COVID-19 Pandemic and Community Benefit Reporting

Keith Hearle

President

Verité Healthcare Consulting, LLC

Keith.Hearle@Veriteconsulting.com

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Outline

- Introduction
- Treatment of Provider Relief Funds
- COVID-19 activities and programs: "what counts as community benefit"
- Questions and answers

Caveat: The information, recommendations, and guidance herein is preliminary and does not constitute tax or legal advice.

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Introduction

- The COVID-19 pandemic is having dramatic impacts on hospital revenues and expenses
- Substantial Provider Relief Funds (PRF) and “other assistance” (PPP, FEMA CARES, state/local/tribal, …) have been appropriated to hospitals
- Instructions to IRS Form 990, Schedule H are silent on numerous, relevant issues (e.g., treatment of PRF funds)
  - However, they still apply and answers to most if not all questions can be found there and in other, emerging guidance
  - It’s preferable to be conservative and grounded in underlying community benefit reporting principles

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Treatment of Provider Relief Funds

- IRS Form 990 instructions state that “direct offsetting revenue” includes restricted grants used for community benefits
- The PRF funds are substantial:
  - For some organizations, “lost revenues” are less than PRF allocations
  - These organizations are identifying “health care related expenses that are attributable to coronavirus”
- But should these funds be considered “restricted grants”?

Treatment of Provider Relief Funds

- Yes, PRF funding (probably) should be considered a restricted grant
  - Providers must certify that "the Payment will only be used to prevent, prepare for, and respond to coronavirus, and shall reimburse the Recipient only for health care related expenses or lost revenues that are attributable to coronavirus" (Terms and Conditions)
  - Use of PRF funds is subject to single audit and recoupment
  - While not labeled by HHS as "restricted grants," the PRF funds have many similar attributes
  - [Stakeholders and policy makers may raise questions if PRF funds are paying for community benefits, but are being left out]

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Treatment of Provider Relief Funds

- Suggested community benefit reporting principles:
  - If a hospital has reported certain expenses as (A) community benefit **and also in** (B) "expenses attributable to coronavirus," then a reasonable portion of PRF *revenues* should be included in "direct offsetting revenue"
    - Note that PRF *revenues* are likely to be less than PRF *payments* given uncertainties around the ability to keep all of the funds
  - Similarly, if a hospital has reported certain revenue losses as (A) community benefit **and also in** (B) "lost revenues attributable to coronavirus" then a reasonable portion of PRF *revenues* also should be included
  - Schedule H instructions still apply
- There should be consistency between reports filed with the IRS and reports filed with HHS

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Treatment of Provider Relief Funds

- 2020 operating expenses for hospitals probably include expenses attributable for coronavirus that have been (or will be) submitted to justify retention of PRF funds
  - These expenses (which are covered by revenue) will be included in the "ratio of patient care cost to charges" unless adjustments are made
  - Financial assistance, Medicaid, and other expenses thus will include "expenses attributable to coronavirus" for which PRF funds have been provided unless adjustments are made
- PRF funding thus affects several categories of community benefit:
  - Categories that rely on the "ratio of patient care cost to charges"
  - Subsidized Health Services that probably have experienced "revenue losses" that have been fully or partially reimbursed by PRF funds
  - Community health improvement and other categories where expenses have or will be submitted to justify retention of PRF funds

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Example Calculations

- Calculate a "PRF Revenue Percentage" for the year =

PRF *revenue* (from financial statements)
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"Revenue Losses" + "Expenses Attributable" (per HHS report)

- Example: $45 million / ($43 million + $7 million) = 90%
- The percentage represents the proportion of expenses and lost revenues that have been "covered" by PRF revenue recognized by the hospital

Example Calculations

- COVID-19 related community health improvement program:
  - Total community benefit expenses = $1,000,000 (included both in Schedule H and in HHS reports)
  - Direct offsetting revenue (PRF revenue) = $900,000 (total expense x PRF Revenue Percentage)
  - Net community benefit expenses = $100,000
- Subsidized Health Service:
  - Total expenses = $10,000,000 (excluding Medicaid …)
  - Net patient revenue (excluding Medicaid, financial assistance, bad debt) = $7,000,000 (amount dropped by $1 million from 2019)
  - PRF revenue for $1,000,000 revenue loss (2020 versus 2019) = $900,000
  - Net community benefit expenses = $2,100,000

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Example Calculations

Ratio of Patient Care Cost to Charges and Financial Assistance

		Unadjusted	Option 1	Option 2	Comment
Ratio of Patient Care Cost to Charges					
	Charges	$ 333,333,333	$ 333,333,333	$ 333,333,333	
	Adjusted Operating Expenses	$ 100,000,000	$ 100,000,000	$ 100,000,000	
	PRF Cost Recovery Adjustment	$ -	$ (6,300,000)	$ -	90% of COVID Expenses
	Re-adjusted Operating Expenses	$ 100,000,000	$ 93,700,000	$ 100,000,000	
	Ratio	0.300	0.281	0.300	
	Note: Total COVID Expenses		$ 7,000,000	$ 7,000,000	Claimed to HHS
	Note: COVID Expenses/Charges			0.021	$7 million / $333.3 million
Financial Assistance					
	Charges	$ 10,000,000	$ 10,000,000	$ 10,000,000	
	Expenses	$ 3,000,000	$ 2,811,000	$ 3,000,000	
	PRF Revenue for COVID Expenses	$ -	$ -	$ 189,000	FA COVID Expenses x 90%
	Net Expenses	$ 3,000,000	$ 2,811,000	$ 2,811,000	
	Note: COVID Expenses			$ 210,000	FA Expenses x 0.021

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IRS: What Counts as Community Benefit?

