

Health Policy Commission

Administration and Finance Committee

June 30, 2014



Agenda

- Overview of HPC Budget Elements
- Fiscal Year 2014 Review
- Fiscal Year 2015 Budget
- HPC Budget Beyond 2015

Agenda

- **Overview of HPC Budget Elements**

- Fiscal Year 2014 Review
- Fiscal Year 2015 Budget
- HPC Budget Beyond 2015

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

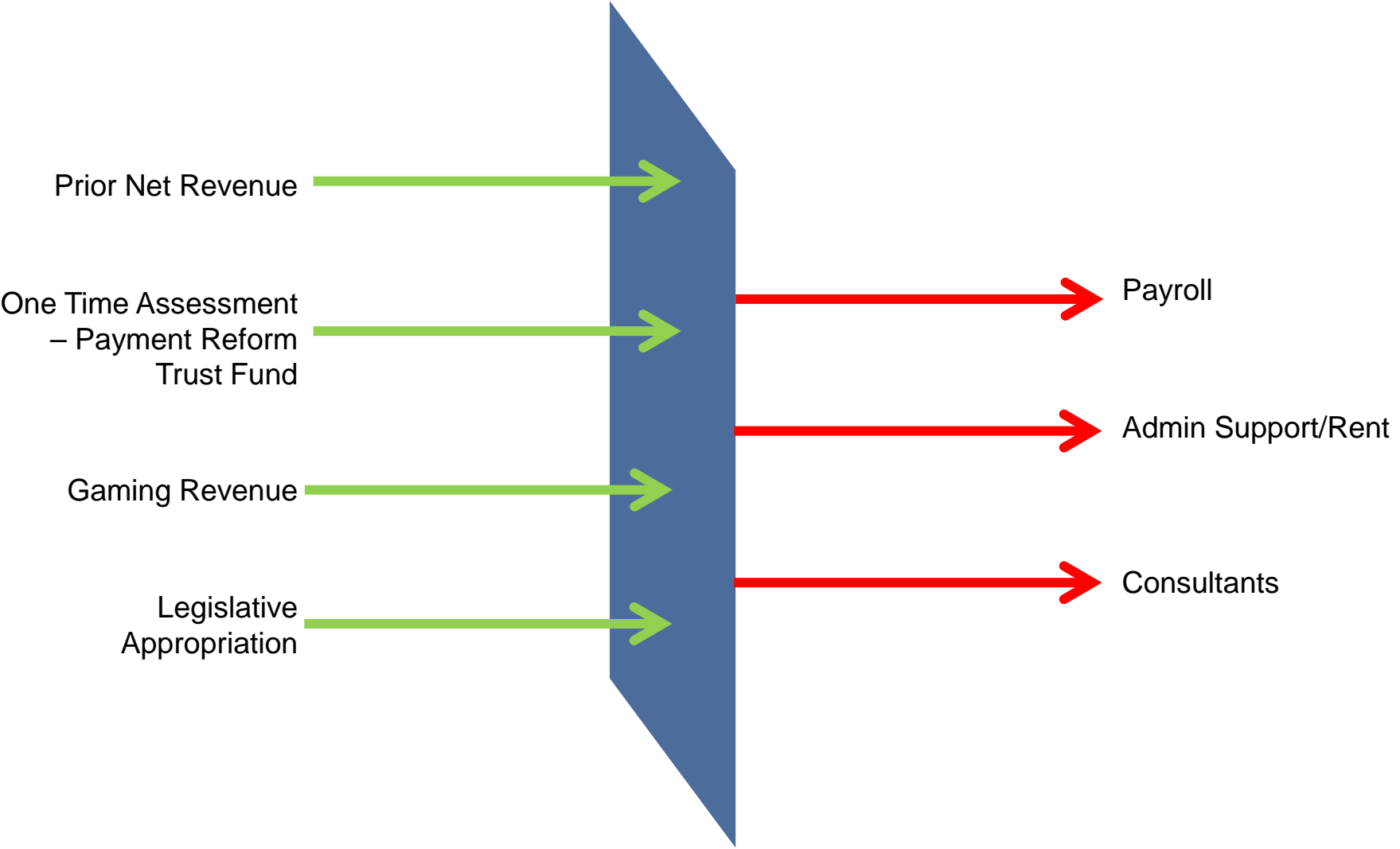
Expenses

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

Ending Balance

- Net of Beginning Balance, Income Sources, and Expenses

HPC Administrative Budget: Health Care Payment Reform Trust Fund



HPC Administrative Budget: Health Care Payment Reform Trust Fund

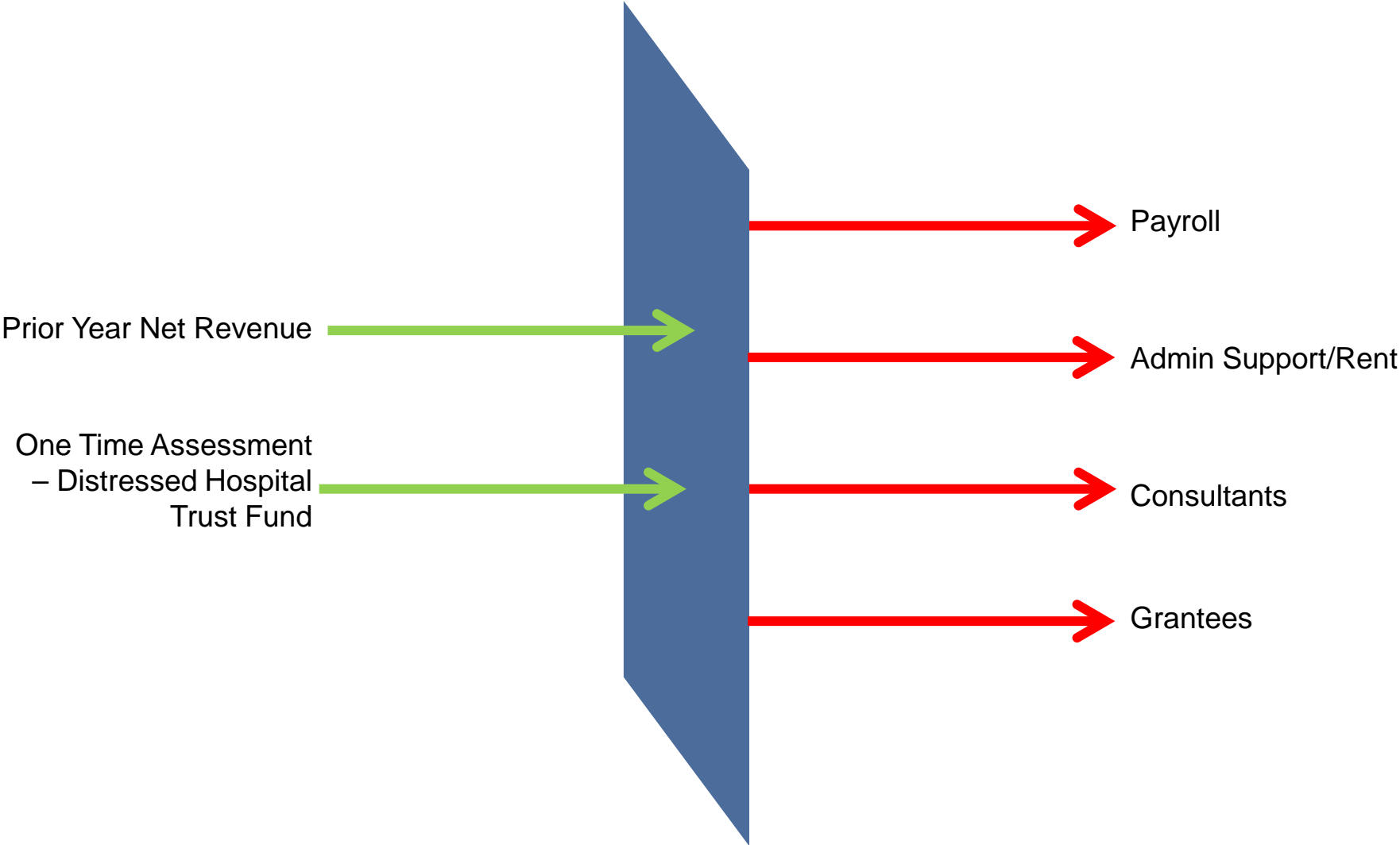
Receives funding from:

- Industry Assessment
 - Trust Fund receives 5% or \$10.75 million of the total assessment on certain hospitals and payers. Collected in annual installments over four years (FY13-FY16).
- One-Time Gaming Funds
 - Trust Fund receives 23% of any one-time licensing fees collected by the Massachusetts Gaming Commission (approx. \$20 million per casino license)
 - Trust Fund receives some financing from slot licenses in the Commonwealth
- Other amounts
 - Trust Fund receives funds transferred to support interagency activities or as otherwise appropriated by the General Court
- Annual assessment on hospitals, ambulatory surgery centers, and payers
 - This funding begins in fiscal year 2017

