



# New York Department of Health Delivery System Reform Incentive Payment (DSRIP) Program

## PPS Lead & Financial Stability Test

October 27, 2014



**PPS LEAD AND SERVICE AREA**

**(Pass/Fail with No Scoring)**

<b>Scoring Process</b>	Pass/Fail. This response will be reviewed for completeness and a pass/fail determination will be made.
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**PPS Lead Description**

The PPS Lead will serve a clear and critical role in ensuring the overall success of the DSRIP program on behalf of the proposed PPS organization. Therefore the selection of the PPS lead is imperative, not only to ensure the goals and objectives of the PPS are achieved, but the potential ramifications and impact the performance of the PPS has on the statewide goals and objectives of the DSRIP program. Therefore, the organization selected as the PPS lead must meet minimum qualifications in order to ensure the success of the DSRIP program. In the response below, please address the following:

- Provide the rationale for the selection of the PPS lead(s), including the unique organizational capabilities and skill sets the PPS Lead(s) bring(s) to this critical effort. This could include, but not be limited to, the PPS’ proven project management processes, experience in implementing large scale system transformation projects, experience assuming risk based payments, proven leadership capabilities, and established infrastructure capabilities.
- If the lead organization is a new corporation and/or a non-Medicaid provider formulated recently for the purposes of DSRIP, please describe why this new structure is essential to the success of the PPS, as well as the qualifications of the entities to serve as the PPS Lead that own and/or govern the new organization.

<b>Scoring Process</b>	Pass/Fail. This response will be reviewed for completeness and a pass/fail determination will be made.
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<b>PPS Response (Limited to 500 words)</b>

In the [Basic Information form of the DSRIP PPS Lead & PPS Lead Financial Stability Test Excel Tool table on the following page](#), please outline the pertinent-required information pertaining to each of the PPS lead(s).

***~~\*Please note, the final version of the application will accommodate the input of multiple entities as applicable.~~***



PPS Name	
PPS Number	
Lead Applicant	[Group or Single]

**Primary Lead PPS Contact:**

Name	
Phone Number	
Phone Number Extension	
Email	

**(Group Lead Members: / Lead Applicant:)**

**Lead Facility #1**

Organization Name	
SN ID#	(to be developed once SN lists are finalized)
Provider Type:	(develop drop-down options)
Public	Yes/No
IAAF Recipient:	
MMIS #	
Address	
City	
State	
Zip	
Audited Financial Statements	
Year 1	(upload)
Year 2	(upload)
Year 3	(upload)

Fiscal Year Start Date:	XX/XX/XXXX
Fiscal Year End Date:	XX/XX/XXXX

**PPS Service Area**

PPS success hinges on a well-constructed network operating within a rationally chosen target area. The PPS must provide a clear and thoughtful vision on why the service areas were selected.

Please identify in the table below the county or list of counties that the PPS intends to serve.

County	<u>County</u>	<u>County</u>	<u>County</u>	<u>County</u>



County	<u>County</u>	<u>County</u>	<u>County</u>	<u>County</u>

~~\* Based upon the county selected by the PPS, the attributed members, total Medicaid population, and % of attributed Medicaid population will be populated in an automated fashion by DOH.~~

***\*Please note that the PPS may only include service areas in which defined thresholds are met in accordance with the results of the attribution process and guidance as published by DOH.***

In the response below, please address the following surrounding the PPS service area:

- Explain why on a high level the PPS is well positioned to serve the geographic areas chosen by the PPS.
- Describe how the current landscape and patient access patterns determined the selection of the PPS service area.

