

SUFFOLK COUNTY LEGISLATURE



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Director

BUDGET REVIEW OFFICE

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To: William J. Lindsay, Presiding Officer
and All Suffolk County Legislators

From: Robert Lipp, Director *Robert Lipp*
Budget Review Office

Subject: **Certification of Savings for Consolidation of East Hampton and Southampton Health Centers**

Introduction

Pursuant to Article 9-6, paragraph H of the Suffolk County Administrative Code, the Budget Review Office (BRO) is required to certify whether privatization of certain Department of Health Services functions “will result in a cost savings to the County in at least each of the first five years of said plan or proposal of at least 10% in each of those first five years, as measured by net County expenditures (i.e., County appropriations less federal aid, state aid, third-party payments and/or private contributions)”.

BRO has completed an analysis of the proposal to enter into an agreement with Hudson River Healthcare, Inc. (HRHCare) to operate a Diagnostic and Treatment Center (D&TC) on the Southampton Hospital campus as a Federally Qualified Health Center (FQHC), and to consolidate the operations of the existing Kraus Family Health Center at Southampton and the Suffolk County Health Center at East Hampton into a single site, as proposed by the County Executive in Introductory Resolution No. 1428-2013. Pursuant to I.R. 1428-2013, the Suffolk County Department of Health Services would transfer the current New York State Public Health Law Article 28 D&TC license to Hudson River Healthcare. Because the personnel at the Southampton and East Hampton sites are Suffolk County Employees, who would be substantially replaced by HRHCare staff at the new consolidated site, the proposal outlined in I.R. 1428-2013 requires certification by the Budget Review Office.

The analysis included meeting with the Department of Health Services for clarification of certain issues and the examination of the following documents:

- 2011 Medicaid Cost Reporting provided by the Department of Health Services
- The 2013 Adopted Operating Budget and the 2012 Adopted Operating Budget
- Appointment Status Summary reporting from the Department of Health Services' Health Center Information System (HCIS)
- Patient Information Reports and customized data queries previously provided from HCIS to BRO by the Department of Health Services
- The letter provided by the New York State Department of Health for A9-6 certification.
- The draft proposal negotiated between Suffolk County and Hudson River Health Care.

The Budget Review Office has concluded that the plan proposed by the County Executive in Introductory Resolution No. 1428-2013 will result in cost savings greater than 10% of net County expenditures attributed to the East Hampton and Southampton Health Centers, as compared to continuing operation of the facility. In each of the first five years (2014-2018) following divestiture of the facility, Suffolk County will likely result in minimum annual budget savings in 58% of net costs.

The savings generated by the transition apply only to services at Southampton and East Hampton, and include net savings only in comparison to continuing operation of these two sites with County personnel. While no layoffs are expected, it is assumed that there will be no cost for Suffolk County staff at the consolidated site, except as per the agreement with HRHCare, as outlined above.

Other assumptions and analysis are detailed in the sections that follow.

Projection of Net Expenditures

For the purposes of this analysis, the Budget Review Office examined expenditures and revenues for Southampton and East Hampton Health Centers, expenditures within Operating Budget appropriation 4102, Riverhead Health Center, and revenues assigned to these programs. BRO also calculated the expenditures and revenues within appropriation 4102, Riverhead Health Center, attributable to the two sites in question. BRO allocated cost by visit weight; this differed from the Department of Health Services method. This allocation of costs and revenues to the East Hampton and Southampton Health Centers is higher than that of the Department of Health Services.

The baseline costs for the calculation are derived from the 2011 Medicaid Cost Report, with costs allocated to the East Hampton and Southampton Health Centers based on 2011-2013 visit counts at the two centers. In the previous two A9-6 memos prepared by the Budget Review Office, our baseline included calculations based on more than one year. In the case of the health centers, a single-year baseline has been (and likely will be) utilized for the following reasons:

- Reimbursement for Article 6 state aid changed starting in 2011.
- The County's policy for determining sliding fee and self-pay changed substantially in 2011, which affects comparisons with prior years not only in cash collection revenue, but for bad debt and charity as well.
- The transition from a Medicaid "threshold" rate to Medicaid rates based on ambulatory provider group (APG) payments did not significantly affect revenues until 2011.
- The Department of Health Services report uses 2011 as their base year as well.
- 2011 is the latest year with completed cost reporting available.

Both our analysis and the analysis conducted by the Department of Health Services and the County Executive assume substantially uniform growth rates for both expenditures and revenues. While necessary for the purposes of projecting the County's net expenditures as required by the Administrative Code, this assumption masks a fundamental problem with the operation of a publicly owned health care facility—the unpredictability of revenue received from New York State, the primary payor through direct Medicaid payments, the Medicaid managed care system, public health aid for municipalities ("Article 6"), and the indigent care pool (bad debt and charity).

BRO assumptions for projected expenditures include:

- Increases in personnel expenditures per the BRO March 2013 Suffolk County budget model.
- Increases to the state retirement contribution rate in 2014 and 2015, with small decreases from 2016 to 2018.
- Annual increase of 3.4% in equipment, supplies, and contracted services based on historic growth rates in the New York Region CPI, weighted for medical specific items.
- Employee healthcare benefit expenditure increases based on projections from the Centers for Medicaid and Medicare Services.

BRO assumptions for Projected Revenues include:

- Increases in Medicaid Revenue based on projections from the Centers for Medicaid and Medicare Services and recent history.
- Increases in Medicare Revenues based on projections from the Centers for Medicaid and Medicare Services.

