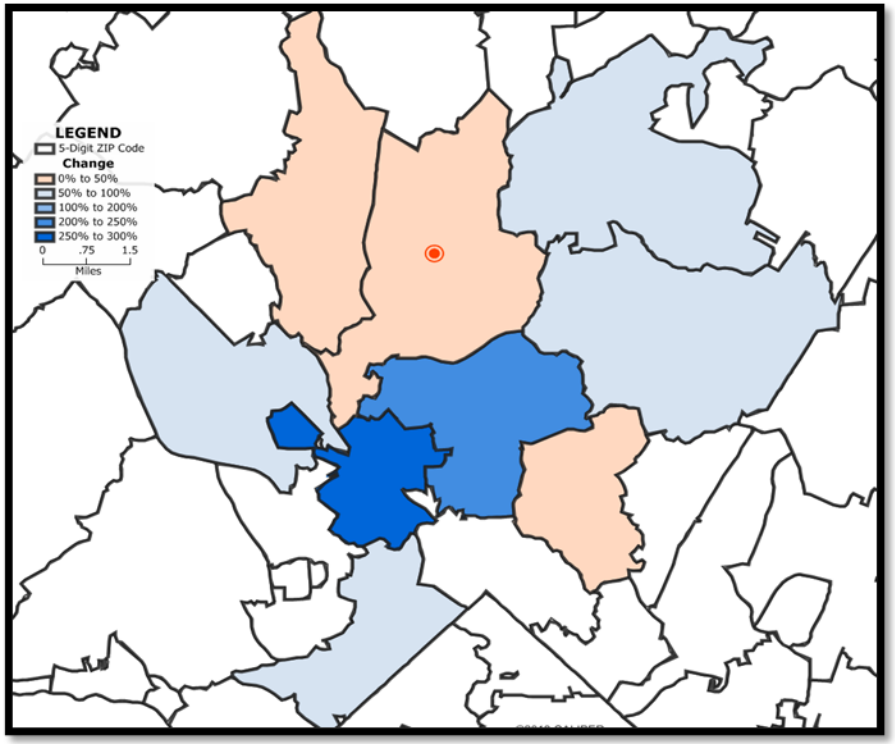
● Indicates Site(s)

Current Patient Origin Data



Origin analysis shows increased patients in new ZIP code areas.

Patient Origin - Two Year Trends



Trend data shows high rate of increase in patients from new ZIP code areas.

Business Planning – Market Assessment

Examples:

