

AGREEMENT

BETWEEN

THE HEALTH SERVICES COST REVIEW COMMISSION

AND

Mercy Medical Center
(HOSPITAL)

REGARDING

GLOBAL BUDGET REVENUE AND NON-GLOBAL BUDGET REVENUE

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**AGREEMENT
BETWEEN
THE HEALTH SERVICES COST REVIEW COMMISSION
AND
Mercy Medical Center
REGARDING GLOBAL BUDGET REVENUE AND NON-GLOBAL BUDGET REVENUE**

This Agreement, made this 26th day of December, 2013, between Mercy Medical Center (the “Hospital”) and the MARYLAND HEALTH SERVICES COST REVIEW COMMISSION (the “Commission” or “HSCRC”), is subject to the following provisions:

I. Overview

The Global Budget Revenue (“GBR”) model is a revenue constraint and quality improvement system designed by the Maryland Health Services Cost Review Commission (“HSCRC”) to provide hospitals with strong financial incentives to manage their resources efficiently and effectively in order to slow the rate of increase in health care costs and improve health care delivery processes and outcomes. The GBR model is consistent with the Hospital’s mission to provide the highest value of care possible to its patients and the communities it serves.

This Agreement is intended to promote the achievement of the goals of the Maryland All-Payer Model Agreement between the State of Maryland and the Center for Medicare & Medicaid Innovation (CMMI). The Hospital and HSCRC agree to modify this Agreement, if necessary, to ensure that it is consistent with the main provisions, objectives and requirements of the application that was filed with CMMI in October 2013, and meets the requirements of the final contract between CMMI and the State of Maryland.

The GBR model assures hospitals that adopt it that they will receive an agreed-on amount of revenue each year—i.e., the Hospital’s “Approved Regulated Revenue” (Approved Regulated Revenue) under the GBR system-- regardless of the number of Maryland residents they treat and the amount of services they deliver provided that they meet their obligations to serve the health care needs of their communities in an efficient, high quality manner on an ongoing basis. The GBR model removes the financial incentives that have encouraged hospitals to increase their volume of services and discouraged them from reducing their levels of “Potentially Avoidable Utilization” (PAU) and marginal services. It provides hospitals with much-needed flexibility to use their agreed-on global budgets to effectively address the “Three Part Aim” objectives of better care for individuals, higher levels of overall population health, and improved health care affordability.

In accepting this Agreement, the Hospital agrees to operate within the GBR’s financial constraints and to comply with the various patient-centered and population-focused performance standards that have been or will be established by the HSCRC, including all of the existing components of the Maryland

Hospital Acquired Conditions (MHAC) program, the Quality Based Reimbursement (QBR) program, the readmissions reduction program, and a number of other existing and future quality improvement programs. The Hospital agrees to cooperate with HSCRC in the collection and reporting of data needed to assess and monitor the performance of the GBR model and in the refinement of the GBR model and the related performance standards in the future. The HSCRC will delineate the performance standards and program refinements in policies that it will issue on a timely basis and the Hospital agrees that it will comply with these policies.

The HSCRC will carefully monitor the Hospital's activities under this Agreement, including any service discontinuations, shifts of services from the Hospital to other related or non-related hospitals or non-hospital providers, changes in the Hospital's market share and other relevant factors that are pertinent to the effective operation of the GBR model in accordance with the Three Part Aim and the final contract that is established by CMMI and the State of Maryland. The HSCRC will adjust the Hospital's Approved Regulated Revenue as needed to ensure that the Hospital receives the revenue it needs to meet its obligations under this Agreement.

The Hospital agrees to comply with the policies of the HSCRC with respect to any services it provides that are regulated by the HSCRC that are not covered under the GBR model. The services that are not covered by the GBR model are specified in Appendix B.

II. Term of Agreement

This Agreement will become effective on July 1, 2013 and will continue through June 30, 2014. On July 1, 2014, and each year thereafter, the Agreement will renew for a one year period unless it is canceled by the HSCRC or by the Hospital in accordance with Section XII.

III. Revenue Governed by Agreement

This Agreement will apply to all of the inpatient and outpatient revenues of the Hospital that are regulated by the HSCRC including those associated with services that are covered by the GBR model (i.e., the "GBR Revenue") and those that are not covered by the GBR model (i.e., the "Non-GBR Revenue). The services and revenues that are not covered by the GBR model are delineated in Appendix B. Any services and revenue which are excluded from the GBR model, as specified in Appendix B, will be subject to the policies of the applicable rate setting policies HSCRC regarding unit rates, quality, efficiency, readmissions, variable cost factors (VCFs), volume/case mix governors and other policies that the HSCRC establishes for hospitals (or categories of revenue) that are not covered by the GBR model.

This Agreement will establish the Approved Regulated Revenue of the Hospital, which shall mean the revenue for services covered by the GBR model, and the terms and provisions governing it and the revenue associated with services that are not covered by the GBR model, for each Rate Year. The Approved Regulated Revenue and the associated Unit Rates for the Hospital will be set forth in the

Hospital's Order Nisi for the particular Rate Year. Any revenues excluded from the GBR limits, pursuant to Section B, are specified in Appendix B and will be identified in the Order Nisi.

