Community Services Reimbursement Rate Commission
Mental Hygiene Administration, Catonsville, Maryland
July 9, 2013
MINUTES

Present

Commissioners: Jillian Aldebron (Chair), Patsy Blackshear, Rebecca Fuller, Jeff Richardson, Timothy Wiens

Open Minds: Shelia Kochis, Nick Jesteadt

MHA: Brian Hepburn, M.D., Marion Katsereles

DDA: Melissa Glynn (Alvarez &Marsal), Daniel Harlan (Alvarez & Marsal)

Public: Herb Cromwell (CBH), Jaclin Warner Wiggins (DBM), Erin Kathleen McMullen (DLS), Laura Howell (MACS), Brian Frazee (MACS)

Absent: Kia Brown, Tom Sizemore

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1. Proceedings

The meeting was called to order at 6:00 p.m. despite the lack of a quorum (four, by statute), which made decisions impossible. Drs. Blackshear and Fuller participated by telephone and due to technological issues the connection was not available until an hour later. Nonetheless, the meeting continued to take advantage of the presence of technical experts and public and government representatives to discuss the analysis plan for community-based provider financial and wage data. Once the two commissioners participating by telephone called in, the May 14 minutes were presented and approved.

2. DDA and MHA Financial Performance

- Consideration of spreadsheet data
- Outstanding issues
- Discussion of metrics and benchmarking
- Timeline for finalization of white papers on financial performance; weighted average cost structure

Shelia Kochis presented the financial data and described the problems with raw data that obscure a clear picture of the sectors: especially, data entry mistakes or misinterpretations by providers, incomplete submissions, and a high percentage of for-profit entities that do not prepare audited financial statements and have no incentive (or legal requirement) to disclose information. Packets including spreadsheets with cover memos detailing proposed procedure for analysis were distributed to commissioners. Because the material contains financial details on providers,

it was not made available to the public. The priority for analysis is production of a weighted average cost structure to submit to MHA and DDA for preparation of their FY 2015 budget proposals.

Data Analysis Methodology

The strategy will be significantly different from previous years to create a more meaningful picture of the operating capacity and financial performance of community-based providers. This will involve construction of a "financial strength index" (FSI) that will look at each program (developmental disability and mental health services) as a closed system. The FSI is widely used in the financial sector as a way to rate companies seeking investment or loans. The model used for developmental disability and mental health service providers would be tailored to the unique characteristics of these sectors. The representatives from Alvarez & Marsal expressed their appreciation of the Commission's use of this methodology, which will create a valid normative model of financial performance that is especially useful in the absence of industry benchmarks.

To be valid, the FSI must be based upon at least four financial performance measures. Different ratios would be used for developmental disability services and mental health services because of the differences in structure and payment systems. Developmental disability services will use current ratios (current assets or cash receivables) over current liabilities (accounts payable); optimal cash reserves (the number of months of cash a company has on its books based on one set of total expenditures); and debt-to-equity ratio. Equity ratios (to determine what each company is worth) would be appropriate for both for-profit and nonprofit companies, the latter of which are a large percentage of the mental health service provider sector. For a fourth metric for developmental disability providers, it is possible to look at the administrative cost ratio. "Days in receivables" was considered, but it is not appropriate for a prospective payment system. "Margin" was also considered, but the problem with using it is that it is a de-contextualized snapshot of a given year's operating activity; therefore, it cannot be used to demonstrate financial performance. For this reason, margin is not typically used in construction of an FSI. After some discussion over use of "margin" or "investments" as the fourth metric, the Commission approved use of "operating margin"—proposed by Alvarez & Marsal representatives—to compensate for the disincentive of prospective payment recipients and for-profit companies to report positive net income.

Another difference from last year will be the use of exclusionary criteria for both developmental disability and mental health service providers: those receiving less than 40% of revenue from either DDA or MHA, those with corporate HQ outside of Maryland and no discrete accounting for Maryland operations.