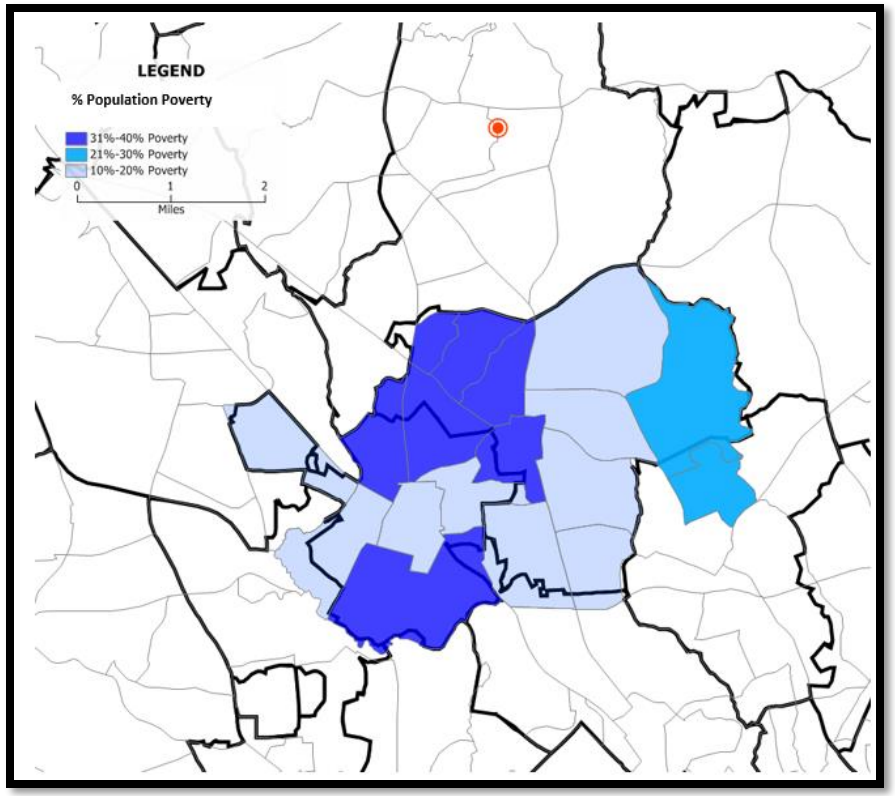
Population Demographics – Poverty

Darker Color:
High Concentration
High Rate of Change

Lighter Color:
Low Concentration
Low Rate of Change

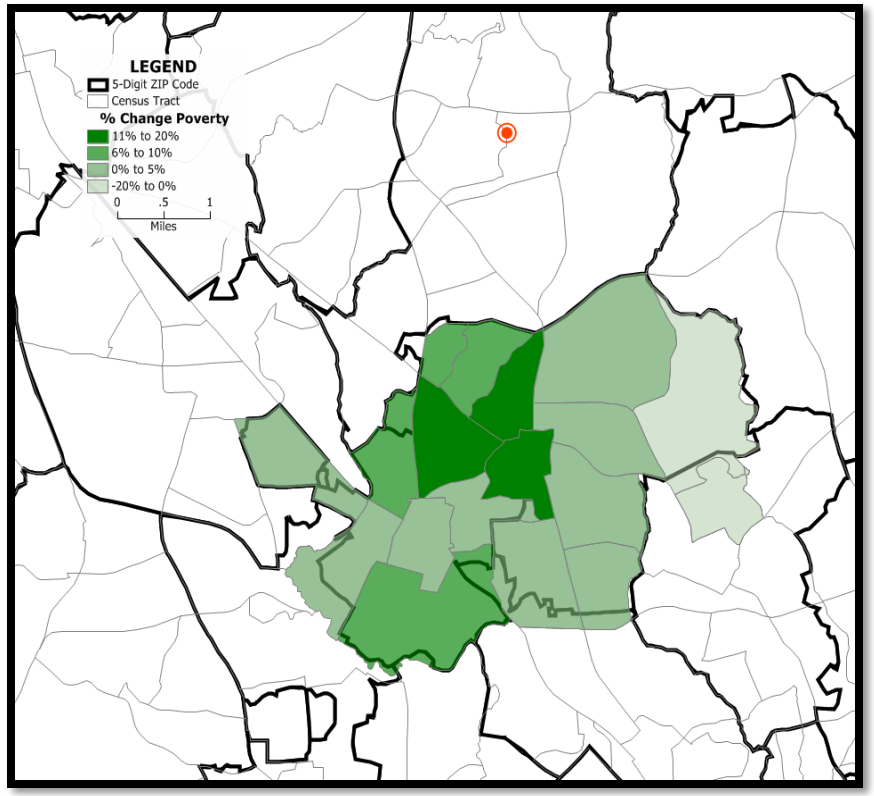
- **Indicates Site(s)**

Current % of Population in Poverty



Current data shows pocket areas of interest based on target population data.

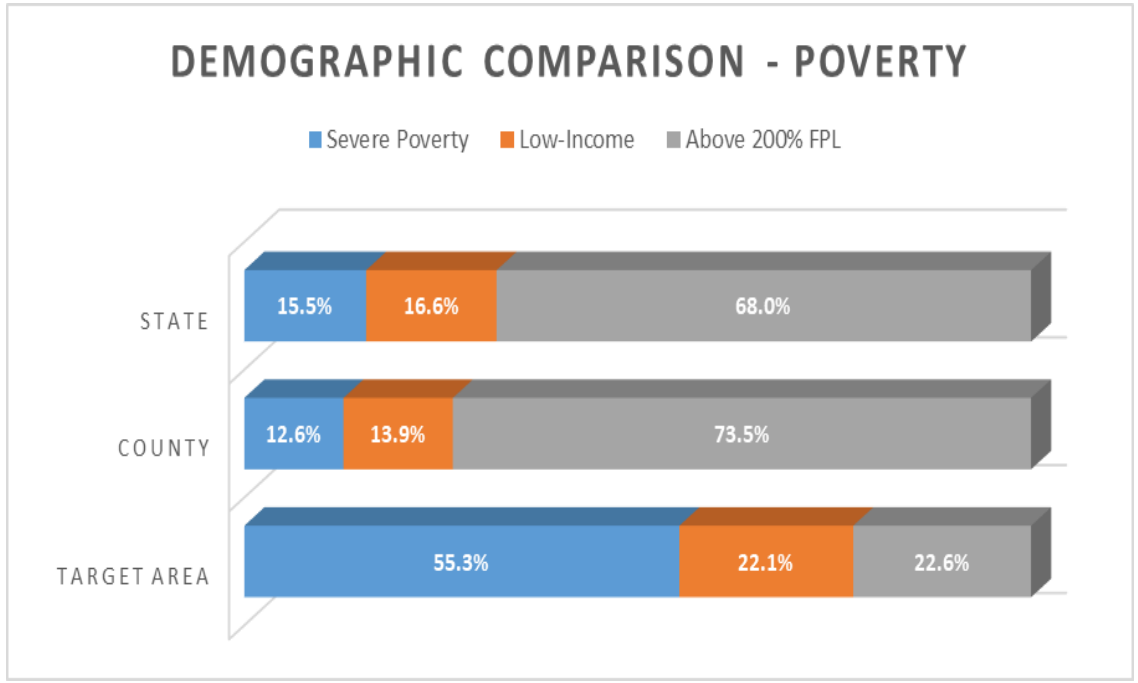
Five-Year Trends – Population % in Poverty



Trend data shows certain areas of interest are increasing in poverty %.

