

# Delivery System Reform Incentive Payment DSRIP

## *Annual and Quarterly Reporting Budget Guidance*

*Effective March 2016*

Reference for quarterly budget reporting of DY4 Q4-DY5 Q4

Reference for DY5 Annual Budget

## DSRIP Budget

As part of the DSRIP reporting requirements hospitals are required to develop a budget for the project selected. The purpose of this document is to provide guidance hospitals can use in developing and reporting on their project budget in each of the required four quarterly progress reports. A budget report showing line item budget to actual comparisons are required to be reported as part of quarterly progress reports using the DSRIP standard budget reporting template.

DSRIP budgets have the following importance to the project:

- 1) The budget represents a commitment to the project funding essential to carrying out the project objective and outcome achievement. A low budget can be synonymous with low project funding and may be an indication of under committing to the project.
- 2) The budget becomes part of the financial plan for the project and should include two component parts:
  - a. The hospital investment in the DSRIP project. This includes operating expenses (including allocated overhead) and capital expenditure commitments necessary to achieve the project outcomes and new to the DSRIP project.

Examples of operating expenses include direct expenses related to the project such as

- Staffing: salaries and wages
  - Full Time Equivalents (FTE's associated with the project)
  - Fringe benefit expenses
- Supplies and other expenses
- Physician fees and salaries
- Payments and in-kind support made to project partners.
- Information technology expense
- Contracted services
  - including information technology software products purchased for or expanded for use in the DSRIP project,
  - Expense related to and reported by hospital project partners including an allocation of time.
- Hospital may allocate expenses to the DSRIP project that are directly related to the DSRIP project.

For example, the hospital chief medical officer plans to spend 10% of her time engaged in the DSRIP project, this allocation of time at the current salary of \$250,000 for the chief medical officer is valued at \$25,000.

Examples of operating expenses include indirect expenses allocated to the DSRIP project using a reasonable allocation basis.

- Expenses can be allocated to the DSRIP project using methodologies customarily used in hospital cost reporting to Federal and State agencies.

Examples of indirect expense are those cost centers commonly considered overhead areas and include:

- Administrative and general expenses
- Finance expenses
- Depreciation expense
- Bad debt expense
- Purchased and contracted services
- Information technology expense
- Malpractice insurance expense
- Plant operations
- Other

Example of capital expenditures include

- Building acquisition costs if acquired for the DSRIP program
- Building Improvement/Renovation costs
- Leased space expense
- Equipment purchased for the DSRIP project
- Working capital advances to underwrite the startup of the DSRIP program.

DSRIP investment budgets should be presented in accordance with generally accepted accounting principles and include line item detail.

Other approaches hospitals have used in building the investment in the DSRIP project part of the budget include:

- ✓ An education expense component to the budget that may include training staff on an ongoing basis. Also expenses related to time spent in learning collaboration with other hospitals can be included in the budget.
- ✓ DSRIP projects include hospital data collection and reporting. Budgets should include staff and IT support to carry out data collection and include time to review and report data.
- ✓ Physician time related to engagement and support of the DSRIP project should be included in the project including an allocation of time and expense informing the medical staff on the DSRIP project developments.
- ✓ The expected increase in bad debt expense associated with the low income population that is part of the DSRIP project can be allocated to the budget.
- ✓ **The DY5 budget requirement is an annual budget equal to or greater than 80% of the hospital DY5 adjusted funding target.**

A required DSRIP project budget performance template is shown at the end of this document and is available on the NJ DSRIP website;

- b. The budgeted economic value (as referred to as Return on Investment) of the project measures the economic impact the DSRIP project is expected to have on the overall project population served by the DSRIP project. It includes such measures as;
- i. Reduction in utilization
  - ii. Avoidable inpatient admissions and emergency room visits.
  - iii. Cost savings
    1. Savings to the Hospital
    2. Savings to payers of low income population
  - iv. Cost avoidance
  - v. Population health improvement
  - vi. Directional care changes

The economic value analysis requires a project plan based on the significance of the population to be served and a gap analysis with project objectives, a methodology, measured outcomes, and monitoring. In some ways the economic value analysis connects together the other components of the DSRIP project.

A budgeted economic value analysis should consider the following approaches:

- 1) Expected reduction in utilization from achievement of stage 3 pay-for-performance measures. Examples below are stage 3 PFP for a cardiology project, and diabetes project:
  - ✓ *Heart Failure Admission Rate*
  - ✓ *30-Day All-Cause Readmission Following Acute Myocardial Infarction (AMI) Hospitalization*
  - ✓ *Hypertension Admission Rate*
  - ✓ *Diabetes Short-Term Complications Admission Rate (PQI 1)*

For each of the measures above a hospital can forecast the changes in utilization associated with measure by year. If the expected admission rate reduction is 10% per year on a base of 750 admissions a reduction of 75 admissions per year is expected. If the value of those admissions priced at Medicaid payment rates is \$8,600 per admission, the expected economic value is imputed at \$645,000 [75 x \$8,600].