IV. Specification of the Approved Regulated Revenue of the Hospital

A. Overview

The Approved Regulated Revenue of the Hospital for the July 1, 2013 through June 30, 2014 period is specified in Appendix A. As shown in Appendix A, the Approved Regulated Revenue includes several components: the Permanent Base Revenue, which may include permanent positive or negative adjustments; and a series of other Annual or Periodic adjustments, assessments and settlements. Appendix A also identifies the approved revenue for services that are not covered by the GBR model and the Order Nisi for the Hospital for the particular Rate Year. Appendix A and Appendix B will be updated as needed by the HSCRC on a periodic basis.

The Approved Regulated Revenue of the Hospital may include permanent or temporary rate adjustments designed to provide the Hospital with funds it needs to establish programs and capabilities that are essential to the effective implementation of the GBR model. These adjustments will be provided only to the extent that the Hospital demonstrates that it cannot reasonably afford to establish such activities without the additional resources. The amount, duration and purpose of any such adjustments will be clearly specified in Appendix B (and/or in accompanying documents) for the time period extending from the Effective Date of this Agreement through June 30, 2014. In addition, for any Rate Years beginning on or after July 1, 2014, the Hospital will provide the HSCRC with a prospective written description of the particular performance improvements it will seek to achieve through its use of the additional funds (if any) that are provided by these rate adjustments. The Hospital will also provide the HSCRC with credible, retrospective documentation of the performance improvements that it actually achieves by its use of the additional funds.

B. Detailed Description of the of the Basic Components of the Hospital's Approved Regulated Revenue

The HSCRC will develop the Approved Regulated Revenue of the Hospital for any particular Rate Year in the following way:

1. Initially, the HSCRC staff will determine the Base Approved Regulated Revenue of the Hospital by adjusting the Hospital's approved revenue for a specified historical base period to reflect settlements and adjustments. These adjustments may include additional funding to support programs and capabilities to be established by the Hospital that are necessary to permit it to operate efficiently and effectively in the public interest within the revenue constraints required by the GBR model.
2. The HSCRC staff will adjust the Base Approved Regulated Revenue of the Hospital that is

subject to the GBR model to establish the Approved Regulated Revenue for the Rate Year(s) by applying a series of rate adjustments including the following:

- a. The revenue will be adjusted to the Rate Year by multiplying it by 1 plus the annual Update Factor percentage(s) approved by the HSCRC for the Rate Year for hospitals operating under the GBR model. A portion of the revenues may not be updated, based on the policies then applicable, for revenues associated with Potentially Avoidable Utilization;
- b. The revenue will be adjusted to reflect any performance-based purchasing rewards, penalties, scaling adjustments and hospital improvement targets contained in Appendix C that are applicable at the time to GBR hospitals. The HSCRC expects to develop additional value-based policies that will apply to GBR hospitals in the future. These policies will be incorporated into the annual update factor adjustment process;
- c. The revenue will also be adjusted to reflect changes in the mix of the Hospital's payers or changes in approved differential amounts and uncompensated care levels;
- d. The revenue will be adjusted to reflect the reversal of any previous one-time adjustments that were in effect during the year;
- e. The revenue will be adjusted to reflect any adjustments pursuant to programs such as the readmissions reduction program's prescribed savings adjustment;¹
- f. The revenue will be adjusted to reflect any targeted revenue adjustments, if any, designed to ensure compliance with the limits of the new All-Payer model or the savings requirements established for the Medicare program in the final contract between CMMI and the State of Maryland;
- g. The revenue may include adjustments to reflect changes in the expected service volumes of the Hospital that are driven by changes in the demographics as described in Appendix D. The policies governing demographic adjustments may be modified from time to time by HSCRC. The demographic allowance may not be applied to revenues for Potentially Avoidable Utilization based on policies then applicable;
- h. The revenue may include adjustments to reflect the relative efficiency of the Hospital. The HSCRC staff and the relevant Work Group(s) will engage in efforts to develop appropriate methods to measure and compare efficiency under the GBR model including measurements that will be applied on a per capita basis to ensure that hospitals that reduce their unnecessary volumes are not penalized on the basis of comparisons that focus exclusively on per case or per unit definitions of efficiency;

¹ For SFY 2014 through 2018, the Hospital will be subject to a **Readmission Policy Adjustment**.

- i. The revenue will be adjusted to reflect amounts or percentages that are imposed on the rates of all hospitals by the HSCRC to cover the costs of certain assessments.² These assessments will apply to the Hospital in the same manner in which they are applied to other hospitals;
- j. The revenue will be adjusted to reflect revenue overages or underages pursuant to variances between the Hospital's actual revenue and its approved revenue for the previous Rate Year (as described in Section III. C.); and
- k. The revenue may also be adjusted in other ways as needed to ensure that the revenue limits and performance improvements imposed by the final contract between CMMI and the State of Maryland are met.³

The result of these adjustments will be the amount of revenue which is herein referred to as the Approved Regulated Revenue of the Hospital for the Rate Year. The Approved Regulated Revenue may be further adjusted as described below for any Rate Year.