Projected revenues and expenditures are shown in the following table:

**Estimated Costs for Southampton East Hampton Health Centers
2014-2018 (Current Model)**

<u>Year</u>	<u>Estimated Expenditures</u>	<u>Minus Estimated Revenues</u>	<u>Equals Net Expenditures</u>
2014	\$3,720,811	\$2,213,960	\$1,506,851
2015	\$3,816,590	\$2,258,239	\$1,558,351
2016	\$3,860,574	\$2,303,404	\$1,557,170
2017	\$3,929,748	\$2,349,472	\$1,580,276
2018	\$3,999,506	\$2,396,461	\$1,603,045
Total Projected Cost to Suffolk County 2014-2018			\$7,805,693

The South Fork Health Center Consolidation Plan

According to the **draft** agreement provided by the Department of Health Services, the consolidation of the East Hampton and Southampton Health Centers is contingent upon three conditions:

- New York State Department of Health approval of the closure of the East Hampton Health Center
- Approval of a Certificate of Need (CON) filed by Hudson River Healthcare for a license to operate the Health Center as a Diagnostic and Treatment Center (D&TC) pursuant to Article 28 of the Public Health Law on the campus of Southampton Hospital located at 330 Meeting House Lane in Southampton.
- Completion of renovations to the proposed combined D&TC site. This provision is related to Resolution No. 313-2013, which authorized and appropriated HEAL-NY grant funding for Capital Project 4082, Improvements and Modifications to Health Centers.

The contractor (HRHCare) agrees to remain a state licensed D&TC and an FQHC for the term of the contract, and agrees to immediately notify Suffolk County of any change in FQHC status or NYS licensure. The County will provide a “Community Benefit Payment” to HRHCare in return for the provision of specific services, and to assure access to primary health care for the residents of Southampton and East Hampton, per the provisions of the contractor’s New York and Federal licenses and certifications. Specific services delineated in the draft contract include:

- Immunization of infants and children (provided by the contractor)
- Family Planning Services (provided by the contractor, with assistance of Suffolk County)

- Treatment for Tuberculosis and Sexually Transmitted Diseases (provided by the contractor, in a program to be agreed upon in a separate agreement)
- Women, Infants and Children’s (WIC) Nutrition Program (program to be provided by the County, in space provided by the contractor)

The schedule of payments for the contract is included in the table below. Note that the amounts in the table are for payment to the vendor; net cost is expected to be 36% less; the services to be compensated for are structured such that all services will be eligible for reimbursement as provided for in Article 6 of the New York State Public Health Law; this allows Suffolk County to maximize reimbursement for the contract.

**Estimated Costs for combined Southampton/East Hampton Health Center
2014-2018 (Proposed Model)**

<u>Year</u>	<u>Estimated Contract Expenditures</u>	<u>Estimated Revenues (Article 6 Reimbursement to Suffolk County)</u>	<u>Net Expenditures</u>
2014 (Year 1)	\$984,000	\$354,240	\$629,760
2015 (Year 2)	\$805,300	\$289,908	\$515,392
2016 (Year 3)	\$798,400	\$287,424	\$510,976
2017 (Year 4)	\$685,600	\$246,816	\$438,784
2018 (Year 5)	\$639,600	\$230,256	\$409,344
Total Projected Cost 2014-2018			\$2,504,256

The County’s obligations for payment are limited to appropriated funding and may also be constrained by declaration of fiscal emergency.

HRHCare is required to provide regular financial, demographic and epidemiological information to the County for the life of the contract, including but not limited to all reports required by the New York State and U.S. governments.

The Department of Health Services intends to redeploy personnel no longer required at the new combined health center to other health centers or to other divisions. It is the Department’s intention to retain all personnel.

Conclusions

If the Legislature approves the agreement pursuant to I.R. 1428-2013, it is anticipated that Suffolk County will continue to operate the facility until the end of 2013 to accommodate the NYS approval process and the renovations to the new site. There is no consideration involved in the transfer of the license to HRHCare, and although the site renovations at Southampton are funded through a capital project (Capital Project 4082), the project is funded through a

New York State grant, and first instance funding will be provided by HRHCare; use of bond anticipation notes will probably be unnecessary.

Calculation of Savings

Year	(1) <u>Net Expenditures Current Model</u>	(2) <u>Net Expenditures Proposed Model</u>	(3) <u>Savings (1-2)</u>	(4) <u>% of Savings (3-4)</u>
2014	\$1,506,851	\$629,760	\$877,091	58%
2015	\$1,558,351	\$515,392	\$1,042,959	67%
2016	\$1,557,170	\$510,976	\$1,046,194	67%
2017	\$1,580,276	\$438,784	\$1,141,492	72%
2018	\$1,603,045	\$409,344	\$1,193,701	74%
Total Projected Savings 2014-2018			\$5,301,437	68% average savings

The proposal to enter into an agreement with Hudson River Healthcare, Inc. (HRHCare) to operate a Diagnostic and Treatment Center (D&TC) on the Southampton Hospital campus as a Federally Qualified Health Center (FQHC), and to consolidate the operations of the existing Kraus Family Health Center at Southampton and the Suffolk County Health Center at East Hampton into a single site **will result in a cost savings to the County in each of the first five years of said plan or proposal of at least 10%, as measured by net County expenditures (i.e., County appropriations less federal aid, state aid, third-party payments and/or private contributions).** This savings is measured by the difference between the net contract cost per the proposal, and the net cost under the current model. The annual savings to the County ranges from \$877,091, or 58%, in the first year of the contract to almost \$1.2 million, or 74%, in the fifth year. Over the five years from 2014 to 2018, total savings are \$5,301,437, an average of 68% annually.