CPAs & BUSINESS ADVISORS

REVIEW OF THE PROPOSED LONG-TERM CARE PAYMENT MODEL

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WHAT ARE WE DISCUSSING TODAY?

- Let's start with how we got here.
- With that, is there something that isn't going to change?
- OK, I know your anxiously waiting, so let's talk about the proposed changes.
  - Price Based operating rates
  - Fair Rental Value property rates
- Tidbits to consider if this passes
  - Where is our median at for 2020?
  - Who are the median level facilities?
  - Annual expense planning

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SO HOW IN THE WORLD DID WE END UP WHERE WE ARE TODAY?

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ALL ON THE LEGISLATORS

- Well, not 100% all on them, but the 2019 legislative session did pass legislation which directed DHS to work with the NDLTCA to develop a new payment system to be presented to the 2021 legislature.

- Why would they want something new:
  - Lack of understanding of the existing system
  - View of some property rates as being to much
  - Didn't have a noticeable incentive to reduce or control costs
  - Maybe they didn't like having to tell such a wonderful group of people that you couldn't have your requested inflation adjustment every two years

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HOW DID THIS PROPOSED PAYMENT METHOD COME ABOUT?

- Team comprised of DHS leadership, NDLTCA member representatives and NDLTCA consultants was developed.
- Meetings started in July 2019 and continued through mid 2020
- DHS noted that whatever was developed, they were looking for it to be budget neutral
- Examined other payment methods
  - Managed care -3rd party oversees, not budget neutral to facilities
  - Non case mix based rates – doesn't account for significant variance in ND
  - Non cost based rate models – doesn't account for impact of cost
- Reviewed information on how other states were setting rates
- Discussed equalization of rates and its impacts
- Evaluated large vs small sites, urban vs rural
- Reviewed comparative data on ND rates and costs vs other states rates and costs

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SO WHAT ISN'T CHANGING?

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IS EVERYTHING GOING TO BE NEW?

- NO!
- Financial reporting of expenses is still going to follow the same guidelines.
- Cost reports will still need to be filed every year.
  - Still need to allocate costs
  - Offsets to costs and unallowable cost adjustments will still be made
  - State will always need this information to support our UPL calculation
  - Facilities may need this to support requests for rate adjustments
- Costs will still be split into four categories, direct, other direct, indirect, and property and pass through.
- Bed lay-away program will still be in place
- 90% Occupancy is still going to be in place
- Equalization of rates is still in place
- Private room differential is still an option of the facility
- Rate setting time frame and rate year remain the same

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PRICE BASED MODEL – HOW DOES IT WORK?

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PROPOSED PRICE BASED MODEL – BASE RATE

- The proposed Price Based Model utilizes reported costs of a facility in the base year establishing rates in the three operating categories.
  - Cost report allowable costs are inflated using Skilled Market Basket inflation index
  - Inflated costs are divided by the applicable days – standardized, actual, 90% occupancy
  - Inflated per day cost is compared to the price point, facility receives the lower of the cost per day or the price point
- So, what does this sound like?

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PROPOSED PRICE BASED MODEL – BASE RATE

PRICE MODEL RATE COMPUTATION							
COST CATEGORY	ALLOWABLE REPORTED COSTS	INFLATION	COST AS INFLATED	APPLICABLE UNITS	COMPUTED RATE	PRICE POINT	ALLOWED RATE
PROPERTY							
DIRECT	5,000,000	2.0%	5,100,000	31,900	159.87	207.95	159.87
OTHER DIRECT	875,000	2.0%	892,500	29,000	30.78	30.38	30.38
INDIRECT	2,300,000	2.0%	2,346,000	30,000	78.20	79.88	78.20
	8,175,000		8,338,500		268.85		268.46

Basic calculations of our current rate setting system are retained in setting the allowed rate.

