NATIONAL ASSOCIATION OF Community Health Centers

MEMORANDUM

TO: **All Health Centers, PCAs, and HCCNs**
FROM: **Colleen Meiman, Senior Policy Advisor**
DATE: **October 6, 2020**
RE: **COVID-19 Provider Relief Fund – New Opportunities and Risks**

Within the past few weeks, HHS has made important two important announcements regarding the Provider Relief Fund. These announcement may have significant – and differing – impacts on health centers, depending on the degree to which they are currently facing operating losses directly related to COVID-19. This memo outlines these new policies, as well as which health centers they impact and how they should respond.

Summary:

- **Health centers who are facing financial losses due to COVID -- after accounting for Provider Relief Funds, BPHC grants, Paycheck Protection Loans, etc. - have an opportunity to apply for additional PRF funding.**
    - The health centers most likely to fall in this category include those with over 500 employees, those in COVID "hot spots", and look-alikes.
    - It is unclear how much funding will be made available to health centers under this opportunity; this will not be known until after the application deadline.
    - The deadline to apply for additional funding ends is Friday November 6. While HHS initially implied that applications submitted earlier might receive more generous funding, more recent information suggests this is no longer the case.
    - Information on how to apply is available here.
    - See Section 2 of this memo for more information.

- **Health centers who feel that their PRF payment have been generous should be aware that HHS has tightened their definition of "lost revenues" that can be reimbursed with PRF funds. Many providers are concerned that this new definition might require them to return some PRF funds that they have already received to the Federal government.**
    - The health centers most likely to fall in this category are those with rural sites which, in addition to the "General Distribution", received $103K per site from the Rural Distribution.
    - NACHC and other provider organizations are reaching out to HHS to request that they return to the original definition of "lost revenues", which they announced in June.

- Until/ unless HHS reverts to the original definition, these health centers need to reconsider the extent to which they can allocate costs to the PRF – and the possibility that they might need to return some PRF funds.
- See Section 3 of this memo for more information.

1. Background on the Provider Relief Fund

- To date, most health centers have received a total of two payments from the PRF – one in early April, and a second one later. The two payments came from the "General Distribution", and combined they should total roughly 2% of the health center's 2018 net patient revenue.
- Health centers with sites in "rural" areas (as defined by HHS) have also received that meet the HHS dev
- While HHS has set aside $20 billion in PRF funding for COVID-19 "hot spots", this funding is limited to hospitals; health centers are ineligible for it.

2. Health centers who are facing financial losses due to COVID -- after accounting for Provider Relief Funds, BPHC grants, Paycheck Protection Loans, etc. - have an opportunity to apply for additional PRF funding.

What should health centers know? On October 2, HHS announced that it is making an additional $20 billion available under the "General Distribution" to providers who have already received General Distribution payments and can demonstrate net losses between 2019 and 2020. (See discussion below.) This funding is being called "Phase 3" of the General Distribution. General information on Phase 3 funding is available here

Which health centers are most likely to be eligible for Phase 3 funding?

- Those with more than 500 employees (the "over 500s") who were ineligible for forgivable loans under the Paycheck Protection Program (PPP).
- Those in "hot spots" who incurred disproportionately high expenses related to COVID-19.
- Look-Alikes, who were ineligible for H8C or H8D grant funding from BPHC.

How much will a health center receive from Phase 3 of the General Distribution? That is unknown at this time. However, in FAQs published on 10/5, HHS stated that:

- "Providers will be paid a percentage of their change in operating revenues from patient care minus their operating expenses from patient care."
- "The actual percentage paid to providers will be *in part* dependent of how many providers apply in Phase 3, and will be determined after the application deadline."

Can you provide any more information on the formula? Based on information in the FAQs, I *think* (but cannot be certain) that:

- Calculations will be based only on the first two quarters of 2019 and 2020.
- Each provider who applies must:
    - Calculate their *operating revenues from patient care MINUS operating expenses from patient care* for January through June of **2019**
    - Calculate their *operating revenues from patient care MINUS operating expenses from patient care* for January through June of **2020**. Any funding received specifically for COVID relief – e.g., Paycheck Protection Loans, HRSA grant funds – must be included in 2020 operating revenues.
    - Calculate the difference (or "change") between the two years.
    - Only those providers who can document a net loss between 2019 and 2020 are eligible for Phase 3 funding.
- HHS will add up the net losses for all providers who apply for Phase 3 funding, and allocate the $20 billion proportionately. (For example, if total losses are 50 times the amount of funding available, each applicant will receive roughly one-fiftieth of their net loss.)

What should health centers do? Health centers who show a net loss between 2019 and 2020 based on the calculation above should consider applying for Phase 3 funding. Health centers who do not show a net loss are ineligible for Phase 3 funds.

How do we apply for Phase 3 funding? Detailed information is available here. Even if you already submitted detailed financial information to the PRF, you still need to reapply and submit new information.

What is the application deadline? Friday November 6.

Is it advisable to apply early? The answer is not clear. Initially, HHS suggested that applications submitted early might receive relatively more funding. However, later information suggested that HHS will wait until after the deadline to determine the total amount of funding requested, before determining how much funding each applicant will receive.

Where can we get more information on Phase 3 funding? On October 5, HHS released a series of FAQs on Phase 3 funding

3. For health centers that have received relatively generous PRF payments to date.

What should these health centers know? The statute is clear that providers may use PRF funds to cover "lost revenues" attributable to COVID-19. However, on September 19, HHS significantly limited how it will allow providers to define the "lost revenues" that PRF funds may

be used to cover. As a result, many providers (not just health centers) are worried that may be required to return some of the PRF funds they have received.

Which health centers are most likely to be in this category? Those with multiple "rural" sites that received $103K per site, in addition to their "General Distribution" payment which totaled roughly 2% of their 2018 net patient revenue.

How did HHS tighten the definition of "lost revenues" for PRF purposes? On June 19, HHS released a set of FAQs outlining the requirements for PRF recipients' first progress reports. In these FAQs, HHS defined lost revenue as "any revenue that a health care provider lost due to coronavirus." It stated that providers could "use any reasonable method of estimating the revenue during March and April 2020 compared to the same period had COVID-19 not appeared."

However, on September 19, HHS released a revised set of reporting requirements, including a new definition of "lost revenue" as "a negative change in year-over-year net patient care operating income." This is a much narrower definition of lost revenue, and is particularly harmful for health centers who may have had lower-than-average revenues in 2019 (e.g., because they were implementing a new EHR.)

What is NACHC doing about this? Like other provider groups (see letter from the American Hospital Association), NACHC is reaching out to HHS to request that they re-instate the "lost revenue" definition published on June 19. In our outreach, we are emphasizing the many destabilizing impacts of changing a key definition three months after it was announced (e.g., the need to revise budgets and allocations, the potential obligation to return some PRF funds.) If HHS is unwilling to revert to the June 19 definition, we will request that they allow health centers to compare their 2020 operating income to a rolling average of their operating income over the 2017-2019 period.

Until/ unless HHS reverts to its original definition of "lost income", how should health centers respond? Health centers who are concerned about the tighter definition of lost revenue should consider if there are other expenses that they could allocate to the PRF, or if they could spread out their "lost revenues" over a longer period of time.

What is the maximum time period over which health centers can spend PRF funding? Health centers can allocate PRF funding to "lost revenues" (as defined by HHS) and expenses attributable to COVID that were incurred between February 1, 2020 and June 30, 2021.