<b>Scoring Process</b>	Pass/Fail. This component is not factored into the scoring of the PPS application. This response will be reviewed for completeness and a pass/fail determination will be made.
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<b>PPS Response (Limited to 500 words)</b>

**Certificate of Public Advantage and Accountable Care Organization Application Acknowledgement**

In the COPA & ACO Checklist form of the DSRIP PPS Lead & PPS Lead Financial Stability Test Excel Tool, the PPS Lead is required to indicate if the PPS will be applying for a Certificate of Public Advantage (COPA) as part of the DSRIP application. The PPS Lead is also required to indicate if the PPS is applying to become an Accountable Care Organization (ACO) as part of the DSRIP application. The PPS Lead must indicate a 'Yes' or a "No' for each item in order to begin the Financial Stability Test.



## PPS LEAD PROVIDER FINANCIAL STABILITY

### (Pass/Fail with No Scoring)

<b>Scoring Process</b>	Pass/Fail. This response will be evaluated for meeting the financial stability benchmarks, as outlined below.
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The successful implementation of a DSRIP project plan will challenge the PPS to implement practices that go beyond their current methods of conducting business. The PPS will be rewarded through the DSRIP funding for achieving the goals set forth in their project plan; however, there may be challenges faced by the PPS that will place increased stresses on the financial stability of the PPS. It is therefore of utmost importance that the PPS Lead(s) be of strong financial standing in order to lead the PPS in the implementation of the DSRIP program throughout the five year demonstration period and beyond. **A PPS Lead that is unable to exhibit financial stability, as defined in this section, will result in the rejection of that provider as the PPS Lead Provider. In the event of a rejection of a PPS Lead Provider, the PPS will need to identify another provider to serve as the PPS Lead and pass the PPS Lead Provider Financial Stability test or disband the PPS and become members of another PPS.**

For those providers that are part of a larger corporation or entity, for which their financial statements are consolidated in, the financial data submitted should be that of the corporation or entity and not of the individual provider. Furthermore, for those entities newly formed for the specific purposes of DSRIP, such as a new corporation controlled or owned by multiple hospitals, the controlling or owning entities will be evaluated for financial stability. In addition, when there is more than one entity serving as the PPS Lead or more than one entity with ownership or controlling interest in a newly formed organization, the financial stability of each entity will be evaluated independently as part of the analysis. Only those entities with at least a 25% or greater ownership interest in the new corporation will be required to complete the financial stability test. However, only one of the PPS Leads and/or controlling entities will be required to pass the financial stability test for the purpose of allowing the PPS to continue its DSRIP project plan submission.

The provider applying as the PPS Lead Provider will be required to exhibit financial stability across three phases. These phases include the following:

- **Phase I** - The first phase will be based on the PPS' performance on the standard financial metrics defined in the following pages. The PPS Lead must exhibit a strong financial position across these measures for fiscal years 2012 and 2013, as well as the current fiscal year. Data for the most recently completed fiscal years must be based on audited financial statements (AFS), while the data for the most current calendar year should be based on actual, year to date data for the calendar year through August 31, 2014. A PPS Lead that successfully passes the first phase will be subject to a second phase of the financial stability test.



- **Phase II** - The second phase will be based on two predictive models, described in the Phase II section below, which will provide for a projection of the PPS Lead's financial stability in the future. The data for the most recently completed fiscal year, 2013, will be used in calculating these models.
- **Phase III** - The third phase of the financial stability test of the PPS Lead is a review of the financial practices of the PPS Lead. As the PPS Lead Provider, the provider will be expected to receive all payments on behalf of the PPS and appropriately allocate the funds to the providers within the PPS. It is therefore important that the PPS lead exhibit sound financial practices to ensure the financial viability of the PPS as a whole.

In addition to providing the requested financial data and narrative on the financial practices, the provider may also provide documentation of any arrangements that would support the provider's financial stability throughout the five year DSRIP demonstration period. This arrangement must be substantial in nature and be supported by a binding agreement to provide financial support. Alternatively, this arrangement must include a commitment by another qualifying entity to serve as the PPS Lead in case the originally proposed lead financially fails at some juncture over the life of the DSRIP program. **In addition, the backing entity must be designated as a safety net provider, consistent with the definition established under the DSRIP program.** Furthermore, if there are one-time events that may impact the calculation of the financial metrics, such as a healthcare system recently purchasing and/or assuming some control of a fragile safety net provider, which has resulted in short term financial implications to an otherwise financially stable entity, this information should be submitted to the Independent Assessor for consideration and review.

