

## **Long-Term & Behavioral Health Committee**

Agency Report regarding Petitions to  
Amend the Home Health Need Methodology

### **Proposed 2013 State Medical Facilities Plan**

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***Petitioner 1:***

Mr. John Thoma, CEO  
Hospice of Wake County, Inc.  
Horizons Home Care  
250 Hospice Circle  
Raleigh, NC 27607

***Petitioner 2:***

Mr. F. Del Murphy, Jr.  
Vice President  
Carolinas HealthCare System  
PO Box 32861  
Charlotte, NC 28232-2861

***Requests:***

**Petition 1:** Hospice of Wake County, Inc./Horizons Home Care submitted a petition requesting to modify the home health agency need methodology by increasing the deficit threshold for a need determination, and corresponding placeholder, from 275 patients to 325 patients.

**Petition 2:** Carolinas HealthCare System submitted a petition requesting to convene a work group to review the home health agency need methodology.

***Background Information:***

The existing home health need methodology was incorporated in the 1996 State Medical Facilities Plan (Plan). The need methodology has undergone two formal reviews and revisions since then.

First, in 2003 based on the recommendation of its Long-Term and Behavioral Health (LTBH) Committee, the State Health Coordinating Council authorized the formation of a Home Health Methodology Task Force to make recommendations for the 2005 State Medical Facilities Plan.

The Task Force presented three recommendations to the Long-Term and Behavioral Health Committee. The Committee accepted the recommendations, which were also approved by the Council for inclusion in the 2005 Plan. The recommendations were as follows:

- 1) Policy HH-2 was deleted and Policy HH-3 was revised to incorporate distance and population as factors in determining if there would be a need determination.
- 2) The methodology was revised to raise the deficit threshold for a need determination from 250 patients to 400 patients. This would be re-evaluated for the 2007 State Medical Facilities Plan.
- 3) The Division and the Association for Home and Hospice Care of North Carolina were to continue to work on identifying additional data needs for the Annual Home Health Licensure Application and data supplement.

In 2007, for a second time the State Health Coordinating Council authorized the formation of a Home Health Task Force to make recommendations for the 2009 State Medical Facilities Plan after receiving a recommendation from its Long-Term and Behavioral Health Committee.

Three recommendations were presented by the Task Force to the Long-Term and Behavioral Health Committee. The Council accepted and approved the following two recommendations.

- 1) Revise the methodology to lower the deficit threshold for a need determination and the “placeholder” adjustment for a new agency from 400 patients to 275; and
- 2) Add an item “d” to item 8 of the Basic Assumptions of the Method to read, “address special needs population.”

This Task Force recommended the need determination threshold be reviewed again in five years. The Long-Term and Behavioral Health Committee recommended and the Council approved the threshold be reviewed again in three years.

The home health need methodology projects future need based on trends in historical data, including the “Average Annual Rate of Change in Number of Home Health Patients” over the previous three years and the “Average Annual Rate of Change in Use Rates per 1000 Population” over the previous three years. Average annual rates of change are compiled based on “Council of Governments (COG)” regions.

Patient origin data used in the Plan is compiled from Home Health Agency Annual Data Supplements to License Applications as submitted to the Division of Health Service Regulation. The data supplements request data for a twelve month period using a start date of July, August, September or October. The methodology aggregates patient origin data by four age groups: under age 18, 18-64, 65-74 and over 75.

The methodology utilized in development of the State Medical Facilities Plan does not project future need based on the number of home health agencies in any given county or on the capacity of existing agencies. Rather, it projects need based on the number of patients served during the reporting years indicated in the Plan.

A basic assumption of the current methodology is that a new agency or office is needed if the projected unmet need in a single county is 275 patients or more. Therefore, the “threshold” for a need determination is a projected unmet need of 275 patients in a given service area.

Another basic assumption states that when the need for additional agencies or offices is determined by the standard methodology, the three annual Plans following certification of the agencies or offices based on that need should count the greater of 275 patients for each new agency or office or the actual number of patients served by the new agency office as part of the total people served. If a new agency office served fewer than 275 clients, an adjustment “placeholder” equal to the difference between the reported number or home health patients and 275 is used.

In essence, the “threshold” and the “placeholder” are linked and they are intended to represent the minimum size (in number of patients) for a financially viable home health agency.

***Analysis of Petitions:***

The Agency supports the home health standard methodology. In the last ten years there have been only nine need determinations by the standard methodology, six of which were in Mecklenburg and Wake counties, large counties that experienced significantly high growth in the past decade. The Agency believes this demonstrates the current standard methodology is working.

The deficit threshold has been 275 patients since 2009. It has been modified twice since 1996 in response to changes in the reimbursement system and information related to the financial viability of new or existing home health providers.

Home health agencies are experiencing eroding profit margins as a result of Medicare and Medicaid reimbursement cuts and increased cost due to quality reporting requirements, increased audit requirements and regulation.

Recent changes by The Centers for Medicare and Medicaid Services (CMS) in the Home Health Prospective Payment System Proposed Rule have raised the bar for entry for home health agencies by extending the capitalization requirements from the time of application submission through three months past the conveyance of Medicare billing privileges. This requires prospective home health agencies to establish and maintain the amount of capital to furnish quality services to eligible participants without reimbursement from the Medicare program during the first three months.

According to the petition, "...based on average home health revenue per patient and standard costs of operating a start-up home health office, 275 patients is not a viable number or critical mass to break even financially and will result in deficits year over year. 325 patients are required to fund the direct and indirect costs associated with operating a viable home health facility and provided a modest profit margin to recoup the capitalization and start up cash requirements over a 3 year period."

The Agency has relied heavily on the industry's assessment of what is required of a home health facility to be financially viable in the past, and notes the endorsement of this petition by the Association of Home Care and Hospice of North Carolina

***Agency Recommendations:***

**Petition 1:** The Agency supports the current approach to calculating projected home health need for purposes of the Proposed 2013 Plan. However, the Agency believes there is merit in reviewing the deficit threshold, as suggested by both petitioners, and believes this can be assessed separately from a review of the entire methodology in time for the Proposed 2013 Plan.

The Agency recommends approval of the request to increase the deficit threshold, and the corresponding placeholder, from 275 to 325 patients pending the LTBH Committee's review of draft home health need projections using updated patient data (from the 2011 Home Health License Renewal Applications) and updated population projections (based on the 2010 Census). By permitting a small adjustment to the methodology in response to recent changes in the industry, it will provide time to analyze the impact of the increased threshold, as well as the impact of the new patient data and new population projections to determine the combined effect on future home health need determinations.

**Petition 2:** As stated previously, the Agency supports the basic approach to calculating projected home health need for purposes of the Proposed 2013 Plan. The Agency

recommends the request to convene a work group to review the home health agency need methodology be denied for purposes of the Proposed 2013 Plan.

If the LTBH Committee and the Council approve the recommended adjustment to the “deficit threshold,” and feel that additional work on the overall home health need methodology is warranted following public hearings this summer, consideration of convening a work group this fall for purposes of the Proposed 2014 Plan can be discussed.