Health Policy Commission

Board Meeting

July 2, 2014

Agenda

- Approval of Minutes from May 22, 2014 Meeting
- Executive Director Report
- Cost Trends and Market Performance
- Community Health Care Investment and Consumer Involvement
- Quality Improvement and Patient Protection
- Care Delivery and Payment System Transformation
- Administration and Finance
- Schedule of Next Commission Meeting (September 3, 2014)

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Vote: Approving Minutes

Motion: That the Commission hereby approves the minutes of the Commission meeting held on May 22, 2014, as presented.

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COMMONWEALTH OF MASSACHUSETTS

HEALTH POLICY COMMISSION

2014 Health Care Cost Trends Hearing

An annual public examination of health care cost trends and drivers, featuring witness testimony and discussion with national experts on the challenges and opportunities within the Commonwealth's health care system.

October 6 & 7, 2014

Suffolk University Law School

120 Tremont Street, Boston, MA

The 2014 hearing will examine cost trends for public and commercial payers as well as hospitals and other providers. For the first time, the hearing will focus on the state's performance under the health care cost growth benchmark.

The HPC will hold the hearings in conjunction with the Center for Health Information and Analysis and the Office of the Attorney General.

Legislative Update

Pending the Governor's approval, the final FY15 House/Senate budget includes $2 million for a behavioral health integration initiative, administered by the HPC. This one-time reserve money is appropriated for the acceleration and support of behavioral health integration within patient-centered medical homes.

This investment could support:

- Technical assistance staff and faculty expertise assigned to practice sites
- Capacity mapping for behavioral health resources in selected communities
- Assistance with developing/strengthening patient referral and tracking systems for successful integrated care delivery
- Regional learning events
- Virtual coaching assistance to participating practices
- Distillation of implementation strategies for successful BH integration
- Evaluation of cost and quality impact

The House and Senate unanimously approved a bill (H.4228), now signed into law by the Governor, that establishes nurse staffing ratios in intensive care units. The legislation:

- Sets up ratios of one nurse to one patient, or one nurse to two patients, depending on the stability of the patients being treated, as assessed by an "acuity tool" that each hospital is required to develop.
- Charges the HPC with promulgating regulations governing the implementation of the bill including:
  - The formulation of the "acuity tool",
  - The method of reporting staff compliance, and
  - The identification of patient safety quality indicators.

Anticipated Votes

1. Approval of Minutes from May 22, 2014
2. Issuance of Preliminary Cost and Market Impact Review
3. Submission into Court Authorized Public Comment Process
4. Issuance of Cost Trends Report: July 2014 Supplemental
5. Approval of Final Regulation for Registration of Provider Organizations
6. Approval of 2015 Operating Budget

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- Approval of Minutes from May 22, 2014 Meeting
- Executive Director Report
- **Cost Trends and Market Performance**
  - Material Change Notices (MCN)
  - Preliminary Report on Cost and Market Impact Review
  - Submission into Court Authorized Public Comment Process
  - Public Comment
  - Cost Trends Report: July 2014 Supplement
- Community Health Care Investment and Consumer Involvement
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Types of transactions noticed

April 2013 to Present

Type of Transaction	Number of Transactions	Frequency
Physician group affiliation or acquisition	8	32%
Acute hospital acquisition	6	24%
Clinical affiliation	4	16%
Change in ownership or merger of owned entities	3	12%
Acquisition of post-acute provider	2	8%
Formation of contracting entity	2	8%

Pending notices

Notices pending decision

Description

Contracting affiliation between Beth Israel Deaconess Care Organization (BIDCO) and Lawrence General Hospital (LGH) for LGH to join BIDCO's global risk contracts and care management programs

Formation of a non-profit ACO by Boston Medical Center and five community health centers

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Overview of cost and market impact reviews

- Provider changes, including consolidations and alignments, have been shown to impact health care system performance and total medical spending
- Chapter 224 directs the HPC to track “material change[s] to [the] operations or governance structure” of provider organizations and to engage in a more comprehensive review of transactions anticipated to have a significant impact on health care costs or market functioning
- CMIRs promote transparency and accountability in engaging in market changes, and encourage market participants to minimize negative impacts and enhance positive outcomes of any given material change

Process for cost and market impact reviews

Inputs

- Data and documents:
  - Parties' production
  - Publicly available information
  - Data from payers, providers, and other market participants
- Support from expert consultants
- Feedback from Commissioners
- Information gathered is exempted from public records law, but the HPC may engage in a balancing test and disclose information in a CMIR report

Outputs

- Issuance of a preliminary report with factual findings
- Feedback from parties and other market participants
- Final report issued 30 or more days after preliminary report
- Proposed change may be completed 30 or more days after issuance of final report
- Potential referral to Massachusetts Attorney General's Office

Description of the parties

Partners HealthCare System

- Partners is a public charity and the largest provider system in Massachusetts. It owns eight general acute-care hospitals, including North Shore Medical Center (NSMC)
- NSMC operates two full-service campuses on the North Shore, with a total of 436 beds:
  - NSMC Salem Hospital in Salem
  - NSMC Union Hospital in Lynn
- Partners' managed care network, PCHI, negotiates contracts for ~6,500 physicians. Partners also owns McLean Psychiatric Hospital, the Spaulding Network of Rehabilitation facilities, Partners HealthCare at Home, and Neighborhood Health Plan

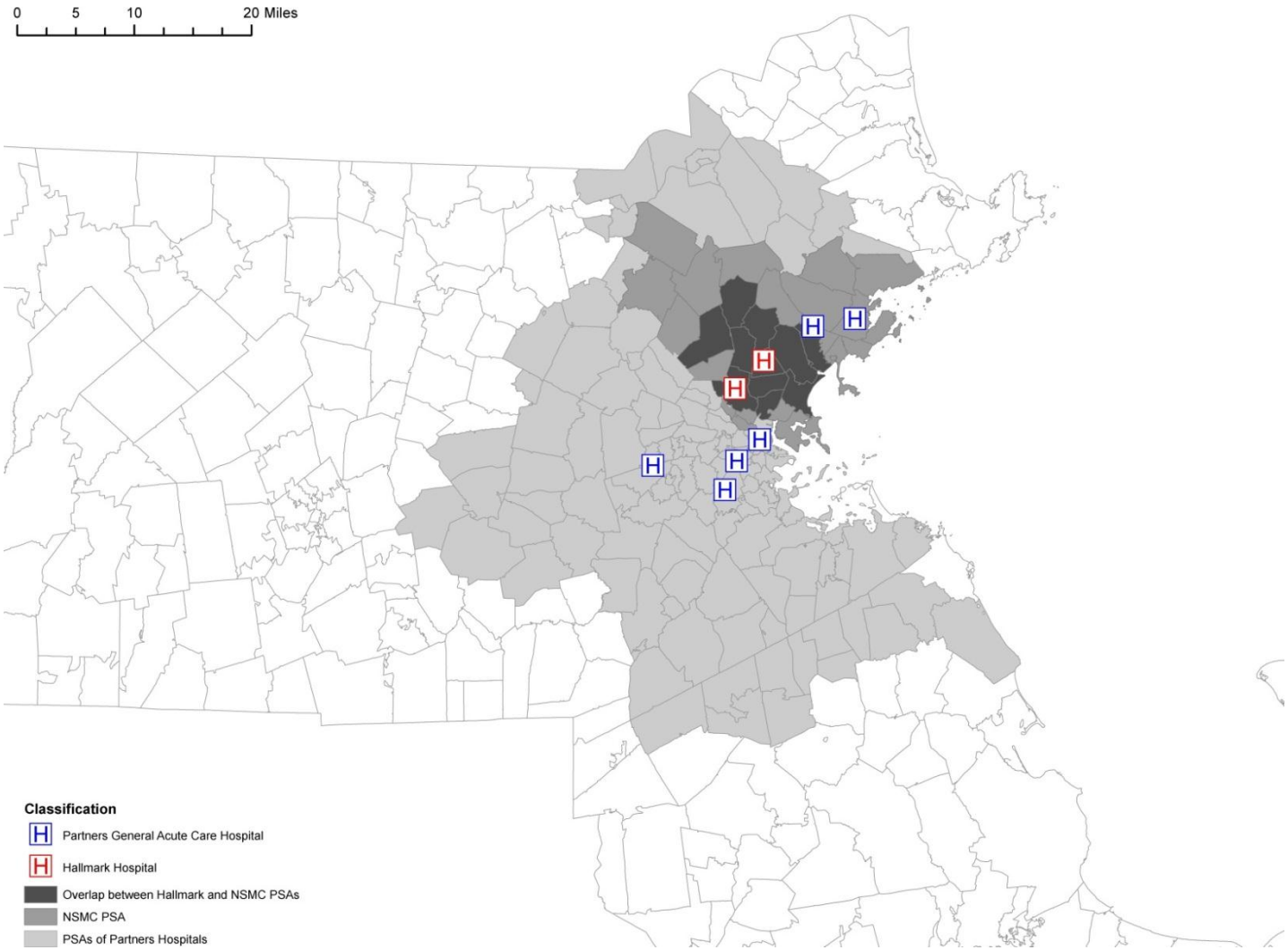
Hallmark Health System

- Hallmark is a not-for-profit integrated health system with two full-service hospitals:
  - Lawrence Memorial Hospital in Medford (132 beds, including 34 psychiatric beds)
  - Melrose-Wakefield Hospital in Melrose (174 beds, including 24 psychiatric beds)
- Hallmark also owns several outpatient centers, including a campus in Stoneham providing outpatient oncology services
- Its managed care network, Hallmark Health Physician Hospital Organization (HHPHO), includes ~400 physicians, more than 50 of whom are PCPs
- Hallmark and Partners have been clinically and contractually affiliated for 18 years, with HHPHO contracting through PCHI for its physician and hospital rates for most major payers

