

COMMONWEALTH OF MASSACHUSETTS
HEALTH POLICY COMMISSION

Administration and Finance

February 19, 2015



Agenda

- Final FY 2014 Budget Review
- Mid-Year FY 2015 Budget Update
- Projected FY 2016 Budget Preview
- Financial Internal Controls Audit
- Lease Amendment (VOTE)

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HPC Trust Funds

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")
- Funded by:
 - Ch. 224 one-time industry assessment (~\$11M total over 4 years)
 - 23% of any gaming license fees
 - Legislative appropriations
 - On-going 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

Final FY14 Budget Review - Summary

FY14: July 1, 2013 - June 30, 2014

Both Trust Funds finished the year under Board-approved operating budgets...

– *Health Care Payment Reform Trust Fund*

- Approved Budget: \$5,647,812
- Final Expenses: \$4,896,969
- Total Variance: **\$750,522**

– *Distressed Hospital Trust Fund*

- Approved Operating Budget: \$693,884
- Final Expenses: \$540,674
- Total Variance: **\$153,210**



...and rolled over **positive** Trust Fund balances into FY15.

- HCPR Year-End Balance: \$2.9 million
- DHTF Year-End Balance: \$57.9 million
- DHTF Year-End Available Balance (net of previously committed grants): \$55.9 million*
- Combined Balance: **\$60.8 million**

*Final distribution of Phase One grants occurred in FY15 (\$2M).

Final FY14 Budget Review – Notable Variances

Notable Variances

- Salary and Benefits  **\$600K**
 - Due to the on-going strategy of targeted, rolling staff hires, amounts expended on salary and benefits were *lower* than originally anticipated
- Professional Services 
 - Primarily due to the near-simultaneous initiation of four cost and market reviews, and the significant analytic and professional services needed to support these reviews, amounts expended on professional services related to market performance work were *higher* than originally anticipated (also included development of MCN regulations)
 - However, this amount was partially off-set by a one-time interagency contribution from CHIA (\$380K) to support the HPC's significant investment in professional services necessary to prepare analytic files from the APCD of sufficient quality for cost trends research

Health Care Payment Reform Trust Fund: FY14 Final Balance Sheet

Health Care Payment Reform Trust Fund - Fiscal Year 2014			
	FY14 HCPR Approved	FY14 HCPR Final	Variance
<i>Beginning Balance</i>			
FY 13 Balance Forward	\$ 2,280,191	\$ 2,280,191	\$ 0
<i>Revenues</i>			
Second Installment of Industry Assessment	\$ 3,851,548	\$ 3,851,548	\$ 0
Mass Gaming Commission - Slots	\$ 1,725,000	\$ 1,725,000	\$ -
<i>Total Available for Expenditure</i>	\$ 7,856,739	\$ 7,856,739	\$ 0
<i>Expenditures</i>			
Payroll/Benefits	\$ 3,372,542	\$ 2,757,960	\$ 614,582
Professional Services	\$ 1,650,000	\$ 1,682,053	\$ (32,053)
Rent/IT/Other Admin &Overhead	\$ 625,000	\$ 456,977	\$ 168,023
<i>Total HPC Operating Expenses</i>	\$ 5,647,542	\$ 4,896,990	\$ 750,552
<i>Final HCPR FY15 Ending Balance</i>	\$ 2,209,197	\$ 2,959,749	\$ 750,552

Distressed Hospital Trust Fund: FY14 Final Balance Sheet

Distressed Hospital Trust Fund - Fiscal Year 2014			
	FY14 DHTF Approved	FY14 DHTF Final	Variance
<i>Beginning Balance</i>			
FY 13 Balance Forward	\$ 25,994,173	\$ 25,994,173	\$ 0
<i>Revenues</i>			
Second Installment of Industry Assessment	\$ 40,410,473	\$ 40,410,473	\$ 0
<i>Total Available for Expenditure</i>	\$ 66,542,006	\$ 66,542,006	\$ 0
<i>Expenditures</i>			
Payroll/Benefits	\$ 239,625	\$ 259,788	\$ (20,163)
Professional Services	\$ 425,000	\$ 220,885	\$ 204,115
Rent/IT/Other Admin &Overhead	\$ 29,259	\$ 60,001	\$ (30,742)
CHART Phase 1 Awards	\$ 8,000,000	\$ 7,957,648	\$ 42,352
<i>Total CHART Operating Expenses and Grants</i>	\$ 8,693,884	\$ 8,498,374	\$ 195,562
<i>Final DHTF FY15 Ending Balance</i>	\$ 57,848,122	\$ 57,906,278	\$ 195,562