Business Planning – Market Assessment

Sample Profiling of Demographic & Health Status Data:



Disparities in poverty can indicate insufficient access to high-quality, affordable health care service.

Cardiovascular Disease	*State vs. County vs. Service Area*	*Score*
Mortality Rate Per 100,000 (Age-Adjusted)	State - 197.2 Service Area - 175.7 County -173.2	*Better than State, Worse than County*
Cardiovascular Disease	*State vs. County vs. Service Area*	*Score*
% of Adults with Blood Cholesterol Checked	State - 83.4% County -82.1% Service Area - 80.6%	*Worse than Average*
Cardiovascular Disease	*State vs. County vs. Service Area*	*Score*
Hospitalization Rate – Chronic Heart Failure	State - 324.5 County - 224.3 Service Area - 174.1	*Better than Average*

Disparities in screening and hospitalization rates indicate insufficient primary care access.

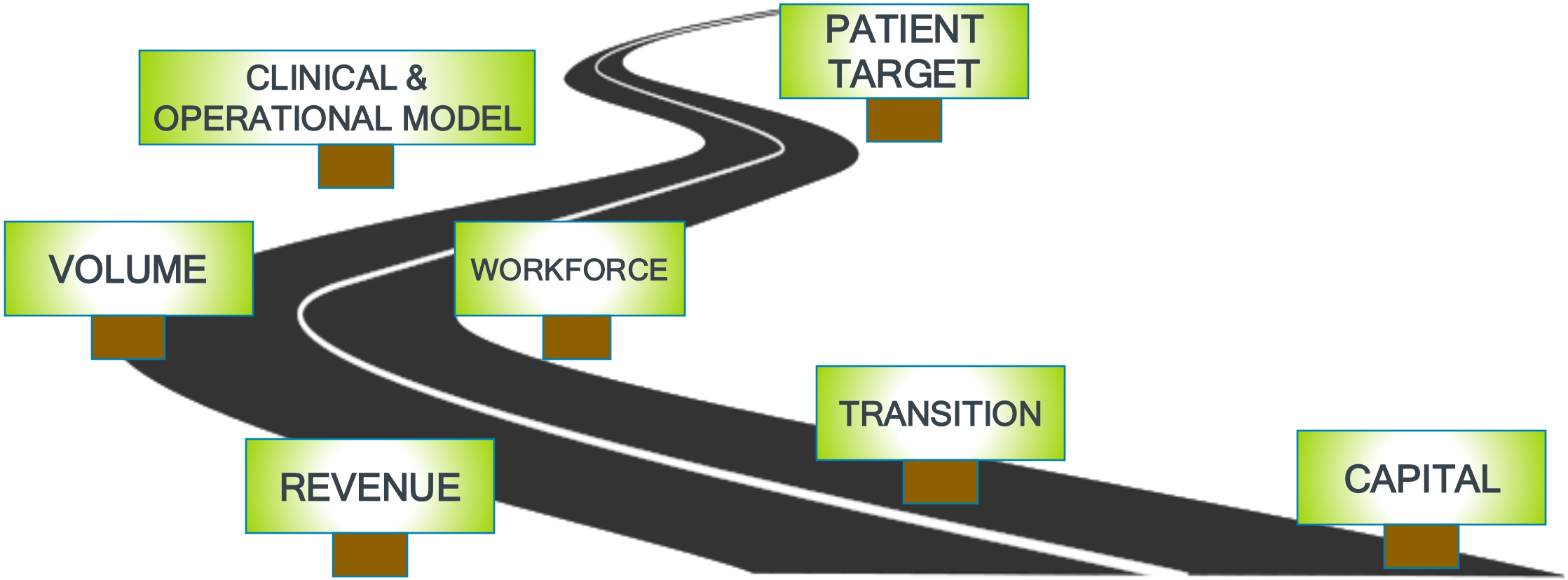
Business Planning – Market Demand

Once you gather information then pull together an assessment scorecard to support your initiative

Area	Metric or Indicator	Favorable (1-5)	NOTES
Population Need	% and # of low income individuals	4	• High need area based on poverty
Population Need	% and # Medicaid covered lives	4	• Favorable payer mix for our best payer (Medicaid)
	% and # Uninsured	2	• Higher rate that could jeopardize our ability to generate patient revenue
Population Need	% and # of lives with health disparities	5	• Ability to improve outcomes
Transportation	Mileage or travel time; parking availability	4	• Availability to capture patients
Demand	Wait times for services	2	• Supports the need for more providers
Demand	Population growth trends	3	• Average growth trends to support business
Demand	Local competition density	5	• No other provider within X miles

Business Planning – Develop Operating Assumptions

Create a roadmap which includes the timeline, operational assumptions, capital investments required, and financial returns gained from the initiative. Does this make financial sense and is this feasible?



