NORTHERN NEW ENGLAND HFMA

USING THE COST REPORT TO DRIVE OPERATIONAL STRATEGY: A RURAL FOCUS

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COST REPORT OPERATIONAL STRATEGY

- Overview
- Hospital Operations Using Cost Report
- Questions

OVERVIEW

Overview

- The Medicare Cost Report is a systematic method of cost accounting that determines both allowable costs and the costs allocated to each department through a statistical stepdown of overhead costs to service departments (such as Med/Surg, Radiology, ED, PB-RHC, etc.)
  - Provides a wealth of information about the hospital
  - Similar to tax return of the hospital with Medicare

- The Medicare Cost Report can also be used as a lens to look at the operations of a hospital
  - Financial statements
  - Services offered
  - Payor mix (to an extent)
  - Volumes

- Critical Access Hospitals (CAHs) receive cost-based reimbursement for inpatient and outpatient services provided to Medicare and, in some states, Medicaid patients
  - Cost based reimbursement provides significant advantages to CAHs by allowing them to get paid at 101% of costs for the Medicare and Medicaid revenue

HOSPITAL OPERATIONS USING COST REPORT

Cost Report Opportunities

- Capital Investments
  - Cost-based reimbursement enables CAHs to complete certain capital initiatives that are not be available to PPS hospitals
  - When a CAH completes a facility replacement, addition/renovation, or major capital equipment purchase the amounts expensed as deprecation and interest will increase reimbursements received from cost-based payors
    - For example, if a CAH spends $1M per year on depreciation and interest for the facility, and the CAH is 50% cost-based, meaning Medicare and/or Medicaid make up 50% of the charges, the hospital will receive an additional $500K / year due to the facility initiative
      - Further, the same scenario, the CAH would receive 50% of the total capital cost, as depreciated, and interest from cost-based payors over the term of the loan and depreciable life of the asset
      - Allows for a different way of thinking about major projects

Cost Report Opportunities

- Home Office Cost Allocations
  - For CAHs that maintain a system relationship and meet certain requirements, work with the CAH's parent organization to integrate further into the system and receive additional allowable overhead costs
    - Offloads costs from parent to CAH that will receive additional cost-based reimbursement reducing the overall cost burden on the system
    - Incentivizes systems to leverage CAHs and maintain healthcare and invest in rural communities

STATEMENT OF COSTS OF SERVICES FROM RELATED ORGANIZATIONS AND HOME OFFICE COSTS			Provider CCN: [redacted]	Period: From 01/01/2020 To 12/31/2020	Worksheet A-8-1 Date/Time Prepared: 11/12/2021 10:24 am	
	Line No.	Cost Center	Expense Items	Amount of Allowable Cost	Amount Included in Wks. A, column 5	
	1.00	2.00	3.00	4.00	5.00	
	A. COSTS INCURRED AND ADJUSTMENTS REQUIRED AS A RESULT OF TRANSACTIONS WITH RELATED ORGANIZATIONS OR CLAIMED HOME OFFICE COSTS:					
1.00	1.00	CAP REL COSTS-BLDG & FIXT	[redacted]	75,677	0	1.00
2.00	2.00	CAP REL COSTS-MVBLE EQUIP		578,869	0	2.00
3.00	5.00	ADMINISTRATIVE & GENERAL		4,868,474	5,452,386	3.00
3.01	5.00	ADMINISTRATIVE & GENERAL		2,308,098	2,382,684	3.01
3.02	1.00	CAP REL COSTS-BLDG & FIXT		78,282	0	3.02
3.03	2.00	CAP REL COSTS-MVBLE EQUIP		81,429	0	3.03
4.00	0.00			0	0	4.00
5.00	TOTALS (sum of lines 1-4). Transfer column 6, line 5 to Worksheet A-8, column 2, line 12.			7,990,829	7,835,070	5.00

Cost Report Opportunities

- Swing Bed Program
  - Important opportunity for CAHs and rural acute care hospitals to deliver additional inpatient rehabilitation and skilled nursing services
    - Allows patients to return to community after an acute stay
  - Provides increased reimbursement and helps to dilute fixed and step-fixed costs in the nursing unit
    - Reduces overall unit costs by diluting fixed costs related to IP service