3. Other Adjustments

- a. The HSCRC and the Hospital recognize that some services may be offered more effectively in an unregulated setting. When services covered by the GBR model are moved to an unregulated setting, the HSCRC staff will calculate and apply a reduction to the Hospital's Approved Regulated Revenue. At a minimum, the reduction will ensure that the shift provides a savings to the public and Medicare after taking into consideration the payment amounts likely to be made for the same services in an unregulated setting.
- b. The HSCRC may initiate a review, or Hospital may request, an adjustment to the Hospital's Approved Regulated Revenue to reflect changes in the market share of the Hospital. The HSCRC staff and the relevant Work Group(s) will be engaged during CY 2014 (and thereafter) in efforts to develop and refine rate setting policies to appropriately adjust for the impact of market share changes. These policies will be designed to separate the impact of reductions in avoidable volumes and volume increases, to the extent possible, from market share changes.
- c. The HSCRC staff will work with the Hospital and with other hospitals that adopt the GBR model to calculate and evaluate any volume increases experienced by the Hospital and other hospitals that are induced by the expansion of health care coverage under the Affordable Care Act ("ACA") in 2014 and 2015, for insured populations under the age of 65, net of reductions in volumes for uninsured populations. Based on the findings of this evaluation, the HSCRC staff may provide a one-time adjustment to the

² Health Care Coverage Fund, MHIP, Deficit Assessment, HSCRC and MHCC user fees, NSP, and CRISP are examples of such assessments currently in place and are subject to change by the Commission.

³ For SFY 2014 through 2018, the Hospital will be subject to a **Readmission Policy Adjustment**.

Hospital's Approved Regulated Revenue.⁴

d. The HSCRC staff will consider one-time adjustments to the Hospital's regulated revenue for unanticipated events beyond the control of the Hospital that generate substantial increases in the Hospital's utilization levels but only to the extent that the impact of such events on the Hospital materially and demonstrably exceeds the impact of similar events on other hospitals covered by the GBR model.

In summary, the GBR model is a new approach to hospital rate regulation in Maryland. The HSCRC and the Hospital agree to work together to address any significant unforeseen consequences of this Agreement to ensure that it meets the revenue constraints, savings targets and performance improvement requirements required by the final contract between CMMI and the State of Maryland.

V. Compliance

A. General Compliance Under the GBR Model

The Hospital will be subject to any rate adjustments that are necessary to bring it into compliance with the GBR's Approved Regulated Revenue. If the gross revenue charged by the Hospital exceeds the Approved Regulated Revenue, the difference between the gross revenue charged and the Approved Regulated Revenue will be subtracted from the Approved Regulated Revenue that would otherwise have been approved for the Hospital for the subsequent Rate Year. Conversely, if the gross revenue charged by the Hospital is less than the Approved Regulated Revenue, the difference will be added to the Approved Regulated Revenue of the Hospital for the subsequent Rate Year, except that undercharges below the corridor specified in Section B below will not be added to the Approved Regulated Revenue for the subsequent Rate Year.

B. Unit Rate Flexibility

The Hospital will be expected to monitor and adjust its unit charges on an ongoing basis to ensure that it operates within the Annual Regulated Revenue that is approved by the HSCRC under the GBR model and the revenue constraints that are applicable to its services that are regulated by the HSCRC and not covered by the GBR model. In order to facilitate the Hospital's compliance with these revenue constraints, the HSCRC will relax the rate unit rate compliance corridors that it generally applies to hospitals (and particular revenues) that are not governed by the GBR model. Specifically, the Hospital will be permitted to charge at a level up to five percent (5%) above the approved individual unit rates

⁴ National estimates are projecting modest or little growth in hospital volumes resulting from expansion of access under ACA. However, HSCRC recognizes that the impact is unknown and that it is the intent of the HSCRC to provide a timely revenue adjustment for the impact of volume increases arising from the expansion of access to insurance. HSCRC staff will develop a methodology to identify such volume increase and Hospital will have the opportunity to submit supporting information and request an adjustment to its GBR Revenue Base.

without penalty. This limit may be extended to ten percent (10%) at the discretion of the HSCRC staff if the Hospital presents satisfactory evidence that it would not otherwise be able to achieve its approved total revenue for the Rate Year. Similarly, the Hospital will be permitted to charge at a level up to five percent (5%) below the approved individual unit rates without penalty if it needs to lower its charges to meet its revenue constraints. This limit may be extended to ten percent (10%) at the discretion of the HSCRC staff if the Hospital presents satisfactory evidence that it needs this additional flexibility to meet its revenue constraints for the Rate Year. The Hospital will generally need to spread rate adjustments across all centers, avoiding adjustments concentrated in a few rate centers, unless it has received approval from HSCRC staff for an alternative approach. Charges beyond the corridors shall be subject to penalties as specified in HSCRC regulations.

C. Overall Compliance Corridors

The overall compliance corridors (overcharge and undercharge) for the total Approved Regulated Revenue and the revenue excluded from the Approved Regulated Revenue will be .5%, with such amount subject to change from time to time in accordance with HSCRC policies. The Hospital agrees that it will not overcharge the limits of the total Approved Regulated Revenue and that it will take prompt action to gain compliance, within the boundaries of unit rate compliance that are specified above. Charges beyond the corridors shall be subject to penalties as specified in HSCRC regulations.