**For Public Providers ONLY:** The Independent Assessor may, at its discretion, allow for a public provider to submit documentation that exhibits the commitment of the governmental entity of which it is a part of to support the provider financially throughout the five year DSRIP demonstration period. **This documentation may be submitted in lieu of completing the financial stability test for public providers as outlined below.**

**NOTE: A PPS Lead that is not able to complete the financial ratios in Phase I and Phase II will be considered to have failed the financial stability test and will not be approved to serve as a PPS Lead. The provider will be required to enter data for all of the Required Financial Data elements.**

**NOTE #2: A PPS Lead that passes the PPS Lead Financial Stability Test will be able to serve as the PPS Lead provider for a DSRIP Project Plan application. A PPS Lead that receives an annual DSRIP valuation amount that exceeds the PPS Lead's annual operating revenues for the most recently completed fiscal year will be required to enter into a program integrity agreement, as specified by the New York State Office of the Medicaid Inspector General (OMIG).**



#### REQUIRED FINANCIAL DATA

In the ~~following table~~ accompanying DSRIP PPS Lead & PPS Lead Financial Stability Test Excel Tool, please provide the requested financial data based on audited financial statements for 2012 and 2013 and for the current calendar year through August 31, 2014. In addition to reporting the specific data elements in the table below, please provide copies of the audited financial statements for 2012 and 2013 as well as the supporting documentation for the current calendar year data. This data will be used to calculate the financial metrics in the following section.

**NOTE: A provider that is part of a larger corporation or entity, for which their financial statements are consolidated in, must report the data of that corporation or entity in this section.**

~~*Please use the accompanying DSRIP PPS Lead & PPS Lead Financial Stability Test Excel Tool to provide the requested financial data and the calculations of the ratios for the PPS Lead Provider. The completed DSRIP PPS Lead & PPS Lead Financial Stability Test Excel Tool must be submitted in addition to this completed document. PPS Lead Providers will not be able to enter financial data in this document. Please note that the final application will include a Microsoft Excel template to capture the necessary data elements and complete the calculations of the metrics defined in Phase I and Phase II of the application. The final application will be able to accommodate multiple submissions of the following financial information as applicable for those PPS organizations with more than one PPS Lead.*~~



Income Statement	2012	2013	YTD 2014
Operating Revenues (Net Patient Revenues)			
Total Revenues			
Operating Expenses			
<u>Depreciation &amp; Amortization Expense</u>			
<u>Interest Expense</u>			
Total Expenses			
<b>Operating Income (EBIT)</b>			
<b>Depreciation</b>			
<b>Amortization</b>			
<b>Interest</b>			
<u>Excess of Revenue Over Expenses (Net Income)</u>			

Balance Sheet	2012	2013	YTD 2014
Cash and Cash Equivalents			
<del>Short-Term</del> Investments			
Net Patient Accounts Receivable			
Current Assets			
Gross Fixed Assets			
Accumulated Depreciation			
Net Fixed Assets			
Total Assets			
Current Liabilities			
Long-term Debt			
<del>Net Assets</del>			
Total Liabilities			
<u>Fund Balance</u>			





## PHASE I: CURRENT PROVIDER FINANCIAL STABILITY METRICS

Based on the [Required Financial Data](#) provided in the [DSRIP PPS Lead & PPS Lead Financial Stability Test Excel Tool](#) ~~tables above~~, the metrics in the following table will be calculated [in the DSRIP PPS Lead & PPS Lead Financial Stability Excel Tool](#) to determine the provider's financial stability as the lead provider for the PPS. The thresholds established for this first phase have been calculated [based upon on New York State specific data](#). The Independent Assessor has calculated statewide averages for each of the metrics defined in this section from which the thresholds for evaluation will be established.