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PROPOSED PRICE BASED MODEL – OPERATING INCENTIVE

- The proposed Price Based Model will provide for an operating incentive of 3.46% on all three of the operating rate categories based on the established Price Point for each.
  - If Price Point for Direct Care is say $200, the operating incentive is $6.92
  - Only receive the Operating Incentive in a rate category up to the Price Point
  - 3.46% was established to keep this budget neutral
- This means that every facility will have the **opportunity** to receive the same Operating Incentive as every other facility.
  - Facilities that are 3.46% under the Price Point will receive the facility specific allowed rate plus the Operating Incentive
  - Facilities that are within 3.46% of the Price Point will receive the facility specific allowed rate plus the Operating Incentive up to the Price Point
  - Facilities that are over the Price Point will only receive the facility specific allowed rate, no Operating Incentive

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PROPOSED PRICE BASED MODEL – OPERATING INCENTIVE

PRICE MODEL RATE COMPUTATION									
COST CATEGORY	ALLOWABLE REPORTED COSTS	INFLATION	COST AS INFLATED	APPLICABLE UNITS	COMPUTED RATE	PRICE POINT	ALLOWED RATE	INCENTIVE	TOTAL ALLOWED RATE
PROPERTY									
DIRECT	5,000,000	2.0%	5,100,000	31,900	159.87	207.95	159.87	7.19	167.07
OTHER DIRECT	875,000	2.0%	892,500	29,000	30.78	30.38	30.38	0.00	30.38
INDIRECT	2,300,000	2.0%	2,346,000	30,000	78.20	79.88	78.20	1.68	79.88
	8,175,000		8,338,500		268.85		268.46	8.87	277.33

COMPUTATION OF INCENTIVE	PRICE POINT	INCENTIVE	MAXIMUM INCENTIVE	ALLOWED RATE UNDER PRICE POINT	ALLOWED INCENTIVE
DIRECT	207.95	3.46%	7.19	48.07	7.19
OTHER DIRECT	30.38	3.46%	1.05	0.00	0.00
INDIRECT	79.88	3.46%	2.76	1.68	1.68
			11.01		

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PROPOSED PRICE BASED MODEL RATE SETTING

- As currently proposed, the Price Based Model will use the base year rate calculations (June 30, 2021 cost report) to set the rates for January 1, 2022.
- As part of the proposed Model, it is also proposed that the rates for the January 1, 2023 rate year will be calculated by simply multiplying your January 1, 2022 rates by the Skilled Market Basket Index
  - Index was 2.0% in the first quarter of 2020
  - Index is forecasted to be 2% in 2021 and 2.4% in 2022
  - Question is if the legislature will agree to a set index or want to control
- The proposed Model will then repeat this process using the June 30, 2023 cost reports to set the rates for January 1, 2024 and 2025.

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PRICE BASED MODEL - SECOND YEAR RATE

PRICE MODEL			
RATE COMPUTATION SECOND YEAR			
	FIRST YEAR		SECOND YEAR
COST CATEGORY	RATE	INFLATION	RATE
PROPERTY			
DIRECT	167.07	2.4%	171.08
OTHER DIRECT	30.38	2.4%	31.11
INDIRECT	79.88	2.4%	81.80
	277.33		283.99

- Current system readjusts your rates every year based on underlying costs and resident days, prosed model does not
- Risk of increased costs above the Skilled Market Basket rests on the facility, but
- Reward for controlled costs keeping expenses down in year two, provides additional profit opportunity for the facility

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SECOND YEAR RATE SETTING – SAFETY NETS

- State recognized that there are certain circumstances that can cause major shifts in a facilities expenses that would lead to financial hardship if rates did not adjust timely
- Two options were identified to help facilities
  - Unforeseen cost applications – this is in the current rate setting regulations and will be retained. If facilities have a major increase in a cost that is outside of their control that significantly outpaces the inflation provided, this can be requested.
  - Significant Census Decline – this is a new option requested to be added to rate setting to allow a facility that sees a significant decline in census from the base year cost report to use the interim rate year report to reset rates
    - Significant is defined as 10% for facilities over 55 beds, 5% for those 55 and under
    - Requires 10% of beds be put on layaway for facilities over 55 beds, 5% for those 55 and under
    - If you receive this adjustment, you cannot increase beds during the subsequent rate year