Primary purposes:

- To support the activities and operations of the HPC
- To foster innovation in health care payment and service delivery through a competitive grant program

HPC Investment Program Budget: Distressed Hospital Trust Fund



HPC Investment Program Budget: Distressed Hospital Trust Fund

Receives funding from:

- Industry Assessment
 - \$120 million of the \$215 million assessment on certain hospitals and payers. Collected in annual installments over four years (FY13-FY16).
- Private sources such as gifts, grants, and donations
- Other amounts
 - Trust Fund receives funds transferred to support interagency activities or as otherwise appropriated by the General Court

Primary purposes:

- Community Hospital Acceleration, Revitalization, and Transformation (CHART) Investment Program
 - Competitive funding to community hospitals, dispersed in two phases
 - Administrative costs, including (up to 10%):
 - Program development
 - Program operations
 - Technical assistance
 - Awardee engagement and support
 - Monitoring and evaluation

Agenda

- Overview of HPC Budget Elements
- **Fiscal Year 2014 Review**
- Fiscal Year 2015 Budget
- HPC Budget Beyond 2015

HPC Administrative Budget: FY14 Update

- **FY14:** July 1, 2013 - June 30, 2014
- **Board Approved Budget:** \$5,650,000
- **Beginning Balance:** \$3.735 million
 - 5% of the first installment of the industry assessment
- **Revenue:**
 - Industry Assessment
 - \$2.5 million (5% of the second installment of the industry assessment)
 - Gaming Licenses
 - \$1.725 million from slot licenses
 - Spending in Anticipation of Revenue
 - The HPC has legislative authority to expend funds in anticipation of revenues, so long as the Trust Fund is in balance at the end of the fiscal year.

Variance in Revenue:

- While the Commonwealth was expected to issue at least two gaming licenses in FY14, with a one-time transfer to the Health Care Payment Reform Trust Fund of \$40 million, that process is now delayed, as widely publicized. The HPC did not receive any gaming license revenues in FY14.
-
- **Ending Balance:** \$2,752,592
-

HPC Administrative Budget: Final FY14 Balance Sheet

FY 14 - Health Care Payment Reform Trust Fund (HPC Operating Budget)			
		Proposed Budget	Q4 Update
<i>Beginning Balance</i>			
		\$3,702,094.00	\$3,753,689.00
<i>Revenues</i>			
	Second Installment - Industry Assessment	\$2,500,000.00	\$2,379,000.00
	Gaming License/Slots Revenue	\$39,500,000.00	\$1,725,000.00
<i>Total Available for Expenditure</i>		\$45,702,094.00	\$7,857,689.00
<i>Total Approved for Operating Budget</i>		\$5,650,000.00	\$5,650,000.00
<i>Expenditures</i>			
	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
<i>Total HPC Operating Expenses</i>		\$5,647,812.00	\$5,105,097.00
<i>FY 14 Health Care Payment Reform Trust Fund Year-End Balance</i>		\$40,054,282.00	\$2,752,592.00

HPC Administrative Budget: FY14 Key Variances

- **Payroll and Benefits:** The agency's phased hiring strategy, in addition to turnover in five senior management positions, resulted in lower than expected total payroll/benefits.
 - **Rent:** Total spending on rental space was lower than expected due to the agency's continued occupancy of CHIA's low-grade surplus space at Two Boylston Street and the delay of the move to the new HPC office at 50 Milk Street until November 2014.
 - **Professional Services:** Total spending on expert contractors in FY14 slightly exceeded initial estimates due to a number of factors. Significantly, to assist in our market review responsibilities, the HPC utilized highly skilled and experienced experts in the fields of economic analysis, actuarial science, accounting, and clinical/care delivery practice. Costs associated with these activities accounted for approximately 70% of professional services spending in FY14. Higher than expected costs in this area were partially offset by lower than expected consultant spending for cost trends analytics due to CHIA funding support.
 - **Admin/IT:** Lower than expected spending in this category in FY14 is primarily associated with the FY14 phased hiring strategy, and overall strong fiscal stewardship.
-

