AGENDA

• Global Budget construct
  – Revisiting program goals
  – Overview of potential construct for low population density hospitals

• Identifying potential candidates for Global Budgets

• Projecting to 2024
  – Baseline projection
  – Evaluating opportunities for savings

• Other considerations
GLOBAL BUDGET CONSTRUCT: REVISITING PROGRAM GOALS

• Ensure stability for low population density communities and care providers
  – Financial stability
  – Appropriate access to care

• Emphasize population health
  – Value-based model
  – Data infrastructure and capabilities

• Maintain/improve quality of care

• Provide value
  – Improve outcomes
  – Bend the cost curve
GLOBAL BUDGET CONSTRUCT: OVERVIEW OF PROCESS

1. Consider overall construct details
   - Fixed revenue model with voluntary participation by payors
   - Payment mechanics for participating payors

2. Identify candidates

3. Develop a baseline model: 2019-2024 projection model

4. Develop a global budget prototype with standard assumptions

5. Evaluate potential for savings

6. Document analysis in a white paper, conclusions, and policy options in a white paper
Facilities

- **Included**: acute inpatient facilities

- **Excluded**: post-acute care facilities, dialysis facilities, ambulatory surgery centers, urgent care centers, medical office buildings and physician offices, other specialty facilities

Services

**Included**

- Inpatient hospital-based services
- Outpatient hospital-based services (ED, lab, imaging, E&M services, same day surgery, other OP services)

**Excluded**

- Professional services (inpatient and outpatient)
- Dental services
- Durable medical equipment
- Home health services
- Clinic services (incl. rural health clinic, community mental health clinic, federally qualified health centers)
Identifying Potential Candidates for GBR
Potential considerations

• **Geographic Location**
  – Population density: Medical Service Study Area ("MSSA") has fewer than 300 population per square mile
  – Distance to other providers (critical access hospitals)

• **Sole community provider**
  – Hospital has significant market share in its service area or gets much of its volume from a local area

• **Bed size**
  – No hospitals with more than 300 beds are in MSSAs with <300 pop per square mile
  – Only four hospitals with 200-300 beds are in MSSAs with <300 pop per square mile

• **Volatile financial performance**
Now 90% of California’s land area has less than 300 population per square mile.
**IDENTIFYING CANDIDATES: MARKET PRESENCE**

- Ideal candidates have significant market presence in their immediate service area
  - Several facilities in low population density areas would otherwise be candidates for GBR **except** for their close proximity (15-30 minute drive time) to another facility

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**Maximum Market Share of Discharges**

**2017**

<table>
<thead>
<tr>
<th>Population Density (Pop per Square Mile)</th>
<th>Total Zips</th>
<th>Max Market Share Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>0%-20%</td>
</tr>
<tr>
<td>0-300</td>
<td>684</td>
<td>3%</td>
</tr>
<tr>
<td>300-500</td>
<td>72</td>
<td>6%</td>
</tr>
<tr>
<td>500-1,000</td>
<td>106</td>
<td>8%</td>
</tr>
<tr>
<td>1,000+</td>
<td>827</td>
<td>12%</td>
</tr>
<tr>
<td>Statewide</td>
<td>1,689</td>
<td>8%</td>
</tr>
</tbody>
</table>

Evaluate

Hospital with the largest market presence provides **less than 40%** of the inpatient care in the zip code

Strong candidates

Hospital with the largest market presence provides **at least 40%** of the inpatient care in the zip code
IDENTIFYING CANDIDATES: POTENTIAL CALIFORNIA CANDIDATES

Evaluate potential candidates in low density areas

Area of significant population growth
IDENTIFYING CANDIDATES: FINANCIAL VOLATILITY

- Primary goal of GBR: provide financial stability while preserving access to care

Average Annual Expense Change Favorable / (Unfavorable) to Inflation + Volume

-15%: 14% 40% of candidates 20% of total expense
-26%: 16% 30% of candidates 45% of total expense
-7%: 14% 30% of candidates 35% of total expense
-12%: 8% 30% of candidates 35% of total expense
-6%: 5% 30% of candidates 35% of total expense
-7%: 6% 30% of candidates 35% of total expense
-5%: 5% 30% of candidates 35% of total expense
-5%: 4% 30% of candidates 35% of total expense
-3%: 4% 30% of candidates 35% of total expense
-2%: 2% 30% of candidates 35% of total expense

Average year expense change outpaced inflation/volume
Average year inflation/volume outpaced expense change
PROJECTING TO 2024: BASELINE MODEL

1. Project utilization change
   – Current use rates applied to 2024 population change by zip code and age category

2. 2024 volumes by candidate hospital
   – For volume from within hospital service area: grow current volume by zip/age utilization growth
   – For volume from outside hospital service area: hold constant

3. Revenue and expense associated with 2024 volumes
   – IHS market basket projections
   – Volume-adjusted expense assumptions

4. Evaluate savings opportunities

5. Consider impact on payors
PROJECTING TO 2024: UTILIZATION CHANGE 2019-2024

Population Change (All Ages)

Age-Weighted Utilization Change
**PROJECTING TO 2024: VOLUME AND INFLATION**

- **Baseline projection**: 2017 base inflated by the following:
  - Age-adjusted utilization growth projection (2017-2024 age/zip pop growth * current use rates)
  - Projected market basket update

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**Hospital Market Basket 2018 - 2024**

