



The Hospital + Healthsystem
Association of Pennsylvania
Leading for Better Health

PENNSYLVANIA RURAL GLOBAL BUDGET PROPOSAL

National ACO, Bundled Payment, and MACRA Summit
Mini-Summit III—Hospital Global Budgets
June 7, 2018

PENNSYLVANIA RURAL COMMUNITIES AND HOSPITALS

AT RISK

Pennsylvania's
42 Rural
Hospitals



HAP

Leading for Better Health

At Risk: Crucial Services

Pennsylvania's rural hospitals:

- **Care for 3.4 million Pennsylvanians—about one in four people**
- Act as hubs for both health- and community-related services
- Allow patients to manage their care close to home rather than traveling long distances

At Risk: Community-Sustaining Jobs and Economic Stimulus

Pennsylvania's rural hospitals:

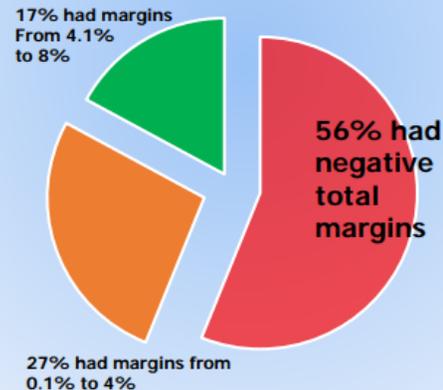
- **Contribute \$6.1 billion dollars each year** to Pennsylvania's economy (\$2.7 billion in direct spending and \$3.4 billion in indirect spending)
- **Support more than 43,760 jobs** (about 20,000 in direct employment and more than 23,700 in indirect employment generated by economic stimulus)

Stability and Sustainability ARE IN JEOPARDY

During fiscal year 2016:

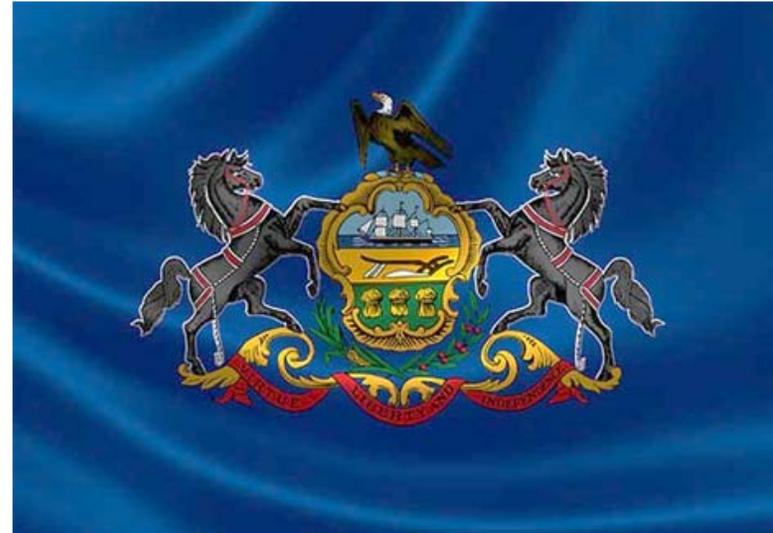
- More than half of Pennsylvania's rural hospitals had negative total margins
- More than 80 percent had total margins below the 4-to-6 percent needed for long-term sustainability, including investments in technology, workforce, and services

PA Rural Hospitals by Total Margin—2016



Introduction of a Rural Global Budget Pilot

- In January 2017, Governor Tom Wolf, former Department of Health (DOH) Secretary Karen Murphy, and the Center for Medicare & Medicaid Innovation's (CMMI) Dr. Steve Cha, announced federal approval to launch a new, voluntary payment pilot for rural hospitals in the state of Pennsylvania.
- This new, multi-payer global budget initiative is a payment model in which hospitals are provided a fixed amount of funding for a fixed period of time to improve the health of Pennsylvania's rural communities, rather than fee-for-service rates for individual services or cases.
- The secretary indicated that the pilot would start January 1, 2018 with six participants, expanding to at least 30 hospitals during the next five years. The state will receive federal funding in the amount of \$25 million during the next five years to assist in creating a Rural Health Redesign Center that will offer technical assistance to participants in the model.



Pennsylvania v. Maryland



Lacking the foundation of statewide hospital rate setting, the PA model's most significant challenge is alignment of various stakeholders



Leading for Better Health

Rural Global Budget Pilot—Anticipated timeline of model rollout



Note: Target of 30 hospitals, but may accept more.



Hospitals Throwing their Hats in the Ring?

Hospitals that are part of large systems with substantial reserves



&



Hospitals that are facing challenging financial performance

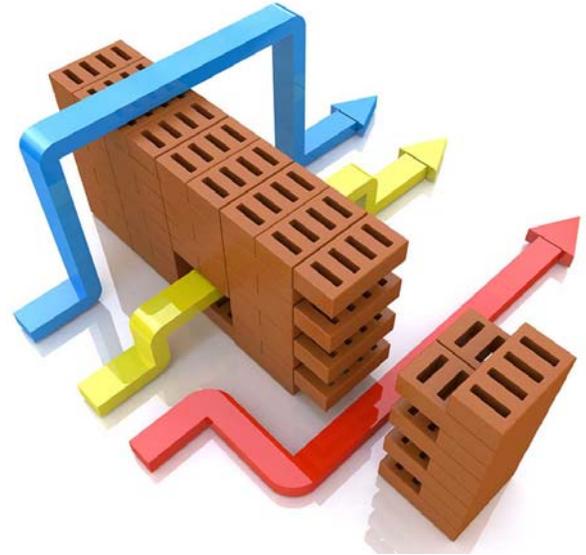
The state is currently working extensively with eight hospitals on budgets and transformation plans and has begun efforts with additional hospitals for the second wave of the pilot



Leading for Better Health

Potential Challenges/Questions

- Limited ability to reduce costs for small hospitals with high fixed costs, even with transformation
- Concern that project will not receive ongoing support of PA General Assembly
- Uncertainty of ongoing federal support for project
- Base revenue for budget set on prior history (particularly problematic for hospitals operating at a deficit)
- Uncertain future of program if DOH fails to meet CMMI requirements (e.g. number of participating hospitals, payer penetration)
- Loss of hospital operational control
- Uncertain infrastructure/start-up funding





The Hospital + Healthsystem
Association of Pennsylvania
Leading for Better Health