Business Planning – Develop Operating Assumptions

ASSUMPTION AREA	STRATEGIC OPPORTUNITY
Patient Base	• Assess demographics and competition. • What is the market capture and capacity to meet patient demand?
Visit Volume	• Assess service mix and patient utilization metrics; “ramp-up” of operations. • What are the target productivity goals, hours of operation, and clinical model? • Any regulatory or licensing issues that impact type of services or providers? • Consider any disruption to productivity due to providers transitioning to new operating protocols or systems.
Payer Mix (Visits)	• Assess demographics and insurance coverage.
Patient Revenue	• What reimbursement rates or rate setting strategies need to be considered? • Are there unique billing or collection issues? • Do you need to re-negotiate contracts with health plans? • Should you consider a risk sharing agreement?
Other Revenue	• Is there uncertainty with grants or state contracts post transaction? • Will fundraising levels change due to donor commitment?

Business Planning – Develop Operating Assumptions

There are many factors to consider when building out expenses, especially if personnel comprises most of the budget.

- Administrative ratios, cross functional staff, adjust staff based on service line,
- What is the right balance of infrastructure support at the beginning vs. future

ASSUMPTION AREA	STRATEGIC OPPORTUNITY
Workforce	• Assess recruitment activities and provider retention? • Will salaries need to be adjusted to achieve parity across the organization? • What are the target staffing ratios? Is there a right-sizing exercise to remove duplicate roles between organizations if applicable? • Are there union concerns? • What are the unique benefit packages or compensation requirements?
Other Direct Expenses	• Built on assumptions and industry benchmarks/metrics. • Will there be an opportunity to achieve economies of scale and renegotiate vendor agreements (e.g. billing, purchasing, insurance, cleaning services)?
Cash Flow Projections	• Consider licensure, rate-setting, and billing delays. • Capital and working capital requirements for transition period.

Financial Projections

	YEAR 1		YEAR 2		YEAR 3	
	Actual	Per Unit	Actual	Per Unit	Actual	Per Unit
VISITS BY PAYOR	*Amount (#)*	*% Distribution*	*Amount (#)*	*% Distribution*	*Amount (#)*	*% Distribution*
Medicare	1,711	9%	1,882	9%	2,014	9%
Medicaid	15,434	83%	16,977	83%	18,165	83%
Commercial	800	4%	880	4%	942	4%
Self-Pay/Uninsured	582	3%	640	3%	685	3%
Other Public	65	0%	71	0%	76	0%
Total Visits	**18,591**	**100%**	**20,450**	**100%**	**21,882**	**100%**
REVENUE BY PAYOR	*Amount ($)*	*Per Visit ($)*	*Amount ($)*	*Per Visit ($)*	*Amount ($)*	*Per Visit ($)*
Medicare	$ 212,763	$ 124.35	$ 234,027	$ 124.35	$ 250,441	$ 124.35
Medicaid	$ 3,089,732	$ 200.19	$ 3,398,626	$ 200.19	$ 3,636,451	$ 200.19
Commercial	$ 54,256	$ 67.82	$ 59,682	$ 67.82	$ 63,886	$ 67.82
Self-Pay/Uninsured	$ 13,056	$ 22.45	$ 14,368	$ 22.45	$ 15,378	$ 22.45
Other Public	$ 4,337	$ 67.11	$ 4,765	$ 67.11	$ 5,100	$ 67.11
Total Net Revenue by Payor	**$ 3,374,144**	**$ 181.49**	**$ 3,711,467**	**$ 181.49**	**$ 3,971,257**	**$ 181.49**
OTHER OPERATING REVENUE						
Grants/Contracts	$ 1,200,000		$ 1,200,000		$ 1,200,000	
340B Pharmacy	$ 100,000					
Total Other Operating Revenue	$ 1,300,000		$ 1,200,000		$ 1,200,000	
Total Revenue	**$ 4,674,144**	**$ 251.42**	**$ 4,911,467**	**$ 240.17**	**$ 5,171,257**	**$ 236.32**