Component		I/P Days / O/P Visits / Trips		
		Title XVIII	Title XIX	Total All Patients
		6.00	7.00	8.00
1.00	Hospital Adults & Peds. (columns 5, 6, 7 and 8 exclude Swing Bed, Observation Bed and Hospice days)(see instructions for col. 2 for the portion of LDP room available beds)	712	104	2,109
2.00	HMO and other (see instructions)	778	846	
3.00	HMO IPF Subprovider	0	0	
4.00	HMO IRF Subprovider	0	0	
5.00	Hospital Adults & Peds. Swing Bed SNF	259	0	385
6.00	Hospital Adults & Peds. Swing Bed NF		0	58
7.00	Total Adults and Peds. (exclude observation	971	104	2,552

Cost Report Opportunities

- Swing Bed Program (continued)

BASE CASE: INCLUDES ALL COST BASED DAYS

	ADC	Total Days	Cost Based Payer Mix	Cost Based Days	Other Days	Payment Per Day	Other Payment
Acute (inc. ICU)	5.6	2,041	62%	1,267	774	$ 1,500	$ 1,161,000
Observation	3.6	1,326	33%	441	885	$ 1,200	$ 1,062,587
Swing Bed - SNF	1.0	380	100%	380	-	$ 1,200	$ -
Total Days	10.3	3,747		2,088	1,659		$ 2,223,587
Net Acute/SB SNF/Obs		3,747	56%	2,088	1,659		
Inpatient Fixed Costs		$ 5,097,812 [1]					
Inpatient Variable Costs		$ 841,950 [2]					
Net Inpatient Costs		$ 5,939,762					
Inpatient Costs Per Day		$ 1,585.20		$ 1,585.20			
Cost Based Payment				$ 3,309,132			$ 3,309,132
Total Payment							$ 5,532,719
Inpatient Costs							5,939,762
Net Margin							$ (407,043)
Difference							**$ (439,865)**

Model 1: Swing Bed-SNF Census Increase

	ADC	Total Days	Cost Based Payer Mix	Cost Based Days	Other Days	Payment Per Day	Other Payment
Acute (inc. ICU)	5.6	2,041	62%	1,267	774	$ 1,500	$ 1,161,000
Observation	3.6	1,326	33%	441	885	$ 1,200	$ 1,062,587
Swing Bed - SNF	3.0	1,110	100%	1,110	-	$ 1,200	$ -
Total Days	12.3	4,477		2,818	1,659		$ 2,223,587
Net Acute/SB SNF/Obs		4,477	63%	2,818	1,659		
Cost Based Rate Calculation							
Inpatient Fixed Costs		$ 5,097,812 [1]					
Inpatient Variable Costs		969,700 [2]					
Net Inpatient Costs		$ 6,067,512					
Inpatient Costs Per Day		$ 1,355.26		$ 1,355.26			
Cost Based Payment				$ 3,818,468			$ 3,818,468
Total Payment							$ 6,042,055
Inpatient Costs							$ 6,067,512
Net Margin							$ (25,457)
Difference							**$ 381,586**

1 Assumes $250/day marginal acute costs and $175/day marginal swing bed SNF and NF costs
2 Nursing costs plus Acute Inpatient departmental inpatient charges times departmental RCCs (WS C)

Cost Report Opportunities

- Swing Bed NF Days and NF Carve Out Rate
  - Non-Medicare or Medicare Advantage swing bed days
  - A contracted Swing Bed daily rate greater than the statewide Medicaid Nursing Facility (NF) carve-out rate generates a positive contribution margin
  - Do not negatively impact cost-based rate
  - Common misconception: If contracted reimbursement rate is less than cost-based rate, negative financial impact