VI. Monitoring of GBR Operation and Performance

The successful implementation of the GBR model will require strict adherence to the various revenue constraints, savings requirements and performance targets that are contained in the final contract between CMMI and the State of Maryland. Therefore, the HSCRC will engage in a variety of monitoring and evaluation efforts to determine whether all of these requirements are being met and to ensure that it introduces any corrective actions that may be needed on a timely basis.

1. Market Share

The HSCRC and the Hospital will monitor the Hospital's market share on an ongoing basis by analyzing and identifying changes in the levels of the Hospital's patient volumes that are derived from its Primary Service Area (PSA) or Secondary Service Area (SSA) as defined in Appendix E. The HSCRC staff and the Hospital will also monitor the total level of services and revenues which are provided by the Hospital to Maryland residents who live outside of the Primary and Secondary service areas of the Hospital, or to patients who live outside of Maryland in other states or foreign countries, and will track (to the extent possible) any changes in in-migration and out-migration patterns and their effects on the Hospital.

The HSCRC will make appropriate adjustments in the Hospital's Approved Regulated Revenue based on significant changes in the Hospital's market share or service levels; provided, however, that the

HSCRC does not intend to provide increases in the Approved Regulated Revenue of individual hospitals based on market share analysis for volume increases that are not offset by reductions in the Approved Regulated Revenue(s) of other hospitals. The HSCRC also does not intend to make revenue adjustments based on market share changes that would discourage the Hospital from reducing its level of Potentially Avoidable Utilization.

2. Case Mix/Severity Levels

The HSCRC will pay close attention to the overall case mix index and the severity levels within DRGs at the Hospital. If requested, the Hospital will demonstrate to the HSCRC that any reductions in its case mix index or its severity levels are not the result of deliberate efforts by the Hospital to deny, for inappropriate financial reasons, any services to particular patients, or treatments for particular conditions, that fall within the scope of the medical capabilities of the Hospital and its attending medical staff. The HSCRC plans to review data from multiple sources, including CRISP, in its evaluation of case mix and severity changes at the Hospital and, more generally, in the hospital industry.

3. Changes in Ownership and Control and Related Service Relocations

Significant changes in the health care delivery system in the Hospital's Primary and Secondary Service Areas could influence the appropriateness of the Approved Regulated Revenue established for the Hospital under this Agreement. Therefore, the Hospital agrees to declare and describe, in Appendix G, any financial interest (or control) it holds in other hospitals or entities that provide services, including non-hospital services, in the Hospital's Primary and Secondary Service Areas, as of the Effective Date of this Agreement.

In addition, the Hospital agrees to inform the HSCRC at least thirty (30) days in advance, in writing, or at the earliest practicable time thereafter, of any acquisitions or divestitures which it undertakes regarding such interests.⁵ The HSCRC may request data from the Hospital, on a periodic or ongoing basis, regarding the utilization of the services provided by such related entities, to ensure that the Hospital complies with the GBR constraint through better management of its existing regulated services and not by moving services from the HSCRC-regulated sector to unregulated sectors of the hospital or non-hospital environment in ways that do not comport with the objectives of the GBR model, the Three Part Aim and the final contract between CMMI and the State of Maryland.

The Hospital will provide an annual disclosure and certification report, which is presented in Appendix F and Appendix G, regarding changes in the services it provides. The initial report will be due upon signing of this Agreement and additional reports will be due on an annual basis within 30 days after the end of each subsequent Rate Year.

4. Monthly Monitoring of Hospital

⁵ This would include the purchase or divestiture of physician practices, joint-venture arrangements with other providers to establish unregulated services that duplicate or could substitute for regulated services currently provided by the Hospital (such as, but not limited to, unregulated clinic, urgent care, or ambulatory surgery services), or other non-hospital services.

Within thirty (30) days after the end of every month during the Rate Years covered by this Agreement, the Hospital will provide the HSCRC with a brief written report designed to help the HSCRC to monitor the Hospital's compliance with this Agreement, to facilitate communication between the Hospital and the HSCRC staff, and to promote the success of the GBR model. This report should include the following information, which will be modified from time to time by HSCRC and the Hospital:

