

# SUFFOLK COUNTY LEGISLATURE



Robert Lipp  
Director

## BUDGET REVIEW OFFICE

April 23, 2014

To: Presiding Officer, DuWayne Gregory  
and All Suffolk County Legislators

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

Subject: **Certification of Savings for Operation of the Maxine S. Postal Tri-Community Health Center in Amityville by Hudson River Healthcare, Inc. (HRHCare)**

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### 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) at the Maxine S. Postal Tri-Community Health Center in Amityville as a Federally Qualified Health Center (FQHC), as proposed by the County Executive in Introductory Resolution No. 1318-2014. In accordance with I.R. 1318-2014, the Suffolk County Department of Health Services would surrender its current New York State Public Health Law Article 28 D&TC license for the Maxine S. Postal Tri-Community Health Center (Tri-Community), and Hudson River Healthcare would become a D&TC license holder for the site, effective June 1, 2014. Because the personnel at the Maxine S. Postal Tri-Community Health Center in Amityville are Suffolk County Employees, who would be substantially or entirely replaced by HRHCare staff, the proposal outlined in I.R. 1318-2014 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:

- 2012 Medicaid Cost Reporting provided by the Department of Health Services
- The 2013 and 2014 Adopted Operating Budgets
- Year to date expenditure and revenue reporting for 2013 derived from the County's Integrated Financial Management System (IFMS)
- Unduplicated patient and visit counts provided from the Health Department's Health Care Information System (HCIS) for the period 2011 to 2013.
- 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. 1318-2014 will result in a greater than 10% cost savings to Suffolk County in at least each of the first five years of the proposal, as measured by net County expenditures. In each of the first five years (2015-2019) following transition of the facility to HRH licensure, Suffolk County will likely realize minimum annual budget savings of 30.2% of net costs.

**The savings generated by the transition and evaluated in this report are only in comparison to continuing operation of the site with County personnel.** No layoffs of County staff are expected; layoffs are prohibited by the County's current collective bargaining agreement with the Suffolk County Association of Municipal Employees.

This analysis assumes that there will be no continuing cost for Suffolk County staff at Tri-Community after the license transfer to HRHCare, with the notable exception of the Women Infants and Children nutrition program (WIC), which will continue to be provided by Suffolk County employees. Their cost is not included in the A9-6 analysis; the program is funded in an appropriation (4130) separate from the Tri-Community Health Center (4103).

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 the Maxine S. Postal Tri-Community Health Center from the 2013 and 2014 Adopted Operating Budgets, and expenditures and revenues allocated to the health center in the 2012 Medicaid Cost Report.

The baseline costs for the calculation are derived from the 2012 Medicaid Cost Report and from 2013 actual expenditures recorded in the County's financial system. These years were used as the baseline for the following reasons.

- 2012 is the latest year with completed Medicaid cost reporting available. The cost report is used to assure that all costs, direct and indirect, that the health center incurs are included in the A9-6 cost comparison.
- The Department of Health Services report uses 2012 as their base year as well.
- We examined the 2013 and 2014 Adopted Operating Budgets as well as the Medicaid Cost reporting because of the substantial decrease in services (and therefore in expenditures and revenues) that occurred after the loss of personnel that occurred after the 2012 layoffs.

Both our analysis and the analysis conducted by the Department of Health Services and the County Executive assume substantially uniform growth rates for revenues, and for some expenditures. 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 Suffolk County Association of Municipal Employees (SCAME) contract, and projections based on BRO assumptions from the latest budget model.
- Decreasing contribution rates to the NYS Employee Retirement System.
- 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:

- Allocation of revenue to Tri-Community based on 2012 Medicaid Cost Reporting.
- Increases in Medicaid Revenue and in Medicare Revenue based on projections from the Centers for Medicaid and Medicare Services and recent history.
- A substantial reduction in Article 6 revenue based on changes to the New York State Public Health Law and Title 10, New York Code of Rules and Regulations.

