Day Program COVID-19 Transition Plan for Finance & Audit Committee, 4/28/2020

The Day Program transition plan addresses the financial and service delivery of prospectively paid Board Day Programs for the remainder of FY20 (problem #1), as well as a preliminary assessment of COVID-19's impact on future funding for the service delivery system beginning in FY21, particularly COVID-19's adverse impact on the band payment system (problem #2).

Problem #1 – Address FY20 DDSN Delivery System Day Program Service & Revenue Losses from COVID-19:

Prior to COVID-19, Boards cumulatively provided $323,000/day in Day Program/Supported Employment services for the period March 1st to March 15th, which DDSN then billed Medicaid to generate $228,000/day in Medicaid revenue (70.63% federal share). On Monday, March 16th, Boards closed their Day Programs in response to the Governor's Executive Order; services stopped and DDSN had a potential $228,000/day Medicaid revenue decrease. Fortunately, a temporary Waiver modification permitted Day services to be moved into the Providers' residential settings to at least serve its residential consumers (46% of Day consumers; 54% of billable units). However, the residual Day consumers live at-home (54% of Day consumers; 46% of billable units) and are currently not able to be served. To avoid using distorted data, analysis of Day service utilization since 3/25/2020 identified a $170,000/day decrease in Provider service billings and a corresponding decrease in DDSN Medicaid revenue of $120,000/day (70.63% federal share). These daily decreased revenue streams continue through today and are expected to continue for some time.

The below table depicts the daily COVID-19 impact on Day Program services, which contain Day activities (98.8%) and Supported Employment activities (1.2%):

Analysis of COVID-19 Impact on Daily Board Day Program Billings						
Billing Type	Day Program Activities		Supported Employment		Total	
	FMAP	100% Dollars	FMAP	100% Dollars	FMAP	100% Dollars
Daily Day Program Billing Pre-COVID	$ 224,832	$ 318,323	$ 2,842	$ 4,024	$ 227,673	$ 322,346
Daily Day Program Billing Post-COVID	$ 108,189	$ 153,177	$ 932	$ 1,320	$ 109,122	$ 154,498
Daily Decrease in Day Program Billing	$ 116,643	$ 165,146	$ 1,910	$ 2,704	$ 118,551	$ 167,848

Problem #1 Analysis:

A conservative plan assumes Day Programs do not re-open through the end of FY20 (June 30th). If Day Programs open prior to June 30th, the below estimated decrease in revenues will improve. The DDSN delivery system estimates decreased revenues for the remainder of FY20 as follows:

Estimated Revenue Decrease for FY20 Assuming Day Programs Do Not Re-Open					
Period Covered	Weekdays	FMAP		100% Dollars	
		Loss for Month	Cumulative Loss	Loss for Month	Cumulative Loss
March 16 - 31	12	$ 1,399,711	$ 1,399,711	$ 1,981,752	$ 1,981,752
April 1 - 30	22	$ 2,566,138	$ 3,965,849	$ 3,633,212	$ 5,614,964
May 1 - 15	11	$ 1,283,069	$ 5,248,918	$ 1,816,606	$ 7,431,570
May 16 - 31	10	$ 1,166,426	$ 6,415,344	$ 1,651,460	$ 9,083,030
June 1 - 30	22	$ 2,566,138	$ 8,981,482	$ 3,633,212	$ 12,716,242

DDSN has four sources to "plug" the decreased revenue gap:

- DDSN cash reserves ($157,000 FY20 carryforward; a 3/1/2020 cash flow analysis estimated a $1 million June 30, 2020 cash balance);

- Providers' cash reserves, based on FY19 audited cash balances (6/30/2019), totaled $64,000,000. 28 Boards had greater than $500,000 reserves; 11 had less. Of the 11 with less than $500,000, 5 had less than $100,000.

- Using pre-COVID-19 "normal" billing patterns, the CMS 6.2% FMAP increase is estimated to increase DDSN revenues by $10 million/quarter starting on 1/1/2020, which totals an estimated $20 million through the end of FY20 (June 30th). However, this $20 million is still an estimate and has not been realized; it will likely be less due to post-COVID-19 billing are anticipated to marginally decline.

- Providers reduce Day Program cost correlating with Day services not being provided to at-home consumers (54% of Day consumer; 46% of billable units).