- a. Year-to-date experience, for the current and prior year, for readmissions and comparisons of actual readmissions levels to targets, including inter-hospital readmissions experience from CRISP, for all payers combined and on a separate basis for Medicare;
- b. Year-to-date experience for the current and prior year for MHACs/PPCs and associated comparisons to MHAC/PPC targets;
- c. Changes in payer mix year-to-date versus prior year;
- d. Changes in market share;
- e. Compliance with the Hospital's GBR constraint and the Hospital's plan to eliminate any revenue overages through charge reductions in the remainder of the Rate Year;
- f. Trends in Medicare charges for the Hospital and an assessment of whether the Hospital has been successful to date in achieving the needed Medicare payment reductions;
- g. Trends in total regulated revenue for the Hospital broken out between revenues covered by the GBR model and revenues not covered by it with the revenues covered by the GBR model further segregated into Medicare and non-Medicare components divided between Maryland and out-of-state components;
- h. Trends in revenue per Equivalent Inpatient Admission ("EIPA")/Equivalent Case Mix Adjustment Discharge ("ECMAD");
- i. Trends in costs, including cost per EIPA/ECMAD, including a discussion of changes in costs relative to reductions in volumes; and
- j. Other information that the Hospital wishes to report regarding the successes, failures and ongoing challenges of implementing the GBR model and its related population health strategy. This supplemental information may include brief descriptions of the efforts (such as the use of emergency room care coordinators, transition care coordinators, case management, integration with community based programs, nursing home interventions, and coordination with physician delivery system changes) that the Hospital has undertaken which have been effective (or ineffective) in improving the efficiency, quality and/or processes of care. The objective of gathering such additional information is to develop a body of evidence that can be usefully shared

with all Maryland hospitals that are operating under the GBR model.

The HSCRC recognizes that the collection and reporting of the information described above on a monthly basis may impose an unclear or excessive burden on the Hospital; therefore, the HSCRC staff intends to work with hospital representatives to refine the monthly information reporting requirements to ensure that the Hospital can provide the kinds of information needed by the HSCRC on a monthly basis without undue hardship.

VII. Evaluation of the Effectiveness of the GBR

As described above, the primary goal of the GBR model is to provide the Hospital with strong financial incentives to deliver medical care to its patients and its community in the most efficient and clinically effective ways that are consistent with the Three Part Aim.

The HSCRC staff shall evaluate the success of the GBR program established by this Agreement by measuring changes in the costs, quality and outcomes of medical care delivered by the Hospital. In these reviews, the HSCRC staff will pay particular attention to analyses of utilization trends pre-and post-implementation of the GBR model. The reviews will include evaluations of per capita hospital costs and, to the extent possible given data limitations, the total cost of health care in the Hospital's PSA and SSA. In addition, the HSCRC staff will examine the performance of the Hospital on the HSCRC's existing and future quality of care and outcomes metrics using existing standards and additional metrics that will be developed through the relevant Work Group(s).

The Hospital shall provide an annual report of its investment in infrastructure to promote the improvement of care delivery and reductions of Potentially Avoidable Utilization. This report will be due 90 days following the end of each fiscal year, and will include program descriptions, expenditures, and results.

VIII. Possible Future Modifications in the GBR Model to Achieve Improved Alignment of Incentives in the Health Care Delivery System

Under healthcare reform, a number of strategies are being considered to contain healthcare costs. For example, primary care medical homes, Accountable Care Organizations, and the bundling of services under single payment amounts are strategies that have been identified as possible ways to improve care while aligning providers for the efficient delivery of healthcare services. Health care reform efforts are progressing rapidly, and may produce environmental changes that warrant some modifications to this Agreement. Therefore, the Hospital and the HSCRC staff agree to monitor such changes and to make changes in this Agreement, on a mutually acceptable basis, as needed in the future to accommodate or comply with future developments that are mandated or permitted by law and/or regulation.

IX. Other Potential Modifications

A. Approved Regulated Revenue Modifications

The Hospital may request a reevaluation of its Approved Regulated Revenue for any Rate Year by submitting its request in writing to the HSCRC staff and including the supporting rationale and documentation for its request to the HSCRC staff. The HSCRC staff will make a determination to approve, modify, or deny the request of the Hospital under this agreement. When it deems necessary, the staff will prepare a recommendation regarding the request, and the HSCRC will review the staff recommendation and render a decision. Similarly, the HSCRC may open discussions with the Hospital regarding modifications to the GBR constraint based on its ongoing review and monitoring of the Hospital's operations, performance, market share changes and other factors. The HSCRC staff reserves the right to modify the GBR constraint in accordance with the terms of this agreement.

B. Approved Regulated Revenue Modifications Related to CON Projects

The Hospital may apply for and receive a "Certificate of Need" (CON) approval to provide a new service or to undertake a major capital project. In such instances, the Hospital may elect to petition the HSCRC staff for an associated adjustment to the Hospital's Approved Regulated Revenue. The Hospital will be expected to demonstrate to the satisfaction of the HSCRC staff that it is unable to provide the new service or to fund the major capital project within its existing revenue constraints. Requests of this kind will be evaluated by the HSCRC staff on a case-by-case basis. However, the Hospital must recognize that the new All-Payer Model that will be established in the final contract between CMMI and the State of Maryland limits the total amount of hospital revenue that can be approved within the State for any given period of time, and that this constraint will require any approvals of additional revenue for individual hospitals to pass highly stringent tests of financial and clinical necessity and to be funded by reductions in the revenue approved for other hospitals.

The HSCRC staff will work with the relevant Work Group(s) and MHCC to develop and refine policies that will appropriately address the financial issues raised by CON projects and other capital and service expansions. The HSCRC staff will make recommendations to the HSCRC regarding any requests from the Hospital for additional revenues for these reasons, when necessary.