There are still problems with the way DDA-funded providers are completing the cost reports, which is evident in the over-use of the "other expenses" category. Ordinarily, these expenses are supposed to be explained in an attached schedule, but these are rarely if ever submitted. The technical consultants have scrutinized cost reports in conjunction with audited financial statements to reallocate amounts where possible, resulting in a reduced percentage of "other" in the weighted average cost structure. The transportation category is also problematic: the DBM cost categories do not include "transportation," but only vehicle, fleet, maintenance, insurance,

etc. and this is a complex issue for developmental disability service entities because of the variability in the way client transportation is provided. In particular, the salary component may be difficult to separate out. Providers may need more assistance to ensure that the cost reports are properly completed and financial categories appropriately identified.

The mental health service sector will benefit greatly from implementation of the cost report (already distributed for FY 2013 reporting). There must also be enforcement of audited financial statements because the 52% of companies that are for-profits do not follow standard accounting practices and submitted only Quicken printouts, which are insufficient and inappropriate for financial analysis. Most of these companies are S-corporations or limited liability companies that are not required to give owners W-2's and are free to make officer loans. Another problem with reporting is that for-profits report on a calendar rather than financial year basis. After discussion, the Commission confirmed that it is within the scope of current reporting regulations to demand audited financial statements from mental health service providers.

ValueOptions data only came in today (July 9) and still needs to be incorporated into the mental health service provider spreadsheets. The FSI metrics for mental health service entities will include days in receivables (appropriate for a FFS payment system), current ratio, cash reserves, and debt-to-equity. The technical consultants confirmed that 99 of the mental health service provider submissions had complete data sets for the first four ratios. Based on discussion and the suggestion made by Alvarez & Marsal, the Commission decided to include operating margin as a fifth performance indicator for mental health service companies.

Discussion followed on using only income received from DDA and MHA as total revenue. Almost all entities in both sectors have revenues from a variety of sources, including private contributions, grants, commercial insurance, and other public sector (both federal e.g. SSDI/SSI and state e.g. DORS). Commercial insurance rates, it was pointed out, are lower than MHA reimbursements. It was decided that all income must be considered for total revenues since these entities serve more than just MHA/DDA clients and it is impossible to segregate expenditures corresponding only to MHA/DDA-funded services. The annual report will include, however, footnotes indicating the revenue exclusively from MHA/DDA.

Financial analysis will be stratified as follows:

- Mental health service providers: revenue quartiles, OMHC/PRP/both, corporate structure
- Developmental disability service providers: revenue quartiles, business line, region

3. Weighted Average Cost Structure

This is a priority. The technical consultants promised to deliver it by July 15.

4. Salary & Wage Surveys

Not completed or ready for discussion.

5. Updates by DDA and MHA

Alvarez & Marsal is involved in DDA restructuring plan and daily operations. They have been focusing on DDA systems, reviewing fiscal and monitoring processes of DDA and redefining, resolving inconsistencies, recommending incorporation of additional fiscal/programmatic procedures. Are working with DDA on close-out for FY 14. They have not been involved in DDA's National Core Indicators consumer survey and were unable to provide information on this. Patrick Dooley is serving as interim DDA director; Valerie Roddy is deputy director for finance/operations, and another deputy director position has been created for the program side of operations.

MHA is closing out FY 13 expenditures and it is meeting appropriations. Need the weighted average cost structure now because working on the FY 15 budget proposal. The rate increase for psychiatrists went into effect on July 1. The current ASO will be extended through September 2014 while the new RFP for a behavioral health ASO is being pursued (will take effect Jan. 2015, requiring another extension of the current RFP to cover the gap). Integration Phase 2 is continuing. Brian added that MHA is continuing with Integration of Care Phase 2. It is important to note that there is significant opposition to the ASO model selected, which has resulted in further requests for stakeholder input. The main concern is how risk will be shared by the ASO, providers, and consumers. There is a stakeholder meeting on July 18 that Commissioner Jeff Richardson will attend and report back on at the next Commission meeting.

Adjournment: Meeting adjourned at 7:45 p.m.