	Current	Proposed	Variance
Inpatient Routine Cost	$ 4,755,535	$ 4,755,535	$ -
NF Carve Out	$ 90,664	$ 104,482	$ 13,818
Total Cost:	$ 4,664,871	$ 4,651,053	
Total Days*	4,710	4,603	(107)
Routine Rate / Day:	$ 990.42	$ 1,010.44	$ 20.02
Medicare & Medicare Advantage Days*	3,777	3,777	-
Routine Reimb:	**$ 3,740,811**	**$ 3,816,430**	**$ 75,619**

* Days include Med/Surg, Swing Bed SNF, and Obsevation

  - Ensure NF days are reported on the appropriate Swing Bed NF line on worksheet S-3 Pt. 1
  - Dilutes cost-based rates in a CAH reducing reimbursement

Cost Report Opportunities

- Non-reimbursable Cost Centers
  - Consider options to reduce or eliminate cost allocation to non-reimbursable departments that do not receive cost-based reimbursement from Medicare
    - Examples include:
      - Transitioning nursing home space to another entity getting it off the hospital's operating license and cost report,
      - Repurposing unused hospital space to a department that receives cost-based reimbursement,
      - Designation changes to provider-based clinic departments, such as PB-RHC, for free-standing health centers
        - For freestanding clinics, consider both the clinic reimbursement impact as provider-based clinics or PB-RHCs as well as the potential 340B revenue so long as the main provider hospital is eligible for the 340B program

	NONREIMBURSABLE COST CENTERS							
190.00	19000	GIFT, FLOWER, COFFEE SHOP & CANTEEN	304,581	258,015	562,596	-118,395	444,201	190.00
192.00	19200	PHYSICIANS' PRIVATE OFFICES	0	0	0	0	0	192.00
194.00	07950	ADULT DAYCARE	0	0	0	0	0	194.00
194.01	07951	URGENT CARE CENTER	0	0	0	0	0	194.01
194.02	07952	MPCH	792,145	2,319,795	3,111,940	-1,486,548	1,625,392	194.02
194.03	07953	NON-REIMBURSABLE RESIDENT TIME	0	0	0	0	0	194.03
194.04	07954	RENTAL PROPERTY	0	0	0	0	0	194.04
194.05	07955	OTHER NONREIMBURSABLE COST CENTERS	93,306	66,653	159,959	-12,039	147,920	194.05
194.06	07956	HOSPITAL FOUNDATION	0	0	0	0	0	194.06
194.07	07957	CAP-CASE MANAGEMENT	0	0	0	0	0	194.07
194.08	07958	MEALS ON WHEELS	0	0	0	0	0	194.08
194.09	07959	PHYSICIAN RECRUITMENT	0	0	0	82,966	82,966	194.09
194.10	07960	UCC	2,169,015	2,377,529	4,546,544	-1,329,621	3,216,923	194.10

Cost Report Opportunities

- Rural Health Clinic (RHC) Consolidation
  - Consider consolidating RHCs for cost report purposes to remove reimbursement variances
  - The change in the RHC reimbursement methodology may impact the ability to consolidate RHC cost reports

	Clinic 1	Clinic 2	Clinic 3	Clinic 4	Clinic 5	Clinic 6	Clinic 7	Combined Totals	Consolidated Totals	Variance
RHC Allowable Cost	$ 397,089	$ 451,751	$ 309,335	$3,014,634	$4,326,832	$2,978,745	$ 349,383	$ 11,827,769	$ 11,827,769	$ -
Visits	1,432	1,883	1,761	15,845	23,906	8,967	1,731	55,525	55,038	(487)
Cost / Visit	$ 277.30	$ 239.91	$ 175.66	$ 190.26	$ 180.99	$ 332.19	$ 201.84	$ 193.61	$ 214.90	$ 21.29
Medicare Visits	395	498	512	4,061	6,260	315	249	12,290	12,290	-
Totals	$ 109,532	$ 119,475	$ 89,937	$ 772,637	$1,133,020	$ 104,640	$ 50,258	$ 2,379,499	$ 2,641,144	$ 261,645

  - The Final 2022 Payment Policies under the Physician Fee Schedule states Medicare will restrict new RHCs designated after January 1, 2021 to file consolidated costs reports with RHCs enrolled in Medicare as of January 1, 2021