Partners' service area north of Boston overlaps with Hallmark's

Primary service areas (PSAs) of Partners' greater Boston area hospitals and Hallmark's hospitals

2012 MHDC hospital discharge data



Source: MHDC *Inpatient Discharge Database, 2012; Coordinate System: HCS WGS1984 WGS 1984*

Overview of Partners – Hallmark transaction

Partners – Hallmark

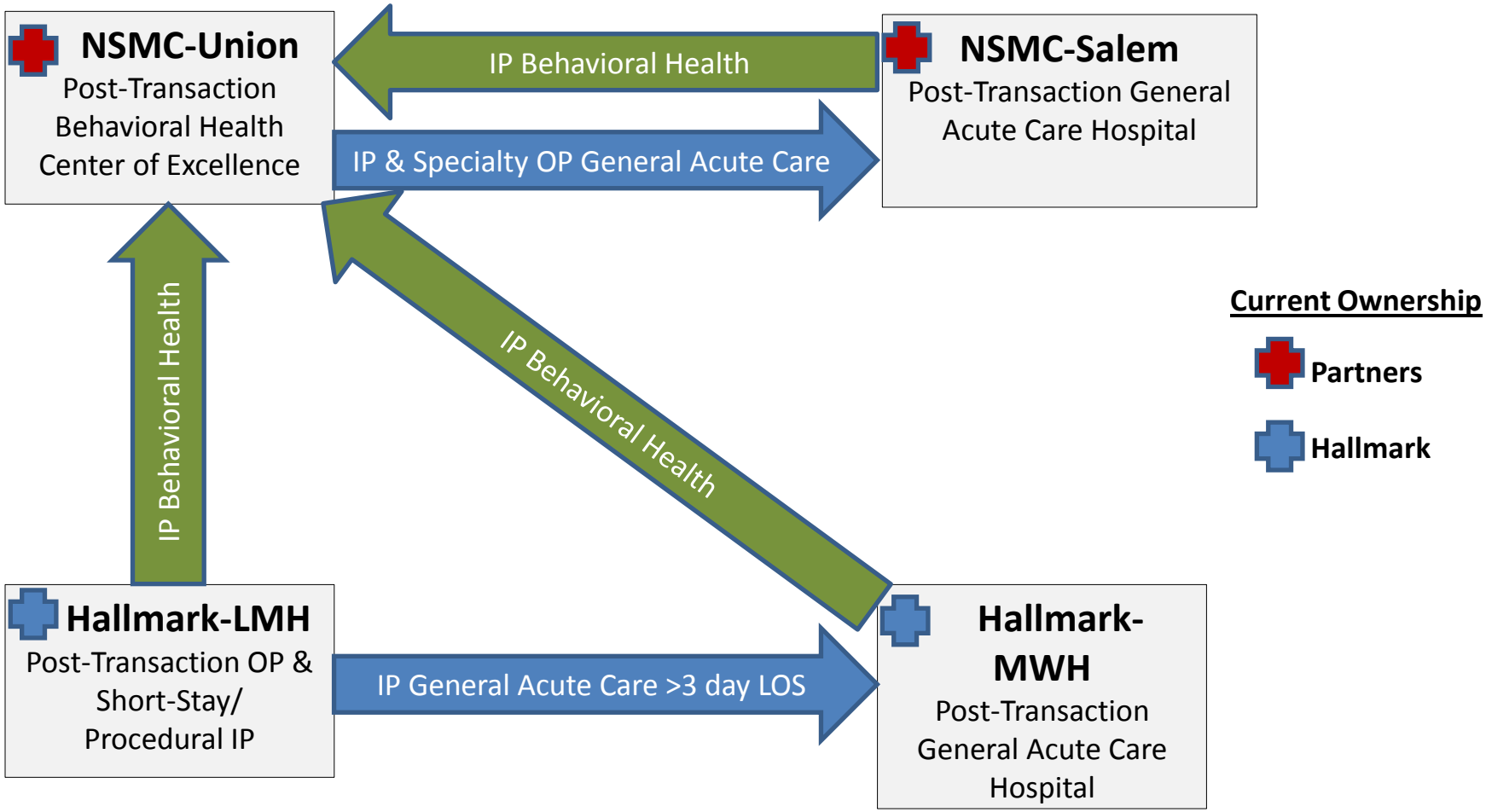
- On Jan. 31, 2014, Partners and Hallmark executed an Affiliation Agreement for Hallmark to become a fully-integrated, community-based member of Partners
- The agreement focuses on three initiatives: program and facilities rationalization, population health management (PHM) and primary care network development, and IT and infrastructure
- The agreement includes a $370 million investment in Hallmark's services and facilities, and anticipates an additional ~$225 million investment in NSMC facilities

Goals of Transaction

- The parties are committed to "accepting responsibility (and financial risk) for controlling the total medical expenses . . . of patients cared for by their primary care physicians (PCPs) in the . . . communities served by both parties."
- To achieve this goal and improve the quality and cost effectiveness of care, the parties seek to implement a "robust" PHM model
- The parties state this will require reconfiguration and repositioning of their clinical assets, expanded and more fully-integrated primary care networks, and IT investments

Source: Application by Hallmark Health System, Inc. for Determination of Need under 105 C.M.R. 100.600-603 for Change of Ownership of Hallmark Health System (Apr. 4, 2014).

Proposed repurposing and rationalization of Hallmark and North Shore Medical Center hospitals



SOURCE: HPC Analysis

Structuring an impact review

	Baseline Review	Impact Analysis
Costs	✓	
Quality		
Access		

Cost and financial metrics examined

- Financial ratios
- Market share
- Relative prices
- Total medical expenses

Partners is in strong financial condition; Hallmark's financial position is positive and improving

- Partners is the largest provider system in Massachusetts by net patient service revenue, over three times larger than the next largest system
- Partners' total net assets are more than twice as large as the next five largest systems combined
- Hallmark's operating margin and total margin are consistently higher than other area hospitals and its current ratio is strong
- Hallmark's average age of plant is high, indicating likely need for capital investment

Source: Partners and Hallmark Financial Statements

Partners has the highest share of inpatient services in Hallmark's primary service area

Commercial inpatient market share* in Hallmark's PSA
2012 MHDC hospital discharge data

Hospital System	Excluding Non-Owned Contracting Affiliates		Including All Contracting Affiliates	
	Commercial Discharges	Market Share	Commercial Discharges	Market Share
Partners	**4,478**	**32%**	**6,608**	**48%**
Lahey	3,164	23%	3,164	23%
Hallmark	**2,103**	**15%**	**-**	**-**
Beth Israel	1,278	9%	1,786	13%
Tufts MC	736	5%	736	5%
Mt. Auburn	599	4%	599	4%
CHA	502	4%	-	-

* Range of market share reported where system has non-owned contracting affiliates

Partners has the highest share of inpatient services in NSMC's primary service area

Commercial inpatient market share* in NSMC's PSA
2012 MHDC hospital discharge data

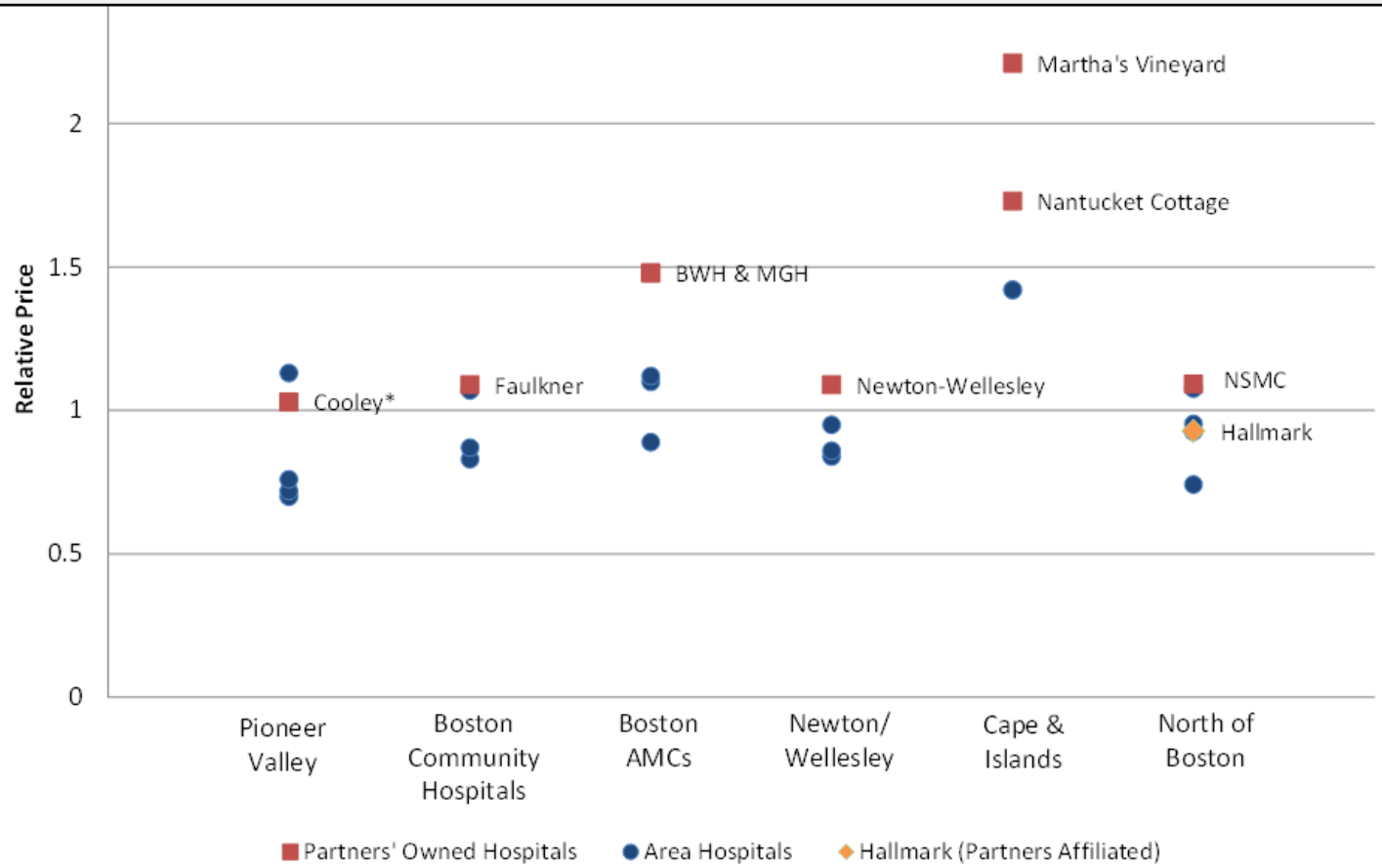
Hospital System	Excluding Non-Owned Contracting Affiliates		Including All Contracting Affiliates	
	Commercial Discharges	Market Share	Commercial Discharges	Market Share
Partners	**5,040**	**59%**	**5,208**	**61%**
Lahey	2,470	29%	2,470	29%
Beth Israel	343	4%	383	4%
Children's Hosp.	218	3%	218	3%
Hallmark	**160**	**2%**	**-**	**-**