X. Out-of-Area and Out-of-State Volumes and Revenues

Significant changes in out-of-state volumes and volumes from outside the Hospital's PSA and SSA have the potential to positively or negatively affect the success of the GBR model. In FY 2013, approximately 5.8 percent (%) of the Hospital's total revenue came from non-Maryland residents. If this percentage changes materially during the term of this Agreement, the HSCRC staff and the Hospital will

evaluate the causes of the change to ensure that the goals and objectives of this Agreement, the GBR model and the final contract between CMMI and the State of Maryland are not being undermined by such changes.

XI. Readmissions, Quality and Reductions of Potentially Avoidable Utilization

The new All-Payer Model that will be established in the final contract between CMMI and the State of Maryland will include specific requirements for readmission reductions and quality improvements. In addition, the success of the new model depends on the effectiveness of the Maryland hospitals in achieving reductions in PAU in general and, in particular, for Medicare. By July 1, 2014, the HSCRC staff will establish targets for reductions in PAU. The achievement of these targets will be tied to payment in a way that is consistent with the Three Part Aim of improving care and reducing cost. Appendix C will contain the annual PAU reduction targets for the Hospital and the associated HSCRC payment adjustment policies.

As part of this process, the Hospital will prepare a periodic plan for Population Health Improvement and reductions on Potentially Avoidable Utilization. To the extent possible, the plans should rely on evidence based approaches to accomplish the goals. HSCRC will work with hospitals to promote evidence based, standardized, regionalized approaches in an effort to ensure effective means of providing needed infrastructure. HSCRC will also work with hospitals to develop processes to review these plans, provide evaluation and feedback on the results of the approaches, and to modify the approaches to improve the results.

XII. Termination and/or Renegotiation and Other Rights

A. Termination by the HSCRC

The HSCRC reserves the right to terminate this Agreement, with cause, at any time. For the purposes of this Agreement, "with cause" includes, but is not limited to, failure by the Hospital to provide high quality needed services as contemplated by this Agreement; the inappropriate shifting of hospital services to unregulated settings; failure to achieve total all payer or Medicare per capita revenue trends and/or performance targets that are consistent with the constraints and requirements imposed by the GBR model and the final contract between CMMI and the State of Maryland; or failure of the Hospital to comply with HSCRC regulations or policies.

The HSCRC will provide the Hospital with a reasonable opportunity to cure its failure to perform under this Agreement by adopting a corrective plan designed to eliminate the defects in its performance in a timely way. The corrective plan may include an immediate reduction in the Hospital's Approved Regulated Revenue; mandatory participation by the Hospital in a regional planning process focused on

achieving the requirements of the All-Payer model; or other identified actions.

If the Hospital is unwilling to adopt the corrective plan described above, the HSCRC will have the right to terminate the Agreement with due consideration to the need of the Hospital to transition out of this Agreement and the need to maintain overall compliance with the requirements imposed on the State of Maryland by the final contract with CMMI.

B. Termination by Hospital

The Hospital will have the right to transition to an alternative rate setting approach after giving six months of written notice to HSCRC staff of its intent to change as of a specific date. The notice will provide a description of the Hospital's chief reasons for the proposed termination. The HSCRC staff will work with the Hospital to resolve any issues, including the possible recapture of volume support provided under this agreement where volumes were decreased during the course of the agreement or removal of infrastructure funding or other incentives from the revenue base. If the Hospital is transitioning to another model with a fixed revenue base, then these adjustments may not need to be evaluated. Any new agreement will need to be within the revenue limits and other performance tests and requirements imposed by the final contract between CMMI and the State of Maryland.

C. Other Rights

Nothing in this agreement should be construed to prevent the HSCRC or Hospital from undertaking any action that it is lawfully entitled to take, including exercising the rights to initiate a full rate review by either the HSCRC or the Hospital.

D. Other Provisions Relative to the Hospital

This section is provided to include terms and conditions applicable to a specific hospital:

1. The Hospital has historically had a seasonality increase in revenues and volumes for the January through June period of its fiscal years. In order to meet the required limits of the All-Payer Model, the Hospital will need to maintain seasonality in its price model. The Hospital agrees to revenue compliance targets that reflect a seasonality reduction in the second half of CY 2014 of \$4.5 million, with a corresponding increase in the first half of CY 2015 of \$4.5 million. Likewise, the Hospital will have a seasonality estimated reduction of \$6.8 million in the second half of CY 2015 with a corresponding increase in the first half of CY 2016. By the end of FY 2016, HSCRC and the Hospital will meet to evaluate the seasonality adjustment and the need to restrict further growth.
2. The Hospital agrees to focus its efforts on meeting the overall requirements of its revenue agreement as well as paying particular attention to reducing avoidable Medicare utilization and monitoring the rate of increase in Medicare revenues in accordance with the new All-Payer Model.
3. The Hospital has been provided an adjustment relative to market changes in the obstetrics service. HSCRC

and the Hospital will review the amount provided in rates after two years to assess market share and conditions in effect at that time.

4. The Hospital will need to remain on a global or population based approach to maintain its Base Approved Regulated Revenue.
5. The Hospital will receive an early population adjustment in FY 2014 for FY 2015. The Hospital will not be eligible for another population adjustment before FY 2016. For FY 2016, the HSCRC and Hospital will evaluate whether Mercy is meeting its overall and Medicare financial and utilization targets as well as evaluate the status of the seasonality adjustment.