- 2) For the above example the marginal cost savings associated with the reduction in admissions would be includable in the budget. If the cost per admission were \$8,500 and the marginal expense ratio is 40% then the marginal expense savings per admission would be calculated at \$3,440, and a total cost savings of \$258,000.

- 3) The approach used above can be followed for forecasted changes in emergency department visits and outpatient visits. If the expected reduction in emergency room visits is 10% per year on a base of 2,000 emergency department visits a reduction of 200 visits per year is expected. If the value of those visits priced at Medicaid payment rates is \$250 per visit, the expected economic value is imputed at \$50,000 [200 x \$250].
- 4) Another component to the economic value calculation is a reduction in average length of stay. For example, if average length of stay is reduced by .5 days on a patient population of 675 patients there would be a reduction of 337.5 patient days. If the average Medicaid payment per patient day is \$1,400, then the imputed economic value associated with the reduced average length of stay is \$472,500. [337.5 x \$1,400].
- 5) There are also cost savings associated with the reduced length of stay. If the total cost associated with the length of stay reduction is \$475,000, applying a marginal expense ratio of 40%, the marginal expense savings would be calculated at \$190,000 [40% x \$475,000].
  - a. Note: if part of the reduced length of stay or directional care change results in the same patient days but a shift from ICU to Medical Surgical patient days there may be a cost savings associated with reduced ICU utilization.

Other approaches used by hospitals to develop economic value:

- ✓ Some hospitals extrapolated the impact of population improvement on their targeted population in their DSRIP project. For example, research data shows a population of diabetes patients not managed incurs average health care costs of \$10,500 per year compared to a managed patient population incurs average costs of \$8,700, a savings of \$1,800 per year. These savings may include costs not incurred by a hospital, for example pharmaceutical costs. A DSRIP target population of 500 patients would produce imputed cost savings of \$900,000 annually to the overall health care system of providers.
- ✓ An approach that can be used is to trend improvement in stage 4 measures, although not required under stage 4 PFP. Applying the approaches used above to the stage 4 measures can be included in the economic value calculation.
- ✓ Some hospitals may set an improvement goal on services provided to the low income population outside the DSRIP project based on lessons learned from learning collaboration. For example a hospital selecting a cardiac project applies some of the clinical process improvement from the diabetes learning collaboration to it low income population. In building a budget for this an overall estimate of improvement should be sufficient recognizing this may be difficult to report upon in the future. An overall improvement percentage should be sufficient for this part of the budget.

- ✓ When baseline data is available and performance limits are established some hospital may develop improvement plans on PFP measures outside of the project selected.
  - ✓ In total best practice budgets include economic value of 30%-50% of the adjusted DY5 funding target.
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<b>EXPENSE CATEGORY</b>	DY5 Budget - Time period of April 1 2016- March 30, 2017 [Note #1]
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Position Title	Salary	FTE	Total
<b>A. Salaries and Wages</b>			
<i>aggregate positions for description</i>			
<i>Salaries, and FTEs</i>			
<i>e.g. RNs, \$300,000, 5.5 FTEs</i>			
<i>Subtotal Salaries and Wages</i>			
<b>B. Fringe Benefits</b>			
<i>Apply your hospital fringe benefit</i>			
<i>rate to the above salaries and wages</i>			
<i>Subtotal Fringe Benefits</i>			
<b>C. Equipment Cost</b>			
<i>include the cost of equipment used</i>			
<i>in your project</i>			
<i>Subtotal Equipment</i>			
<b>D. Travel</b>			
<i>Travel, meals, mileage, seminars, etc.</i>			
<i>Subtotal Travel</i>			
<b>E. Supplies</b>			
<i>Subtotal Supplies</i>			
<b>F. Contractual</b>			
<i>include any outside data collection or</i>			
<i>information system vendor expense</i>			
<i>associated with your project</i>			
<i>Subtotal Contractual</i>			
<b>G. Capital Cost including</b>			
<i>construction, building renovations and</i>			
<i>building acquisition cost including leases</i>			
<i>Subtotal Capital Costs</i>			
<b>H. Other Direct Costs</b>			
<i>Community Needs Expense</i>			
<i>Marketing/Outreach needs</i>			
<i>Staff Training</i>			
<i>Patient education training</i>			
<i>Physician education training</i>			
<i>Patient satisfaction survey expense</i>			
<i>Project partner incentive payments</i>			
<i>or project partner expense reimbursements</i>			
<i>Subtotal Other Direct Costs</i>			
<b>I. Total Direct Costs</b>			
<i>Subtotal Direct Costs</i>			
<b>J. Indirect Costs</b>			
<i>see Note #2 below</i>			
<i>Subtotal Indirect Costs</i>			
<b>K. Total Direct and Indirect Costs</b>			
<b>TOTAL DIRECT AND INDIRECT COSTS</b>			
<b>L. Economic Value</b>			
<i>Expected Admission Reduction</i>			
<i>Cost savings from reduction in admissions</i>			
<i>Cost savings from reduction in visits</i>			
<i>Note #1 : DY5 budget may not be less than 80% of the DY5 adjusted funding target amount, reclasses between expense</i>			
<i>line items is permitted but subject to final approval by the State and CMS.</i>			
<i>Note #2: Refer to DSRIP Budget Guidance Document dated March 2016 for the definition and reporting requirements</i>			
<b>CFO Attestation:</b>			
<i>I (name of CFO) have reviewed the DY5 DSRIP DY5 budget guidance document and have prepared the annual budget for the application renewal</i>			
<i>for (name of hospital) in accordance with the budget guidance document using the required DSRIP budget template. The budget for</i>			
<i>(name of hospital) is equal to or greater than 80% of the DY5 funding target.</i>			
<hr/>			
<i>Name</i>		<i>Date</i>	

