COMMONWEALTH OF MASSACHUSETTS

HEALTH POLICY COMMISSION

Administration and Finance Committee Meeting

June 10, 2015

Agenda

- Health Policy Commission: FY13-FY16
- Fiscal Year 2015 Summary and Review
  - Payment Reform Trust Fund
  - Distressed Hospital Trust Fund
- Fiscal Year 2016 Proposed Budget
  - Payment Reform Trust Fund
  - Distressed Hospital Trust Fund

Agenda

- **Health Policy Commission: FY13-FY16**
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HPC Budget Summary – Ch. 224 Vision

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT

HPC Trust Funds

Chapter 224 of the Acts of 2012 (Ch.224) dedicates $170 million in one-time revenues to be administered by the HPC through assessments on certain health care market participants and a portion of casino gaming licenses. These funds, allocated to the **Health Care Payment Reform Trust Fund (HCPRTF)** and the **Distressed Hospital Trust Fund (DHTF)**, collectively support the HPC operations, policy programs, professional services, investment programs, market monitoring, and provider engagement initiatives necessary to promote *a more affordable, effective, and accountable health care system in Massachusetts*.

These one-time revenues are designed to provide a capacity-building *"glide-path"* for the HPC and the health care cost containment programs mandated by Ch.224, with ongoing support provided through an new annual assessment beginning in FY17.

Ch.224 Assessments

Absent any further legislative action, FY16 will be the final year of collections for the Ch.224 one-time assessment on certain hospitals and health plans. The sunset of this assessment will provide significant financial benefit to these hospitals (~$15M/annually) and all health insurance plans operating in Massachusetts (~$40M/annually).

Beginning in FY17, HPC operations and programs (less expenses related to the CHART program) will be funded by a new annual assessment on hospitals, surgery centers, and health plans, similar to the current financing mechanism for the Center for Health Information and Analysis (CHIA). Even with this new assessment, the overall contribution to state-based cost containment/quality improvement efforts by health care market participants will be significantly reduced.

HPC Trust Funds

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT

Health Care Payment Reform Trust Fund

HPC's primary operational fund supports payroll, program development and operations, rent, professional services, and administrative support.

- Primary Purposes:
  - To support the programs and operations of the HPC
  - To foster innovation in health care payment and service delivery through a competitive grant program ("Innovation Investment")
  - Technical assistance and provider supports related to the PCMH/ACO certification programs
- Funded by:
  - Ch.224 one-time industry assessment (~$11M total over 4 years)
  - 23% of any gaming license fees
  - Ongoing industry assessment (starting in FY17)

Distressed Hospital Trust Fund

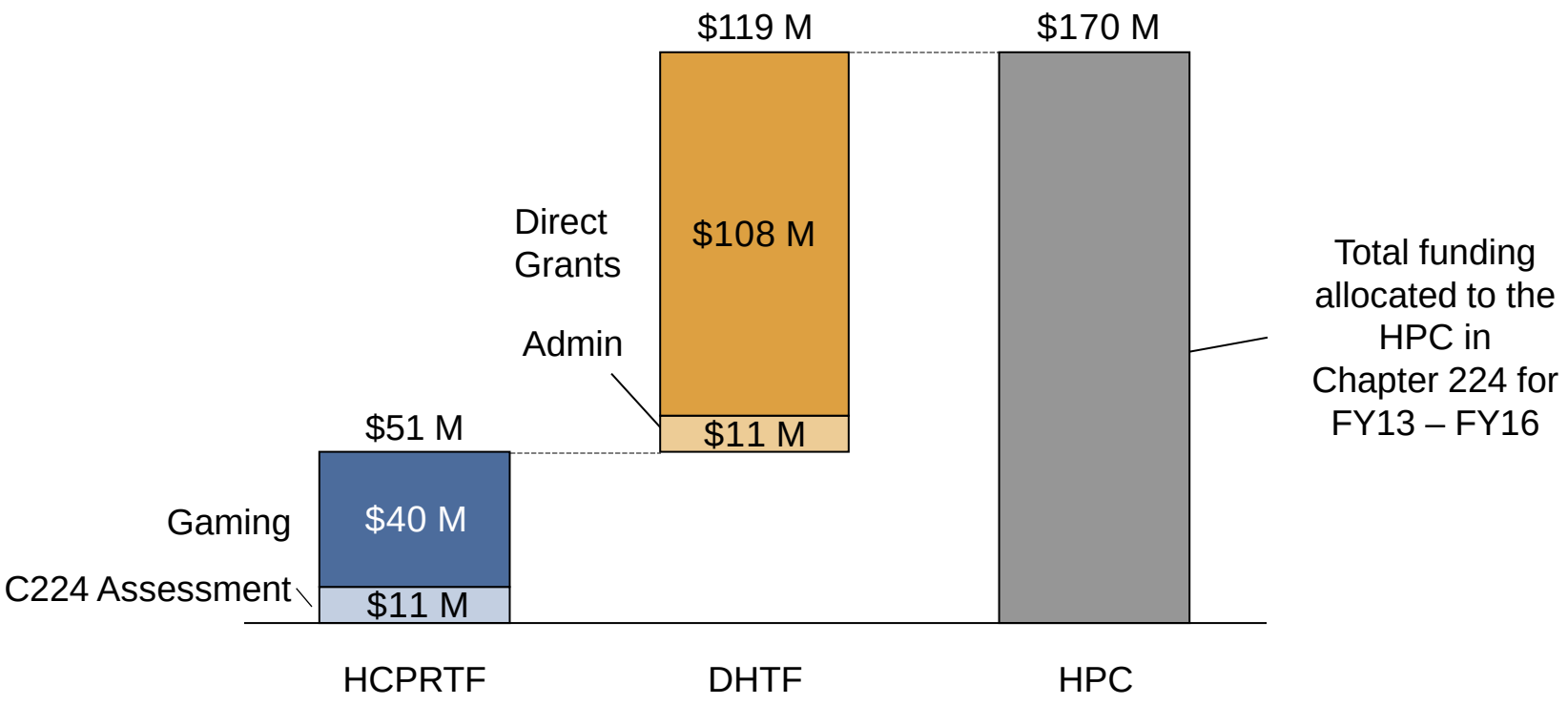
HPC's fund for the Community Hospital Acceleration, Revitalization, and Transformation (CHART) Investment Program.

- Primary Purposes:
  - Grants to CHART hospitals
  - Administrative costs related to the CHART program, including:*
    - Program development
    - Program operations
    - Technical assistance
    - Awardee engagement and support
    - Monitoring and evaluation
- Funded by:
  - Ch.224 one-time industry assessment (~$120M total over 4 years)

*Admin. costs limited to 10% of overall funding

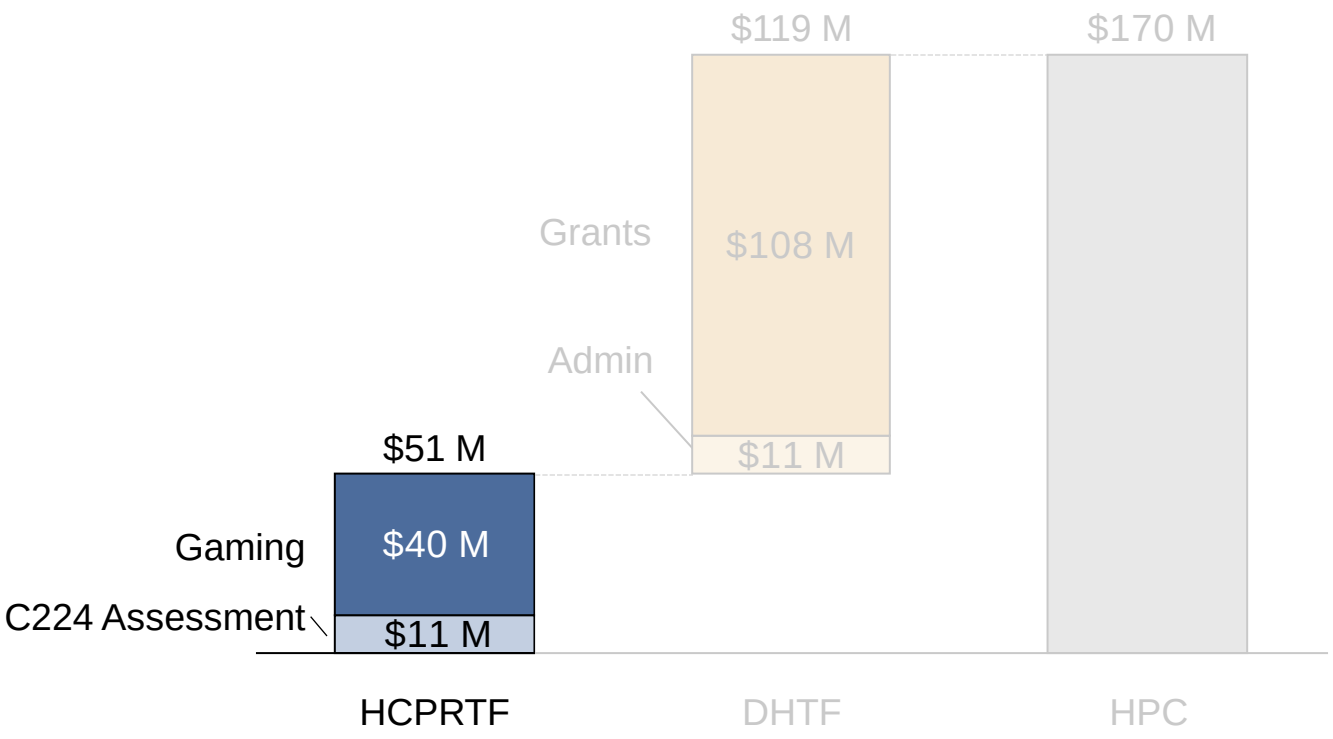
Chapter 224 envisioned a four year implementation "glide path" for the HPC with dedicated one-time funds