Projected revenues and expenditures are shown in the following table:

**Current Model**  
**Estimated Costs for Maxine S. Postal Tri-Community Health Centers**  
**2015-2019**

<u>Year</u>	<u>Estimated Expenditures</u>	<u>Minus Estimated Revenues</u>	<u>Equals Net Expenditures</u>
2015	\$4,354,790	\$2,167,403	\$2,187,387
2016	\$4,486,260	\$2,188,827	2,297,433
2017	\$4,570,612	\$2,200,652	\$2,369,960
2018	\$4,643,556	\$2,213,311	\$2,430,245
2019	\$4,719,333	\$2,226,811	\$2,492,522
<b>Total Projected Cost to Suffolk County 2015-2019</b>			<b>\$11,777,547</b>

The Maxine S. Postal Tri-Community Health Center Transition Plan

The agreement assumes a transition date of June 1, 2014. According to the **draft** agreement provided by the Department of Health Services, the transition to HRHCare control is contingent on three factors:

- 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 at the current site of the Suffolk County health center.
- Approval by the Federal Government of expansion of HRHCare’s FQHC operation to the Tri-Community site
- Approval by New York State approving the cessation of Suffolk County’s D&TC operations at the Tri-Community Health Center site.

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. In consideration Suffolk County will provide a “Community Benefit Payment” to HRHCare for the provision of specific services, and to assure access to primary health care for the residents of Southwest Suffolk County, 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)
- Women, Infants and Children’s (WIC) Nutrition Program (program to be provided by the County, in space allocated at the current location)
- Treatment for Tuberculosis and Sexually Transmitted Diseases, provided by the contractor, in a program to be agreed upon in a separate agreement.

A separate lease agreement for the premises at 1080 Sunrise Highway, Amityville, the current location of the County’s Tri-Community Health Center, is contained in Introductory Resolution No. 1320-2014. In consideration for rent free occupancy of 1080 Sunrise, HRHCare will continue to maintain an Article 28 D&TC at the location.

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 less; the services to be compensated for are structured such that all services will be eligible for the maximum possible reimbursement as provided for in Article 6 of the New York State Public Health Law.

**Proposed Model**  
**Estimated Costs for Tri-Community Health Center**  
**2015-2019**

<u>Year</u>	<u>Estimated Contract Expenditures</u>	<u>Estimated Revenues (Article 6 Reimbursement to Suffolk County)</u>	<u>Net Expenditures</u>
2015 (Year 1)	\$1,678,200	\$151,038	\$1,527,162
2016 (Year 2)	\$1,617,600	\$145,584	\$1,472,016
2017 (Year 3)	\$1,579,400	\$142,146	\$1,437,254
2018 (Year 4)	\$1,558,900	\$140,301	\$1,418,599
2019 (Year 5)	\$1,535,000	\$138,150	\$1,396,850
<b>Total Projected Cost 2015-2019</b>			<b>\$7,251,881</b>

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 the remaining County staffed health center at Riverhead or to

other units or divisions. It is the Department’s intention to retain all personnel, as required by the current collective bargaining agreement with SCAME.

Conclusions

The proposed agreement with HRHCare complies with the standard required by Article 9-6, paragraph H of the Suffolk County Administrative Code. Cost differences between the current and proposed models of service are shown in the following table.

**Calculation of Savings**

	(1)	(2)	(3)	(4)
<u>Year</u>	<u>Net Expenditures Current Model</u>	<u>Net Expenditures Proposed Model</u>	<u>Savings (1-2)</u>	<u>% of Savings (3-4)</u>
2015	\$2,187,387	\$1,527,162	\$660,225	30.2%
2016	\$2,297,433	\$1,472,016	\$825,417	35.9%
2017	\$2,369,960	\$1,437,254	\$932,706	39.4%
2018	\$2,430,245	\$1,418,599	\$1,011,646	41.6%
2019	\$2,492,522	\$1,396,850	\$1,095,672	44.0%
<b>Total Projected Savings 2015-2019</b>			<b>\$4,525,666</b>	<b>38.2% average savings</b>

In addition to the cost differences illustrated in the table, as an FQHC, HRHCare is also required to offer mental health and dental services to its patients, and to have a cooperative agreement with a hospital. These features would be an expansion of services for the Tri-Community catchment area, at a lower cost than could be provided through the current service model.

The proposal to enter into an agreement with Hudson River Healthcare, Inc. (HRHCare) to operate a Diagnostic and Treatment Center (D&TC) in Amityville at the site of the Suffolk County Maxine S. Postal Tri-Community Health Center **will result in a cost savings to the County in each of the first five years 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 \$660,225, or 30.2%, in the first year of the contract to approximately \$1.1 million, or 44.0%, in the fifth year. Over the five years from 2015 to 2019, total savings are \$4,525,666, an average of 38.2% annually.

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