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Mid-Year FY15 Budget Update - Summary

FY15: July 1, 2014 - June 30, 2015

Both Trust Funds are currently projected to end the year under Board-approved operating budgets...

– *Health Care Payment Reform Trust Fund*

- Approved Budget: \$7,992,329
- Mid-Year Projected Expenses: \$7,537,521
- Total Projected Variance: **\$454,808**

– *Distressed Hospital Trust Fund*

- Approved Operating Budget: \$1,994,023
- Mid-Year Projected Expenses: \$1,983,592
- Total Projected Variance: **\$10,432**

...and will roll over **positive** Trust Fund balances into FY16.

- HCPR Projected Year-End Balance: \$14.1 million
- DHTF Projected Year-End Balance: \$77.4 million
- DHTF Projected Year-End Available Balance (net of previously committed grants): \$20.2 million*
- Combined Total Balance: **\$91.5 million**

*Distribution of Phase Two grants is over the multi-year grant cycle that spans FY15-FY17.

Mid-Year FY15 Budget Update – Transfers and 9C Cuts

Statutorily Required Transfers in FY15

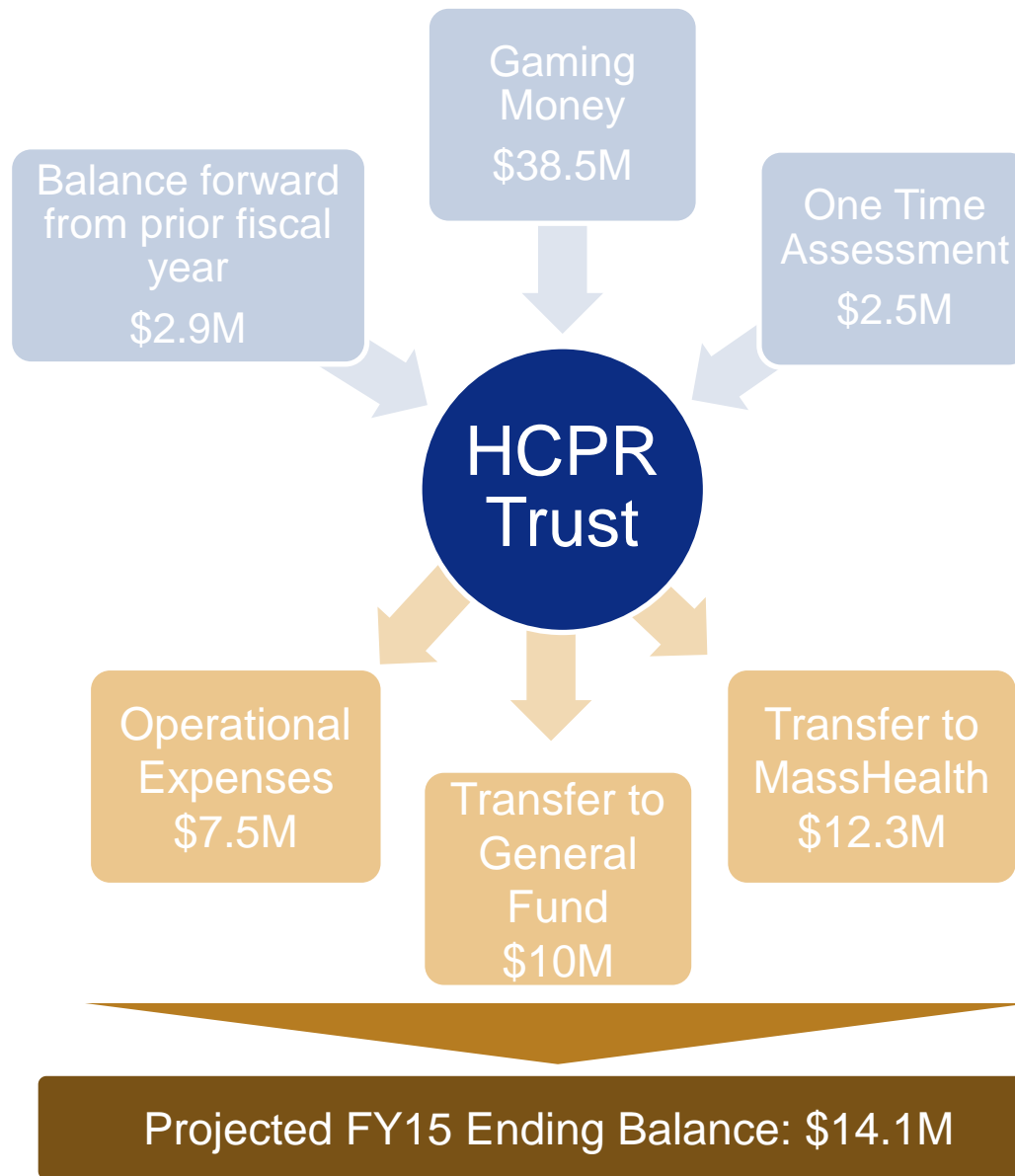
- \$12,300,000 from the HCPR to MassHealth (Net impact \$6M)
 - Authorized by the Legislature and signed by Governor Patrick in July, 2013 as part of the FY14 state budget
 - Transferred funds will support enhanced behavioral health rates in the Medicaid program for certain DSH hospitals
 - MassHealth is required to seek matching federal financial participation (FFP) and to return \$6M back into the HCPR, resulting in an overall \$6M reduction (est. 4-6 months for collection of FFP)*
- \$10,000,000 from the HCPR to the General Fund
 - Authorized by the Legislature and signed by Governor Baker in February, 2015 as part of a \$768 million mid-year budget “fix”