Financial Projections

	YEAR 1		YEAR 2		YEAR 3	
	Actual	Per Unit	Actual	Per Unit	Actual	Per Unit
EXPENSES						
Personnel						
Provider Salaries	$ 1,500,000		$ 1,545,000		$ 1,591,350	
Non Provider Salaries	$ 2,000,000		$ 2,060,000		$ 2,121,800	
Fringe Benefits	$ 710,500		$ 736,502		$ 758,597	
Total Personnel	**$ 4,210,500**	**$ 226.48**	**$ 4,341,502**	**$ 212.30**	**$ 4,471,747**	**$ 204.36**
		-		-		-
OTPS						
Occupancy	$ 50,000	$ 2.69	$ 51,500	$ 2.77	$ 53,045	$ 2.42
Profesional Feess	$ 100,000	$ 5.38	$ 100,000	$ 4.89	$ 100,000	$ 4.57
Supplies	$ 75,000	$ 4.03	$ 84,974	$ 4.16	$ 93,652	$ 4.28
Other Direct Expenses	$ 125,000	$ 6.72	$ 141,623	$ 6.93	$ 156,086	$ 7.13
Total OTPS	**$ 350,000**	**$ 18.83**	**$ 378,096**	**$ 18.49**	**$ 402,783**	**$ 18.41**
Total Expenses	$ 4,613,000	$ 248.13	$ 4,776,312	$ 233.56	$ 4,934,947	$ 225.53
Net Income/(Loss)	$ 61,144		$ 135,154		$ 236,311	
Depreciation	52,500		56,714		60,417	
Net Income/(Loss)	$ 8,644		$ 78,440		$ 175,893	

Financial Projections – One Time Expenses

Make sure to capture non -recurring costs in the business plan so there are no surprises to cashflow:

- System upgrades
- Marketing
- Soft costs like Architectural and Design Fees
- Licenses
- Other

- For rate appeal opportunities these may be considered capitalizable!
- This information should also be reported in the CON

Expense Category	CON Schedule	Projected
Billing Integration	13C	100,000
Implement EHR		75,000
Licenses		6,358
MS Office	13C	1,715
Architect and Design	8B	9,000
Planning Consultant Fees	8B	150,000
Interim Interest Expense	8B	1,000
Marketing and Advertising	13C	15,000
Website		5,000
Staff Recruiting	13C	21,438
CON Application	8B	1,250
Telecommunication	8B	19,261
Signage Costs		13,284
Total One-Time Operating Expenses		**418,305**
Amoritization - Five (5) Year Period	**5**	**83,661**

Financial Information- Data Input for CON Schedules

Information from your Financial Proforma will be used for NYS Certificate of Need Schedules. For rate appeal purposes, information in **Schedule 13C – Costs and 13D Revenue** will be used for source information. If visits in Schedule 13D include medical, behavioral health therapy and dental, make sure to have a workpaper that breaks this out and ties to **Schedule 17 C – Visits by Service**

Visits (V) ☐ or Procedures (P) ☐

Outpatient Services Source of Revenue		Total Current Year			First Year Total Budget			Third Year Total Budget		
			Net Revenue			Net Revenue			Net Revenue	
		(A) V/P	**(B)** Dollars ($)	$ per V/P **(B)/(A)**	**(C)** V/P	**(D)** Dollars ($)	$ per V/P **(D)/(C)**	**(E)** V/P	**(F)** Dollars ($)	$ per V/P **(F)/(E)**
Commercial	Fee for Service									
	Managed Care									
Medicare	Fee for Service									
	Managed Care									
Medicaid	Fee for Service									
	Managed Care									
Private Pay										
OASAS										
OMH										
Charity Care										
Bad Debt										
All Other										
Total										
Total of Inpatient and Outpatient Services										

Financial Information- Data Input for CON Schedules

Create a budget for your capital needs:

- Allows you to identify what's required to plan accordingly for source of funds. (CON Schedule 9)
- Opportunity to recoup costs in a rate appeal if information is captured accurately in CON Schedule 8

ELIGHIBLE COST CATEGORIES FOR CAPITAL

Capital included	Projected 2023 Capital Costs
Rent	
Mortgage Interest	
Depr.-Building/Fixtures	
Depr.-Equipment	
Depr.-Motor Vehicles	
Property Insurance	
Amort.-Lease Improv.	
Amort.-Start up	
Amort.-Organ. Exp.	
Other - Facility	
Other - Equipment Lease	
Total Projected Capital Costs	-