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT



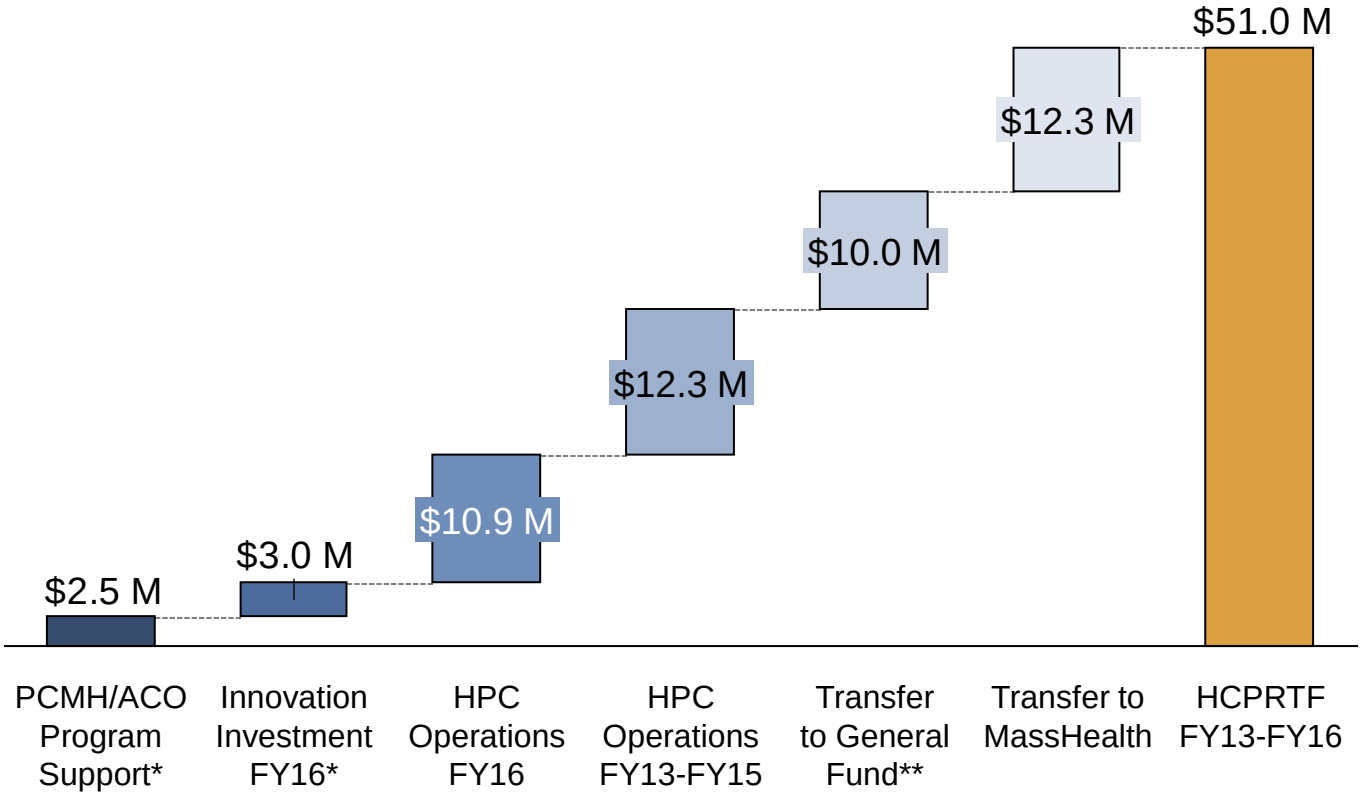
Ch. 224 allocated $51M to the HCPRTF for HPC operations, health care innovation investments, and direct provider supports.

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT



By FY17, the current balance of the HCPRTF will be fully expended for transfers to the state budget, operations, and innovation investments/supports

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT



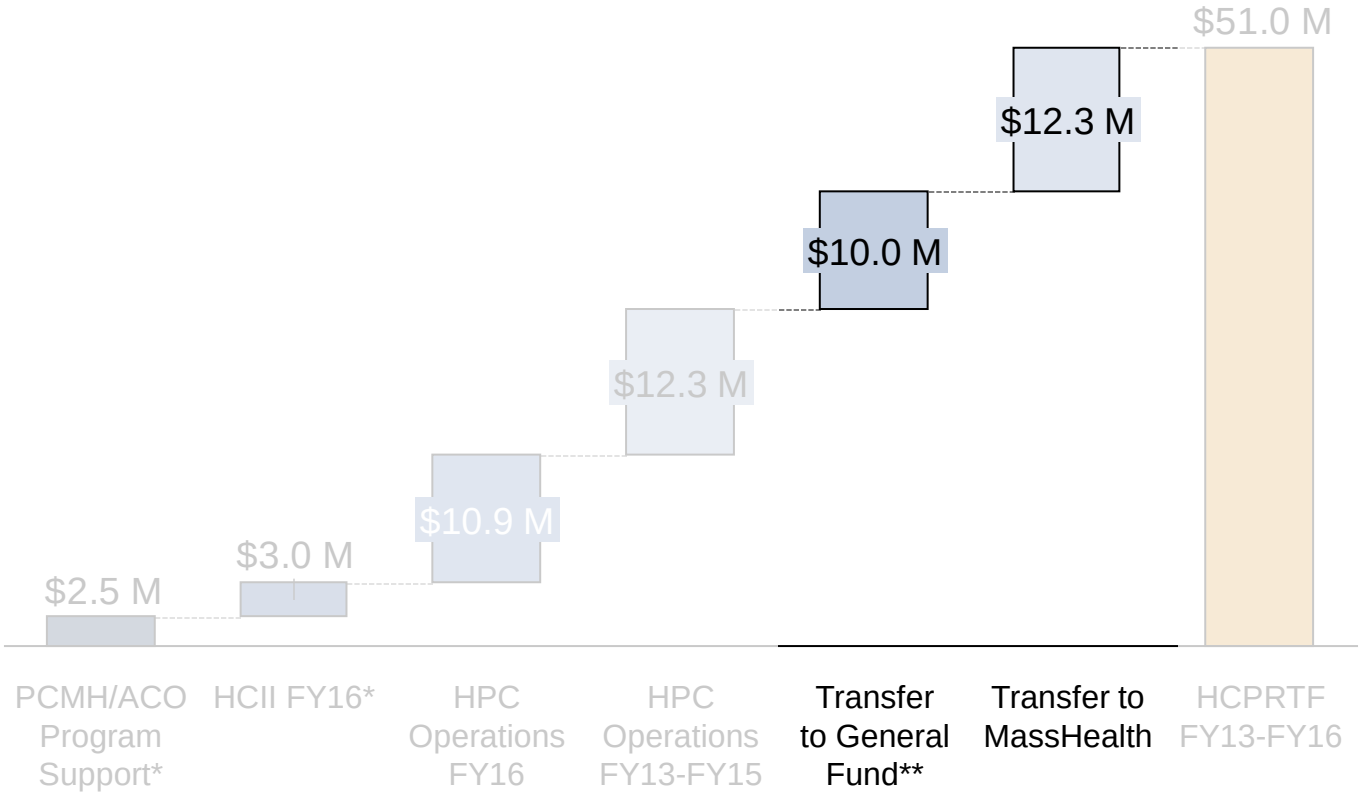
Beginning in FY17, HPC operations will be funded by an annual assessment on acute care hospitals, surgery centers, and health plans.

*Subject to board approval in FY16.

** Final transfer amount may be less than $10M, subject to approval by the Secretary of Administration and Finance

In FY15, the Administration mandated that the HPC transfer a combined $22.3M to the General Fund and MassHealth

