Montana Interim Budget Committee – Health and Human Services

Nursing Facility Rate Study

December 8, 2022

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Nursing Facility Rate Study Objectives and Process

Study Objectives

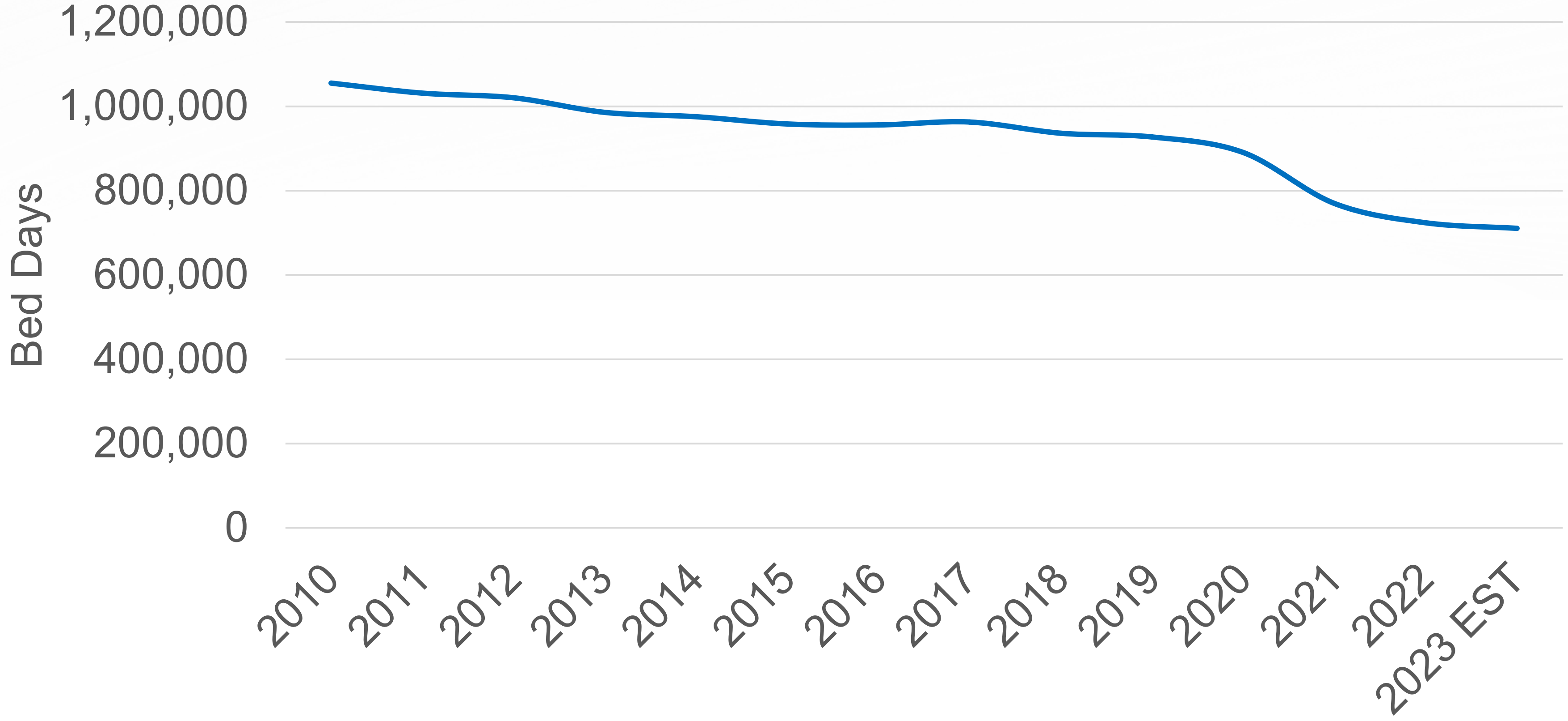
The Montana Department of Public Health and Human Services (DPHHS) contracted with Guidehouse Inc. to conduct a rate study for nursing facilities in the State. The objectives of the rate study include:

- Addressing the needs of the [older] vulnerable and disadvantaged populations who were disproportionately affected by COVID-19;
- Helping to ensure health equity and increase transparency;
- Addressing nursing facility providers' needs, especially those providers negatively affected by COVID-19; and
- Developing reimbursement rates for nursing facility providers who serve these populations to help ensure:
  - Providers will continue to operate these facilities and continue to serve these vulnerable and disadvantaged populations; and
  - These populations continue to have, access to the quality care that they need.

