

IN RE: THE PARTIAL RATE \* BEFORE THE HEALTH SERVICES  
APPLICATION OF \* COST REVIEW COMMISSION  
HOLY CROSS HOSPITAL \* DOCKET: 2011  
\* FOLIO: 1925  
SILVER SPRING, MARYLAND \* PROCEEDING: 2115A

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**Staff Recommendation**

**June 1, 2011**

This recommendation was approved by the Commission on June 1, 2011.

## **Introduction**

On May 18, 2011, Holy Cross Hospital (Holy Cross or the Hospital) requested that the Commission approve its continued participation in the alternative method of rate determination (ARM) arrangement with the Kaiser Health Plan of the Mid-Atlantic States, Inc. (Kaiser).

This arrangement was first approved as a Demonstration Project, approved July 1, 2005 for two years, was extended for two additional years at the Commission's July 18, 2007 public meeting, and extended for another two years at the Commission's June 3, 2009 public meeting. Under the arrangement, Holy Cross was grants a reduction in rates of 3.15% to Kaiser members to reflect three discrete activities by Kaiser that generate cost savings to Holy Cross. The activities are: 1) the reduction of Kaiser's retroactive denials, valued at 0.53%; 2) the provision of case managers, valued at 1.25%; and 3) the elimination of collection costs and the immediate access to payment, valued at 1.37%.

In addition, to the rate reduction, the Commission permitted Kaiser to utilize its greater purchasing power to reduce the cost of major medical devices (surgically implanted vender-delivered devices costing a minimum of \$2,500) for its members at Holy Cross. The rationale for the Commission's approval was that: 1) Holy Cross would reduce its CPC target by the invoice cost it would have paid for the devices if it had purchased them; 2) this would reduce the Hospital's total allowable revenue; and 3) since the System is capped, the amount of revenue removed from the Hospital's allowable revenue would be available to other hospitals.

Holy Cross has requested that the Demonstration Project be allowed to continue

indefinitely.

### Findings

As a condition for continued approval, Holy Cross was required to provide a letter of attestation, 30 days after the end of its fiscal year, that the activities of Kaiser continued to justify the 3.15% discount approved by the Commission. The fiscal 2009 attestation letter indicated that the savings associated with Kaiser's three cost cutting activities produced savings of 3.27%, and the fiscal 2010 letter indicated savings of 3.07% ( an average of 3.17% over the two year period). In addition, in accordance with the terms of the arrangement, Holy Cross' total allowed revenue for FY 2009 and FY 2010 was reduced by \$652,724 and \$589,994 respectively, which is equal to the cost of the medical devices not provided by Holy Cross to Kaiser's patients.

### Staff Recommendation

The Demonstration Project shows that the cost cutting activities of Kaiser continue to justify the discount approved by the Commission, and that Kaiser's provision of medical devices has produced Savings to the system. Therefore, staff recommends:

- 1) that the Demonstration Project be continued for an additional two years, beginning July 1, 2011;
- 2) that 30 days after the end of its fiscal year the Hospital provide a letter of attestation that Kaiser's three cost savings activities continue to justify the 3.15%

discount;

- 3) that in regard to the provision of major medical devices by Kaiser for its members, the Hospital provide the data as prescribed by staff in the letter from Dennis N. Phelps to Gary Vogan dated June 15, 2005, attached; and
- 4) that the Hospital be required to apply for continuation of this arrangement beyond June 30, 2013.