CON Schedule 8 – Project Costs

	A	B	C
Item	Project Cost in Current Dollars	Escalation amount to Mid-point of	Estimated Project Costs
Source:	Schedule 10 Col. H	Computed by applicant	(A + B)
1.1 Land Acquisition	$0		$0
1.2 Building Acquisition	$0		$0
2.1 New Construction	$0	$0	$0
2.2 Renovation & Demolition	$0	$0	$0
2.3 Site Development	$0	$0	$0
2.4 Temporary Utilities	$0	$0	$0
2.5 Asbestos Abatement or Removal	$0	$0	$0
3.1 Design Contingency	$0	$0	$0
3.2 Construction Contingency	$0	$0	$0
4.1 Fixed Equipment (NIC)	$0	$0	$0
4.2 Planning Consultant Fees	$0	$0	$0
4.3 Architect/Engineering Fees	$0	$0	$0
4.4 Construction Manager Fees	$0	$0	$0
4.5 Other Fees (Consultant, etc.)	$0	$0	$0
Subtotal (Total 1.1 thru 4.5)	$0	$0	$0
5.1 Movable Equipment (from Sched 11)	$0	$0	$0
5.2 Telecommunications	$0	$0	$0
6. Total Basic Cost of Construction (total 1.1 thru 5.2)	$0	$0	$0
7.1 Financing Costs (Points etc)	$0		$0
7.2 Interim Interest Expense:: $ [ ] At [ ] % for [ ] months	$0		$0
8. Total Project Cost: w/o CON fees - Total 6 thru 7.2	$0	$0	$0
Application fees: 9.1 Application Fee. Articles 28, 36 and 40. See Web Site.	$0		$0
9.2 Additional Fee for projects with capital costs. Not applicable to "Establishment Only" projects. See Web Site for applicable fees. (Line 8. multiplied by the appropriate percentage.) Enter Multiplier ie: .25% = .0025 -->	$0	$0	$0
10 Total Project Cost with fees	$0	$0	$0

Timeline Considerations for Planning Purposes

Business Plan

Conduct market assessment, build out proforma, get community consensus, secure agreements, receive board approval **(3-9 mos)**

Regulatory (Federal and State)

Prepare regulatory applications **(2 -4 mos)**

NYS CON – Limited Review Approval **(3 mos)**

NYS CON – Administrative Review and Op Cert **(6 mos – 1 year)**

HRSA CIS for new sites or services **(2-3 mos)**

Rate Appeal Process

NYS DOH Rate Appeal Development **(2 mos)**

CMS and NYS Medicaid locator code approvals **(2-6 months)**

Approval Period - Plan to cover cashflow needs while waiting for new rate **(4-6 mos)**

Rate Approval and Payment Lags

Implement new rates into billing systems

Ensure retrospective payments go back to approval date

Overview – Rate Appeal Opportunities

- During strategic business planning initiatives, centers should consider how Medicaid reimbursement will assist with funding potential projects
- Types of projects which may impact FQHC Medicaid PPS rates and reimbursement
  - Addition of new services
  - Opening new sites in new communities
  - Capital projects
  - Mergers and acquisitions
  - Other “Changes in Scope” of services (?)
- Considerations
  - Increase in Medicaid rates (Medicaid rate appeals)
  - Payer mix

Overview – Rate Appeal Opportunities

- Rate appeals and impact on reimbursement
  - If a rate appeal opportunity is available, the Medicaid rate revision will only cover a % of the incremental cost of the project equal to the Medicaid visit payer mix
  - Who will cover the non-Medicaid portion of the cost?

Incremental increase in annual costs due to project	$ 500,000
Total visits	50,000
Incremental increase in cost/ Potential Medicaid rate increase	$10.00
Medicaid visit payer mix	70%
Number of Medicaid visits	35,000
Potential increase in Medicaid revenue	$ 350,000
% of incremental cost covered by Medicaid rate revision	*70%*

FQHC PPS Medicaid Rate Appeal – "Triggering Events"

- **Bases for FQHC Medicaid rate appeals in NYS (Subpart 86-4.16):**
  - Capital expenditures that have been approved by the Department of Health (DOH) and have been certified and audited as actually having been expended.
  - A documented increase in operating costs per visit resulting from changes approved by DOH through the CON processes or otherwise, including the addition of new programs, staff or services and the addition, remodeling or relocation of sites.
  - Decreases in operating costs per visit resulting from deletions of services approved by DOH through the CON process or otherwise, including the deletion of programs, staff or services.
  - A documented increase in operating costs per visit resulting from a change in regulatory requirements or the implementation of additional or expanded programs, staff or services specifically mandated by DOH.
  - A change in the magnitude, intensity or character of services which results in an increased cost per visit
  - A change in applicable technologies and medical practices which result in an increased cost per visit

FQHC PPS Medicaid Rate Appeal – "Triggering Events"