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT



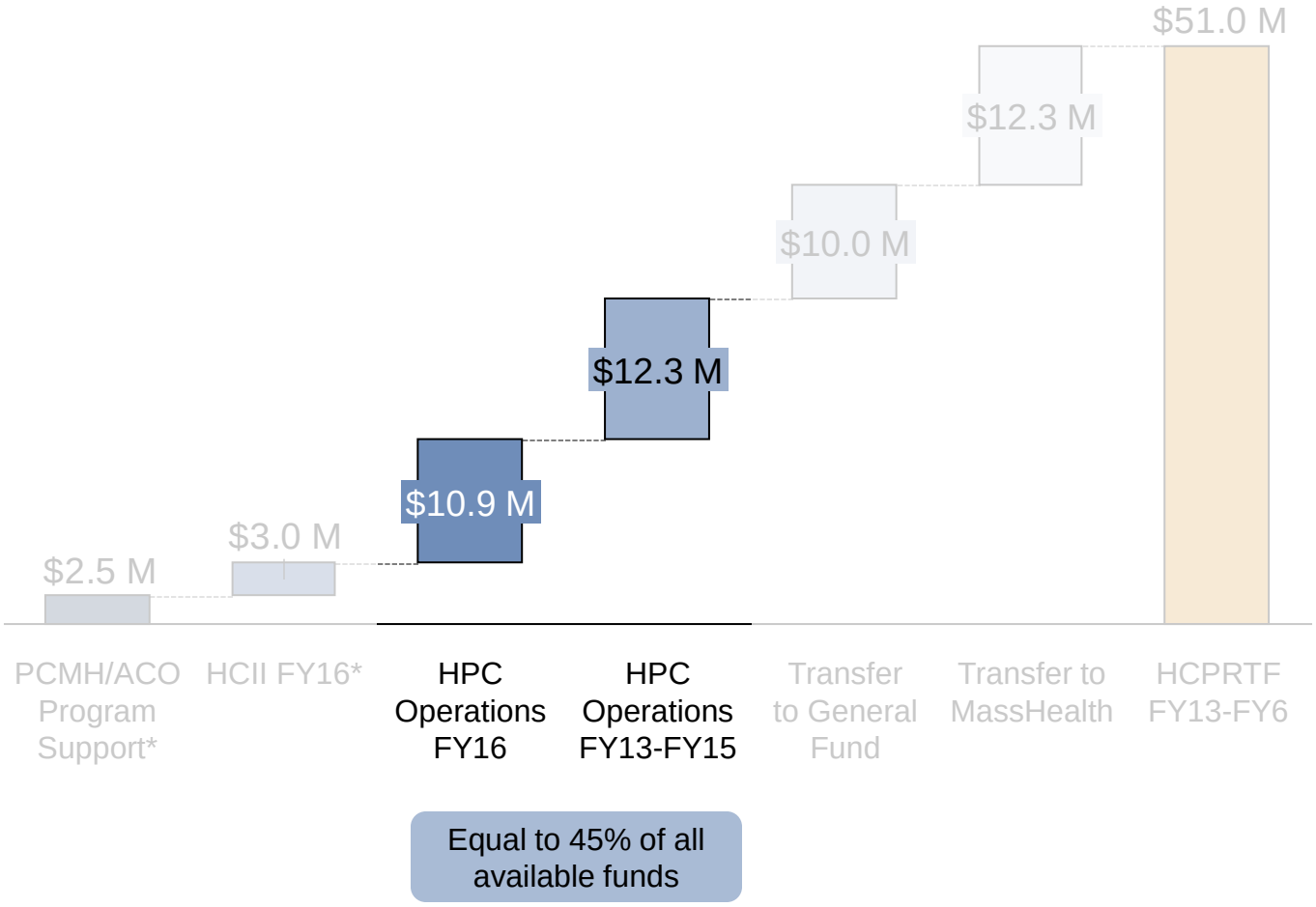
Equal to 43% of all available funds

*Subject to board approval in FY16.

** Final transfer amount may be less than $10M, subject to approval by the Secretary of Administration and Finance

The HPC will use the first 3.5 fiscal years to establish the agency, hire staff, and build capacity. Spending is now reaching a steady state.

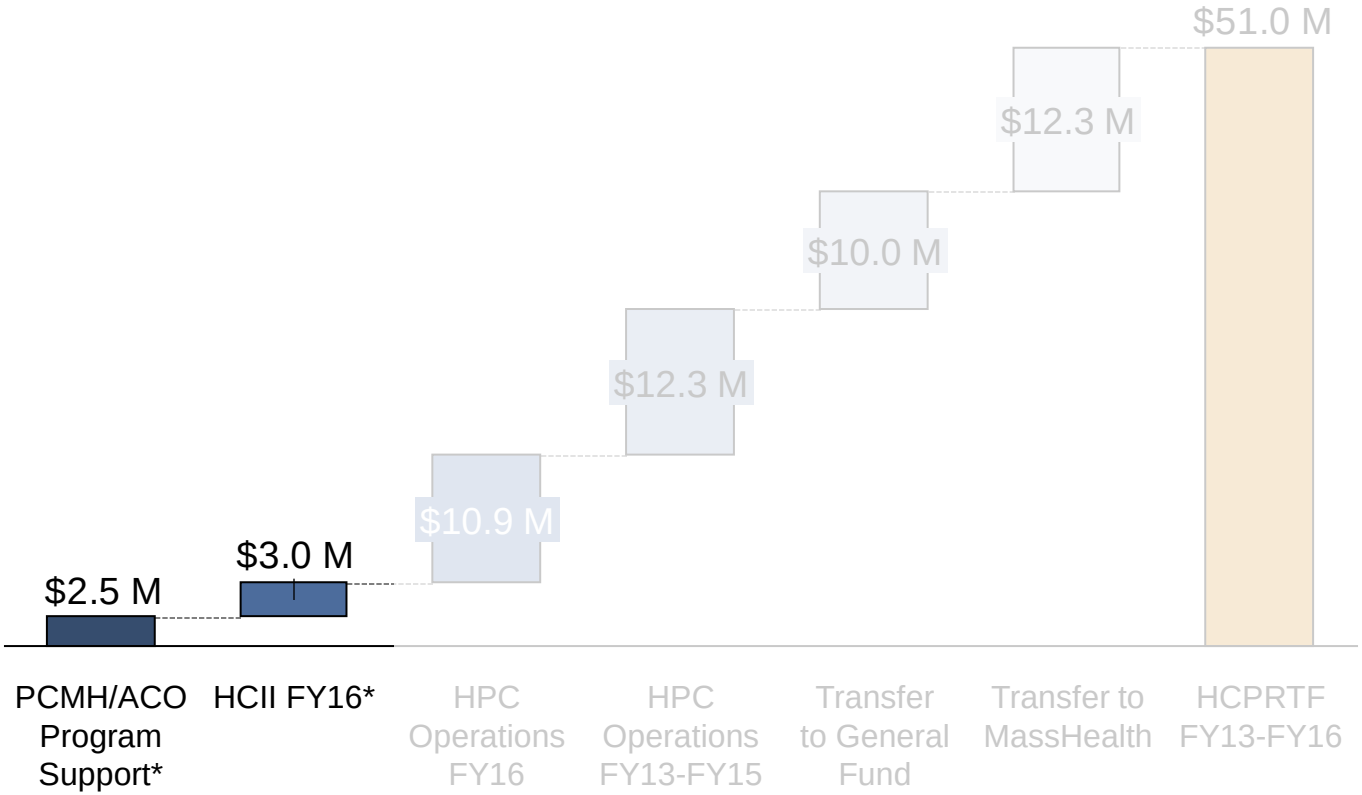
CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT



*Subject to board approval in FY16.

In FY16, the HPC anticipates investing up to $5.5M in grants and support for transformation in the Commonwealth's health care system.

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT

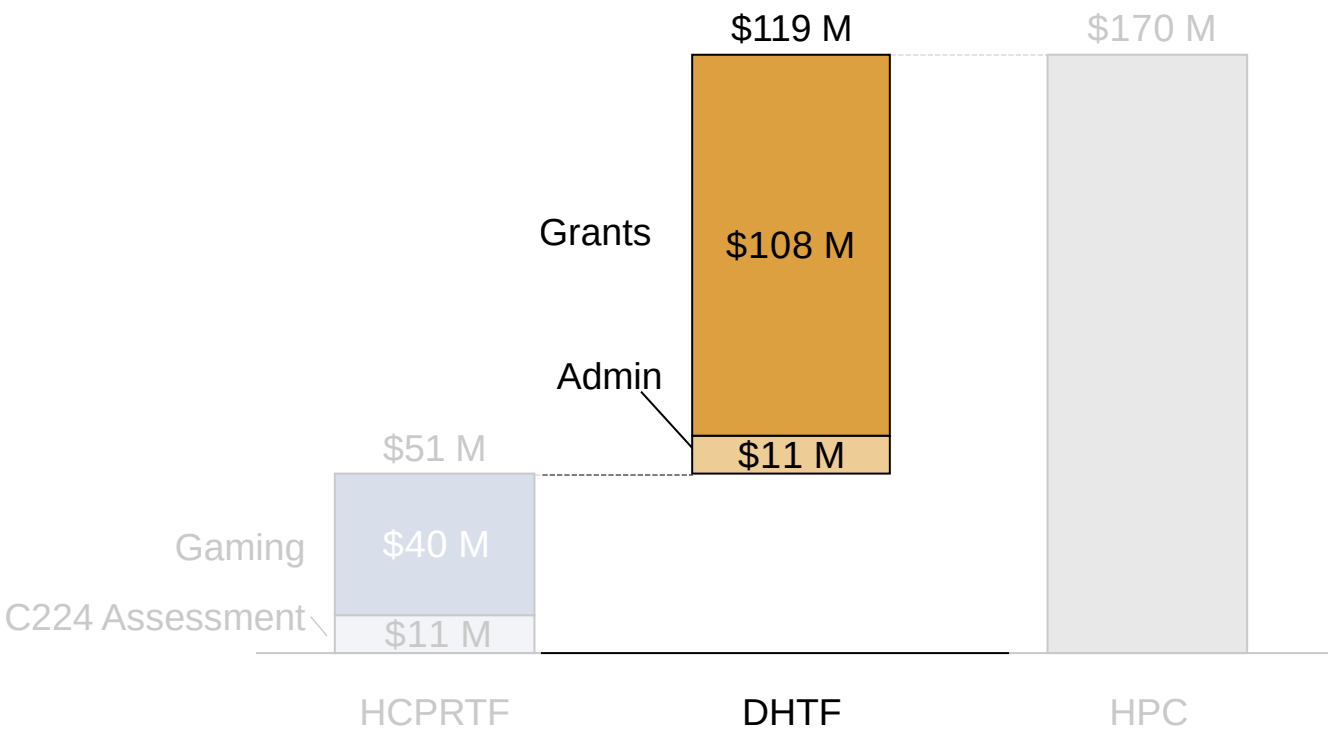


Equal to 10% of all available funds

*Subject to board approval in FY16.

