IN RE: THE ALTERNATIVE	*****	**BEFORE THE HEALTH**
RATE APPLICATION OF	*****	**SERVICES COST REVIEW**
MEDSTAR HEALTH	*****	**COMMISSION**
SYSTEM	*****	**DOCKET: 2011**
	*****	**FOLIO: 1938**
COLUMBIA, MARYLAND	*****	**PROCEEDING: 2128A**

Draft Recommendation

September 14, 2011

I. Introduction

On July 26, 2011, MedStar Health filed an application for an Alternative Method of Rate Determination pursuant to COMAR 10.37.10.06 on behalf of Franklin Square Hospital, Good Samaritan Hospital, Harbor Hospital, and Union Memorial Hospital (the "Hospitals"). MedStar Health seeks renewal for the continued participation of MedStar Family Choice ("MFC") in the Medicaid Health Choice Program. MedStar Family Choice is the MedStar entity that assumes the risk under this contract. The Commission most recently approved this contract under proceeding 2080A for the period from January 1, 2011 through December 31, 2011. The Hospitals are requesting to renew this contract for one year beginning January 1, 2012.

II. Background

Under the Medicaid Health Choice Program, MedStar Family Choice, a Managed Care Organization ("MCO") sponsored by the Hospitals, is responsible for providing a comprehensive range of health care benefits to Medical Assistance enrollees. The application requests approval for the Hospitals to provide inpatient and outpatient hospital services, as well as certain non-hospital services, in return for a State-determined capitation payment. MedStar Family Choice pays the Hospitals HSCRC-approved rates for hospital services used by its enrollees. MedStar Family Choice provides services to about 4% of the total number of MCO enrollees in Maryland.

The Hospitals supplied information on their most recent experience and their preliminary projected revenues and expenditures for the upcoming year based on the initial revised Medicaid capitation rates.

III. Staff Review

This contract has been operating under previous HSCRC approval (proceeding 2080A).

Staff reviewed the operating performance under the contract as well as the terms of the capitation pricing agreement. Staff reviewed financial information and projections for CYs 2010 and 2011 and preliminary projections for CY 2012. In recent years, the financial performance of MFC has been favorable. The actual financial experience reported to staff for CY2010 was positive, and is expected to remain positive in CY 2011. Projections for CY 2012 will be available once Medicaid's rate setting process is finalized, and the final recommendation proposed to the Commission in October will reflect these projections.

IV. Recommendation

With the exception of FY 2009, MFC has continued to achieve favorable financial performance in recent years. Based on past performance, staff believes that the proposed renewal arrangement for MFC is acceptable under Commission policy, in that the MCO has been able to sustain reasonable profit margins. However, Staff will reevaluate MFC's projected CY 2012 financial status when Medicaid rates are finalized, and present final recommendations at the October Commission meeting.

Therefore:

(1) At the October Commission meeting, Staff will recommend approval of this alternative rate application for a one-year period beginning January 1, 2012, provided staff believes the arrangement will not result in sustained losses to the MCO.

(2) Since sustained losses over an extended period of time may be construed as a loss contract necessitating termination of this arrangement, staff will continue to

monitor financial performance to determine whether favorable financial performance is achieved in CY 2012 and expected to be sustained into CY 2013. Staff recommends that MedStar Family Choice report to Commission staff (on or before the August 2012 meeting of the Commission) on the actual CY 2011 experience and preliminary CY 2012 financial performance (adjusted for seasonality) of the MCO as well as projections for CY 2013.

(3) Consistent with its policy paper outlining a structure for review and evaluation of applications for alternative methods of rate determination, the staff recommends that this approval be contingent upon the continued adherence to the standard Memorandum of Understanding with the Hospitals for the approved contract. This document formalizes the understanding between the Commission and the Hospitals, and includes provisions for such things as payments of HSCRC-approved rates, treatment of losses that may be attributed to the managed care contract, quarterly and annual reporting, the 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 also stipulates that operating losses under managed care contracts may not be used to justify future requests for rate increases.