Reduction of HPC Appropriation (“9C Cut”)

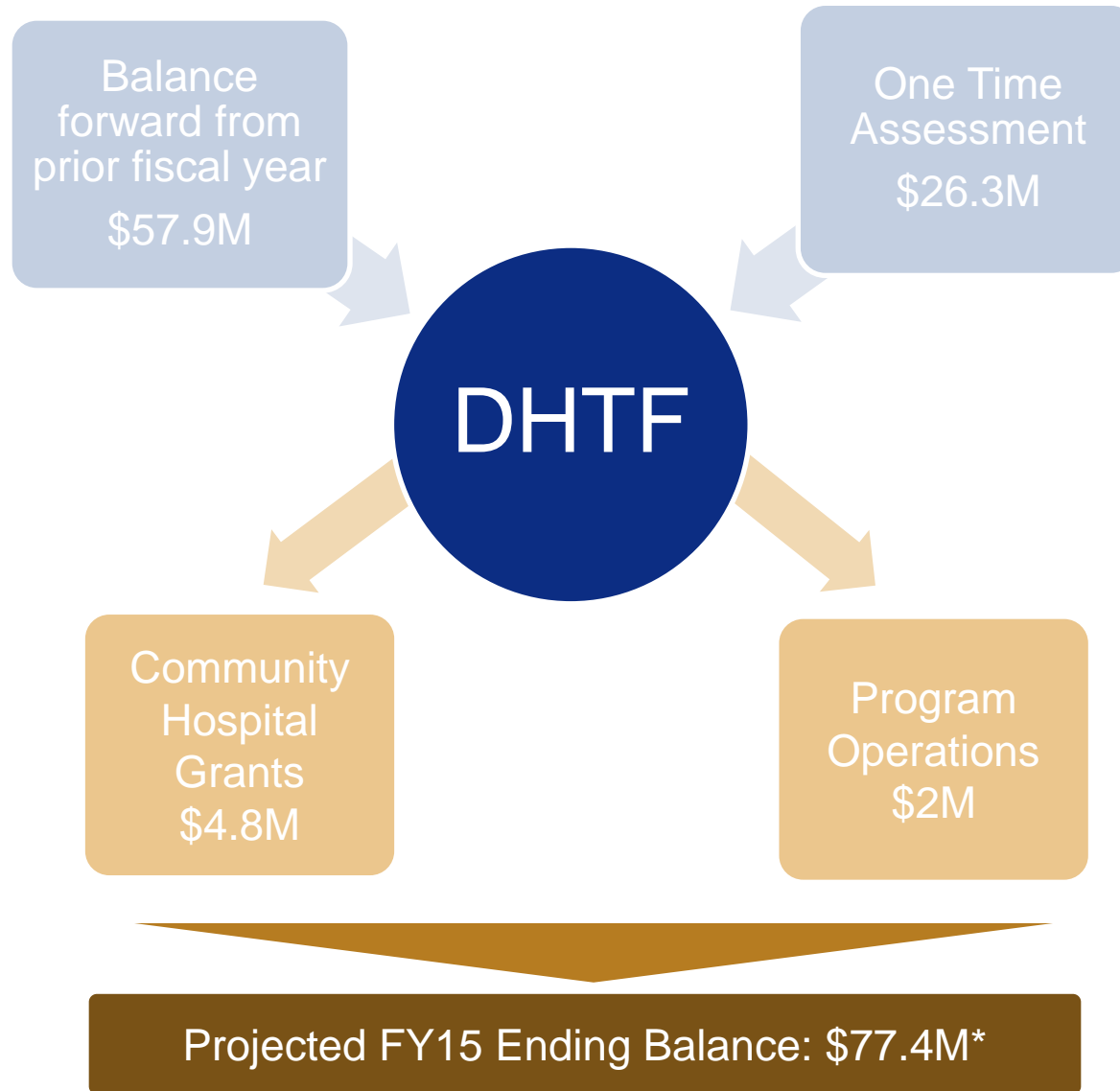
- \$2,000,000 reduction of line-item 1599-2004
 - Governor Patrick reduced this line-item by \$500K in October, 2014
 - Governor Baker eliminated the remaining \$1.5M in February, 2015
 - Funds were originally included in the FY15 state budget to support behavioral health integration within the HPC’s PCMH program

*Expected to be deposited in FY16

Mid-Year FY15 Budget Update – HCPR Components






Mid-Year FY15 Budget Update – DHTF Components



*Balance net of previously committed grants is \$22.7M




Mid-Year FY15 Budget Update – Notable Variances

Notable Variances

- Salary and Benefits  ~\$150K
 - Due to the on-going strategy of targeted, rolling staff hires, amounts expended on salary and benefits are trending *lower* than originally budgeted
- Professional Services  ~\$900K
 - Professional services related to market performance is trending lower than originally budgeted, primarily due to a pause in active cost and market impact reviews
 - Professional services related to cost trends research and analysis is trending lower than originally budgeted, primarily due to a temporary suspension in contracted services while the HPC conducts a re-procurement of the HPC's APCD analytic consultant
 - Professional services related to the CHART program are trending on-budget as the HPC is providing significant technical assistance support for CHART hospitals in implementation planning for Phase Two
- Transfer to CHIA for the Registration of Provider Organization (RPO) IT Build  ~(\$380K)
 - The HPC and CHIA are collaborating on the design, development and implementation of a web-based application for the collection of data for the RPO program, a shared responsibility under Ch. 224
 - Through an interagency agreement, CHIA is providing the engineering, project management and IT expertise necessary to create and maintain this platform to the HPC's specifications
 - This expense was not known at the time of the FY15 budget development and approval