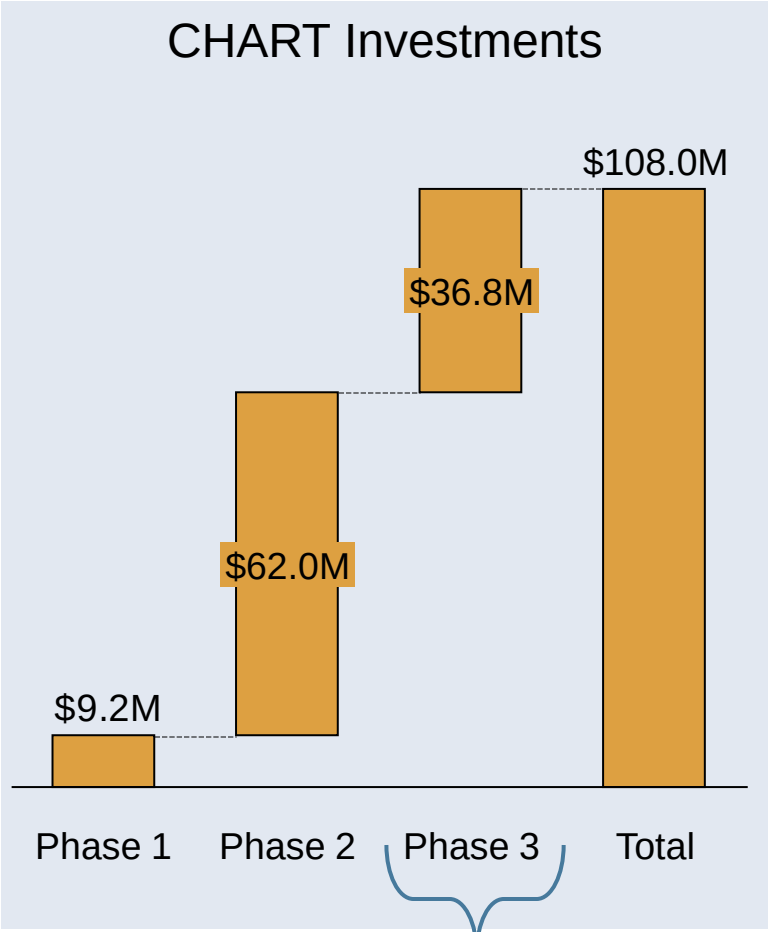
The CHART Investment Program has a budget of $119M for operations and investments.

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT



The $119M assessment that funds CHART is budgeted for the five year duration of the program with the most spend in Phase 2 (FY16/FY17).

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT



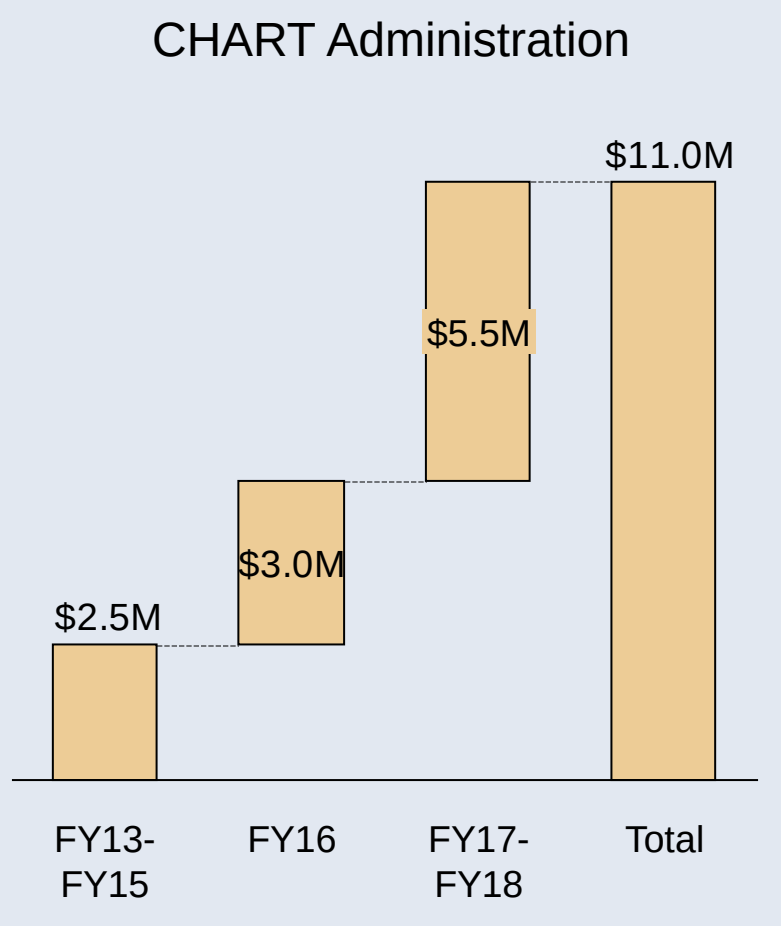
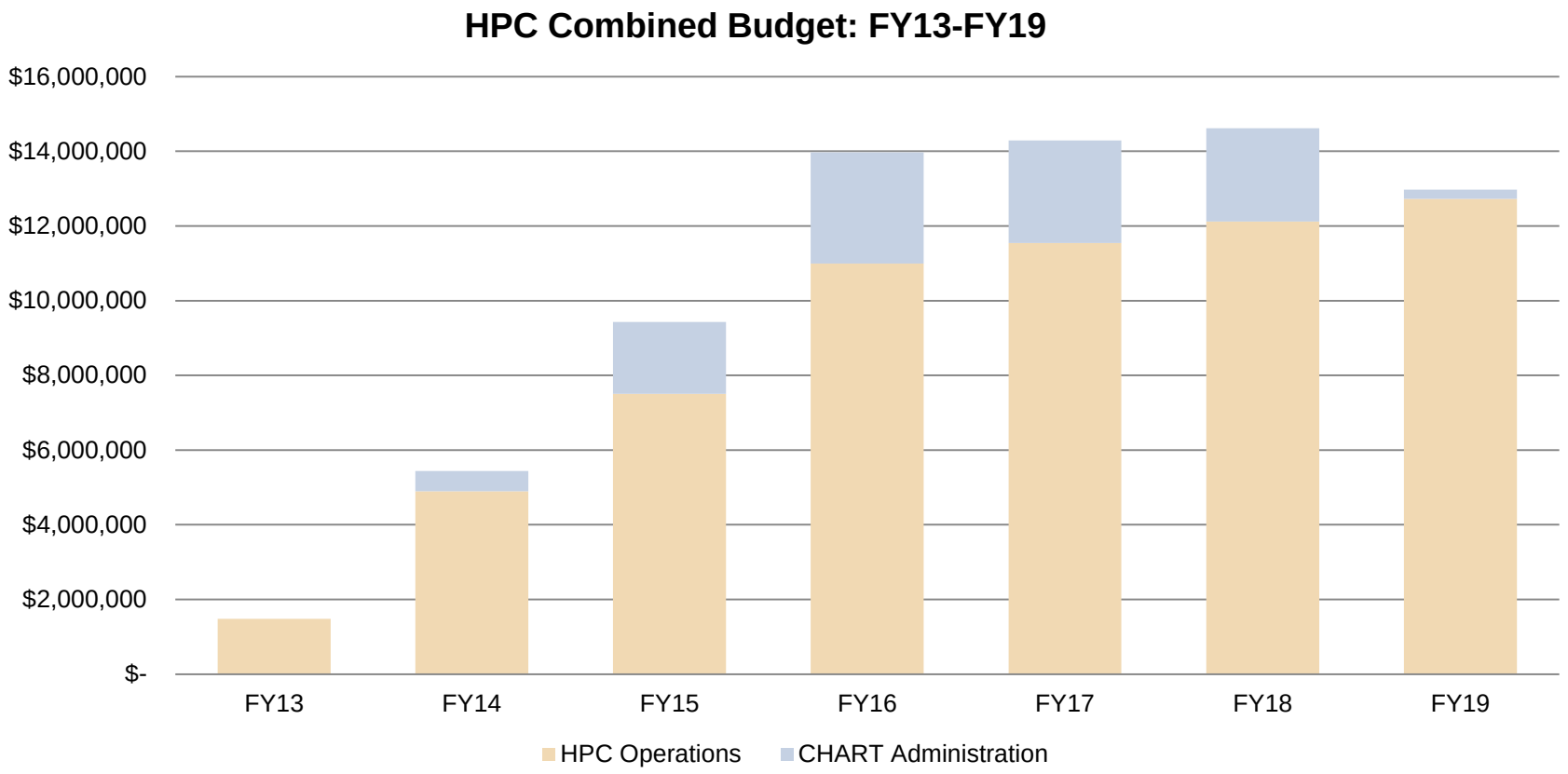


CHART Phase 3 will be focused on establishing full, community-based accountable care health systems, in close coordination and collaboration with efforts by MassHealth to promote ACOs.