[The final thresholds have been set at one standard deviation from the statewide average for each of the Phase I metrics.](#)

~~*\*Please note that the final thresholds for each the metrics will be based on one or two standard deviations from the statewide average. The thresholds are currently being evaluated for appropriateness and are subject to change from those presented in the table below. The Independent Assessor is also evaluating the underlying data to ensure accuracy of the underlying data leveraged to calculate the proposed thresholds. The final thresholds for each measure will be included in the template that will accompany the final application.*~~

**Evaluation:** The PPS Lead will be required to meet the minimum threshold for the four metrics noted with an \* for each of the three years. The PPS Lead will also be required to meet the minimum threshold for three of the five remaining metrics for each of the three years. A provider that does not meet the minimum threshold for the four mandatory metrics and three of the five additional metrics will not be considered financially stable to serve as a PPS Lead Provider **and the resulting DSRIP application will be rejected.**

**For Operating Margin ONLY:** [In addition to meeting the minimum threshold for each of the three years, the PPS Lead will also need to exhibit an Operating Margin greater than 0% for at least one of the three years in the evaluation. A PPS Lead that meets the minimum threshold for each of the three years that does not exhibit an Operating Margin greater than 0% for at least one of the three years will not be considered financially stable to serve as a PPS Lead Provider and the resulting DSRIP application will be rejected.](#)

[A PPS Lead provider that does not pass Phase I or Phase II of the PPS Lead Financial Stability Test will have the ability to provide additional documentation that would support the PPS Lead provider's financial stability to serve as the PPS lead provider. The documentation may include evidence of any arrangements that would support the provider's financial stability throughout the five year DSRIP demonstration period. This arrangement must be substantial in nature and be supported by a binding agreement to provide financial support. Alternatively, this arrangement must include a commitment by another qualifying entity to serve as the PPS Lead in case the originally proposed lead financially fails at some juncture over the life of the DSRIP program. In addition, the backing entity must be designated as a safety net provider, consistent with the definition established under the DSRIP program.](#) Furthermore, [if there are one-time events that may impact the calculation of the financial metrics, such as a healthcare system recently purchasing and/or assuming some control of a fragile safety net provider, which has resulted in short term](#)



financial implications to a typically financial stable entity, this information should be submitted to the Independent Assessor for consideration and review.

**NOTE:** When there is more than one entity serving as the PPS Lead or more than one entity with ownership or a controlling interest (defined as 25% or more) in a newly formed organization, the financial stability of both entities will be evaluated as part of the analysis. **However, only one of the PPS Leads and/or controlling entities will be required to pass the financial stability test.**



Financial Metrics	Statewide Average	Metric Threshold @ 1 Standard Deviation	Metric Threshold @ 2 Standard Deviations	2012	2013	YTD 2014	Positive at least once 2012 – 2014
<b>MANDATORY (Must Pass ALL Four)</b>							
Operating Margin*	0.2455%	-7.99% 5.96%	-10.89%				
Current Ratio*	1.663.03	1.920.82	0.87				NA
Days Cash on Hand *	66.6964. 82	16*20	N/A				NA
Cash Flow to Total Debt*	7.80%8.2 9	-4.30% 4.92%	-16.90				NA
<b>Must Pass THREE of FIVE</b>							
Debt Ratio	63.1967. 10%	93.5595.0 7%	123.91				NA
Fixed Asset Financing Ratio	115.2911 4.70%	488.6615 3.15%	862.02				NA
Return on Total Assets	0.0050.2 0%	-0.06% 6.00%	-0.12				NA
Total Asset Turnover	0.8593.0 0%	0.4355.00 %	0.01				NA
Operating Cash Flow Margin	6.13%5.6 4%	0.34% 0.12%	-5.46%				NA

**\*Note that the threshold for Days Cash on Hand has been established based on the 15 day requirement to qualify for IAAF funding.**



**PHASE II: PREDICTED PROVIDER FINANCIAL STABILITY METRICS**

A PPS Lead that passes the first phase of the financial stability test will be subject to the second phase of the financial stability test. The second phase is intended to project the future financial stability of the PPS Lead.