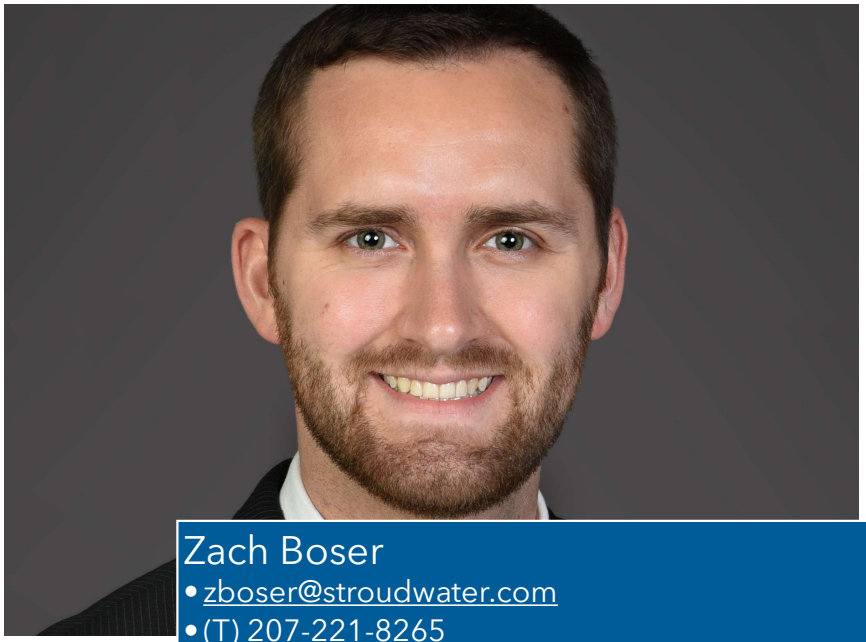
Cost Report Opportunities

- Service Line Profitability Analysis
  - Utilize the cost report to run profitability analysis for various services using direct costs and overhead costs to determine fully allocated costs of a service
    - Can help determine profitability and identify potential mis-allocation of statistics that over-allocate overhead costs to a department

FY 2020 SNF Profitabilty Analysis

Revenue:	Days	Rate	Net Revenue
Medicaid Revenue	19,418	$ 185.91	$ 3,610,000
Self Pay Revenue	9,060	$ 291.00	2,636,460
Medicare Revenue	321	$ 566.63	181,888
Total	28,799		$ 6,428,348
Operating Expenses:	**A**		**B**
Direct Expenses (2020 ICR - WS A):			
Salary expense	$ 2,279,467		$ 2,279,467
Other	$ 724,332		$ 724,332
Total Direct Expense	$ 3,003,799		$ 3,003,799
	Total Allocation	Nursing Home Variable %	
Ancillary Expenses (ICR D-3 SNF PPS)	$ 37,262	50%	$ 18,631
Allocated Expenses (ICR Stepdown - WS B)			
Capital Costs	$ 77,596	90%	$ 69,836
Cap Movable Equipment	14,098	90%	12,688
Admin and General	2,068,267	20%	413,653
Employee Benefits	484,302	90%	435,872
Maintenance and Repairs	112,051	50%	56,026
Operation of Plant	145,991	50%	72,996
Dietary	1,041,352	50%	520,676
Cafeteria	26,518	50%	13,259
Medical Records & Library	96,293	50%	48,147
Nursing Admin	200,101	25%	50,025
Central Supply	432	50%	216
Social Services/Activities	428,248	50%	214,124
Housekeeping	239,369	50%	119,685
Laundry and Linen	125,093	50%	62,547
Total Nursing Home Allocated Expense	5,059,711		2,089,749
Total Nursing Home expenses	8,100,772		5,112,179
Nursing Home Direct Gain (Loss)	$ (1,672,424)		1,316,170
Overhead expenses allocated away from Hospital (a) - (b)			(2,988,593)
Estimated CAH Cost Based Payer Mix			37%
Cost Based Payer Revenue on Allocated Costs			(1,100,288)
Net Gain (Loss)			$ 215,882


Q & A



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