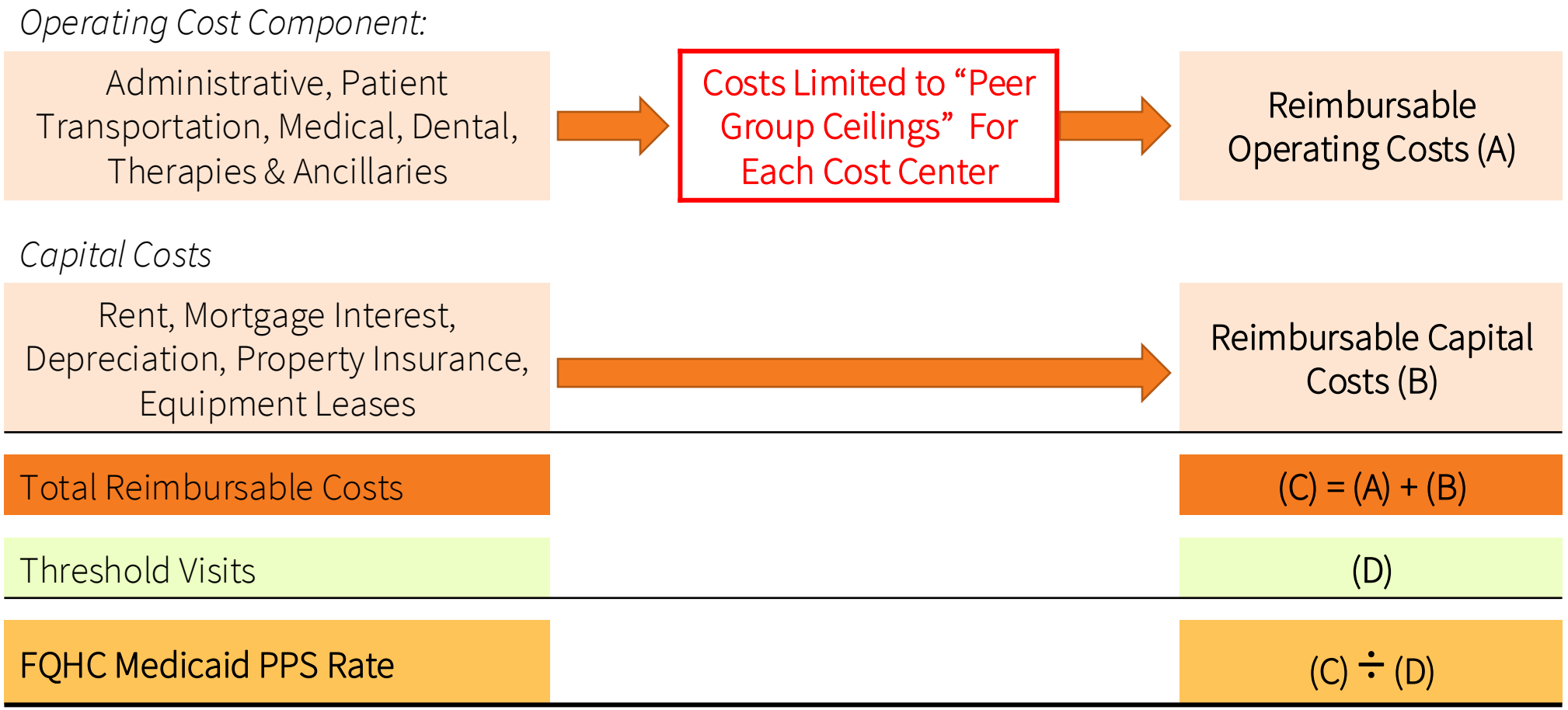
- **Definition of "Change in Scope" adjustments per CMS Q&A Document:**
  - A change in the scope of FQHCIRHC services shall occur if: (1) ***the center/clinic has added or has dropped any service that meets the definition of FQHC/RHC services*** as provided in section 1905(a)(2)(B) and (C); and, (2) the service is included as a covered Medicaid service under the Medicaid state plan approved by the Secretary, U.S. Department of Health and Human Services (CMS).
  - A change in the 'scope of services' is defined as ***a change in the type, intensity, duration and/or amount of services.***
  - A change in the cost of a, service is not considered in and of itself a change in the scope of services.
  - In making such an adjustment, ***state agencies must add on the cost of new FQHC/RHC services even if these services do not require a face-to-face visit with a FQHC/RHC provider***, e.g., laboratory, x-rays, drugs, outreach, case management, transportation, etc.

NYS FQHC Medicaid PPS Rate-setting Model

In New York, the PPS rate for reimbursement to FQHCs is broken into 2 components:

- The "Operating Cost Component" is set at the ***lower of allowable costs, as defined by state regulations, or the applicable peer group ceiling***.
  - DOH classifies allowable costs on the AHCFs as either capital or operating costs and further classifies the operating costs into six categories [including administrative, patient transportation, medical, dental, and therapy, and ancillaries]
  - The six categories of operating costs are divided by the total number of patient visits to the FQHC, yielding the FQHC's average per-visit costs
  - The average per-visit costs are compared to ceilings, based on the operating costs of other diagnostic and treatment centers, including non-FQHCs, located in the same region (upstate rural, upstate urban and downstate).
- The "Capital Component" is a pass-through of the actual capital cost per visit

NYS FQHC Medicaid PPS Rate-setting Model



NYS Peer Group Ceilings

- For the purpose of establishing reimbursable operating costs, facilities are compared on the basis of :(1) similarity of services; and (2) regional economic factors.
- Comprehensive primary medical care facilities (e.g., FQHCs) will be grouped taking into consideration geographical differences such as upstate/downstate regions and urban/rural locations
- Ceilings are trended forward based on the Medicare Economic Index (MEI)