* Range of market share reported where system has non-owned contracting affiliates

Partners' hospitals receive higher prices than Hallmark and other area hospitals

Relative prices for Partners hospitals and Hallmark compared to area hospitals

BCBS 2012



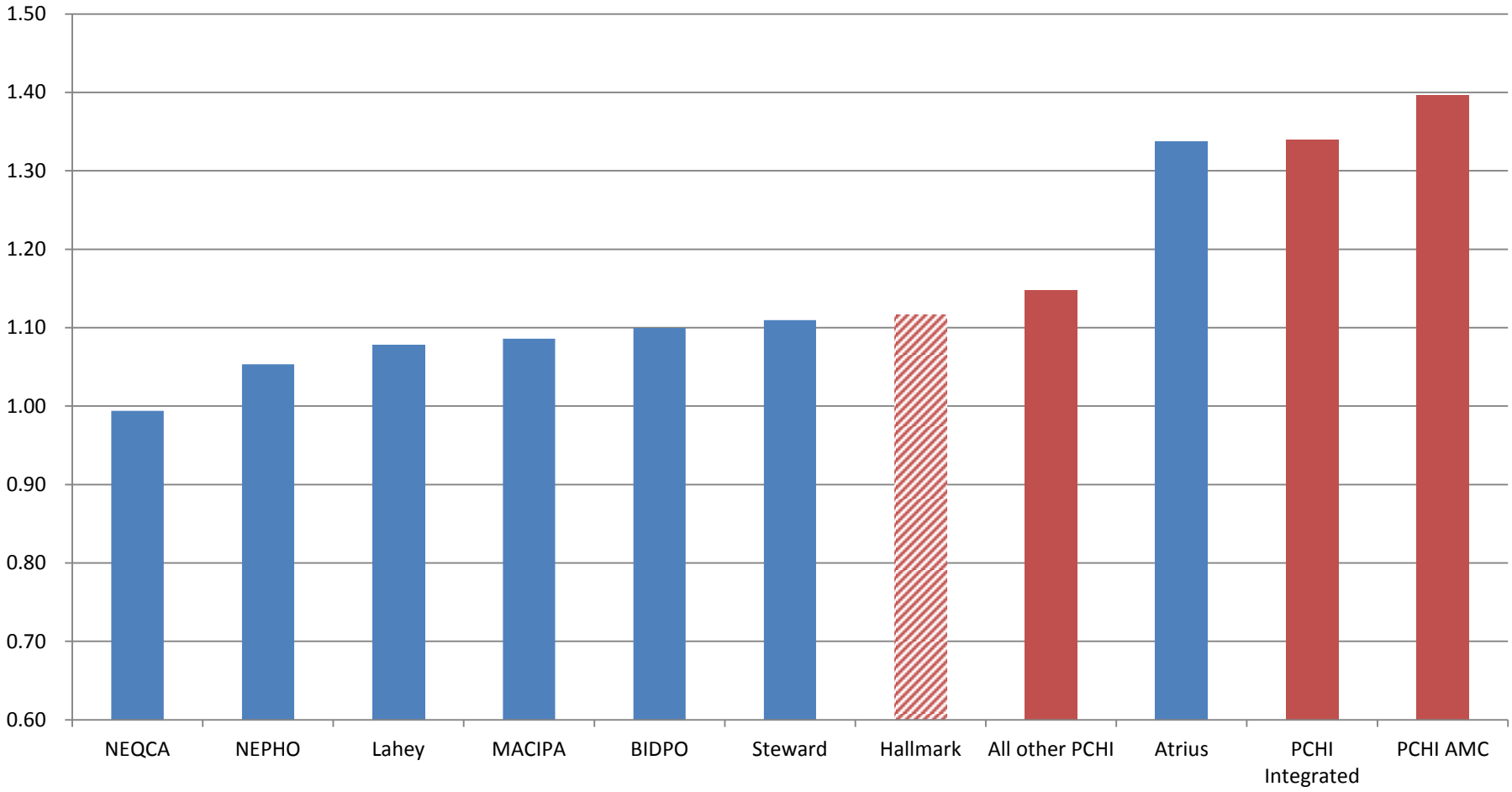
Area hospitals: Pioneer Valley (Baystate MC, Holyoke, Mercy MC, Noble); **Boston Community** (Carney, Norwood, St. Elizabeth's MC); **Boston AMCs** (BIDMC, BMC, Tufts MC); **Newton/Wellesley** (BID-Needham, Metrowest MC, Mt. Auburn); **Cape & Islands** (Cape Cod, Falmouth); **North Shore** (Addison-Gilbert, Beverly, Cambridge Health Alliance, Lahey MC, Mt. Auburn, Winchester)

*Cooley owned by Partners as of July 1, 2013.

SOURCE: 2012 CHIA Relative Price Data

Partners' physician groups (excluding Hallmark) generally receive higher prices than Hallmark physicians and other area physician groups

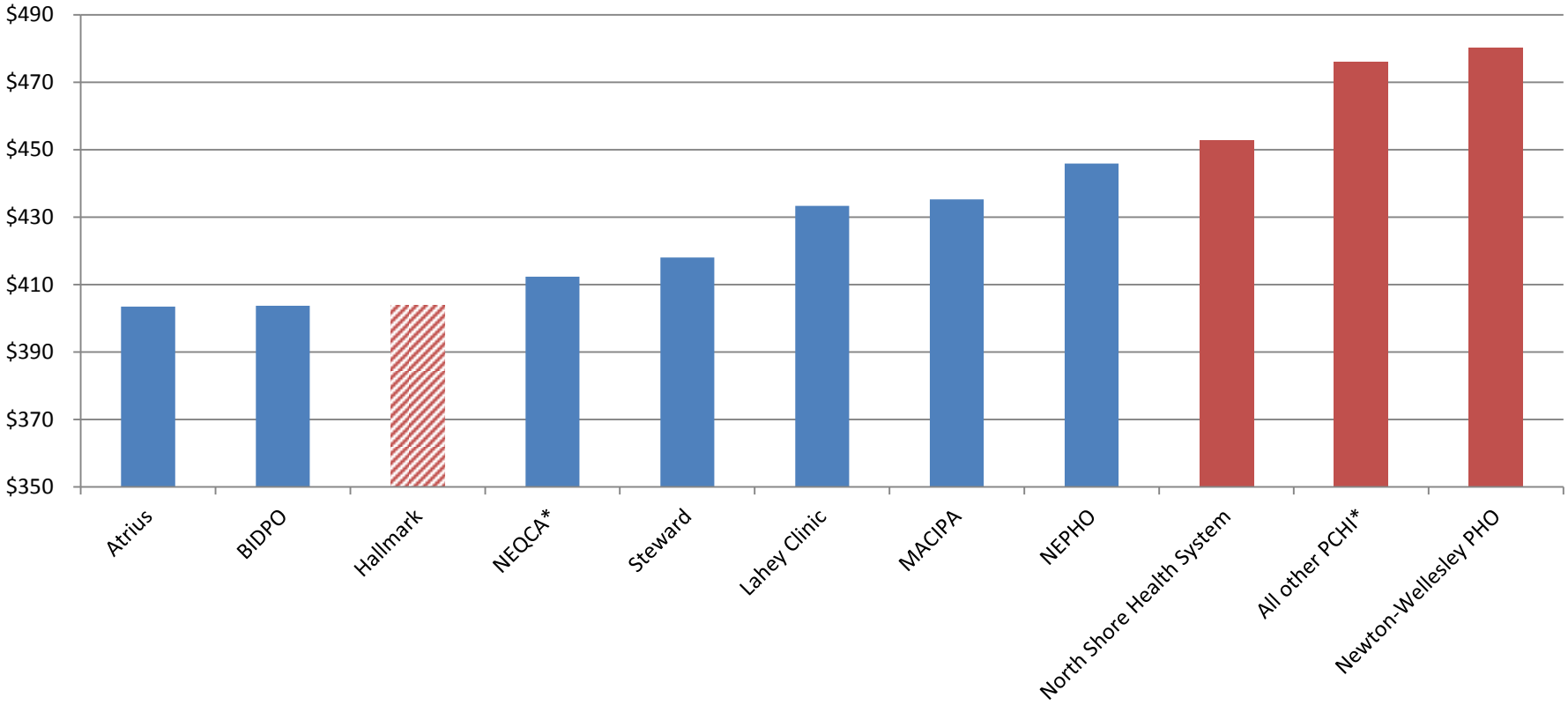
Relative prices for Partners and Hallmark compared to area physician groups
One Major Commercial Payer 2011