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SETTING THE PRICE POINTS

- The Price Points as compared to our current system are really the new limits.
  - For indirect, there will be two Price Points, one for large facilities and one for small
- Price Points will be set using the base year cost reports, not costs from 3 years earlier.
- Price Point will be set using the median facility cost in that category inflated on the Skilled Market Basket Index times 120% for Direct and Other Direct and 110% for Indirect.
- Price Point will reset every two years as currently proposed, current system rebasing is every 4 years.
- The timing of the rebasing will be revisited in 2025 legislative session.

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PRICE POINT ESTIMATE BASED ON 2019

- Using 2019 cost reports Direct and Other Direct move up, Indirect goes down.

PRICE POINT SETTING
ESTIMATED USING 2019 DATABASE

Direct		Other Direct		Indirect Over 55		Indirect 55 and Under	
Augusta Place	172.45	Luther Memorial Home	25.65	Eventide Fargo Skilled	74.72	Towner County Medical Center	80.68
St. Luke's Sunrise Care Center	171.63	Lutheran Home of the Good Shephe	25.53	Lutheran Home of the Good She	74.51	GSS - Mott	79.32
Sunset Drive	171.33	Benedictine Living Center	25.27	Elim Care Center	73.71	St. Catherine's Living Center	78.68
GSS - Bottineau	170.98	Sunset Drive	25.15	Trinity Homes	72.58	Northwood Deaconess Health	78.33
Maryhill Manor	170.65	Sheyenne Crossings Care Center	25.13	GSS - Mohal	71.57	Hatton Prairie Village	77.01
Wedgewood Manor	170.55	Marian Manor Healthcare Center	24.86	Knife River Care Center	71.29	Eventide Devils Lake	75.22
Eventide Jamestown	169.23	Woodside Village	24.78	St. Luke's Home	71.10	Dunseith Community Nursing H	74.65
Tioga Medical Center	168.93	Garrison Memorial Hospital	24.76	Bethany on 42nd	69.78	Benedictine Living Center	73.40
Rosewood on Broadway	168.69	Napoleon Care Center	24.25	Luther Memorial Home	68.93	St. Gerard's Community Nursin	71.56
Eventide Heartland	167.62	St. Gerard's Community Nursing Ho	24.11	St. Rose Care Center	68.86	Parkside Lutheran Home	70.89
Villa Maria	165.14	Rolette Community Care Center	24.06	St Vincent's -	67.42	Augusta Place	70.85
Elm Crest Manor	164.88	Villa Maria	23.86	Eventide Jamestown	67.16	Hill Top Home of Comfort	70.66
Sheyenne Care Center	163.91	Hill Top Home of Comfort	23.63	Lutheran Sunset Home	67.14	Prince of Peace Care Center	70.21
Median Rate	169.89		24.82		71.19		74.94
Inflated at 2.0%	173.29		25.32		72.62		76.44
Times 120% or 110% as applicable	207.95		30.38		79.88		84.08

- Of the facilities within 5 above or below of the median, 50% were in the 20210 rebasing, almost all are within the next five.
- Based on above, 3 in direct, 9 in other direct, and 16 in indirect will be over the Price Point and receive no related operating incentive
- 3 in direct, 2 in other direct, and 5 in indirect will be limited

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TRANSITION PLANNING

- The new Model will cause some facilities to see potentially significant changes in reimbursement.
  - Ex. Facility for Direct Care has costs of $205, limit is $204; they will get the $204 plus $6.12 in operating margin. Under Pricing Model, they will only get the $204.
- To help with this transition, a hold harmless provision is proposed that will allow a facility to set the 2022 and 2023 rates under the old system.
- As facility 2021 cost reports will be utilized to set the rates for 2022 and 2023, 2021is not the year you want to be conservative with your costs if you are easily below the limits.