The DDSN staff proposal is designed to balance the following four objectives:

- Provide time for Providers to transition sufficient Day Program staff to their residential settings to re-start serving residential consumers receiving Day services (46% of Day consumers; 54% of billable units), as well as properly plan likely Day Program cost reductions required in the post-COVID-19 environment;

- Limit time period using taxpayer funds to pay for services not rendered;

- Use CMS's 6.2% increase in FMAP funding for targeted new services and increased system service delivery costs, rather than fund Provider revenue gaps for reduced consumer service demand; and

- Incentivize Providers' right sizing Day Program costs in anticipation of operating in a highly challenging COVID-19 environment for a protracted period given the disease's transmission risks and social distancing governmental guidelines.

<u>Problem #1 Recommended Plan of Action</u>:

1. Hold Providers harmless for billing and Medicaid revenue decreases from March 16th – April 30th (7 weeks). DDSN will absorb the reduced revenue estimated at $5.7 million and $4.0 million in Medicaid billings (70.63% federal share).

2. DDSN splits the remainder of the fiscal year's (May 1st to June 30th [9 weeks]) revenue impact with the Providers. The reduced billing revenue is estimated at $7.2 million and $5.1 million in Medicaid billings (70.63% federal share) which will be split equally ($3.6 million) by Providers and DDSN. This plan leaves 50% of normal billing revenue in the Providers' bands to cover at-home Day consumers' replacement services, as well as potential increased costs from Day services in the residential setting and Day Program fixed costs. Given DDSN's prospective dollars have already been sent to Providers, DDSN will need to add $1.5 million in 6.2% FMAP funds to the Providers' $3.6 million to meet fill its $5.1 million FMAP revenue gap for the period May 1st – June 30th.

   In an abundance of caution, if a Providers' aggregate replacement service costs for all their at-home Day Program consumers exceeds the 50% remaining with the Provider, DDSN will reimburse the overage costs above 50% on a case-by-case basis after the close of FY20. As an indicator of at-home consumers' current post COVID-19 service utilization since the Day Programs closed, 1293 at-home consumers (16%) currently had no service utilization ($0) in the past month. A month's band payment for these 1293 at-home consumers is estimated at $1.6 million.

3. DDSN will obtain the Providers' $3.6 million portion through reductions in the last two FY20 bi-monthly band payments (mid-May & first of June). DDSN will be in a position to use the 6.2% FMAP to lend Providers funds during June's one band payment month, which will then be recouped during July's three band payments within a 30 day period.

4. DDSN will hold Day Program Providers harmless for not meeting the 80% day attendance for FY 2020, which was estimated at $2.5 million through February 2020. Due to the closures in March 2020, the estimated payback had grown to $4.2 million in FY20. DDSN was considering re-starting this contract recoupment, which had gone dormant for many years contributing to DDSN's current financial challenges. However, given the current COVID-19 circumstances, DDSN will now formally eliminate this liability for FY20. The below chart provides a snapshot of FY20 **pre**-COVID-19 Day Program (non-ICF) attendance data by Residential and At-Home individuals receiving services:

Analysis of Day Program from July 2019 - February 2020 (8 Months FY20)					
Service Source	# Consumers	% Total Consumers	Medicaid Units Billed July-Feb FY20 (8 months)	% Total Medicaid Units Billed	Attendance Rate
Residential	2648	46%	809,364	54%	88%
At-Home	3112	54%	695,976	46%	65%
	5760	100%	1,505,340	100%	75%

5. DDSN has temporarily modified waivers to increase access to at-home replacement services for consumers through waiving qualification for existing providers to work in other services; waive qualifications for family members, to include parents and guardians, to provide in-home services; and increased capped services (e.g., PCA, Attendant Care, and Respite) for consumers impacted by Day Program closings.

Of the estimated $20 million 6.2% FMAP funds, DDSN will need to utilize $5.5 million in FY 2020 to cover cash flow losses due to decreased Medicaid billing revenue from Day Program services. This leaves an estimated $14.5 million cash reserve from the 6.2% FMAP entering FY21 less other revenue losses, increased costs, and any advances made to Providers to transition from FY20 to FY21.

A potential criticism of the plan is to question DDSN as to why more of the 6.2% CMS FMAP increased funds were not used to absorb Provider revenue losses. The primary answer is staff's assessment of balancing the aforementioned four objectives applied to this decision (2nd paragraph, page 2). Additionally, it is fiscally prudent for DDSN to conservatively maintain these cash reserves ***transparently*** for future potential needs in addressing continuing COVID-19 system issues in FY21. FY21 risk issues include targeted financial support of Day Programs re-opening with an extended "U" shape recovery; cash flow to support residential rate increases; and unanticipated costs in modifying FY21 band payment system or transition to fee-for-service given COVID-19 creating less than predictable at-home billing patterns from Providers. In short, COVID-19's impact on the country and the DDSN delivery system will be over a much longer time horizon, and reserves are needed for future unanticipated system needs.