SOURCE: 2011 CHIA Relative Price Data (HPC Analysis)

Partners' physician groups (excluding Hallmark) generally have higher health status adjusted TME than Hallmark and area physician groups

Health status adjusted TME for Partners and Hallmark compared to area physician groups
One Major Commercial Payer 2012



*Does not include pediatric groups

SOURCE: 2012 CHIA TME data (HPC Analysis)

Principal findings

- Partners is in strong financial condition; Hallmark's financial position is positive and improving
- Partners has the highest share of inpatient services in Hallmark's and NSMC's service areas
- Partners' hospitals receive higher prices than Hallmark and other area hospitals
- Partners' physician groups (excluding Hallmark) generally receive higher prices than Hallmark physicians and other area physician groups
- Partners' physician groups (excluding Hallmark) generally have higher health status adjusted TME than Hallmark and other area physician groups

Structuring an impact review

	Baseline Review	Impact Analysis
Costs		
Quality	✓	
Access		

Quality metrics examined

- 100+ measures of inpatient and outpatient care
  - Structures of quality
  - Process measures
  - Outcome measures
  - Patient experience
- Examined over time, across providers, and within provider systems
- Compared parties to each other, to area providers, and to national and statewide benchmarks

Hospital performance

- NSMC meets or exceeds state average performance on 66% of hospital quality measures examined, and MGH meets or exceeds the state average on 59%
- Hallmark's hospitals exceed the state average performance on 55% of hospital measures examined
- Each of the parties' hospitals outperforms the others on certain measures, but Partners' hospitals exceed average performance more consistently than Hallmark

Physician performance

- HHPHO performs slightly below the state average on ambulatory care process measures, while the rest of PCHI slightly exceeds the average
- On patient experience measures, HHPHO performs at or slightly below the state average, while the rest of PCHI slightly exceeds the average
- Across all ambulatory measures examined, HHPHO meets or exceeds state average performance on 35% of measures, NSMC meets or exceeds the average on 78% of measures, and MGPO meets or exceeds the average on 69% of measures

Principal findings

- Hallmark hospitals have slightly above average inpatient quality when compared to state and national averages, but slightly lower performance than other area community hospitals. Partners' hospitals generally have high quality performance compared to state and national averages.

- Hallmark's physician groups generally perform at or slightly below the state average among Massachusetts provider groups. Other PCHI physician groups consistently outperform the state average.

Structuring an impact review

	Baseline Review	Impact Analysis
Costs		
Quality		
Access	✓	

Metrics examined

- Service capacity, utilization, and community need
- Payer mix

The parties are important providers of inpatient services to their local communities, including behavioral health services

Staffed beds at Hallmark, NSMC, and area general acute care hospitals
FY12 CHIA Hospital Profiles and 403 Reports

	Med/Surg.	ICU	Ped.	Newborn	Psych.	Total*
CHA	106	12	0	14	88	**234**
Hallmark (LMH and MWH)	129	15	0	10	52	**216**
Lahey HMC	287	54	0	0	0	**341**
Mount Auburn	141	20	0	29	15	**228**
Northeast (Addison Gilbert and Beverly)	219	34	0	28	30	**342**
NSMC (Salem and Union)	247	40	24	37	64	**436**
Winchester	147	10	12	40	0	**229**

SOURCE: 2012 Hospital Profile Reports (CHIA) and 2012 Hospital 403 Reports (CHIA)
*Total column includes bed types not listed separately in this table

While northeastern Massachusetts appears to have some excess bed capacity, there is likely a need for additional behavioral health capacity

Average occupancy rates of staffed beds at Hallmark, NSMC, and area general acute care hospitals

FY12 CHIA Hospital Profiles and 403 Reports

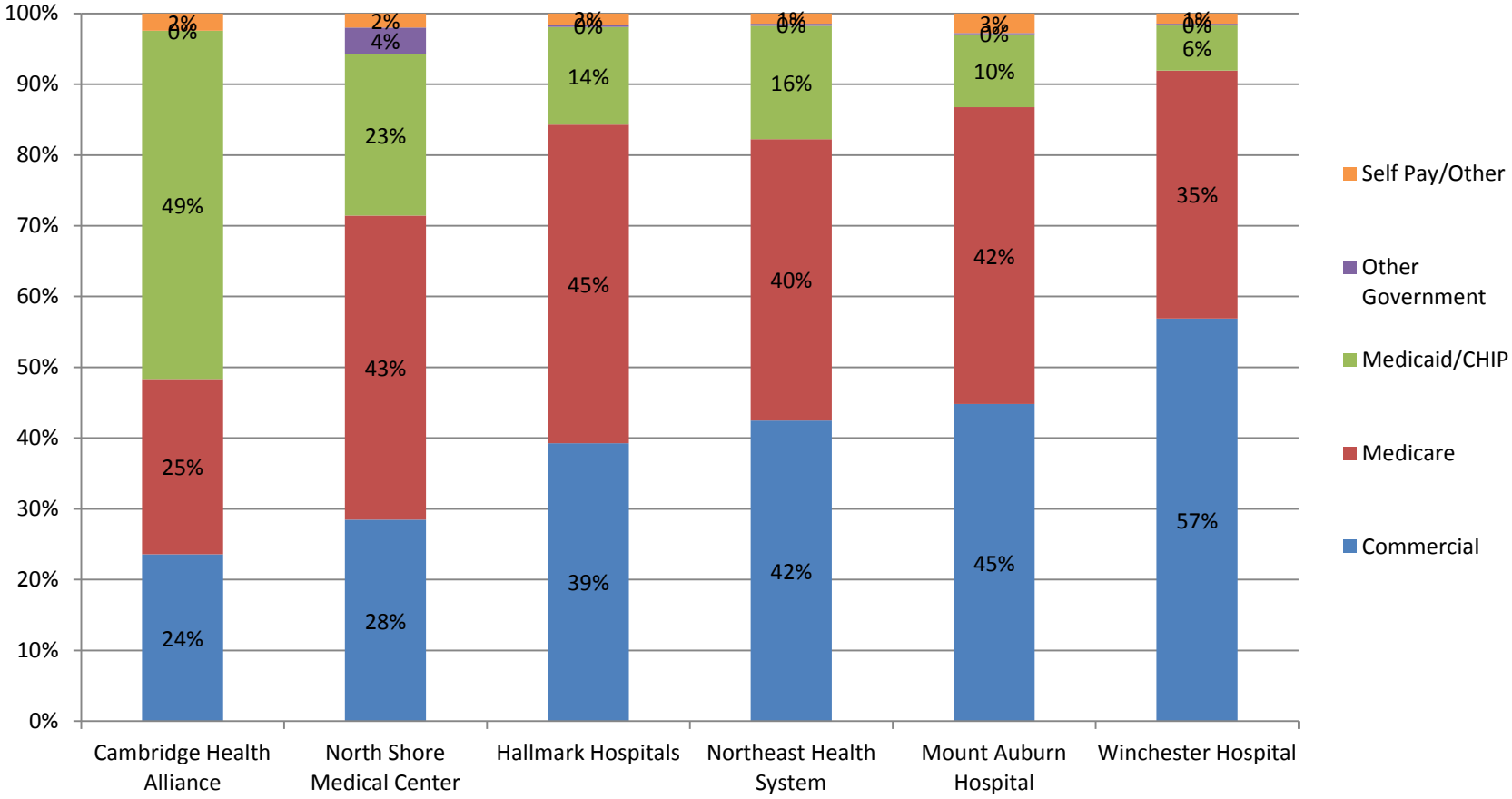
Name	Average % occupancy (all types)	Average % occupancy (behavioral health)
Cambridge Health Alliance	72%	82%
Hallmark (LMH and MWH)	87%	98%
Lahey Hospital & Medical Center	81%	N/A
Mount Auburn Hospital	66%	89%
NSMC (Salem and Union)	59%	84%
Northeast Health System	63%	93%
Winchester Hospital	63%	N/A

SOURCE: 2012 Hospital Profile Reports (CHIA) and 2012 Hospital 403 Reports (CHIA)

NSMC and Hallmark have a higher government payer mix compared to area community hospitals, with Hallmark having the highest Medicare mix among area hospitals

IP & OP payer mix at Hallmark, NSMC, and area community hospitals (GPSR)