Nursing Facility Utilization Trends

The figure below illustrates the gradual decline in nursing facility utilization over the past decade, a trend that accelerated during the COVID-19 public health emergency:

Medicaid Funded Nursing Home Days of Care



Study Process and Timelines

Guidehouse's rate study process included the following steps and major milestones:

- Guidehouse worked closely with DPHHS and the nursing facility community from April 2022 to October 2022.
- Stakeholder involvement included three work group meetings held in May, July and September.
- Guidehouse gathered cost, occupancy, utilization and wage data from Montana nursing facility providers and other State and national data sources to establish a cost-based rate methodology.
- Guidehouse made adjustments to cost by adding an occupancy and an efficiency standard to indirect costs.
- The resulting proposed nursing facility rates were not modified to presume a predetermined budget impact.

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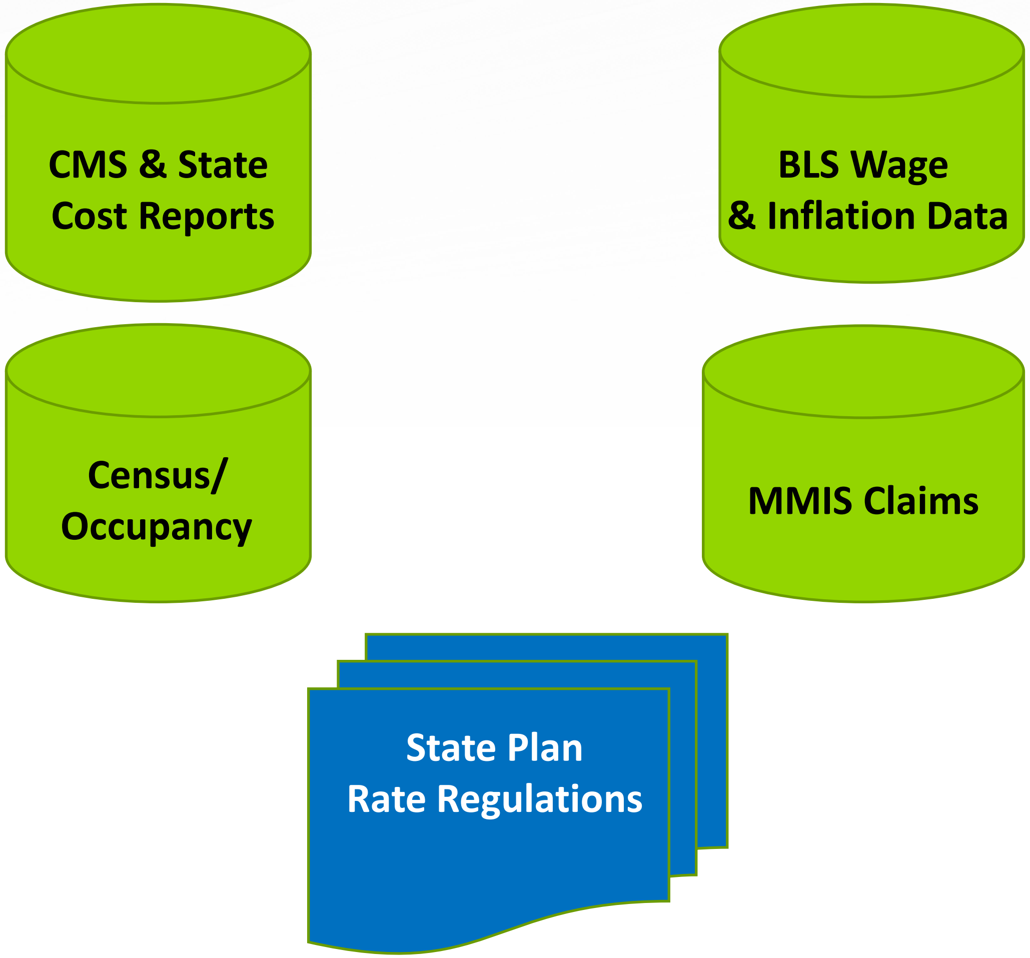
Reimbursement Methodology

Data Sources for Rate Study

The following data sources were used as part of the nursing facility rate study



Overview of Rate Build-Up Approach

Operating Cost (Direct/Indirect)

Direct Care Service Cost
- Wages
- Benefits

Indirect Cost
- Transportation
- Supplies
- Depreciation

\+

Capital Cost

Capital cost:
- Buildings
- Equipment

Cost Adjustments

Occupancy/Efficiency Standard

Disallowed costs

=

Total Allowable Cost

Total Cost
- Direct/Indirect
- Capital
- Adjustments

÷ **Allowable Days** × **Trend %** = **Updated Base Rate**

Trend Development

Guidehouse developed a trend factor to inflate the base rate to the mid-point of the rate year, using actuarily sound principles.