Problem #1 - Alternative Options to Address:

The above is certainly not the only option; it is DDSN staff's recommendation balancing the four objectives identified: permit reasonable transition time; minimize taxpayers funding services not rendered; use FMAP as intended; and incentivize Providers' adjusting their Day Program current and anticipated cost structures to meet current COVID-19 conditions.

Alternative options are certainly available by varying the three main elements of the DDSN proposed plan:

- DDSN's transition time for absorbing 100% of decreased Day billing revenue could be changed from staff's April 30th (7 weeks; $5.6 million) by shortening (e.g., April 15th; 5 weeks; $3.4 million) or lengthening (e.g., May 15th; 9 weeks; $7.4 million) the time frame. Additionally, DDSN staff's recommended Providers' contribution to the revenue gap of 50% ($400,000/week) can be changed by decreasing (e.g., 30%; $250,000/week) or increasing (100%; $0/week). By adjusting these variables, the net effect on Providers could range from recouping the full FY20 Day Program revenue billing decrease of $12.7 million or holding Day Program Providers completely harmless from any revenue decreases by using $12.7 million ($9.0 million Medicaid billing) in CMS's 6.2% FMAP funds to fill the revenue gap.

- Providers' contribution to the revenue gap can be *calculated* in a variety of manners, to include, but not limited to, the pro-rata share of Day Program funding in bands; pro-rata across the board from Provider bi-monthly band payments; and pro-rate share based on actual Day Program utilization. DDSN changed its original DRAFT approach presented to Providers in a meeting on 4/23/2020 after feedback pointed out a more equitable option was allocating based on each Board's actual Day Program utilization. This approach best matched decreased revenues with likely cost reductions required in the COVID-19 operating environment.

- Providers' contribution to the revenue gap can be *collected* in a variety of manner, to include, but not limited to, not reducing FY20 band payments and recouping in FY21; exercise DDSN's existing contract requirement to recoup for less than 80% Day Program attendance (yields $5 million for past two FYs through February 2020); or, as selected by staff, lower FY20 remaining two band payments along with available year end loans for providers with inadequate cash flow reserves.

DDSN's recommendation sought the middle ground of stabilizing the system after a crisis, but then set a course to move towards sustainability in a fiscally responsible manner considering all stakeholder equities (e.g., Day Program Providers, all DDSN Providers, taxpayers, legislative appropriators, SCDHHS, and consumers) and factoring in the FY21 uncertainties (COVID-19's likely protracted impact; potential legislative funding decreases; and managing the increasing financial risks from the deteriorating band system).

Problem #2 – Address Impact of COVID-19 on FY21 Provider Band Contracts:

Given the contagious characteristics of COVID-19 and the government guidelines/expectations for social distancing, DDSN anticipates COVID-19 continuing to have an impact on its service delivery system in FY21.

Problem #2 Analysis:

Roughly 64% of band payments represent residential service costs. The Day Program Services component included in these prospective residential band payments is anticipated to be stable in FY21 given how well Providers have transitioned Day activities into the residential settings to at least match pre-COVID-19 billing units. However, the residual 36% representing at-home services (e.g., Day Activities; PCA; Respite; Attendant Care; Nursing; and Adult Day Health Care) may have significantly less stable and predictable billing patterns, which undermines a cornerstone principle to effectively operate the band payment system.

DDSN will almost certainly need to account for this anticipated variability in FY21 billable service patterns either through a modified band methodology or consider fee-for-service for at-home services. Moving to fee-for-service would consist of removing Band Bs & Is from Boards; DDSN assumes this liability and payment of services direct to Providers. Many

Providers, through this process, have expressed their desire to “flip the switch” on the at-home bands due to considering a liability, while others are hesitant due to still generating net revenues above band costs. Making such a payment system change with only two months to prepare prior to the start of a new FY is not preferential. However, given something will likely need to be done to ensure DDSN state funds are properly Medicaid matched, fee-for-service is on the table for consideration for at-home services.

<u>Problem #2 Recommended Plan of Action</u>:

DDSN will develop tentative options by no later than Friday, May 29th, on how it plans to address these anticipated FY21 at-home billing variations’ impact on the band payment system. Maintaining healthy cash reserves from the 6.2% FMAP increase will posture DDSN to support a variety of options to address modifications to the existing bands impacting Providers’ cash flows.

Thank you in advance for your time and attention to the unique problems facing the DDSN delivery system by COVID-19.