HPC analysis of FY10-12 CHIA gross patient service revenue data

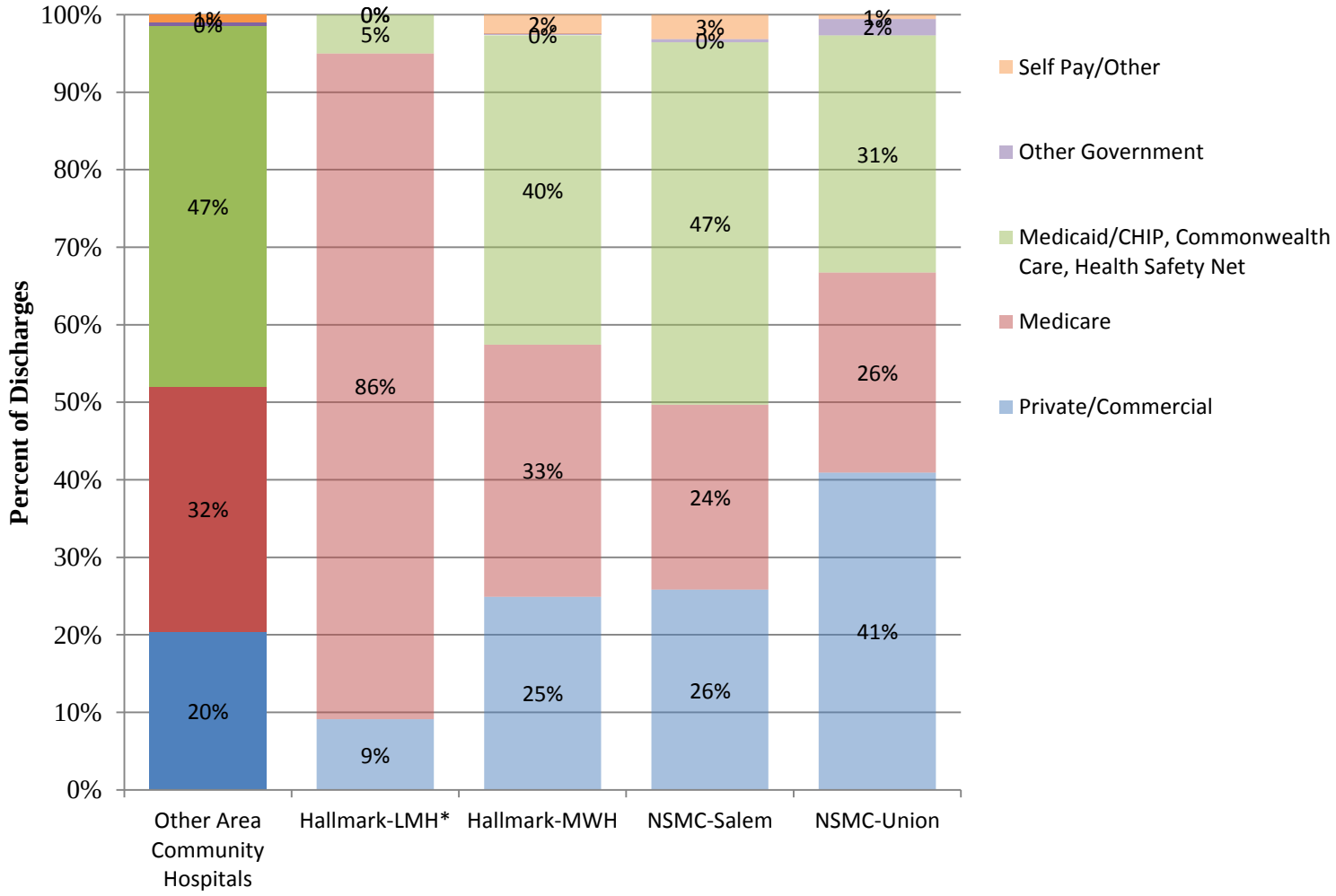


SOURCE: FY10-12 CHIA GPSR (HPC Analysis)

Hallmark-LMH has a particularly high mix of Medicare behavioral health discharges

Payer mix of behavioral health discharges at area general acute care community hospitals

HPC analysis of 2012 MHDC hospital discharge data



SOURCE: MHDC *Inpatient Discharge Database, 2012*

*Note that Hallmark-LMH's behavioral health beds are largely geriatric beds

Principal findings

- The parties are important providers of a range of inpatient services to their local communities, including behavioral health services.
- While northeastern Massachusetts appears to have some excess inpatient capacity, there is likely a need for additional behavioral health capacity. There are inadequate data to allow us to evaluate need for other outpatient services proposed in this transaction.
- In contrast to other Partners hospitals, NSMC has a higher government payer mix and lower commercial mix compared to area hospitals. Hallmark also has a higher government payer mix, including the highest Medicare mix among area hospitals, with Hallmark-LMH having a particularly high mix of Medicare behavioral health discharges.

Structuring an impact review

	Baseline Review	Impact Analysis
Costs		✓
Quality		
Access		

Questions examined

- Will market leverage and bargaining incentives change?
- Will prices change?
- Will care shift to higher or lower priced providers?
- Will utilization change?

DOJ/FTC merger guidelines thresholds

HHI threshold guidelines

Post-Merger Market	HHI	Change in HHI	Presumption
Moderately concentrated	1,500 to 2,500	> 100	**Potentially raises significant competitive concerns and often warrants scrutiny**
Highly concentrated	> 2,500	100 to 200	**Potentially raises significant competitive concerns and often warrants scrutiny**
		> 200	**Presumed to be likely to enhance market power**

Changes in concentration in the parties' PSAs will reinforce Partners' position as the provider with the highest share of inpatient and primary care services in its northeastern Massachusetts service areas

Inpatient HHI calculations for Hallmark's and NSMC's PSAs
HPC analysis of 2012 MHDC hospital discharge data

	LOWER BOUND ANALYSIS			UPPER BOUND ANALYSIS		
	Pre-Merger HHI	Post-Merger HHI	Δ HHI	Pre-Merger HHI	Post-Merger HHI	Δ HHI
Hallmark PSA (HPC Defined)	1,952	2,930	+978	3,017	3,017	+0
Hallmark PSA (Party Defined)	1,898	3,389	+1,490	3,504	3,504	+0
NSMC PSA (HPC Defined)	4,328	4,548	+220	4,563	4,563	+0
NSMC PSA (Party Defined)	5,407	5,652	+245	5,663	5,663	+0

As Hallmark physicians become more tightly integrated with Partners, changes in their physician prices are anticipated to increase total medical spending in northeastern Massachusetts

Impact on regional total medical spending of HHPHO physicians moving to PCHI integrated rates
HPC analysis of CHIA price data for three largest commercial payers

	Average Annual $ Increase in Revenue (2016 onward)	Approximate % Impact to Regional TME
Conservative estimate	$2.3 million dollars	0.3%
Moderate estimate	$6.8 million dollars	0.9%
Higher Estimate	$14.6 million dollars	1.8%

Source: CHIA *2012 Relative Prices, APM, and TME by Payer Databook*

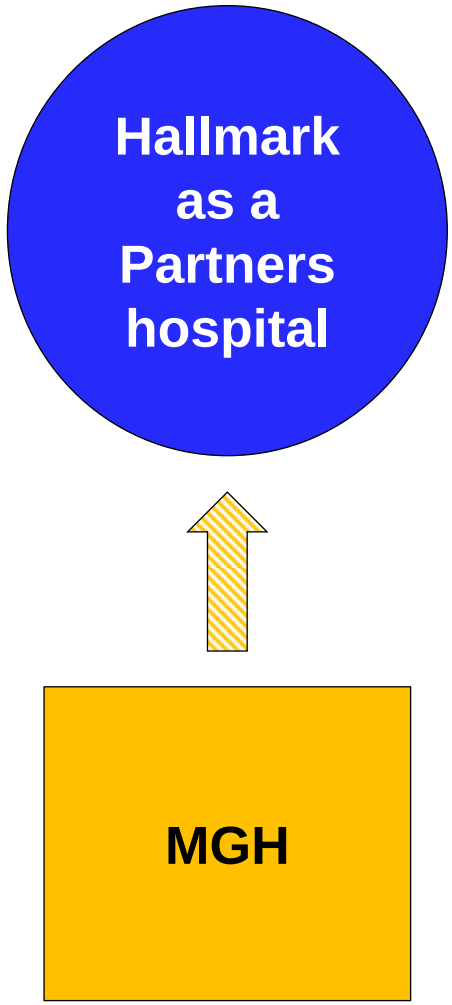
If Partners seeks price parity for Hallmark comparable to its owned community hospitals, changes in prices at the Hallmark hospitals will increase total medical spending in northeastern Massachusetts

Impact on regional total medical spending of Hallmark hospitals moving to PHS community prices