	Downstate		***Upstate Urban***		***Upstate Rural***	
Cost Center:	**1/1/2001 Initial**	**10/1/2024 Current**	**1/1/2001 Initial**	**10/1/2024 Current**	**1/1/2001 Initial**	**10/1/2024 Current**
Administrataion	$35.06	$55.02	$19.12	$30.00	$22.06	$34.62
Medical	$104.15	$163.44	$62.69	$98.37	$62.93	$98.73
Dental	$92.20	$144.67	$60.20	$94.47	$70.35	$110.36
Therapies	$115.43	$181.10	$86.17	$135.20	$87.10	$136.64
Patient Transportation	$0.84	$1.34	$0.25	$0.37	$0.79	$1.24
Ancillaries	$17.82	$27.95	$4.97	$7.80	$17.33	$27.20
24-Year MEI Increase		*57%*		*57%*		*57%*

NYS Capital Cost Category

N. FACILITY CAPITAL COSTS:	
1. Rent	00181
2. Mortgage Interest	00182
3. Depreciation:	
- Buildings & Fixtures	00183
- Equipment	00184
- Motor Vehicles	00185
4. Property Insurance	00186
5. Amortization:	
- Leasehold Improvements	00187
- Start-Up	00188
- Organizational	00189
6. Other (specify below):	
	00190
TOTAL FACILITY CAPITAL	00200

- The “Capital Component” of the FQHC Medicaid PPS rate is comprised of the 6 categories reported in the AHCF (see screenshot to the left)
- Special considerations for facility rent:
  - Straight-lining rent expense
  - Triple-net leases
  - Lease versus purchase considerations

Example – New York Medicaid PPS Rate-setting Model

Example - FQHC Medicaid PPS Rate Setting (Rate Re-Basing)

2022 AHCF ceilings

Cost Center	Ceilings	Visits	Maximum Allowable Ceiling	Adjusted Operating Cost	Reimbursable Operating Cost
Administration	$ 50.67	125,000	$ 6,333,750	7,000,000	$ 6,333,750
Patient Transportation	$ 1.23	125,000	$ 153,750	75,000	$ 75,000
Medical	$ 150.53	85,000	$ 12,795,050	17,000,000	$ 12,795,050
Dental	$ 133.25	25,000	$ 3,331,250	3,500,000	$ 3,331,250
Therapy	$ 166.80	15,000	$ 2,502,000	1,500,000	$ 1,500,000
Ancillaries	$ 25.75	125,000	$ 3,218,750	25,000	$ 25,000
TOTAL		**125,000**	**$ 28,334,550**	**$ 29,100,000**	**$ 24,060,050**
Operating Cost Per Visit ($24,060,050 ÷ 125,000 visits)					**$ 192.48**
Capital Cost					**$ 2,585,000**
Capital Cost Per Visit ($2,585,000 ÷ 125,000 visits)					**$ 20.68**
Total Cost Per Visit					**$ 213.16**

Rate Period	Operating Component		Capital Cost as Calculated	Proposed Medicaid Rate
	MEI	Proposed Rate		
01/01/2022 - 03/31/2022	NA	$ 192.48	$ 20.68	$ 213.16
4/1/2022 - 9/30/2022	1.00%	$ 194.40	$ 20.68	$ 215.08
10/1/2022 - 9/30/2023	2.10%	$ 198.48	$ 20.68	$ 219.16
10/1/2023 - 9/30/2024	3.80%	$ 206.02	$ 20.68	$ 226.70
10/1/2024 - forward	4.60%	$ 215.50	$ 20.68	$ 236.18

Medicaid Rate Appeals

Life Cycle of a Medicaid Rate Appeal

- Revisions to Medicaid rates are generally effective the date the CON project is approved by DOH and a new operating certificate is issued
  - Initial (budgeted) rate appeal filing would be based on prior year actual data plus costs/visits included in the CON filing
  - Budgeted rate revisions will be reconciled to actual costs and visits reported in the AHCF for the first full year following the effective date of the CON (e.g., January 1st of the following year)
- Considerations
  - Importance of incremental costs and visits included in the CONs
  - Forecast of the reconciliation period

Medicaid Rate Appeals

Types of Rate Appeals

- Operating Component (and Capital Component)
  - Addition of a new service
  - Addition of a new target population
- Capital Component Only

Medicaid Rate Appeals

How does your Medicaid rate appeal projection compare to your current FQHC Medicaid PPS rate?

NYS DOH

"**The commissioner shall consider only those applications** for prospective revisions of certified or approved rates which are in writing and …"

CMS

"The center/clinic **has added or has dropped any service** that meets the definition of FQHC/RHC services"

Questions & Discussion