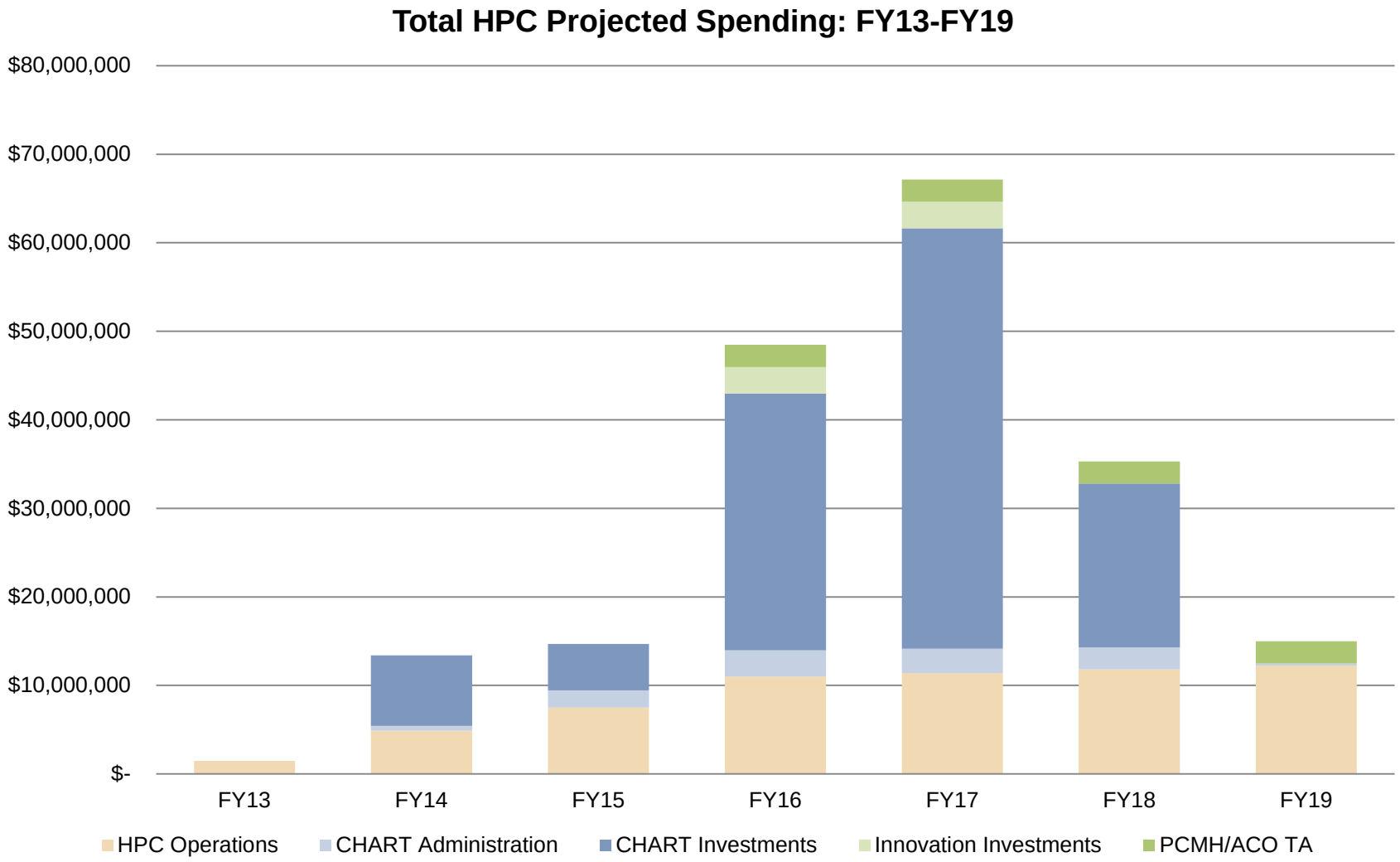
Looking forward: HCPRTF and DHTF operating expenses are anticipated to reach steady-state moving forward

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT



Looking forward: the HPC plans significant market investments to spur innovation and accelerate health care system transformation

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT



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HPC Budget Summary

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT

FY15 Summary: July 1, 2014 – June 30, 2015

Both Trust Funds will finish the year **under** Board-approved operating budgets and roll over **positive** Trust Fund balances into FY16.

– *Combined HCPRTF and DHTF Operating Budget*
  - Approved Budget: $9,986,353
  - Final Expenses: **$9,482,906**
  - Total Variance: $503,447

Key Variances:

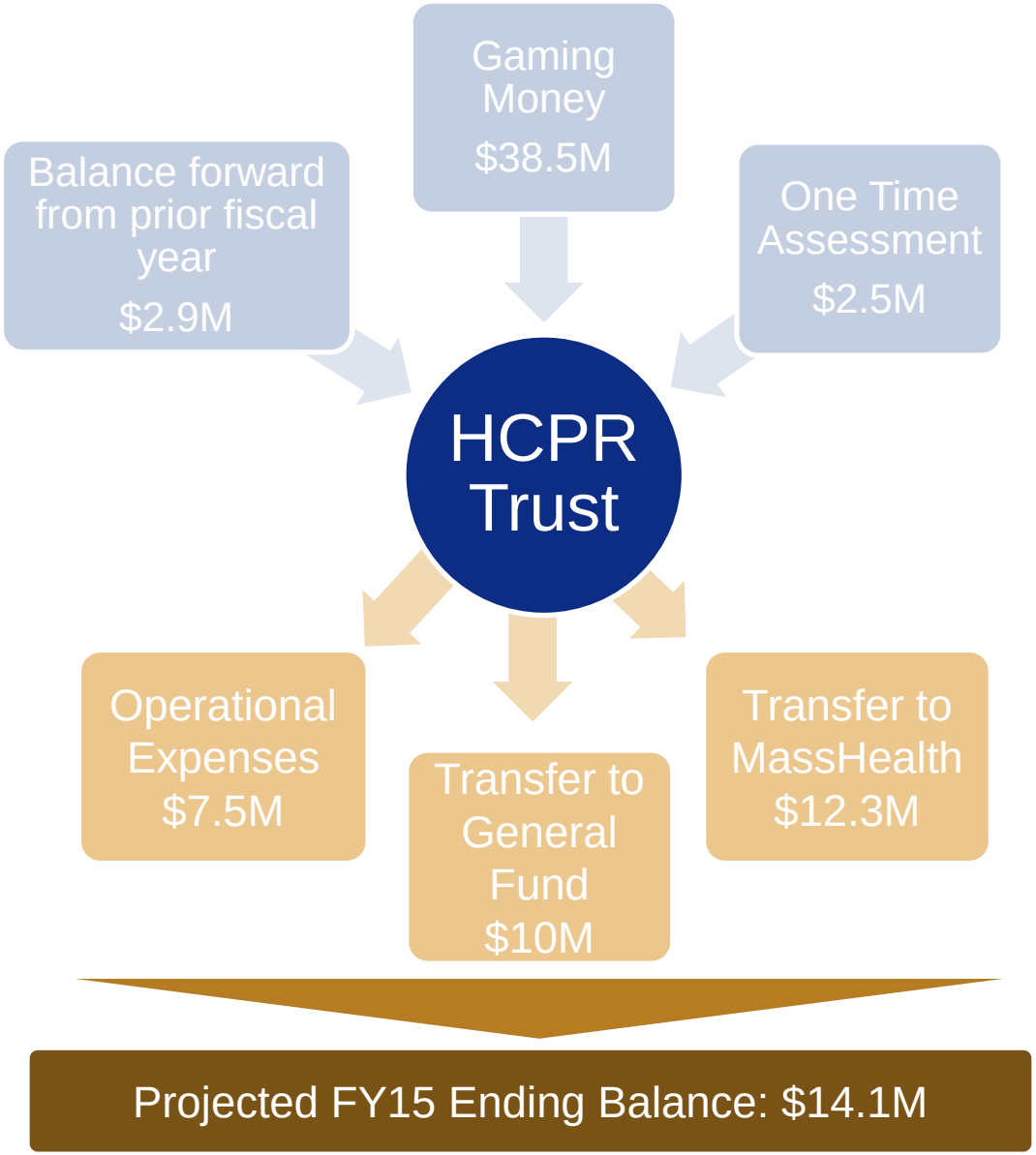
– Spending for payroll and benefits is lower than originally budgeted, due to the HPC's continued commitment to a rolling, targeted hiring strategy.

– Spending for professional services is lower than originally budgeted, primarily due to the timing of cost and market reviews and the extended development phase of PCHM/ACO certification programs.

– Certain expenses not known at time of FY15 budget approval, including the final developmental cost of an online IT platform for RPO registration implemented by CHIA ($315K) and a new 10% levy imposed by the Comptroller's Office ($390K), were not included in original budget projections but were absorbed within budgeted funds.

– Spending for administrative overhead and IT infrastructure is slightly lower than originally budgeted, primarily due to a delay in HPC's office relocation to 50 Milk Street.