**Evaluation:** The PPS Lead will need to attain a minimum rating of ‘Fair’ in each of the two metrics. A provider that does not attain a minimum rating of ‘Fair’ in both metrics will not qualify as a PPS Lead Provider **and the resulting DSRIP application will be rejected.**

A PPS Lead provider that does not pass Phase I or Phase II of the PPS Lead Financial Stability Test will have the ability to provide additional documentation that would support the PPS Lead provider’s financial stability to serve as the PPS lead provider. The documentation may include evidence of any arrangements that would support the provider’s financial stability throughout the five year DSRIP demonstration period. This arrangement must be substantial in nature and be supported by a binding agreement to provide financial support or alternatively include a commitment by another qualifying entity to serve as the PPS Lead in case the originally proposed lead financially fails at some juncture over the life of the DSRIP program. In addition, the backing entity must be designated as a safety net provider, consistent with the definition established under the DSRIP program. Furthermore, if there are one-time events that may impact the calculation of the financial metrics, such as a healthcare system recently purchasing and/or assuming some control of a fragile safety net provider, which has resulted in short term financial implications to a typically financial stable entity, this information should be submitted to the Independent Assessor for consideration and review.

The values for each of the metrics in the following table will be calculated in the DSRIP PPS Lead & PPS Lead Financial Stability Test Excel Tool based on the Required Financial Data reported by the provider. The Independent Assessor will be calculating the values for the PPS Lead for each of these metrics based on the financial data submitted with this application. The automated “Excel based” version of the financial stability test will provide immediate feedback of the PPS’ resulting score for the predictive provider financial stability metrics.

	Minimum Score Required	Provider Score
<b>Financial Strength Index (FSI)</b>	-9.0	
<b>Altman Z Score</b>	-2.0	

- The Financial Strength Index (FSI) is a composite measure of four critical dimensions of financial health: profitability, liquidity, financial leverage, and physical facilities. The FSI illustrates that hospitals with large profits, excellent liquidity, low debt levels, and new facilities are in excellent



financial condition while those with poor profitability, low liquidity levels, high debt financing, and older facilities are in poor financial condition.<sup>1</sup>

- The variables in calculating the FSI include Total Margin, Days Cash on Hand, Debt Financing %, and Age of Plant.
- The Altman Z Score is multiple discriminant analysis based on data from a hospital's income statement and balance sheet that can be used to predict financial insolvency of hospitals. A low z score indicates that a hospital faces financial distress and possible bankruptcy, with lower scores indicating greater financial distress and potential for bankruptcy.
  - The variables in calculating the Altman Z Score include Net Working Capital, Net Assets, Excess Revenue over Expenses, Total Assets, Fund Balance, and Total Liabilities.

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<sup>1</sup> Price CA, Cameron AE, Price DL. Distress detectors: measures for predicting financial trouble in hospitals. *Healthcare Financial Management*. 2005;59:74-6.





## ATTESTATION

The lead applicant of the Performing Provider System [PPS] must sign this attestation form in [the DSRIP PPS Lead and PPS Lead provider Financial Stability Test Excel Tool](#) in order for the project application to be valid. [The completed attestation must be printed, signed, and returned via email to DSRIP App@health.ny.gov.](#)

Check the following:

I hereby attest as the lead applicant of this PPS that all information provided within this PPS [Lead](#) Financial Stability Analysis is true and accurate to the best of my knowledge.

Lead Provider Name: \_\_\_\_\_

Name of Authorized Officer: \_\_\_\_\_

Date: \_\_\_\_\_