XIII. Definitions of Terms

Annual Update Factor: The update factor as approved by the Commission to apply to GBR hospitals in the State during the fiscal year, or a portion of the fiscal year.

Approved Regulated Revenue: For each Rate Year, the Hospital's approved revenue computed in accordance with this Agreement and specified in the Hospital's Order Nisi for the GBR for the particular Rate Year.

Approved Regulated Revenue Compliance and Related Adjustments: For each Rate Year, the Hospital's Approved Regulated Revenue will be compared to the Hospital's actual regulated revenue for the particular Rate Year. If the Approved Regulated Revenue exceeds the Hospital's actual regulated revenue, the amount of the excess will be added to the Hospital's Approved Regulated Revenue for the subsequent Rate Year as a One Time Adjustment.

If the Approved Regulated Revenue is less than the Hospital's actual regulated revenue, the amount of the shortfall will be subtracted from the Hospital's Approved Regulated Revenue for the subsequent Rate Year as a One Time Adjustment, except that undercharges below the corridor specified in subparagraph III. A will not be so included.

Base Approved Regulated Revenue: The total approved revenue of the Hospital for the initial year of the agreement as specified in Appendix A.

Demographic Adjustment: The Demographic Adjustment is the calculation described in Appendix D and the adjustment factors shown therein that provide an adjustment to the Approved Regulated Revenue for population and age related volume changes. This factor will be updated on an annual basis.

Maryland Hospital Acquired Conditions Initiative: The HSCRC's Maryland Hospital Acquired Condition ("MHAC") measurement methodology that compares a hospital's risk-adjusted actual rate of MHAC to an expected or predicted rate of MHAC based on state-wide experience.

One Time Adjustments: The HSCRC makes one-time adjustments to the Hospital's rates in deriving the Hospital's Approved Regulated Revenue for the particular Rate Year. The HSCRC removes the One

Time Adjustments from the Approved Regulated Revenue in calculating Approved Regulated Revenue for a the subsequent Rate Year.

Potentially Avoidable Utilization (“PAU”) includes utilization and revenue related to preventable admissions, readmissions (Inter and Intra hospital), Observation patients that would be reflected as a readmission if admitted, and Potentially Preventable Complications. Other categories of PAUs may be added by the HSCRC.

Quality-Based Reimbursement: The HSCRC’s pay-for-performance initiative that links hospital performance (both relative and year-to-year) on a list of processes of care measures.

Rate Years: The Hospital's Rate Year corresponds to the State fiscal year that begins on July 1 each year and ends on June 30.

Readmission Policy Adjustment: In each Rate Year the derivation of the Hospital’s Approved Regulated Revenue will include a Readmission Policy Adjustment calculated in accordance with HSCRC policies


Service Area: Primary and Secondary Service Areas represent the zip codes from which 75% of admissions are derived in the base period. This definition may be adjusted based on agreement between the Hospital and HSCRC.


Appendix E lists the Maryland zip codes and counties that make up the Hospital’s Primary Service Area and its Secondary Service Area.

Unit Rates: The Approved Regulated Revenue per unit computed for each regulated revenue center in accordance with this Agreement as specified in the Hospital’s Order Nisi for the particular Rate Year.

Unit Rate Compliance: The Hospital’s compliance with its approved Unit Rate in each regulated revenue calculated pursuant to the HSCRC’s Unit Rate compliance regulations; however, with relaxed corridors as described in this agreement.

In Witness whereof, the Parties have executed this Agreement and have this date caused their respective signatures to be affixed hereto:

Attest:  by Justin C. DELBEL Date 2/4/14
Chief Financial Officer
Hospital

Attest:  by Donna Keger Date 2/11/14
Executive Director
Health Services Cost Review Commission

Appendix A: Hospital's Base Revenue Components and Order Nisi

A.	Base Approved Regulated Revenue	\$ <u>487,981,390</u>
1.	Approved Regulated Revenue	\$ <u>487,981,390</u>
2.	Increment (If Any) for GBR Investments included in above amount (second increment due 7/1/14)	\$ <u>1,575,553</u>
B.	One Time Rate Adjustments and Annual Reversals (included in Approved Regulated Revenue above)	
1.	Assessments that Reverse Annually	\$ <u>23,216,626</u>
2.	MHAC and QBR	\$ <u>577,156</u>
3.	Other one-time adjustments	\$ _____
4.	Total one-time adjustments	\$ <u>23,793,782</u>
C.	Revenue Excluded from Approved Regulated Revenue Under GBR but Subject to Rate Regulation	
	Description _____	

	_____	\$ _____
D.	Total Approved Revenue Per Order Nisi (Equals A + C)	\$ <u>487,981,390</u>

Appendix B: Revenues and Services Excluded from GBR Model and General Description of Rate Setting Requirements for Excluded Revenues

None

Appendix C: Potentially Avoidable Utilization Targets

1. Targets

a. Readmission and Re-Hospitalization Reduction Targets

b. MHAC Targets

2. Policy References

3. Description of Methodologies Linking Achievement of Targets and Payment Levels

Appendix D: Demographic Adjustment

Mercy received a volume growth estimate in lieu of a demographic adjustment for FY 2014, based on evaluation of volume growth in the calendar year 2013 prior to the start of the new waiver. Effective January 1, Mercy is advanced its demographic adjustment for FY 2015 of .43% effective January 1, 2014 which will be price leveled in the 7/1/2014 rate order. No demographic adjustment is provided for FY 2016.