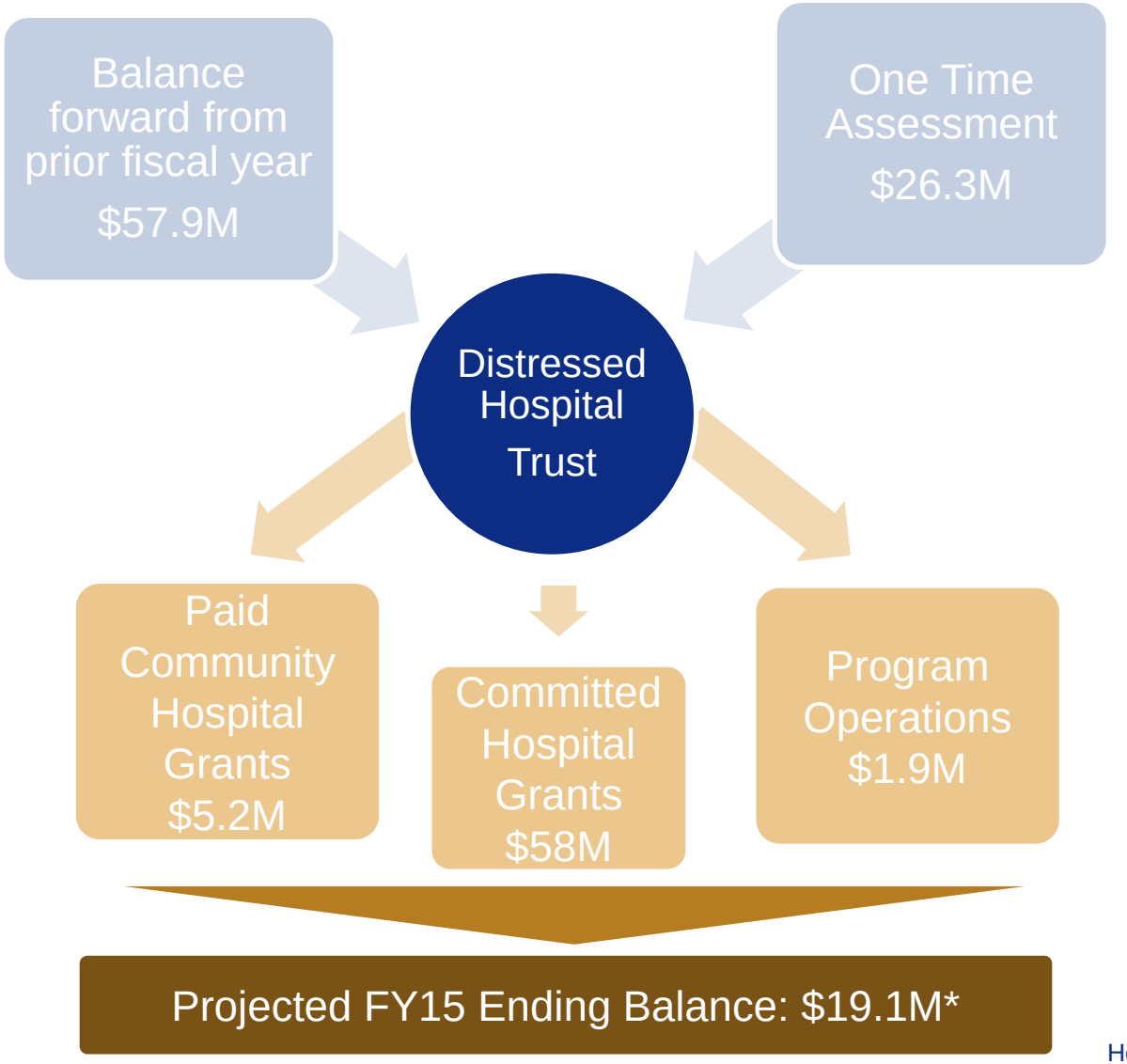
FY15 Budget Update – HCPRTF Components



CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT

FY15 Budget Update – DHTF Components

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT



*Uncommitted balance

FY15 Budget Update – Summary of Expenditures

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT

FY15 –Combined Expenditures (HCPRTF and DHTF)	FY15 Approved	FY15 Final Projection	Variance
Estimated Expenditures			
Payroll	$ 3,680,399	$ 3,510,708	$ (169,691)
Mandated Assessment (Employee Benefits)	$ 1,059,955	$ 1,013,190	$ (46,765)
Mandated Assessment (State Comptroller)	$ -	$ 390,019	$ 390,019
Rent	$ 386,000	$ 327,989	$ (58,011)
Professional Services	$ 4,120,000	$ 3,208,000	$ (912,000)
CHIA ISA for RPO	$ -	$ 315,000	$ 315,000
IT Infrastructure and Services	$ 220,000	$ 200,000	$ (20,000)
Administrative Expenses	$ 285,000	$ 283,000	$ (2,000)
Office Relocation (One-Time)	$ 235,000	$ 235,000	$ -
Total	**$ 9,986,353**	**$ 9,482,906**	**$ (503,447)**

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FY16 HPC Budget Summary

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT

FY16 Summary: July 1, 2015 – June 30, 2016

The recommended operating budgets for both Trust Funds will support on-going HPC activities and the implementation of certain Ch.224 initiatives anticipated to begin in FY16. Such initiatives include the launch of the PCMH/ACO certification programs and other strategies aimed at accelerating care delivery/payment system reform, APCD analysis that includes MassHealth data, enhanced support for CHART hospitals, development of performance improvement plans, and implementation of an innovation investment program.

– *Recommended Combined HCPRTF and DHTF Operating Budget* : **$13,971,683**

Based on current statutory responsibilities, FY16 is anticipated to be the last year of significant spending growth as the HPC reaches its steady-state for future fiscal years.

Key Variances:

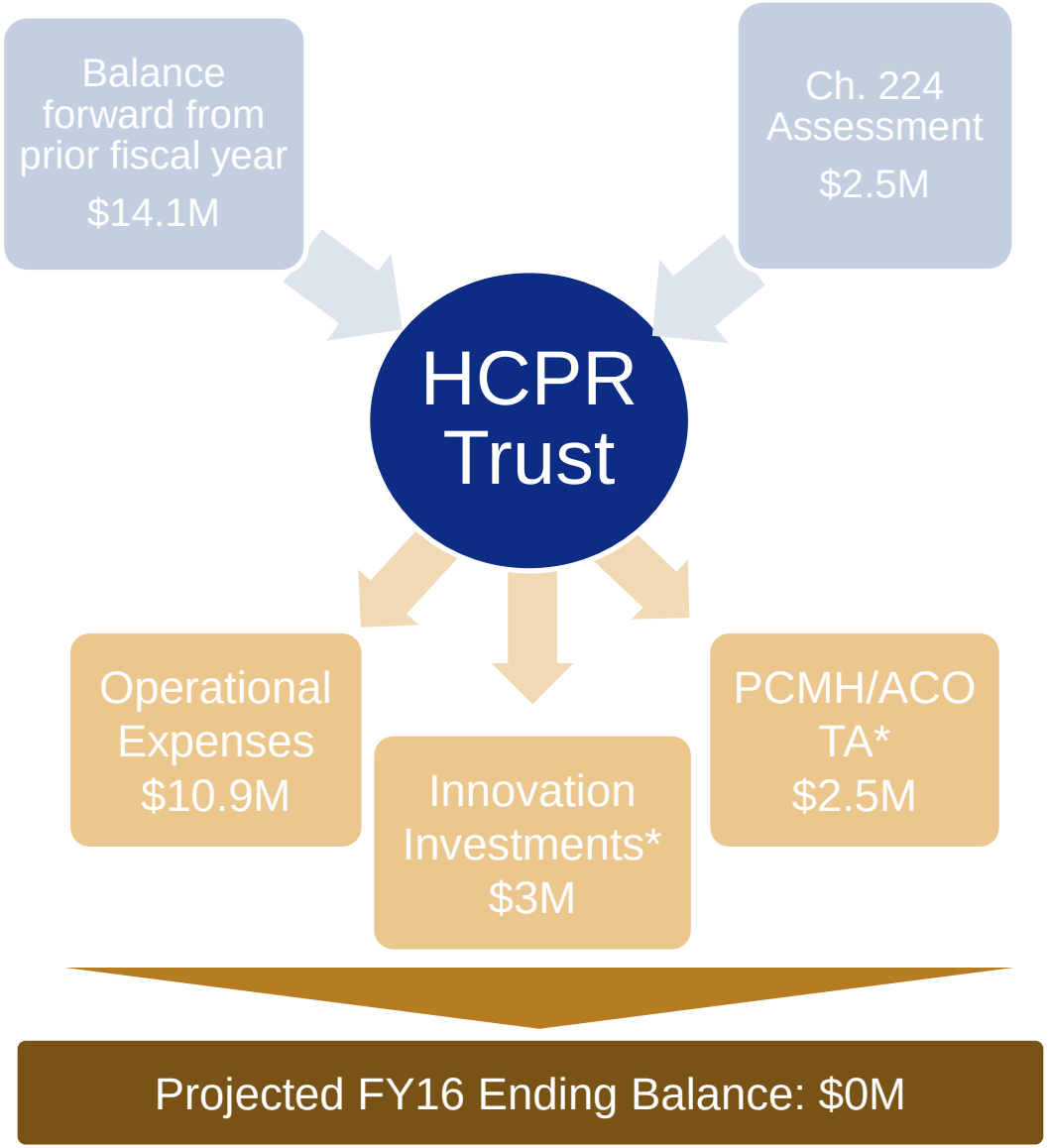
– Spending for payroll is $1.9M above FY15 actual spending, primarily due to the annualized costs of existing HPC staff. Funding for new staff is limited - full staffing expected by end of 2015.

– Spending for professional services is $1.2M above FY15 actual spending, but only $300K higher than the original FY15 budgeted amount. This increase is primarily due to enhanced technical assistance supports for CHART hospitals, spending necessary for the PCHM/ACO program launch, and a return to the original FY15 budgeted amount for market performance.

– Spending for Administration-mandated levies is $1.2M higher than FY15 actual spending, primarily due to the annualized cost of the new 10% fee to the Comptroller's Office and an increase in the fringe/benefit rate paid to the General Fund.

– Overall administrative and IT overhead spending is slightly lower than FY15 actual spending. Increased spending due to the annualized rent at 50 Milk will be off-set by savings from the RPO IT build and one-time office relocation expenses.