HPC Investment Program: FY14 Budget Update

- **FY14:** July 1, 2013 - June 30, 2014
 - **Board Approved Budget:** \$10,693,884
 - **Beginning Balance:** \$40.29 million
 - First installment of the industry assessment
 - **Revenue:**
 - Industry Assessment
 - \$26.2 million (second installment of the industry assessment)
 - **Expenditures**
 - CHART Phase 1
 - Board approved \$10 million, \$8 million expended in FY14
 - Administrative Cost
 - Board approved \$594,307
 - According to c. 224, 10% of the amounts held in the fund are available for administrative cost, including salary and benefits for program staff, consultant services, engagement activities, and overhead costs.
 - **Ending Balance:** \$58,198,608
-

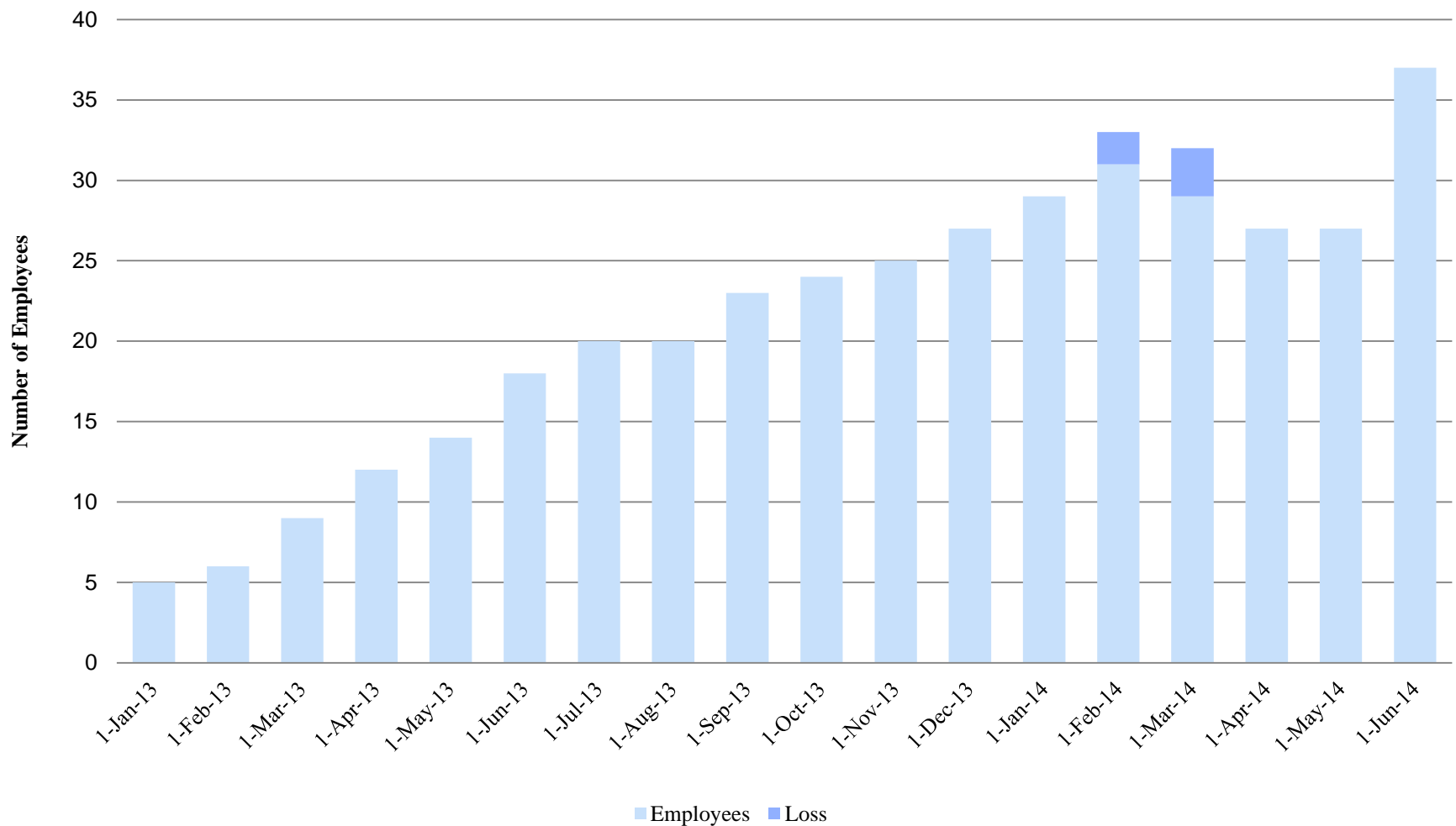
HPC Investment Program: Final FY14 Balance Sheet