Appendix E: Definition of Hospital's Service Area

The HSCRC will use zip codes and/or counties for market analysis.

1. The Primary Service Area (PSA) of the Hospital consists of the following zip codes (or counties):

21217, 21202, 21215, 21213, 21218, 21216, 21224, 21206, 21229, 21230, 21223, 21201, 21207, 21222, 21205, 21225, 21231, 21244, 21234

2. The Secondary Service Area of the Hospital consists of the following zip codes (or counties):

21117, 21228, 21239, 21212, 21221, 21133, 21208, 21214, 21211, 21220, 21227, 21136, 21093, 21209, 21236

***Per HSCRC "Definition of Terms" Section XIII of this agreement ,Mercy used FY13 discharge data, and the above zip codes represent 75% of total discharges (60% PSA, 15% SSA).**

Appendix F: Annual Disclosure and Certification Regarding Changes in Services Provided (Due 30 days after the end of the Rate Year)

A. The following services were shifted in whole or in part to unregulated settings not regulated by the HSCRC:

N/A

B. The following services were shifted in whole or in part to the regulated activities of other hospitals:

N/A

C. Or: The Hospital is not aware of any services that were shifted in whole or in part to unregulated settings.

Justin Deibel
Signature of Officer of Hospital

1-17-14
Date

Justin Deibel
Name (Please Print)

Sr VP & CEO
Title

410-659-2905
Telephone Number

jdeibel@mdmery.com
E Mail Address

Appendix G: Hospital Financial Interest, Ownership, or Control of other Hospital or Non-Hospital Services Provided Within the Service Area

The Hospital owns, has a substantial financial interest in, controls, or is financially or organizationally related to the following provider organizations or systems.

Mercy Medical Center is the sole member of Mercy Transitional Care Services, Inc. and Greenleaf Insurance Company, Ltd.

Mercy Health Services is the sole member of Mercy Medical Center, Inc., Stella Maris, Inc., Physician Enterprise (Consisting of Maryland Family Care, Inc., St. Paul Place Specialists, Inc. and Maryland Specialty Services, LLC), and Mercy Health Foundation, Inc.

Mercy Health Services is part of a joint venture with 50% ownership of Mercy Ridge.

Appendix H: Calculation of Market Share

While the following calculation is not binding, it is suggested as a calculation that can be used to examine possible changes in market share given the complexities arising from evaluating shifts in market share under the incentives of population-based payment models. The HSCRC staff will instruct the appropriate Work Group(s) to examine this issue and to recommend policies to the HSCRC.

1. Volume of Services: In considering whether adjustments to the Hospital's Approved Regulated Revenue are warranted for shifts in market share, the changes in the service levels of the Hospital and of other hospitals in the Hospital's Service Area (i.e., its PSA and its SSA) will need to be calculated for selected services. These service levels will be calculated for the Base Year and for each Rate Year.
2. The measure of the volume of service will be calculated for the Hospital and for each other applicable Hospital separately for inpatient and outpatient services
3. The outpatient services will be converted to an inpatient equivalent volume of services.
4. For each hospital, including the GBR Hospital, which provides services in the particular category of service, the Hospital's Volume of Service will be calculated as follows:
 - a. The Inpatient Volume of Services will equal the number of case mix adjusted discharges (CMADs) of the Hospital's inpatients whose services are included in the particular category; and
 - b. The Outpatient Volume of Services will be computed as follows:
 - i. The Hospital's Unit Charge will be calculated as the average charge per CMAD over all of the Hospital's inpatients, excluding outliers.
 - ii. The outpatient equivalent CMADs (ECMADs) will be calculated as the Hospital's total charges, exclusive of the charges of inpatients included in the count of CMADs, divided by the Unit Charge.
5. The Hospital's volume of service for the particular category of services will equal the sum of the number of CMADs calculated in Step 4(a) and the number of ECMADs calculated in Step 4(b).
6. The calculations described above will be performed separately for PAUs, in recognition that a primary objective of the Agreement is to reduce PAUs. The HSCRC will ensure that the Hospital is not penalized for its PAU reductions in the market share calculation.

7. The total volume of service of a particular category of services which are provided by several hospitals will equal the sum of the volume of services for each hospital as calculated above.

The HSCRC will continue to work with the Hospital and the relevant Work Group(s) on the methods for calculating service level and market share changes. The parties recognize that this effort is a “work in progress” and they will work cooperatively to improve the methods of evaluating changes in market share and changes in efficiency levels.

Appendix I: Readmission Policy Adjustment

The Hospital's readmission savings requirement for the Rate Year is as follows:

.14 percent of Total Revenue