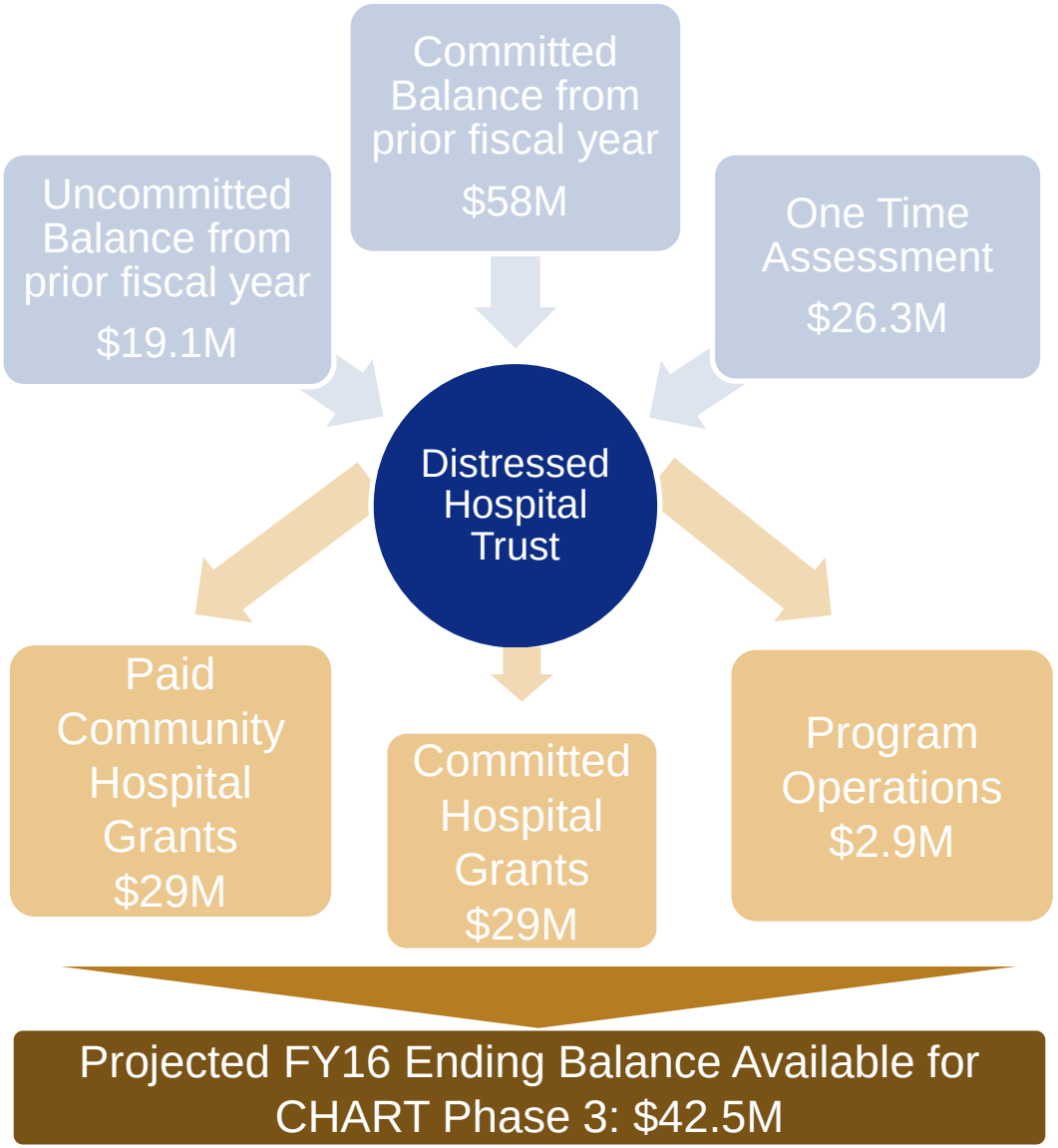
FY16 Proposed Budget – HCPRTF Components



*Subject to final board approval in FY16

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT

FY16 Proposed Budget – DHTF Components



CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT

Proposed FY16 Budget – Notable Assumptions

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT

New Initiatives in FY16

- Care Delivery/Payment System Transformation Initiatives
  - Both PCMH/ACO certification programs are expected to launch in FY16
  - HPC is committed to providing targeted technical assistance to providers participating in these programs, including potential support for behavioral health integration
  - Throughout FY16 the HPC will continue to develop and promote model payment, bundled payments, standardized data reporting and risk adjustment, quality measurement alignment, post-acute care protocols, practice pattern variation reduction, and other activities and policies aimed at enabling and strengthening care delivery and payment transformation
  - These activities are being closely coordinated and aligned with MassHealth and Medicare
- Performance Improvement Plans
  - 2016 is the first year the HPC is authorized to implement “performance improvement plans” on provider organizations and payers that excessively contributed to cost growth
- Innovation Investment Program
  - Chapter 224 requires the HPC to dedicate a portion of gaming license funds to develop and implement an “Innovation Investment Program”
  - The law envisions the program as a competitive funding opportunity for health care entities to develop, implement or evaluate promising models in health care payment and health care service delivery. Assistance from the HPC may take the form of incentives, grants, technical assistance, evaluation assistance or partnerships

Proposed FY16 Budget – Notable Assumptions

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT

New Initiatives in FY16, Cont'd

- Market Changes Requiring Review and Comment
  - Potential for significant market changes that may require CMIRs, or the development of HPC comment to DPH regarding closures/expansions
- APCD Development
  - HPC recently re-procured an analytic consultant to support the ongoing development of the APCD for cost trends research and policy development
  - HPC anticipates analyzing MassHealth data within the APCD for the first time
- CHART Learning, Technical Assistance, and Evaluation Activities
  - During this fiscal year, the CHART awardees will be heavily engaged in the implementation of Phase Two, the largest award cycle in the program
  - In addition, the HPC will be contracting with an external professional services firm to bolster evaluation and audit activities
- Other New Responsibilities
  - In 2014, the Legislature directed the HPC to play a significant role in two new initiatives: ICU nurse staffing and substance use disorder policy development. Ongoing costs associated with these responsibilities is still being evaluated
  - Further, both the House and Senate approved FY16 budgets direct the HPC to implement new activities related to behavioral health integration and telemedicine

FY16 Proposed Budget – Notable Variances

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT

Notable Variances

- Salary and Benefits ↑ $1.9M increase. This recommended increase is based on the following assumptions:
  - Annualized salary and benefits for existing staff and open positions accounts for more than 80% of the recommended increase.
  - Limited and targeted new employee growth. Full agency staffing expected by end of 2015.

- Professional Services ↑ $1.2M increase. This recommended increase reflects the following assumptions:
  - Enhanced professional services related to the CHART program, specifically technical assistance and expert supports for CHART hospitals during the first year of Phase 2 investments. Additionally, HPC anticipates contracting with a professional firm to support ongoing program evaluation. This portion accounts for one-third of the increase (~$400K).
  - Expanded need for experts in the fields of care delivery and payment system transformation, including behavioral health integration, to support the launch of HPC's accountable care certification programs. This portion accounts for the majority of the increase (~$700K).
  - Continued need for experienced experts in the fields of economic analysis, actuarial science, accounting, and clinical/care delivery practice to assist in our market review responsibilities.

- Transfer to CHIA for the Registration of Provider Organization (RPO) IT Build ↓ $165K decrease.
  - The most significant (and expensive) elements of this IT build are complete. FY16 costs (~$150K) include final enhancements and modifications as necessary for RPO Part 2.

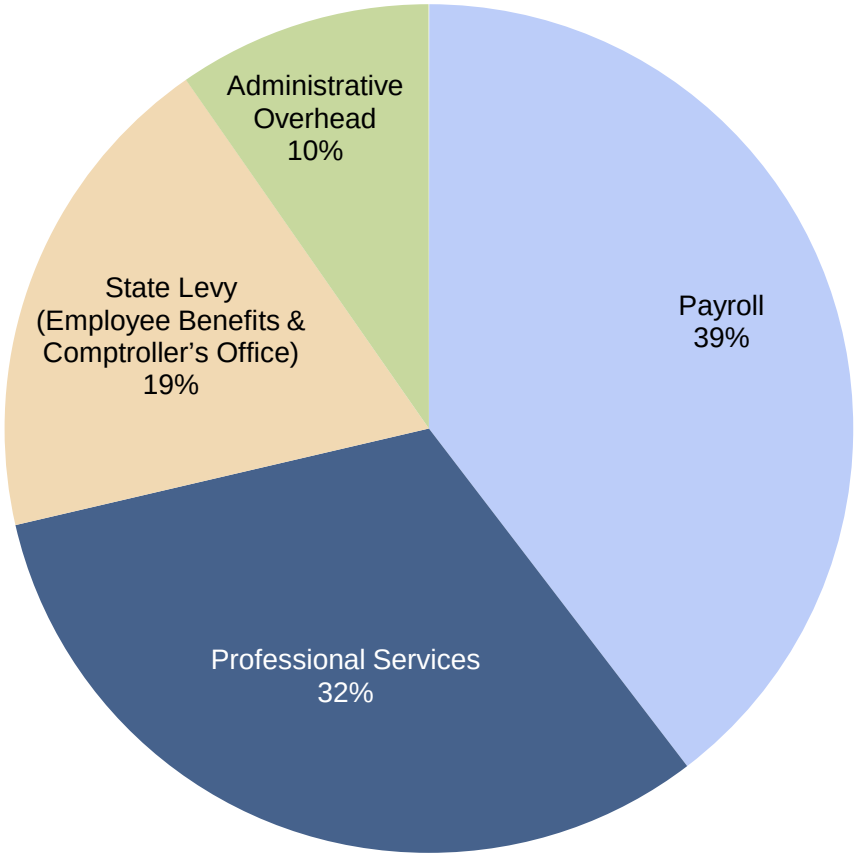
FY16 Proposed Budget – Summary of Expenditures

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT

FY16 – Combined Expenditures (HCPRTF and DHTF)	FY15 Final Projection	FY16 Proposed	Variance
Estimated Expenditures			
Payroll	$ 3,510,708	$ 5,507,756	$ 1,997,048
State Levy (Employee Benefits)	$ 1,013,190	$ 1,647,163	$ 633,973
State Levy (State Comptroller)	$ 390,019	$ 1,010,776	$ 620,757
Rent	$ 327,989	$ 652,988	$ 324,999
Professional Services	$ 3,208,000	$ 4,450,000	$ 1,242,000
CHIA ISA for RPO	$ 315,000	$ 150,000	$ (165,000)
IT Infrastructure and Services	$ 200,000	$ 230,000	$ 30,000
Administrative Expenses	$ 283,000	$ 323,000	$ 40,000
Office Relocation (One-Time)	$ 235,000	$ -	$ (235,000)
Total	**$ 9,482,906**	**$ 13,971,683**	**$ 4,488,777**