- Guidehouse inflated the data from the 2021 cost reports to January 1, 2024 the mid-point of the rate year, based on each facilities specific year end.
- The trend took into account recent labor cost inflation activity along with other drivers of cost.
- The trend is based on a series of inputs including historical information, Bureau Of Labor Statistics (BLS) data and the stakeholder survey data to inform the likely direction of costs over the 30-month inflation period.
- Reviewed direct, indirect, and capital actual trends from CY 2021 to June 30, 2022. The combined actual and projected trends were applied for 30 months (2.5 years) of total trend.
- The total 30-month Trend is **14.8%.**

Rate Recommendations

General Reimbursement Recommendations

Guidehouse recommendations were developed according to the following general principles and considerations for aligning cost assumptions and rate methodologies across all services included in the rate study.

- The baseline cost data included in the analysis reflects FY 2021.
  - The 2021 data represents an update from our initial use of 2020 data.
  - Data from FY 2021 is highly affected by the recent COVID-19 health crisis and cannot be taken as “steady state.”
- The following adjustments were made for specific service categories to account for occupancy and efficiency:
  - The occupancy threshold is set at **60 percent** of bed capacity as a financial guardrail against paying for an excess of empty beds.
  - The efficiency standard sets a cap on allowable direct cost expense based on a set threshold of **90 percent**. Such a standard encourages efficient use of capital.

Occupancy Standard Considerations

Guidehouse's recommendations for an occupancy standard are designed to balance needs around appropriate system capacity with reasonable service delivery expectations for providers.

- Neglecting to establish an occupancy standard—or alternatively, setting an occupancy standard too low—risks inefficiency and unsustainability, considering that the State finds itself in the position of paying for empty beds to maintain capacity **in excess of actual system needs.**
- Conversely, setting occupancy standards too high threatens to impose **unreasonable service delivery expectations** on providers, resulting in reimbursement rates that place additional financial burdens on facilities by failing to account appropriately for inevitable and reasonable vacancies throughout the year.
- Guidehouse determined that an occupancy threshold of **60 percent** of bed capacity establishes an appropriate balance between these two concerns. That threshold is higher than the current average occupancy of 50 percent, but lower than the historical average.

Recommended Gross Base Rate

Guidehouse's recommended base rate includes the following considerations:

- Guidehouse recommends an un-trended base rate of $241.77.
- The rate was trended to the mid-point of the rate year: January 1, 2024.
- The trended gross base rate per diem recommendation is $278.75.

Trend	Per Diem	2021 to SFY 2024 Avg. Trend %	2021 to SFY 2024 Trend Amount	SFY 2024 Trended Final Rate
2021-2024	$241.77	Varies by Cost Report Fiscal Year End	$36.99	**$278.75**

- This rate does **NOT** include either the acuity or quality add-ons.
- This rate is the total rate and makes no allowance for patient contribution.

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Fiscal Impact Analysis

Fiscal Impact Assumptions

Guidehouse performed a fiscal analysis to determine the impact of the recommended rate.

- The fiscal impact analysis presented in the following slides is based on reported bed days from the CMS 2540 cost report, to estimate differences in State expenditures for services reimbursed at current rates versus rates recommended by Guidehouse.
- Montana current Federal Medical Assistance Percentage (FMAP) rate is 64.12%.
- PHE related add-on FMAP 6.20%.
- Total FMAP until end of PHE 70.32%.

Method	2024 Trended Final Rate	Total Modeled Payments	Fiscal Impact	Fiscal Impact Percent
Current Base Rate	$208.71	$161,482,892	N/A	N/A
Existing Method	$217.14	$168,005,344	$6,522,451	4.0%
SFY 2024 Proposed	$278.75	$215,674,171	$54,191,279	33.6%

Other Rate Setting Recommendations

Additional Policy and Rate Setting Considerations

Guidehouse has identified several additional reimbursement policy recommendations for DPHHS to consider in the process of rate implementation.