NJ Department of Health

DSRIP Program

DY4 Progress Report Budget Reporting: Quarterly Budget Performance: **Required Worksheet**

Hospital Name \_\_\_\_\_

Hospital 7 digit Medicaid Provider Number \_\_\_\_\_

[Whole numbers in thousands of dollars]	Current Quarter See Note #3 below						Year-to-Date (Q1-current quarter) See Note #3 below									
	Budget			Actual			Budget Variance Over/(Under)	Budget			Actual			Budget Variance Over/(Under)		
	Amount	FTEs	Total	Amount	FTEs	Total		Amount	FTEs	Total	Amount	FTEs	Total			
<b>A. Salaries and Wages</b>																
Position Title																
aggregate salaries and FTEs by job class																
e.g. RNs, \$300,000, 5.5 FTEs																
Subtotal Salaries and Wages																
<b>B. Fringe Benefits</b>																
Apply your hospital fringe benefit rate to the above salaries and wages																
Subtotal Fringe Benefits																
<b>C. Equipment Cost</b>																
include the cost of equipment used in your project																
Subtotal Equipment																
<b>D. Travel</b>																
Travel, meals, mileage, seminars, etc.																
Subtotal Travel																
<b>E. Supplies</b>																
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<b>F. Contractual</b>																
include any outside data collection or project related IT vendor expense																
Subtotal Contractual																
<b>G. Capital Cost including</b>																
construction, building renovations and building acquisition cost incl leases																
Subtotal Capital Costs																
<b>H. Other Direct Costs</b>																
Community Needs Expense																
Marketing/Outreach needs																
Staff Training																
Physician education training																
Patient satisfaction survey expense																
Project partner incentive payments or project partner expense reimbursements																
Subtotal Other Direct Costs																
<b>I. Total Direct Costs</b>																
Subtotal Direct Costs																
<b>J. Indirect Costs</b>																
see Note #2 below																
Subtotal Indirect Costs																
<b>K. Total Direct and Indirect Costs</b>																
<b>TOTAL DIRECT AND INDIRECT COSTS</b>																
<b>L. Economic Value [attached supporting work sheet]</b>																

Note #1 : DY4 & DY5 budget may not be less than 80% of the DSRIP year [DY4 or DY5]adjusted funding target amount, reclasses between expense line items is permitted but subject to final approval by the State and CMS.

Note #2: Refer to DSRIP Budget Guidance Document dated March 2016 for the definition and reporting requirements

Note #3: Quarterly Budget Reporting Time Periods :

Demonstration Year and Quarter	Current Quarter	Year -to-Date
DY4 Q4	Jan 2016 -Mar 2016	Apr 2015-Mar 2016
DY5 Q1	Apr 2016-Jun 2016	Apr 2016-Jun 2016
DY5 Q2	Jul 2016-Sept 2016	Apr 2016-Sept 2016
DY5 Q3	Oct-Dec 2016	Apr 2016-Dec 2016
DY5 Q4	Jan 2017 -Mar 2017	Apr 2016-Mar 2017