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflation Rate</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2.7%</td>
<td>IHS Markit</td>
</tr>
<tr>
<td>2019</td>
<td>3.0%</td>
<td>IHS Markit</td>
</tr>
<tr>
<td>2020</td>
<td>3.5%</td>
<td>IHS Markit</td>
</tr>
<tr>
<td>2021</td>
<td>3.4%</td>
<td>IHS Markit</td>
</tr>
<tr>
<td>2022</td>
<td>3.4%</td>
<td>Straight line</td>
</tr>
<tr>
<td>2023</td>
<td>3.4%</td>
<td>Straight line</td>
</tr>
<tr>
<td>2024</td>
<td>3.4%</td>
<td>Straight line</td>
</tr>
</tbody>
</table>

**Cumulative**: 25.1%

**CAGR**: 3.3%
• Aggregate change for 60 candidate hospitals
  – 66 total candidates less facilities with no financial data reported in OSHPD data
California use rates are amongst the lowest in the Nation

- Median inpatient use rates for low density service areas align with those of the Pacific Region, which are 18% lower than the nation

<table>
<thead>
<tr>
<th>Average Micropolitan Statistical Area (pop 10,000 - 50,000)</th>
<th>IP Discharges per 1,000</th>
<th>Favorable / (Unfavorable) to Nation</th>
</tr>
</thead>
<tbody>
<tr>
<td>East South Central</td>
<td>142.9</td>
<td>-23%</td>
</tr>
<tr>
<td>South Atlantic</td>
<td>124.7</td>
<td>-7%</td>
</tr>
<tr>
<td>West South Central</td>
<td>121.2</td>
<td>-4%</td>
</tr>
<tr>
<td>Middle Atlantic</td>
<td>116.8</td>
<td>-1%</td>
</tr>
<tr>
<td>West North Central</td>
<td>114.7</td>
<td>1%</td>
</tr>
<tr>
<td>East North Central</td>
<td>110.0</td>
<td>5%</td>
</tr>
<tr>
<td>New England</td>
<td>107.2</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Pacific</strong></td>
<td>95.3</td>
<td><strong>18%</strong></td>
</tr>
<tr>
<td><strong>Mountain</strong></td>
<td>85.4</td>
<td>27%</td>
</tr>
<tr>
<td><strong>U.S. Average</strong></td>
<td><strong>116.2</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Healthcare Cost and Utilization Project (H-CUP)

Median inpatient use rate for low population density candidates (in 80% service area): 95.8 per 1,000
PROJECTING TO 2024: USE RATE OPPORTUNITIES

IP Discharges per 1,000

Above Statewide Average
Below Statewide Average

ED Visits per 1,000

Above Statewide Average
Below Statewide Average
### Inpatient Discharges per 1,000 in 80% Service Area for Low Population Density Candidates

<table>
<thead>
<tr>
<th>Use Rate Above / (Below) Group Median</th>
<th>Facility Admits</th>
<th>Admit savings to achieve Median</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IP Admits</td>
<td>% of total</td>
</tr>
<tr>
<td>30%+ above</td>
<td>225</td>
<td>57%</td>
</tr>
<tr>
<td>15% - 30% above</td>
<td>114</td>
<td>16%</td>
</tr>
<tr>
<td>5% - 15% above</td>
<td>106</td>
<td>9%</td>
</tr>
<tr>
<td>0% - 5% above</td>
<td>98</td>
<td>2%</td>
</tr>
<tr>
<td>0%-5% below</td>
<td>93</td>
<td>-3%</td>
</tr>
<tr>
<td>5%-15% below</td>
<td>86</td>
<td>-12%</td>
</tr>
<tr>
<td>15%+ below</td>
<td>52</td>
<td>-86%</td>
</tr>
<tr>
<td><strong>Total low pop density</strong></td>
<td><strong>156,582</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

- Low pop density median: 96
- Statewide average: 98

- Bringing all hospitals to the group average use rate would generate nearly 12% utilization savings on inpatient cases

**PROJECTING TO 2024:**

**POTENTIAL INPATIENT CASE SAVINGS**
To the extent that hospitals can reduce utilization and generate expense savings, revenue would be retained under a Global Budget construct.

<table>
<thead>
<tr>
<th>Achievement rate</th>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$32,550,000</td>
</tr>
<tr>
<td>20%</td>
<td>$65,100,000</td>
</tr>
<tr>
<td>30%</td>
<td>$97,650,000</td>
</tr>
<tr>
<td>40%</td>
<td>$130,200,000</td>
</tr>
<tr>
<td>50%</td>
<td>$162,750,000</td>
</tr>
</tbody>
</table>

2024 projected net operating expense
Low population density hospitals

IP case opportunity 12%
% inpatient 39%
Expense opportunity $325,500,000
DEFINING VALUE

• Hospitals
  – Financial stability
  – Opportunity for transformation
  – Opportunity for population health improvement

• Payers
  – Access
  – Predictability
  – Transparency
  – Alignment of incentives with population health
Additional Considerations
ADDITIONAL CONSIDERATIONS: PAYOR PARTICIPATION

- Medicare/Medi-Cal represent nearly 60% of revenue at low population density hospitals
  - Medicare will likely require savings targets for participation

- Evaluate mix of third party payors
  - Larger players have scale to benefit from arrangement
ADDITIONAL CONSIDERATIONS

• Volume considerations
  – Market shift vs. use rate growth (including aging)
  – Shared savings methodology for volume declines/utilization savings

• Additional/alternative incentives for defined “avoidable utilization”

• Quality metrics

• Required payer savings

• Data infrastructure

• Population health investment
QUESTIONS

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