1) ***Efficiency Standard (Applied):*** Introducing an efficiency standard for the indirect cost component is a way to provide an incentive to maintain reasonable costs in this area. To achieve this, all facilities' indirect costs are arrayed lowest to highest along with their corresponding bed days. Bed days are accumulated until a threshold is hit (e.g., 75^{th}-90^{th} percentile) and the corresponding indirect cost per day is noted. All facilities with indirect costs above that level are capped.
2) ***Occupancy Standard (Applied):*** It is important that nursing facilities operate at a level where most of their beds are occupied. A facility carries its indirect costs on its bed days. If a facility cannot maintain a minimum level of occupancy, then its ability to remain a going concern is called into question. Setting an occupancy standard as an element of the rates ensures that the state is not paying for empty beds.
3) ***Individualized Rates (Not Applied):*** To achieve specific policy goals, individual base rates could be set, rather than a class rate as is done today, to which the quality and hold harmless would be added. The acuity payment would be in addition to this amount.
4) ***Geographic Adjustment (Not Applied):*** As discussed above, distinct parts of the State face different labor market costs. When setting a class rate for providers, putting them into similar groups can be beneficial to recognize varying costs. This information can be used to adjust the facility rates on a zero-sum basis to reflect these market differences.

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5) ***Service Delivery Recommendations:*** Because the proposed rate is representative of current market wages, the existing appropriated funds allotted for direct care pay support could be reallocated in an effort to stabilize the nursing home industry in one of the following ways.

   a) **Emergency Fund for distressed facilities who are vital to ensure access:** Allocate funds to facilities that are distressed and in danger of closing for which a loss of beds would create an access issue in their geographic area. Guidehouse did not perform a bed needs assessment as part of this rate study, however such a study could serve as the basis for identifying bed access pressure points.
   b) **Bed buy-back program to facilitate closing or repurposing excess capacity:** Nursing facility occupancy has been on a decline since 2020. Demand for nursing facility beds may not return to pre-COVID-19 levels. If this is the case the potential for excess capacity exists. If so, funds can be used to assist facilities in repurposing the beds into another use, e.g., rehabilitation, short term post-acute step-down, treatment of substance use or behavioral health.
   c) **Create an incentive to open a ventilator unit and/or specialty care unit:** Currently, Montana does not have any dedicated ventilator beds. Patients in need of this level of care must be sent out-of-state at additional cost for transportation and inconvenience to the families. The State could use a portion of the $10 million fund to increase the per diem rate and offer additional incentives for an existing facility to open a ventilator unit. Such a unit could displace lower-level beds that may no longer be in demand.

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Questions

Rate Study Inquiry Contact Information

For any questions on project initiatives, please contact:

Jackie Jandt
Medicaid Reform Initiative Specialist
(404) 444-9656
jjandt@mt.gov

Contacts

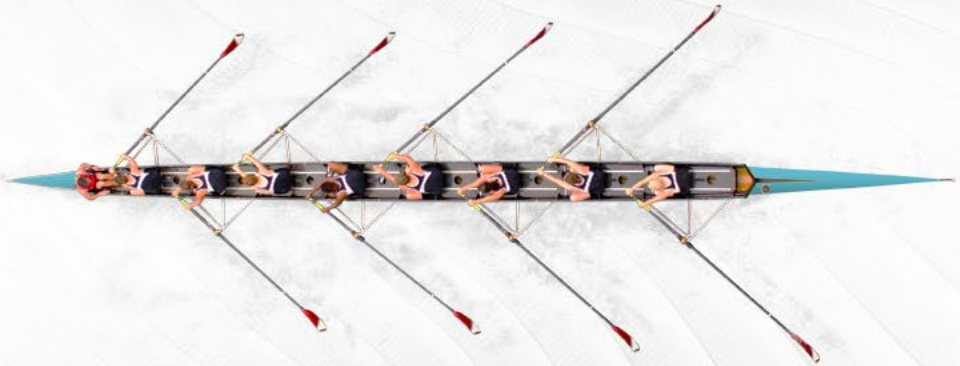
David Garbarino

Director
Engagement Director - Nursing Facility Rates Study
jmoor@guidehouse.com

Coy Jones
Director - Work Stream Lead, Rate Studies / HRD
coy.jones@guidehouse.com

Justyn Rutter
Associate Director - Work Stream Lead Community Transition Coordinator
ariedesel@guidehouse.com

Jamin Barber
Associate Director - Project Manager
jbarber@guidehouse.com



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Appendix

Rate Study Stakeholder Feedback

Common Discussion Themes

Rate Workgroup Feedback

- Impact of worker wage inflation has been a challenge to afford
- The limited availability of staff has necessitated hiring temporary workers at inflated rates
- Declining occupancy rates have put further strain on financial health of some facilities
- Lack of staff has made it difficult to keep beds open
- Some have focused on CAN training to increase availability of staff