Evaluating Options for Low Population Density GBR
May 14, 2019

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

GLOBAL BUDGET CONSTRUCT: INCLUDED/EXCLUDED SERVICES

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**

**Identifying Candidates: Population Density**

<table>
<thead>
<tr>
<th>California Population Density</th>
<th>0-300</th>
<th>300-500</th>
<th>500-1000</th>
<th>1000+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population Square Miles</td>
<td>4,855,480</td>
<td>1,655,987</td>
<td>2,825,685</td>
<td>30,627,696</td>
</tr>
<tr>
<td>Population % of Total Population</td>
<td>12%</td>
<td>4%</td>
<td>7%</td>
<td>77%</td>
</tr>
<tr>
<td>% of Total Population</td>
<td>89%</td>
<td>3%</td>
<td>3%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Nearly 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.

<table>
<thead>
<tr>
<th>Population Density</th>
<th>Minimum Market Share of Discharges</th>
<th>Maximum Market Share of Discharges</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 300 (Pop per Sq. Mile)</td>
<td>684 3% 44% 33% 15% 4%</td>
<td>80%</td>
</tr>
<tr>
<td>300-500</td>
<td>72 6% 49% 33% 11% 1%</td>
<td></td>
</tr>
<tr>
<td>500-1,000</td>
<td>106 8% 49% 27% 13% 3%</td>
<td></td>
</tr>
<tr>
<td>1,000+</td>
<td>827 12% 62% 20% 4% 2%</td>
<td></td>
</tr>
<tr>
<td>Statewide</td>
<td>1,689 8% 53% 26% 9% 3%</td>
<td></td>
</tr>
</tbody>
</table>

- **Evaluate Strong candidates**:
  - Hospital with the largest market presence provides less than 40% of the inpatient care in the zip code.
  - 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.

**IDENTIFYING CANDIDATES: FINANCIAL VOLATILITY**

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

  - **Most volatile**:
    - Average annual expense change favorable/unfavorable to inflation/volume
    - 40% of candidates: 20% of total expense
    - 30% of candidates: 45% of total expense
    - 30% of candidates: 35% of total expense

  - **Least volatile**:
    - Average year expense change outpaced inflation/volume
    - Average year inflation/volume outpaced expense change
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 age/usage 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: VOLUME AND INFLATION

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Base Inflation</th>
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<tbody>
<tr>
<td>2018</td>
<td>2.7% IHS Markit</td>
</tr>
<tr>
<td>2019</td>
<td>2.9% IHS Markit</td>
</tr>
<tr>
<td>2020</td>
<td>3.0% Straight line</td>
</tr>
<tr>
<td>2021</td>
<td>3.4% Straight line</td>
</tr>
<tr>
<td>2022</td>
<td>3.3% Straight line</td>
</tr>
<tr>
<td>2023</td>
<td>3.4% Straight line</td>
</tr>
<tr>
<td>2024</td>
<td>3.4% Straight line</td>
</tr>
</tbody>
</table>

CAGR 3.3%

PROJECTING TO 2024: BASELINE PROJECTION

- Aggregate change for 60 candidate hospitals
  - 66 total candidates less facilities with no financial data reported in OSHPD data

PROJECTING TO 2024: EVALUATING SAVINGS POTENTIAL

- 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 15% lower than the nation

<table>
<thead>
<tr>
<th>Region</th>
<th>Average Microwave Statistical Area (pop 10,000 - 50,000)</th>
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<tbody>
<tr>
<td>East South Central</td>
<td>142.9 [-23%]</td>
</tr>
<tr>
<td>South Atlantic</td>
<td>124.7 [-7%]</td>
</tr>
<tr>
<td>West South Central</td>
<td>121.2 [-4%]</td>
</tr>
<tr>
<td>Middle Atlantic</td>
<td>116.8 [-1%]</td>
</tr>
<tr>
<td>West North Central</td>
<td>114.7 [1%]</td>
</tr>
<tr>
<td>East North Central</td>
<td>110.0 [5%]</td>
</tr>
<tr>
<td>New England</td>
<td>107.2 [8%]</td>
</tr>
<tr>
<td>Pacific</td>
<td>95.3 [18%]</td>
</tr>
<tr>
<td>Median inpatient use rate for low population density candidates</td>
<td>95.8 per 1,000</td>
</tr>
</tbody>
</table>

Source: Healthcare Cost and Utilization Project (H-CUP)
PROJECTING TO 2024: USE RATE OPPORTUNITIES

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

EVALUATING POTENTIAL SAVINGS: BENDING THE COST CURVE

- To the extent that hospitals can reduce utilization and generate expense savings, revenue would be retained under a Global Budget construct.
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: 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
RAISE YOUR HAND OR SUBMIT QUESTIONS AT WWW.MENTI.COM AND ENTER CODE 69 32 61

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