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PROPERTY REIMBURSEMENT BASED ON FAIR RENTAL VALUE

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FAIR RENTAL VALUE BASICS

- Basics of a Fair Rental Value (FRV) system is that a facility is going to be allowed a rate of return on the value of the facilities capital assets.
  - Ex. Building valued at $10,000,000 with an 8% return rate means my property costs will be $800,000
  - Rate will then be calculated by dividing the $800,000 by the applicable resident days
- Under FRV, the most difficult piece is how the capital asset value is to calculated.
  - Appraisals
  - Historical costs less depreciation
  - Historical cost less depreciation plus additions
  - Estimated replacement value

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PROPOSED FRV

- FRV property reimbursement is proposed to start with the January 1, 2023 rate year.
- Proposed legislation is to pay 8% rate of return based on the estimated Replacement Value of capital assets.
- Proposed legislation is to use a formula based method to determine the Replacement Value for each facility.
- Key factors in the formula are:
  - Maximum square feet of a facility – 950 per bed
  - Cost per square foot – RS Means with Minneapolis location factor $249.42
  - Land Factor 10% of building replacement value
  - Equipment per bed cost - $15,000
  - Depreciation factor – 2%
  - Annual replacement cost inflation factor – 2%
  - Additions and replacements made to capital assets.

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FRV CALCULATION EXAMPLES

	New Facility Rate	New Facility Rate in 5 years	Existing Facility Rate in 20 yrs	Existing Facility Rate in 21 yrs
Cost Per Sq Foot	249.42	249.42	249.42	249.42
Land Factor	10%	10%	10%	10%
Equipment/Bed	$ 15,000	$ 15,000	$ 15,000	$ 15,000
Depreciation %	2.0%	2.0%	2.0%	2.0%
Rental Rate	8.0%	8.0%	8.0%	8.0%
Sq Feet	950	950	600	600
Beds	80	80	80	80
Annual Replacement Inflation	2.0%	2.0%	2.0%	2.0%
Actual Age	0	5	20	20
Effective Age	0	4.01	15	9
Improvements	0	80,000	80,000	2,000,000
Replacement Value				
Building	$ 18,955,920	$ 20,492,354	$ 11,972,160	$ 12,211,603
Land	$ 1,895,592	$ 2,051,833	$ 1,197,216	$ 1,221,160
Equipment	$ 1,200,000	$ 1,324,897	$ 1,200,000	$ 1,224,000
Total	$ 22,051,512	$ 23,869,084	$ 14,369,376	$ 14,656,764
Less Depreciation		$ (1,748,752)	$ (3,951,648)	$ (2,418,409)
		$ 22,120,332	$ 10,417,728	$ 12,238,355
First Year Property Cost	$ 1,764,121	$ 1,769,627	$ 833,418	$ 979,068

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PROPOSED FRV IMPACTS

- FRV will provide a more level payment over time that cannot go to zero in comparison to existing system based depreciation and interest expense.
- FRV will reduce cash flow in early years after a major project due to the acceleration of depreciation recognized in the current system.
- As the payment will stay more consistent and does not go down, it will provide long-term positive cash flow to allow facilities to build reserves to fund any future projects.
- The payment structure of the FRV system will encourage more renovation and updates for facilities.

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FRV TRANSITION PLANNING

- For facilities that have current property rates over their calculated FRV rate will continue to have their property rate calculated on the existing method until the FRV rate exceeds the current rate.
- For facilities that are in a planning or construction phase for a major project, if your financing of the project is in place by 12/31/2021, you will also be subject to the current method or FRV whichever is higher upon completion of your project.
- To establish your Replacement Value, facilities will need to provide square feet and cost of additions and renovations made over the years. Get your records ready.

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QUESTIONS?

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