FY 14 - Distressed Hospital Trust Fund (Investment Program Budget)			
		Proposed Budget	Q4 Update
	<i>Beginning Balance</i>	\$ 40,294,727.00	\$ 40,294,727.00
	<i>Revenues</i>		
	Second Installment - Industry Assessment	\$ 26,247,479.00	\$ 26,262,051.00
	<i>Total Available for Expenditure</i>	\$ 66,542,206.00	\$ 66,556,778.00
	<i>FY14 Phase 1 Awards*</i>	\$ (8,000,000.00)	\$ (7,957,648.00)
	<i>Expenditures</i>		
	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)
	<i>Total HPC Operating Expenses</i>	\$ (594,307.00)	\$ (400,522.00)
	Operating Expenses as a % of Total Available		0.60%
	<i>FY 14 Health Care Payment Reform Trust Fund Year-End Balance</i>	\$ 57,848,322.00	\$ 58,198,608.00

* Represents 80% of Phase 1 approved awards. Remaining 20% distributed in FY15.

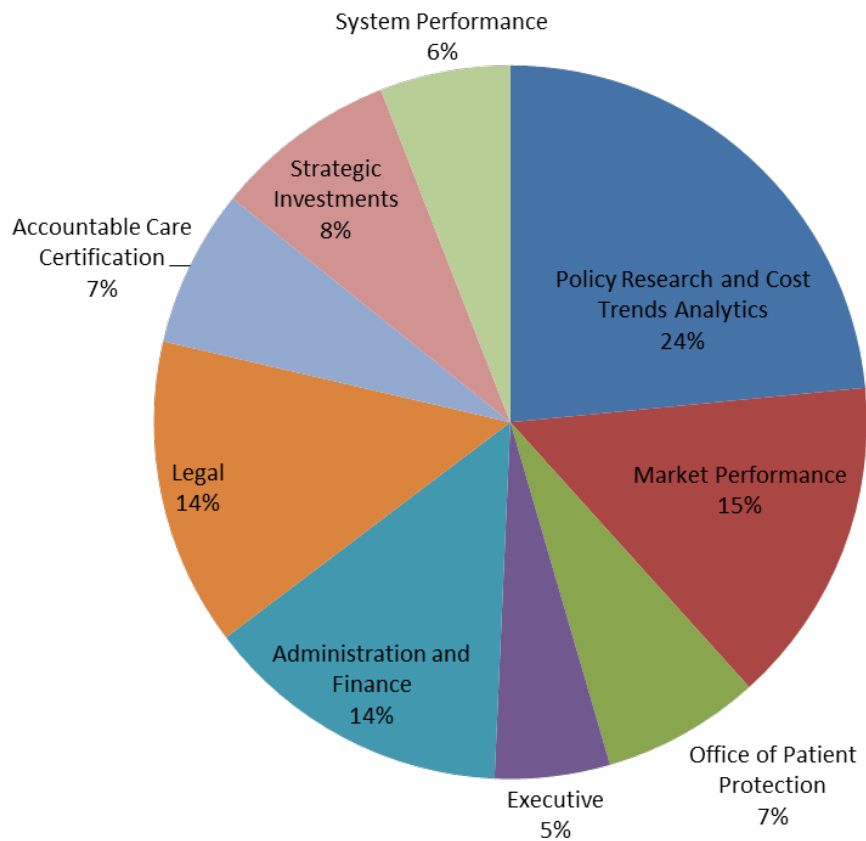
** 3.34 FTEs, including part-time legal and fiscal support in phased hiring