HPC analysis of CHIA price data for three largest commercial payers

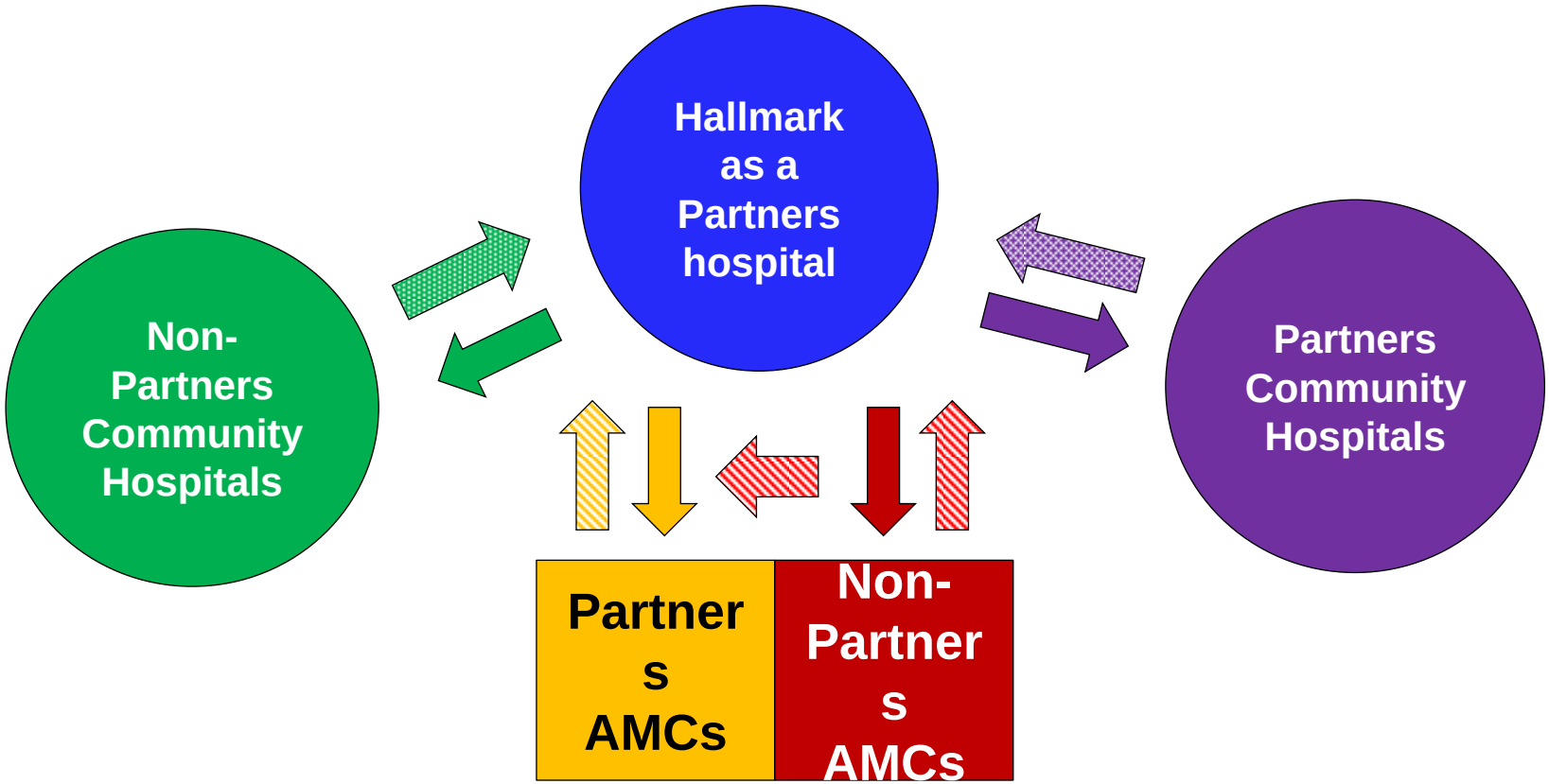
	Average Annual $ Increase in Revenue (Over time)	Approximate % Impact to Regional TME
Inpatient estimate	$5.2 million dollars	0.7%
Outpatient estimate	$4.1 million dollars	0.5%
Total	**$9.3 million dollars**	**1.2%**

The parties state that there will be gross shifts in care from MGH to Hallmark as a result of this transaction, leading to significant savings



Shifts in care as Hallmark joins Partners would be multidirectional, and net changes are unlikely to result in significant savings

Impact on regional total medical spending of net changes in inpatient site of care
HPC analysis of 2012 MHDC hospital discharge data



- At current prices, net shifts in inpatient site of care would likely be cost neutral
- If Partners seeks price parity for Hallmark, these net shifts would increase spending for the three major payers by about $4 million per year

If the patients cared for by the parties' newly recruited PCPs come from area physician groups, shifts in site of care will increase total medical spending

- Partners has stated it will invest $12.5M over five years to recruit 25 net new PCPs in Hallmark's service area
- The patients for these new physicians will likely come from the patients of other area physician groups
- As patients of PCHI physicians, these patients are likely to be referred more regularly to Partners hospitals

	Group 1	Group 2	Group 3	Group 4	Group 5	Hallmark	North Shore
Average Price of IP Referral Hospitals	1.094	1.095	1.096	1.173	1.200	**1.181**	**1.191**
Average Price of OP Referral Hospitals	1.048	0.913	1.006	1.067	1.093	**1.086**	**1.160**

- Overall, these changes in care referral patterns are anticipated to increase spending for the three major commercial payers by about $1.3M to $3.8M per year

The parties have outlined a set of PHM strategies that have the potential to reduce wasteful spending; however, the scope of potential savings is likely smaller than the parties' projections

- The parties intend to implement a range of PHM initiatives in Hallmark's service area, including recruiting new PCPs, expanding urgent care access and use of remote care services, and implementing targeted chronic disease management programs
- The parties project average gross savings of about $10.9 million per year in the first five years
- We affirm the potential for such care delivery reforms to reduce waste and improve care quality, but also identify some questionable assumptions underlying the parties' projections
- More precise modeling indicates gross savings of up to half the amount projected by the parties, or up to $5.4 million annually

Principal findings

- This transaction will reinforce Partners' position as the provider with the highest share of inpatient and PCP services in its northeastern Massachusetts service areas and will strengthen Partners' ability and incentives to negotiate price increases and other favorable contract terms for Hallmark.
- As the Hallmark physicians become more tightly integrated with Partners, changes in physician prices are anticipated to increase total medical spending in northeastern Massachusetts.
- If Partners seeks parity between Hallmark's prices and those at its owned community hospitals, these changes in hospital prices will increase total medical spending in northeastern Massachusetts.
- Changes in site of care/referral patterns are unlikely to result in significant savings. If Partners seeks rate increases for Hallmark providers, anticipated changes in referral patterns to higher priced providers will increase total medical spending in northeastern Massachusetts.
- While the proposed PHM initiatives have the potential to reduce unnecessary utilization and wasteful spending, the scope of potential savings is likely smaller than predicted by the parties and is not expected to offset anticipated increases in total medical spending.

Structuring an impact review

	Baseline Review	Impact Analysis
Costs		
Quality		✓
Access		

Questions examined

- Are there differences in the parties' historic quality performance that are likely to drive transaction-specific quality improvement?
- What plans have the parties identified that would help them realize these potential improvements?

Principal findings

- Differences in the parties' performance across quality measures suggest opportunities for Hallmark to improve its quality through the exchange of best practices.
- The parties have identified some specific areas they intend to target for quality improvement, as well as plans for clinical integration and care delivery reforms that may facilitate the sharing of best practices.
- At the same time, the parties are already contractually and clinically aligned, and it is unclear how corporate ownership is instrumental to improving clinical quality in ways that their current affiliation has not.

Structuring an impact review

	Baseline Review	Impact Analysis
Costs		
Quality		
Access		✓

Questions examined

- How will proposed service expansions affect access?
- How will the relocation of services from certain facilities impact access, particularly for vulnerable patients?

Principal findings

- There is significant potential for the parties' plans to improve access to targeted services. However, the current plans lack sufficient detail for the HPC to determine the extent to which such potential will be realized
- Relocating inpatient general acute care services is unlikely to impair regional access to these services
- Relocating inpatient behavioral health services raises questions regarding adverse access impacts for vulnerable populations
- We invite the parties to address our access questions in their written response, including how they will continue to engage with relevant communities and stakeholders to ensure that final care delivery plans align with community need

Conclusions

Cost Impact: This transaction will reinforce Partners' position as the provider with the highest share of inpatient and primary care services in its northeastern Massachusetts service areas. Over time, this transaction is anticipated to increase spending in northeastern Massachusetts by an estimated $15.5 million to $23 million per year for the three major commercial payers due to material price effects, which are not expected to be offset by commensurate savings from decreased utilization through population health management.

Quality Impact: The differences in Partners and Hallmark's historic quality performance indicate potential for the transaction to drive quality improvement. However, Partners and Hallmark have already been affiliated for nearly 20 years, including joint clinical and contracting efforts, and it is unclear how this merger is necessary to improve clinical quality in ways the parties' longstanding affiliation has not.

Access Impact: The parties have proposed significant changes to care delivery that have the potential to expand access to a number of services in northeastern Massachusetts. However, the parties' current plans lack the detail necessary to evaluate the extent to which such potential will be realized. Given Hallmark and NSMC's high government payer mix, the proposed reconfiguration and relocation of services is anticipated to impact especially vulnerable populations as they seek to access services at new, more distant locations.

Next steps

- Per M.G.L. c. 6D, § 13, the HPC issues a preliminary report
- The parties have 30 days to respond to our findings
- The Commission issues a final report
- The parties may not close the transaction until at least 30 days following the issuance of the final report

Vote: Approving and Issuing Preliminary CMIR

Motion: That pursuant to section 13 of chapter 6D of the Massachusetts General Laws, the Commission hereby issues the attached preliminary report on the cost and market impact review of the proposed acquisition of Hallmark Health System and all of its subsidiaries by Partners HealthCare System.