- To count, a program or activity must respond to a demonstrated health/related community need and seek to achieve at least one community benefit objective:
  - Improve Access to Health Services
  - Enhance Public Health
  - Advance Generalizable Knowledge
  - Relief of a Government Burden to Improve Health

IRS: Characteristics of Community Benefit Activities and Programs

- Are available broadly to the public and serve low-income consumers.
- Reduce geographic, financial, or cultural barriers to accessing health services, and if they ceased would result in access problems.
- Address federal, state, or local public health priorities such as eliminating disparities in access or health status among different populations.
- Leverage or enhance public health department activities.
- Strengthen community health resilience by improving the ability of a community to withstand and recover from public health emergencies.
- Otherwise would become the responsibility of government or another tax-exempt organization.
- Advance increased general knowledge through education or research that benefits the public.

IRS: Programs that should not be counted

- Activities or programs may not be reported:
  - if they are provided primarily for marketing purposes
  - if the program is more beneficial to the organization than to the community; for instance,
    - if the activity or program is designed primarily to increase referrals of patients with third-party coverage,
    - required for licensure or accreditation, or
    - restricted to individuals affiliated with the organization.
- Primary purpose: “Organizational Benefit” versus “Community Benefit”
- [Also don’t generate expense to the organization]

Programs that should not be counted

- Note: expenses that aren't directly assigned to a community benefit "service" (e.g., community health improvement services) are included in the ratio of patient care cost to charges
  - Portions of these expenses will be included in Financial Assistance, Medicaid, and wherever the ratio is used
- Costs incurred to be able to provide patient care for which the hospital bills, except for: Financial Assistance, Medicaid, Other Means Tested Government Programs, and qualifying Subsidized Health Services
- Not recommended, but organizations *could* adopt a rule that if expenses have been reported to HHS as "attributable to coronavirus," they aren't reportable as community benefit

Financial Assistance: COVID-19 Considerations

- The HRSA COVID-19 Uninsured Program ≠ Financial Assistance
  - Per CMS: "hospitals that receive PRF payments from the Uninsured Program must not report charges reimbursed through that program for uninsured COVID-19 patients on Worksheet S-10 of the Medicare Cost Report"
- Consider amending financial assistance (and billing and collections policies) during the pandemic
  - Interim or permanent coverage for telemedicine
  - Catastrophic coverage, presumptive eligibility
  - Treatment of CARES Act financial support received by patients
  - Implications for "AGB discounts"
  - Extending payment plans, reducing or deferring ECAs
  - Ability to re-apply for assistance with payment plan balances

Community Health Improvement Services:
Reportable COVID-19 Activities and Programs

- Community health education designed to increase awareness of COVID-19 risks, available testing and treatment services, needed social services, how to access available community resources, how to stop the spread
- Free or nominal cost (non-billed) COVID-19 testing sites, flu shot clinics, telemedicine
- Operating or participating in the work of community disaster response (incident response) centers
- Hub for distribution of vaccines to unaffiliated community providers or vaccine sites
- Information and referral services (e.g., unbilled "ask a nurse" services) with information about community-wide resources
- Safe, outbound transportation services for patients in need

Community Health Improvement Services:
Reportable COVID-19 Activities and Programs

- Support groups for COVID-19 patients
- Programs that address COVID-19 related food and housing insecurity
- Staffing and other expenses to enhance COVID-19 related disaster readiness and responsiveness
  - Over and above licensure requirements, and/or
  - Focused on community-wide readiness
- Operating or participating in the work of community disaster response (incident response) centers
- Coordinating activities and programs with public health agencies, other hospitals, other community agencies

Other Categories

Community Benefit Operations

- Costs to update CHNAs and revise implementation strategies to incorporate pandemic concerns

Health Professions Education

- COVID-19 related education if it counts towards licensure or certifications needed by health professionals to practice (e.g., CME that counts towards maintaining licenses)

Other Categories

Subsidized Health Services

- Clinical programs that meet the definitions that apply to Subsidized Health Services <u>after</u> including a reasonable portion of PRF revenue for revenue losses and COVID-19 expenses that have been (or will be) submitted to HHS
- It's possible to assess a COVID-19 Product Line; however, PRF revenue may well cover reportable losses

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Other Categories

Research

- COVID-19 related research studies if they've been funded by a tax-exempt source (including the hospital itself), and
- "the goal of which is to generate increased generalizable knowledge made available to the public"

Contributions For Community Benefit

- Cash contributions and grants to other organizations for COVID-19 related community benefits
- In-kind donations of PPE, supplies, staff time devoted to community-wide pandemic responses

Other Comments

- Like hospital financial statements, Schedule H and other community benefit reports are likely to show dramatic year-over-year changes
    - It’s important to discuss accounting/reporting methods (including the treatment of PRF funds) in Part VI of Schedule H
    - Hospitals may want to prepare PR materials in advance, particularly if net community benefits as a percent of expense has fallen
- The field may want to get ahead of GAO/Congressional scrutiny of how PRF funds have been treated and any major changes in the numbers