HPC Phased Employee Growth: FY13-FY14

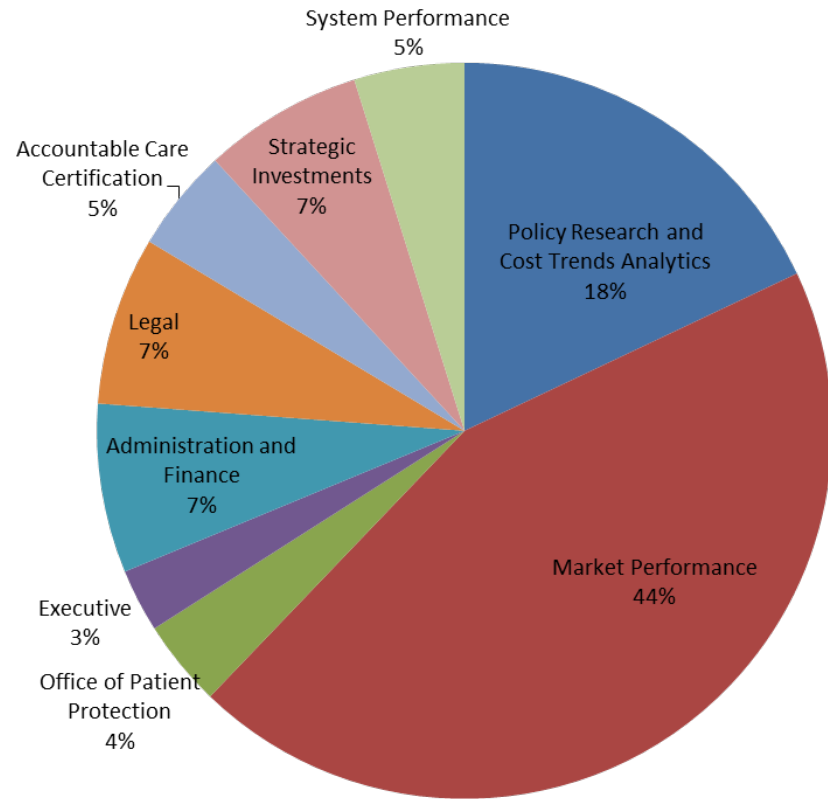


HPC Total Operating Expenses: Final FY14 Costs by Program

Employee Costs by Program (FY14)



Total Costs by Program (FY14)



* 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

Agenda

- Overview of HPC Budget Elements
- Fiscal Year 2014 Review
- **Fiscal Year 2015 Budget**
- HPC Budget Beyond 2015

HPC Administrative Budget: FY15 Overview

- **FY14:** July 1, 2014 - June 30, 2015
- **Proposed Budget:** \$7,992,329
- **Beginning Balance:** \$2,752,592
- **Revenue:**
 - Industry Assessment
 - \$2.5 million (5% of the third installment of the industry assessment)
 - Gaming Licenses
 - \$40 million
 - Spending in Anticipation of Revenue
 - The HPC has legislative authority to expend funds in anticipation of revenues, so long as the Trust Fund is in balance at the end of the fiscal year.

Variance in Expenditures:

- One-time expenses for office relocation
 - Ongoing program development
 - Expanded need for contracting with national experts
 - Website enhancement and branding
 - Limited new hiring
- **Ending Balance:** \$36,764,263
-

HPC Administrative Budget: FY15 Balance Sheet

FY 15 - Health Care Payment Reform Trust Fund (HPC Operating Budget)		
		Initial Estimates
<i>Beginning Balance</i>		
	FY 14 Balance Forward	\$ 2,752,592.00
<i>Revenues</i>		
	Third Installment - Industry Assessment	\$ 2,504,000.00
	Mass Gaming Commission - Casino	\$ 39,500,000.00
<i>Total Available for Expenditure</i>		
		\$44,756,592.00
<i>Expenditures</i>		
	Payroll	\$ (3,184,767.00)
	GIC/Retirement	\$ (917,212.00)
	Rent	\$ (328,100.00)
	Professional Services	\$ (2,950,000.00)
	IT Infrastructure and Services	\$ (170,000.00)
	Administrative Support	\$ (234,250.00)
	2nd Annual Cost Trends Hearing	\$ (8,000.00)
	One Time Moving Costs	\$ (200,000.00)
<i>Total HPC Operating Expenses</i>		
		\$ (7,992,329.00)
<i>FY 15 Health Care Payment Reform Trust Fund Year-End Balance</i>		
		\$36,764,263.00

HPC Administrative Budget: FY15 Key Variances

- **Payroll and Benefits (\$1.4M increase):** This recommended increase is based on the following assumptions:
 - Annualized salary and benefits for existing staff.
 - Backfilling key positions (~3 FTEs).
 - Targeted new employee growth (~7 FTEs).

 - **Rent (\$175,000 increase):** The HPC expects to continue occupancy of CHIA's low-grade surplus space at Two Boylston Street until moving to new office space at 50 Milk Street in November. This new office lease, approved by the board in April, will increase rental costs because of increased square footage and a higher rate per square foot.