Agenda

- Approval of Minutes from May 22, 2014 Meeting
- Executive Director Report
- Cost Trends and Market Performance
  - Material Change Notices (MCN)
  - Preliminary Report on Cost and Market Impact Review
  - **Submission into Court Authorized Public Comment Process**
  - Public Comment
  - Cost Trends Report: July 2014 Supplement
- Community Health Care Investment and Consumer Involvement
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- Schedule of Next Commission Meeting (September 3, 2014)

Vote: Submission into Court Authorized Public Comment Process

Motion: The Commission hereby directs the Executive Director to summarize key relevant findings from the Commission's final cost and market impact report regarding Partners HealthCare System's proposed acquisitions of South Shore Hospital and Harbor Medical Associates and its preliminary report regarding Hallmark Health System as well as findings from its 2013 and supplemental cost trend reports regarding market trends and delivery system dynamics and, upon approval by the Commission, to submit such summary along with the reports on or before July 21, 2014 to the Attorney General pursuant to the public comment process authorized by the court in *Commonwealth of Massachusetts v. Partners HealthCare System, Inc., South Shore Health and Educational Corporation and Hallmark Health Corporation*, Superior Court Civil Action No. 14-2033-BLS.

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Cost Trends Report: July 2014 Supplement

Please see the separate chart deck for slides pertaining to the conclusions of the Cost Trends Report: July 2014 Supplement.

Vote: Approving and Issuing Cost Trends Report

Motion: That, pursuant to section 8(g) of chapter 6D of the Massachusetts General Laws, the Commission hereby issues the attached supplemental report on cost trends.

Agenda

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CHART Phase 1 Update

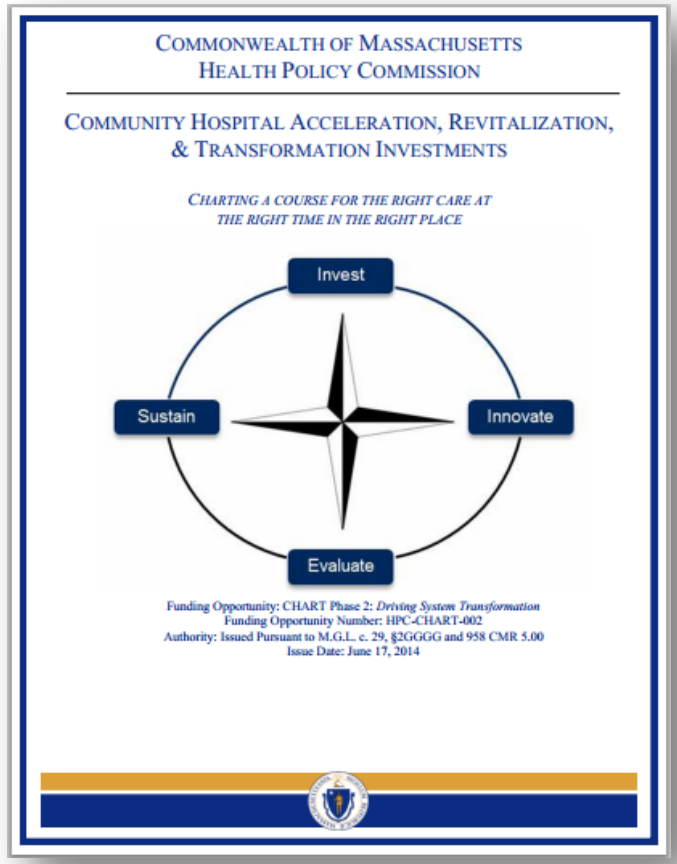
- All CHART Phase 1 hospitals are making progress on key goals and deliverables.
- Safe & Reliable is currently conducting site visits in all hospitals; HPC staff have completed site visits in 26 of 27 CHART Phase 1 hospitals.
- Harvard Business School is currently implementing the World Management Survey in participating hospitals. Early reports are that the opportunity has been well received.
- HPC, in coordination with the Mass. Council on Community Hospitals, is hosting a learning collaborative on care coordination and management of complex patients in early July.
- The CHART Leadership Academy will occur in September.

Leadership Academy

CHART update

- The CHART Phase 2 RFP was released on June 17.
- 30 CHART-eligible hospitals can compete for up to $60M in funding in key domains specified by the Commission.
- Key dates:
  - *July 18:* Prospectuses Due
  - *September 12:* Proposals Due
  - *October:* Award recommendations to the board
- The HPC is offering a series of in depth information sessions (8+) on a variety of educational topics (e.g., behavioral health, metric selection, etc.) to support hospitals.

Phase 2 Request for Proposals


COMMONWEALTH OF MASSACHUSETTS
HEALTH POLICY COMMISSION

COMMUNITY HOSPITAL ACCELERATION, REVITALIZATION, & TRANSFORMATION INVESTMENTS

CHARTING A COURSE FOR THE RIGHT CARE AT THE RIGHT TIME IN THE RIGHT PLACE

Invest
Sustain
Innovate
Evaluate

Funding Opportunity: CHART Phase 2: *Driving System Transformation*
Funding Opportunity Number: HPC-CHART-002
Authority: Issued Pursuant to M.G.L. c. 29, §2GGGG and 958 CMR 5.00
Issue Date: June 17, 2014

Agenda

- Approval of Minutes from May 22, 2014 Meeting
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Agenda

- Approval of Minutes from May 22, 2014 Meeting
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- Quality Improvement and Patient Protection
- **Care Delivery and Payment System Transformation**
  - Final Regulation for Registration of Provider Organization Program
- Administration and Finance
- Schedule of Next Commission Meeting (September 3, 2014)

Agenda

- Approval of Minutes from May 22, 2014 Meeting
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  - **Final Regulation for Registration of Provider Organization Program**
- Administration and Finance
- Schedule of Next Commission Meeting (September 3, 2014)

Approach to RPO regulation and program development

HPC relies on the following principles, developed through CDPST, in designing RPO standards and submission materials:

1. Provider Organizations are faced with significant new responsibilities under Chapter 224. RPO must offer a streamlined registration process that prioritizes **administrative simplification**.
2. Provider Organizations have existing points of contact with many state agencies. RPO should **avoid requesting duplicative data** through ongoing coordination (e.g., with DPH, DOI, CHIA).
3. RPO must **balance** the importance of collecting data elements with the potential burden to Provider Organizations.
4. The RPO program should **phase in** the types of information that Provider Organizations must report over time.

Recommended updates to regulation in response to public comment

Regulation (958 CMR 6.02)

Affiliates / Affiliations

- Amended definitions of Corporate Affiliates, Contracting Affiliates, and Clinical Affiliates to describe the relationship itself – the affiliation – rather than one of the parties in the relationship.

Regulation (958 CMR 6.02)

Contractual Affiliate / Contracting Affiliation

- The term "Contract*ual* Affiliate" has been replaced with the term "**Contract*ing* Affiliation**" throughout the revised regulation to enhance precision and clarity and has been expanded to include the phrase "**negotiates, represents or otherwise acts**" to the existing phrase.

Regulation (958 CMR 6.04)

Provider and Provider Organization

- The phrase "Provider and Provider Organization" has been condensed to "Provider Organization" in most places to clarify that the responsibility to register resides squarely with the Provider Organization.

Regulation (958 CMR 6.04)

Streamlined Registration for Qualified Provider Organizations

- If a Provider Organization establishes some of its contracts through another Provider Organization it may meet its obligation to register through the filing of an abbreviated application.

Updates to recommended final regulation in response to public comment

Regulation (958 CMR 6.05)

Timing Updates and Registration for Future RPOs

- Removed specific dates, allowing greater flexibility in extending registration deadlines to be responsive to unanticipated challenges; HPC will give at least 180 days notice prior to deadlines for registration.

Regulation (958 CMR 6.05)

Mandatory Updates

Off-cycle updates will be required for changes that:

1. Require a Material Change Notice to the HPC;
2. Require a Determination of Need by DPH; or
3. Affect an essential service as defined by DPH (e.g. closures)

AND affect information on file with the Commission.

Regulation (958 CMR 6.05)

Leveraging Data from Other Agencies

HPC will continue to work closely with other Commonwealth agencies to streamline the registration process and minimize administrative burden.

Regulation (958 CMR 6.06)

Further Review

Providers and Provider Organizations can request further review by HPC of:

- A determination that the Provider Organization is required to register.
- A determination that the Provider Organization's application is incomplete.

Provider Organizations will not be in violation of the regulation, if applicable while under review

RPO timeline and Initial Registration Part 1

Initial Registration: Part 1 Deadlines	
Actions	**Dates**
DSM: Part 1 Released	July 18, 2014 (Estimated)
Training Sessions	August – September 2014
One-on-one Meetings	August – October 1, 2014
Initial Registration: Part 1 Opens	October 1, 2014
Initial Registration: Part 1 Closes	November 14, 2014
DSM: Part 2 Released	Q4, 2014 (Estimated)
Initial Registration: Part 2	Q1, 2015 (Estimated)

The Part 1 files ask for basic, high-level information on the Provider Organization and its Corporate and Contracting Affiliations.

Background Information File
Description of Provider Organization, and contact information

Corporate Affiliations File
List of Corporate Affiliates; Corporate Organizational Chart

Contracting Affiliations File
List of entities on whose behalf the Provider Organization negotiates, represents or otherwise acts to establish contracts with Carriers or TPAs

Forms & Supporting Documentation File
INET User Agreement
Affidavit of Truthfulness

Vote: Approving Final Regulation

Motion: That the Commission hereby approves and issues the attached FINAL regulation on the registration program for provider organizations, pursuant to sections 11 and 12 of chapter 6D of the Massachusetts General Laws.

