

**IN RE: THE APPLICATION FOR  
ALTERNATIVE METHOD OF RATE  
DETERMINATION  
JOHNS HOPKINS HEALTH SYSTEM  
BALTIMORE, MARYLAND**

**\* BEFORE THE MARYLAND HEALTH  
\* SERVICES COST REVIEW  
\* COMMISSION  
\* DOCKET: 2011  
\* FOLIO: 1934  
\* PROCEEDING: 2124A**

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**Staff Recommendation  
August 3, 2011**

This recommendation was unanimously approved by the Commission on August 11, 2011. The Chairman, John C. Colmers, recused himself from participation in this proceeding.

## **I. INTRODUCTION**

Johns Hopkins Health System ("System") filed an application with the HSCRC on June 10, 2011 on behalf of Johns Hopkins Hospital and Johns Hopkins Bayview Medical Center (the "Hospitals") for an alternative method of rate determination, pursuant to COMAR 10.37.10.06. The System requests approval from the HSCRC to continue to participate in a global rate arrangement for bone marrow transplants services with Cigna Health Corporation. The System requested approval for a period of three years beginning July 1, 2011.

## **II. OVERVIEW OF APPLICATION**

The contract will be continue to be held and administered by Johns Hopkins HealthCare, LLC ("JHHC"), which is a subsidiary of the System. JHHC will continue to manage all financial transactions related to the global price contract including payments to the Hospitals and bear all risk relating to regulated services associated with the contract.

## **III. FEE DEVELOPMENT**

The hospital portion of the new global rates was developed by calculating mean historical charges for patients receiving the procedures for which global rates are to be paid. The remainder of the global rate is comprised of physician service costs. Additional per diem payments were calculated for cases that exceed a specific length of stay outlier threshold.

## **IV. IDENTIFICATION AND ASSESSMENT OF RISK**

The Hospitals will continue to submit bills to JHHC for all contracted and covered services. JHHC is responsible for billing the payer, and collecting payments, disbursing payments to the Hospitals at their full HSCRC approved rates, and reimbursing the physicians. The System contends that the arrangement among JHHC, the Hospitals, and

the physicians holds the Hospitals harmless from any shortfalls in payment from the global price contract. JHHC maintains it has been active in similar types of fixed fee contracts for several years, and that JHHC is adequately capitalized to bear risk of potential losses.

## **V. STAFF EVALUATION**

Staff found that the experience under this arrangement for the last year was unfavorable. However, the Hospitals renegotiated the contract and developed updated the global prices based on more current hospital historical data plus an inflation factor. After review of the data and the calculation of the new global prices, staff believes that the Hospitals can achieve a favorable experience under the renegotiated arrangement.

## **VI. STAFF RECOMMENDATION**

The staff recommends that the Commission: 1) waive the requirement that an application be filed 60 days prior to the effective date of an alternative method of rate determination arrangement; and 2) approve the Hospitals' application for an alternative method of rate determination for bone marrow transplant services, for a one year period commencing July 1, 2011. The Hospitals will need to file a renewal application for review to be considered for continued participation. Consistent with its policy paper regarding applications for alternative methods of rate determination, the staff recommends that this approval be contingent upon the execution of the standard Memorandum of Understanding ("MOU") with the Hospitals for the approved contract. This document would formalize the understanding between the Commission and the Hospitals, and would include provisions for such things as payments of HSCRC-approved rates, treatment of losses that may be attributed to the contract, quarterly and annual reporting, confidentiality of data submitted, penalties for noncompliance, project termination and/or alteration, on-going monitoring, and other issues specific to the proposed contract. The MOU will also stipulate that operating losses under the contract cannot be used to justify future requests for rate increases.