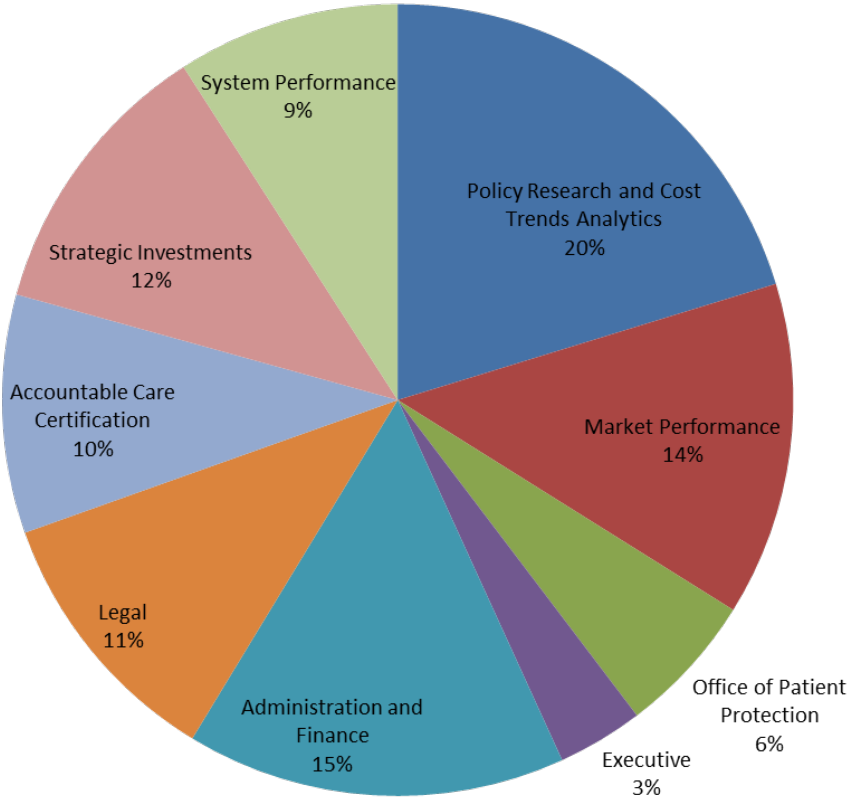
 - **Professional Services (\$1,000,000 increase):** This recommended increase reflects the following assumptions:
 - Continued need for experienced experts in the fields of economic analysis, actuarial science, accounting, and clinical/care delivery practice to assist in our market review responsibilities.
 - Continued CHIA financial support for the HPC's cost trends and APCD analytic work is not anticipated in FY15.
 - Expanded need for experts in the fields of care delivery and payment system transformation, including behavioral health integration, to support the HPC's accountable care certification programs.
 - It is anticipated that the HPC will engage experts to assist in the design and formulation of the new community hospital study.
-

HPC Investment Program: FY15 Balance Sheet

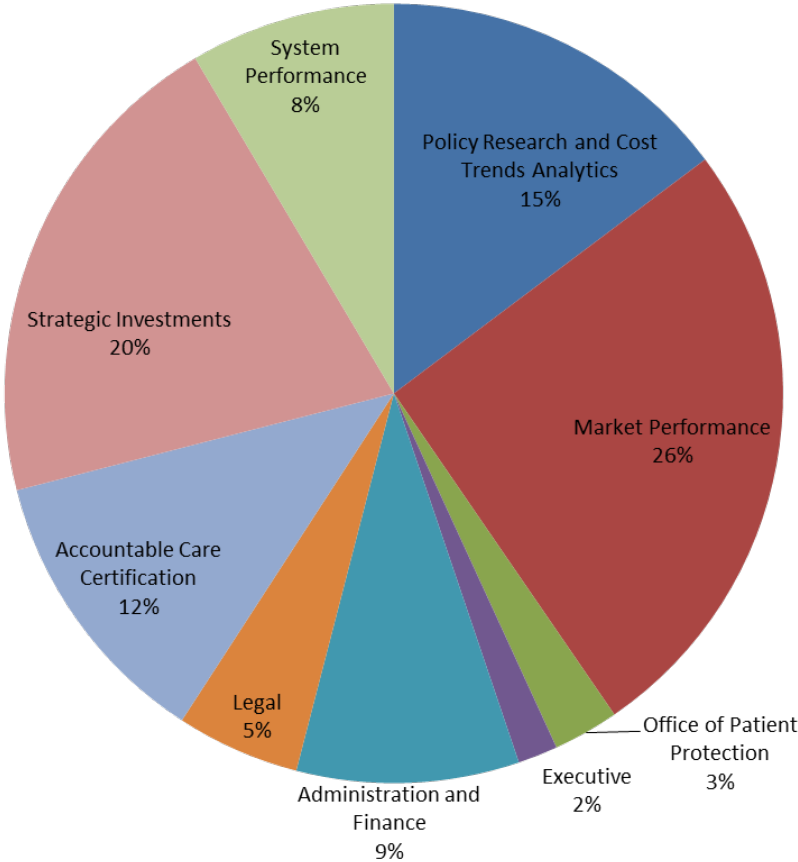
FY 15 - Distressed Hospital Trust Fund (Investment Program Budget)		
		Initial Estimates
<i>Beginning Balance</i>		
	FY 14 Balance Forward	\$ 58,198,608.00
<i>Revenues</i>		
	Third Installment - Industry Assessment	\$ 26,262,000.00
Total Available for Expenditure		\$84,460,608.00
<i>CHART Phase 1 Awards</i>		
	Awards to Hospitals	\$ (1,500,000.00)
	CHART Engagement Activities	\$ (280,000.00)
<i>CHART Phase 2 Awards</i>		\$ (30,000,000.00)
<i>Expenditures</i>		
	Payroll	\$ (495,632.00)
	GIC/Retirement	\$ (142,742.00)
	Rent	\$ (57,900.00)
	Professional Services	\$ (1,170,000.00)
	IT Infrastructure and Services	\$ (50,000.00)
	Administrative/One-Time Expenses	\$ (42,750.00)
	One Time Moving Costs	\$ (35,000.00)
Total HPC Operating Expenses		\$ (1,994,024.00)
	Operating Expenses as a % of Total Available	2.36%
FY 15 Health Care Payment Reform Trust Fund Year-End Balance		\$50,686,584.00

