

IN RE: THE ALTERNATIVE	*	BEFORE THE HEALTH	
RATE APPLICATION OF	*	SERVICES COST REVIEW	
THE JOHNS HOPKINS HEALTH	*	COMMISSION	
SYSTEM	*	DOCKET:	2011
	*	FOLIO:	1945
BALTIMORE, MARYLAND	*	PROCEEDING	2135A

Draft Recommendation

September 14, 2011

I. Introduction

On August 30, 2011 Johns Hopkins Health System (“JHHS,” or the “System”) filed an application for an Alternative Method of Rate Determination pursuant to COMAR 10.37.10.06 on behalf of Johns Hopkins Hospital, Johns Hopkins Bayview Medical Center, and Howard County General Hospital (the “Hospitals”). The System seeks renewal for the continued participation of Priority Partners, Inc. in the Medicaid Health Choice Program. Priority Partners, Inc. is the entity that assumes the risk under the contract. The Commission most recently approved this contract under proceeding 2081A for the period from January 1, 2011 through December 31, 2011. The Hospitals are requesting to renew this contract for a one-year period beginning January 1, 2012.

II. Background

Under the Medicaid Health Choice Program, Priority Partners, a provider-sponsored Managed Care Organization (“MCO”) sponsored by the Hospitals, is responsible for providing a comprehensive range of health care benefits to Medical Assistance enrollees. Priority Partners was created in 1996 as a joint venture between Johns Hopkins Health Care (JHHC) and the Maryland Community Health System (MCHS) to operate an MCO under the Health Choice Program. Johns Hopkins Health Care operates as the administrative arm of Priority Partners and receives a percentage of premiums to provide services such as claim adjudication and utilization management. MCHS oversees a network of Federally Qualified Health Clinics and provides member expertise in the provision of primary care services and assistance in the development of provider networks.

The application requests approval for the Hospitals to continue to provide inpatient and

outpatient hospital services, as well as certain non-hospital services, in return for a State-determined capitation payment. Priority Partners pays the Hospitals HSCRC-approved rates for hospital services used by its enrollees. 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.

Priority Partners is a major participant in the Medicaid Health Choice program, providing managed care services on a statewide basis and serving 27% of the State's MCO population.

III. Staff Review

This contract has been operating under the HSCRC's initial approval in proceeding 2081A. Staff reviewed the operating performance under the contract as well as the terms of the capitation pricing agreement. Staff has analyzed Priority Partner's financial history, net income projections for CY 2011, and initial projections for CY 2012. The statements provided by Priority Partners to staff represent both a stand-alone and "consolidated" view of Priority's operations. The consolidated picture reflects certain administrative revenues and expenses of Johns Hopkins Health Care. When other provider-based MCOs are evaluated for financial stability, their administrative costs relative to their MCO business are included as well; however, they are all included under one entity.

In recent years, the financial performance of Priority Partners 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, Priority Partners has continued to achieve favorable financial performance in recent years. Based on past performance, staff believes that the proposed renewal arrangement for Priority Partners is acceptable under Commission policy, in that the MCO has been able to sustain reasonable profit margins. However, Staff will reevaluate Priority Partners' 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. Therefore, staff recommends that Priority Partners 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.