Mid-Year FY15 Budget Update – Notable Variances

Notable Variances Cont'd

- Rent/Office Relocation  ~\$50K
 - Costs associated with the HPC's office relocation are expected to be within approved budgets
 - Overall FY15 rent costs are lower than originally budgeted due to a delayed move-in date at 50 Milk Street
- Comptroller's Overhead Assessment  ~(\$300K)
 - State agencies funded by off-budget Trust Funds are required to pay an assessment of 10% on the total of all salary and professional services to the Comptroller's Office (CTR)
 - This assessment supports the operation and maintenance of state oversight agencies
 - The CTR has never before imposed this assessment, however beginning January 2015 and moving forward, this assessment will be levied on the HPC
 - This expense was not anticipated in the approved FY15 budget
- New Statutory and Board-Directed Responsibilities  ~(\$100K - \$500K)
 - In 2015 the Legislature charged the HPC with a significant role two new initiatives: ICU nurse staffing and substance use disorder policy development
 - In addition, the Board approved a role for the HPC in reviewing significant market expansions and closures and potentially providing comment to DPH
 - Employee and consultant expenses are being absorbed within the existing FY15 budget, but may require additional resources in future years

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Projected FY16 Budget Preview - Summary

FY16: July 1, 2015 - June 30, 2016

Both Trust Funds will begin the year with **positive** balances and will receive additional deposits during the fiscal year:

– *Health Care Payment Reform Trust Fund*

- FY16 Projected Beginning Balance: ~\$14.1 million
- FY16 Projected Deposits: ~\$8.5 million*
- Total Available for Expenditure: ~\$22.6 million

– *Distressed Hospital Trust Fund*

- FY16 Projected Beginning Balance: ~\$77.4 million
- FY16 Projected Deposits: \$26.3 million
- Total Remaining for Expenditure (net of previously committed grants): ~\$46 million

FY16 marks the final year the Ch. 224 one-time assessment. Beginning in FY17, the operations for the HPC will be supported by an annual assessment on acute care hospitals and health plans.

*Includes \$6 million in expected federal matching funds

Projected FY16 Budget Preview – Notable Considerations

Notable Considerations for FY16 Budget

- 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
- 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 payment, and other payment reform activities
- Performance Improvement Plans
 - 2015 is the first year the HPC is authorized to implement “performance improvement plans” on provider organizations and payers that excessively contributed to cost growth in the Commonwealth

Projected FY16 Budget Preview – Notable Considerations

Notable Considerations for FY16 Budget Cont'd

- Market Changes Requiring Review and Comment
 - Potential for significant market changes that may require CMIRs, or – for the first time - the development of HPC comment to DPH regarding closures/expansions
- APCD Development
 - HPC plans to re-procure an analytic consultant to support the on-going development of the APCD for cost trends research and policy development
- 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
- 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. On-going costs associated with these responsibilities is still being evaluated.
 - Further, a number of bills filed for the 2015-2016 legislative session significantly enhance HPC's existing responsibilities and/or establish new powers

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Financial Internal Controls Audit

- In December 2014, the Health Policy Commission contracted with Deloitte to conduct an independent audit of internal procedures and controls
- Deloitte audited the HPC's internal controls across the following areas:
 - Budget
 - Contracts
 - Human Resources
 - Payments
 - Payroll
 - Procurements
 - Receivables
 - Revenue
 - System Security
 - Time and Attendance
 - Vendor Management
- Deloitte conducted over 10 functional interviews and requested over 75 documents in the process of conducting the audit. Results of the audit are forthcoming.

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- **Lease Amendment (VOTE)**

HPC Lease Amendment: 50 Milk Street

DEVONSHIRE STREET

MILK STREET

- Current Space
- Proposed Expansion



Vote: Lease Amendment at 50 Milk Street

Motion: That the Administration and Finance Committee hereby endorses staff's recommendation that the Executive Director executes and delivers an amendment to the HPC's lease for additional office space in downtown Boston to meet the space needs of the Health Policy Commission for a term of ten years, containing such terms and provisions as he shall deem advisable, the definitive form of such lease to be evidenced conclusively by his execution of the lease and any supporting documents.

Contact Information

For more information about the Health Policy Commission:

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