HPC Total Operating Expenses: Projected FY15 Costs by Program

HPC Employee Costs by Program



FY15 Total Costs by Program



* 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

All Programs: FY15 Balance Sheet

Health Policy Commission - Fiscal Year 2015				
		FY15 Admin	FY15 CHART	FY15 Total
<i>Beginning Balance</i>				
	FY 14 Balance Forward	\$ 2,752,592.00	\$ 58,198,608.00	\$ 60,951,200.00
<i>Revenues</i>				
	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
<i>Total Available for Expenditure</i>				
		\$ 44,756,592.00	\$ 84,460,608.00	\$ 129,217,200.00
<i>CHART Phase 1 Awards</i>				
	Awards to Hospitals	\$ -	\$ (1,500,000.00)	\$ (1,500,000.00)
	CHART Engagement Activities	\$ -	\$ (280,000.00)	\$ (280,000.00)
<i>CHART Phase 2 Awards</i>				
		\$ -	\$ (30,000,000.00)	\$ (30,000,000.00)
<i>Expenditures</i>				
	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)
<i>Total HPC Operating Expenses</i>				
		\$ (7,992,329.00)	\$ (1,994,024.00)	\$ (9,986,353.00)
<i>HPC FY15 Ending Balance</i>				
		\$ 36,764,263.00	\$ 50,686,584.00	\$ 87,450,847.00

HPC Administrative Budget: FY15 Outstanding Questions

- IT build out
 - RPO program needs
 - New office space requirements
 - Office relocation – costs are best estimates
 - Final program design for accountable care certification programs
 - Unpredictable nature of material change notices and potential CMIRS
 - New statutory requirements
 - Nurse staffing implementation
 - No appropriate attached
 - PCMH behavioral health integration funding
 - \$2M appropriate included in FY15 budget conference report
 - Subject to Governor's approval
 - Pending legislation regarding substance use disorder reform
 - Ballot question on casino gaming
-

Committee Vote

Motion: That the Administration and Finance Committee hereby accepts and approves the Commission's total operating budget for fiscal year 2015 as presented and attached hereto, and recommends that the Commission approve this budget at the next Commission meeting.

Agenda

- Overview of HPC Budget Elements
- Fiscal Year 2014 Review
- Fiscal Year 2015 Budget
- **HPC Budget Beyond 2015**

HPC Long-Term Financing Overview

- One-time assessment funding from FY13 to FY16
- One-time Mass. Gaming Commission distribution of HPC's allocated percentage from slot and casino licensing fees
- Post FY16: Administer annual assessment of providers and payers
- Ongoing: Legislative appropriations for specific directed spending.

Contact Information

For more information about the Health Policy Commission:

- Visit us: <http://www.mass.gov/hpc>
- Follow us: @Mass_HPC
- E-mail us: HPC-Info@state.ma.us