FY16 Budget Recommendation – Spending Graphs

Total Proposed Spending by Category (FY16)

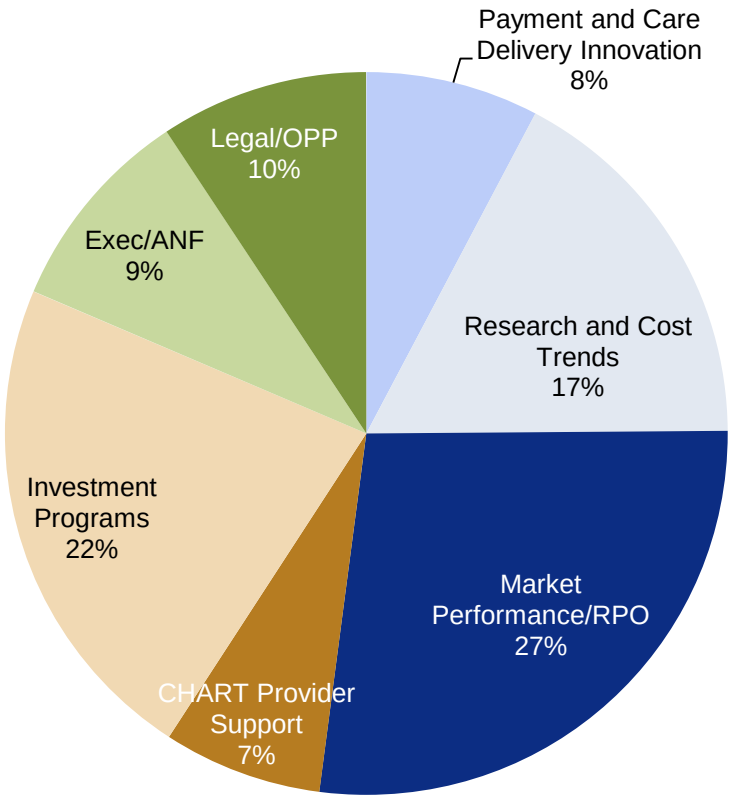


CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT

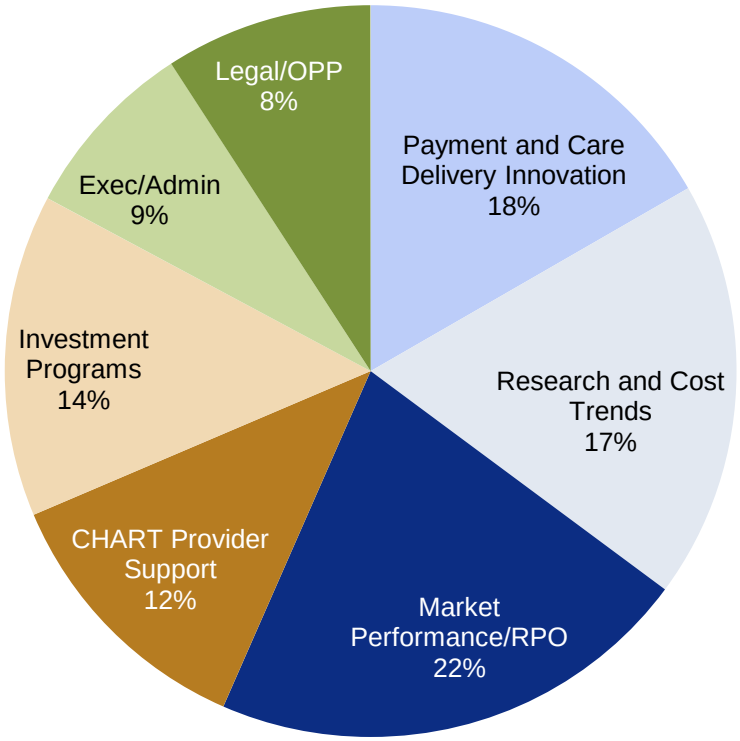
FY16 Budget Recommendation – Spending Graphs

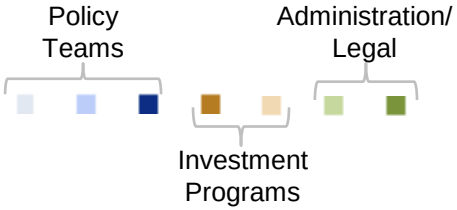
CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT

Total Actual Spending by Program (FY15)



Total Proposed Spending by Program (FY16)





FY16 Budget – Outstanding Questions

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT

Impact of Final FY16 State Budget on HPC?

- Both the House and Senate versions of the FY16 state budget contain proposals that will impact HPC operations and programs in FY16
- Both contain additional funding for several innovative pilot programs to be administered by the HPC related to enhancing behavioral health integration within our PCMH program, addressing the opioid crisis, and expanding the use of telemedicine
- Additionally, both budgets propose to redirect a portion of the uncommitted DHTF balance away from the CHART program, but do so in different ways and for different purposes
- All HPC-related items are subject to negotiation within the Conference Committee and gubernatorial approval. The ultimate impact to the HPC will be unknown until a final budget is signed into law

Final Design and Launch of PCHM/ACO Certification Programs?

- The recommended FY16 budget contains funding to support the launch and administration of the PCMH/ACO certification programs based on the best information available
- Significant design and program choices remain, however, that may impact final operational costs
- Additionally, the level of technical assistance and engagement supports (data, training, shared resources, convening) has yet to be determined and will be subject to Board approval in FY16

Financial Support from CHIA for APCD Analytic Work?

- As directed by the Board in April, the HPC Executive Director is consulting with the CHIA Executive Director on potential financial support for the HPC's analytic work with the APCD
- A final agreement on a shared scope of work may off-set HPC budgeted funds in FY16

Vote: Endorsing FY16 Budget

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT

Motion: That the Administration and Finance Committee hereby accepts and endorses the Commission's total operating budget for fiscal year 2016, as presented and attached hereto, and moves it to the full board for consideration.

Appendix

FY15 Budget Update – HCPRTF and DHTF Expenditures

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT

FY15 -HCPRTF	FY15 Approved	FY15 Final Projection	Variance
Estimated Expenditures			
Payroll	$ 3,184,767	$ 2,950,243	$ (234,523)
Mandated Assessment (Employee Benefits)	$ 917,213	$ 851,440	$ (65,773)
Mandated Assessment (State Comptroller)		$ 306,738	$ 306,738
Rent	$ 328,100	$ 278,791	$ (49,309)
Professional Services	$ 2,950,000	$ 2,255,000	$ (695,000)
CHIA ISA for RPO	$ -	$ 315,000	$ 315,000
IT Infrastructure and Services	$ 170,000	$ 165,750	$ (4,250)
Administrative Expenses	$ 242,250	$ 240,550	$ (1,700)
Office Relocation (One-Time)	$ 200,000	$ 200,000	$ -
Total	$ 7,992,329	$ 7,508,512	$ (428,817)

FY15 -DHTF	FY15 Approved	FY15 Final Projection	Variance
Estimated Expenditures			
Payroll	$ 495,632	$ 560,464	$ 64,832
Mandated Assessment (Employee Benefits)	$ 142,742	$ 161,750	$ 19,008
Mandated Assessment (State Comptoller)	$ -	$ 83,281	$ 83,281
Rent	$ 57,900	$ 49,198	$ (8,702)
Professional Services	$ 1,170,000	$ 953,000	$ (217,000)
CHIA ISA for RPO	$ -	$ -	$ -
IT Infrastructure and Services	$ 50,000	$ 34,250	$ (15,750)
Administrative Expenses	$ 42,750	$ 42,450	$ (300)
Office Relocation (One-Time)	$ 35,000	$ 35,000	$ -
Total	$ 1,994,024	$ 1,919,394	$ (74,630)

FY16 Proposed Budget – HCPRTF and DHTF Expenditures

CONFIDENTIAL WORKING DRAFT – POLICY IN DEVELOPMENT

FY16 -HCPRTF	FY15 Final Projection	FY16 Proposed	Variance
Estimated Expenditures			
Payroll	$ 2,950,243	$ 4,682,225	$ 1,731,981
Mandated Assessment (Employee Benefits)	$ 851,440	$ 1,406,273	$ 554,833
Mandated Assessment (State Comptroller)	$ 306,738	$ 778,222	$ 471,484
Rent	$ 278,791	$ 555,040	$ 276,249
Professional Services	$ 2,255,000	$ 2,950,000	$ 695,000
CHIA ISA for RPO	$ 315,000	$ 150,000	$ (165,000)
IT Infrastructure and Services	$ 165,750	$ 195,500	$ 29,750
Administrative Expenses	$ 240,550	$ 274,550	$ 34,000
Office Relocation (One-Time)	$ 200,000	$ -	$ (200,000)
Total	$ 7,563,512	$ 10,991,810	$ 3,428,298

FY16 -DHTF	FY15 Final Projection	FY16 Proposed	Variance
Estimated Expenditures			
Payroll	$ 560,464	$ 825,532	$ 265,067
Mandated Assessment (Employee Benefits)	$ 161,750	$ 240,890	$ 79,140
Mandated Assessment (State Comptroller)	$ 83,281	$ 232,553	$ 149,272
Rent	$ 49,198	$ 97,948	$ 48,750
Professional Services	$ 953,000	$ 1,500,000	$ 547,000
CHIA ISA for RPO	$ -	$ -	$ -
IT Infrastructure and Services	$ 34,250	$ 34,500	$ 250
Administrative Expenses	$ 42,450	$ 48,450	$ 6,000
Office Relocation (One-Time)	$ 35,000	$ -	$ (35,000)
Total	$ 1,919,394	$ 2,979,873	$ 1,060,479