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  - Final Fiscal Year 2014 Update
  - Fiscal Year 2015 Operating Budget
- Schedule of Next Commission Meeting (September 3, 2014)

HPC Budget Elements

Beginning Balance
- Prior fiscal year revenue minus prior fiscal year expenses
- Revenue comes from the industry assessment and other sources, such as legislatively appropriated funds

Income Sources
- Current year assessment
- Legislatively appropriated funds

Expenses
- Legislatively directed spending
- HPC administration and operations
- HPC investments and grant programs

Ending Balance
- Net of Beginning Balance, Income Sources, and Expenses

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HPC Administrative Budget: Final FY14 Balance Sheet

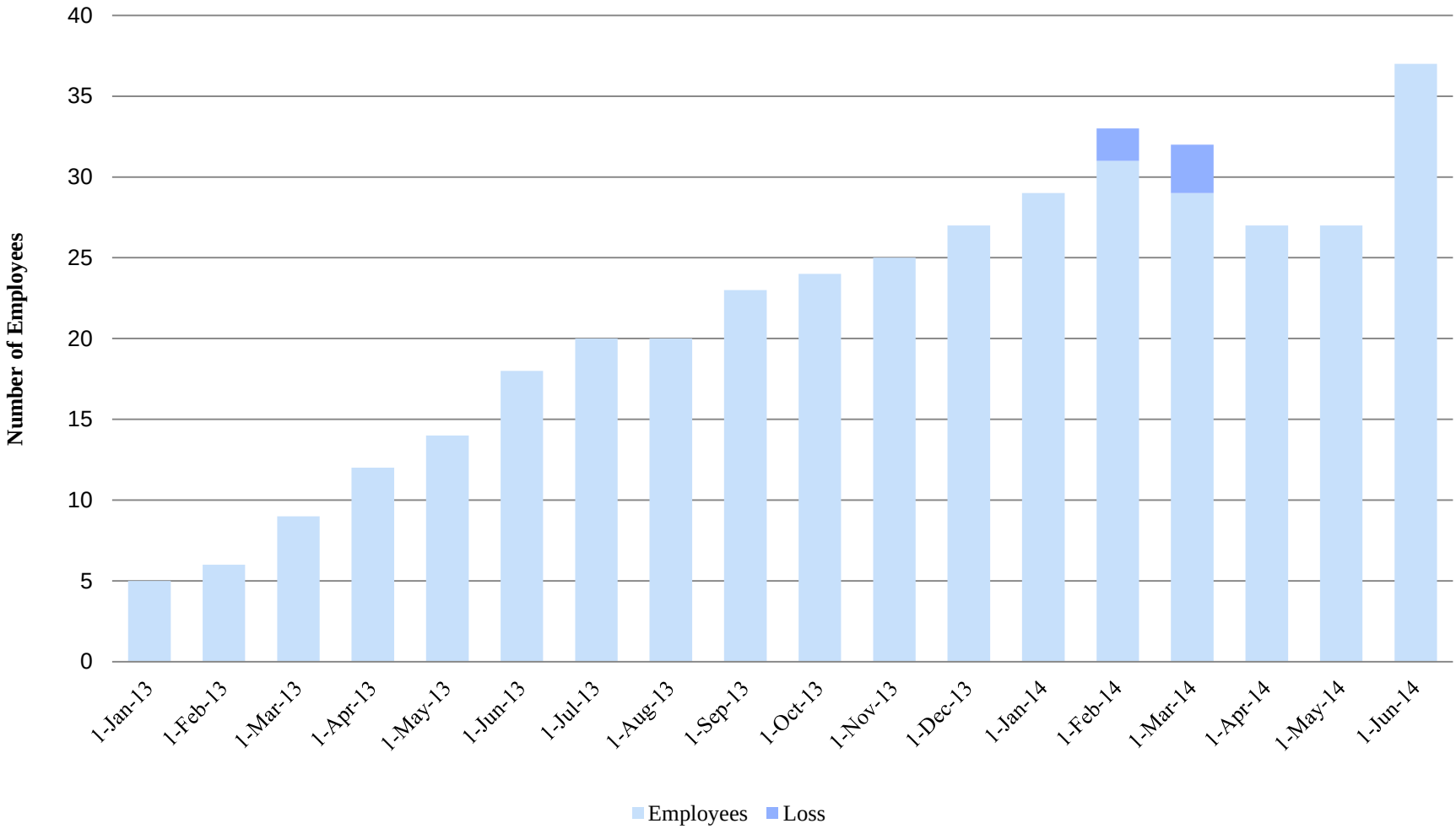
FY 14 - Health Care Payment Reform Trust Fund (HPC Operating Budget)			
		Proposed Budget	Q4 Update
Beginning Balance			
		$3,702,094.00	$3,753,689.00
Revenues			
	Second Installment - Industry Assessment	$2,500,000.00	$2,379,000.00
	Gaming License/Slots Revenue	$39,500,000.00	$1,725,000.00
Total Available for Expenditure		$45,702,094.00	$7,857,689.00
Total Approved for Operating Budget		$5,650,000.00	$5,650,000.00
Expenditures			
	Payroll	$2,657,850.00	$2,134,976.00
	GIC/Retirement	$714,962.00	$575,761.00
	Rent	$225,000.00	$149,356.00
	Professional Services	$1,650,000.00	$1,950,000.00
	IT Infrastructure and Services	$200,000.00	$122,184.00
	Administrative/One-Time Expenses	$200,000.00	$172,820.00
Total HPC Operating Expenses		**$5,647,812.00**	**$5,105,097.00**
FY 14 Health Care Payment Reform Trust Fund Year-End Balance		$40,054,282.00	$2,752,592.00

HPC Investment Program: Final FY14 Balance Sheet

FY 14 - Distressed Hospital Trust Fund (Investment Program Budget)			
		Proposed Budget	Q4 Update
Beginning Balance		$ 40,294,727.00	$ 40,294,727.00
Revenues			
	Second Installment - Industry Assessment	$ 26,247,479.00	$ 26,262,051.00
Total Available for Expenditure		$ 66,542,206.00	$ 66,556,778.00
*FY14 Phase 1 Awards**		$ (8,000,000.00)	$ (7,957,648.00)
Expenditures			
	Payroll**	$ (187,809.00)	$ (181,231.00)
	GIC/Retirement	$ (51,816.00)	$ (46,940.00)
	Rent	$ (16,175.00)	$ (17,603.00)
	Professional Services/CHART Engagement Activities	$ (325,000.00)	$ (115,000.00)
	IT Infrastructure and Services	$ (7,189.00)	$ (30,205.00)
	Administrative/One-Time Expenses	$ (6,318.00)	$ (9,543.00)
Total HPC Operating Expenses		$ (594,307.00)	$ (400,522.00)
	Operating Expenses as a % of Total Available		0.60%
FY 14 Health Care Payment Reform Trust Fund Year-End Balance		$ 57,848,322.00	$ 58,198,608.00

* Represents 80% of Phase 1 approved awards. Remaining 20% distributed in FY15.
** 3.34 FTEs, including part-time legal and fiscal support in phased hiring

HPC Phased Employee Growth: FY13-FY14



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All Programs: FY15 Balance Sheet

Health Policy Commission - Fiscal Year 2015				
		FY15 Admin	FY15 CHART	FY15 Total
Beginning Balance				
	FY 14 Balance Forward	$ 2,752,592.00	$ 58,198,608.00	$ 60,951,200.00
Revenues				
	Third Installment of Industry Assessment	$ 2,504,000.00	$ 26,262,000.00	$ 28,766,000.00
	Mass Gaming Commission - Casino	$ 39,500,000.00	$ -	$ 39,500,000.00
Total Available for Expenditure		**$ 44,756,592.00**	**$ 84,460,608.00**	**$ 129,217,200.00**
CHART Phase 1 Awards				
	Awards to Hospitals	$ -	$ (1,500,000.00)	$ (1,500,000.00)
	CHART Engagement Activities	$ -	$ (280,000.00)	$ (280,000.00)
CHART Phase 2 Awards		$ -	$ (30,000,000.00)	$ (30,000,000.00)
Expenditures				
	Payroll	$ (3,184,767.00)	$ (495,632.00)	$ (3,680,399.00)
	GIC/Retirement	$ (917,212.00)	$ (142,742.00)	$ (1,059,954.00)
	Rent	$ (328,100.00)	$ (57,900.00)	$ (386,000.00)
	Professional Services	$ (2,950,000.00)	$ (1,170,000.00)	$ (4,120,000.00)
	IT Infrastructure and Services	$ (170,000.00)	$ (50,000.00)	$ (220,000.00)
	Administrative Support	$ (234,250.00)	$ (42,750.00)	$ (277,000.00)
	2nd Annual Cost Trends Hearing	$ (8,000.00)	$ -	$ (8,000.00)
	One Time Moving Costs	$ (200,000.00)	$ (35,000.00)	$ (235,000.00)
Total HPC Operating Expenses		**$ (7,992,329.00)**	**$ (1,994,024.00)**	**$ (9,986,353.00)**
HPC FY15 Ending Balance		$ 36,764,263.00	$ 50,686,584.00	$ 87,450,847.00

Vote: Approving HPC FY15 Operating Budget

Motion: That the Commission hereby accepts and approves the Commission's total operating budget for fiscal year 2015, as recommended by the Commission's Administration and Finance Committee and as presented and attached hereto, and authorizes the Executive Director to expend these budgeted funds.

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Contact Information

For more information about the Health Policy Commission:

- Visit us: http://www.mass.gov/hpc
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