

**An Assessment of  
Electronic Health Records  
Meaningful Use Incentive Payments:  
Maine Hospitals**

**Prepared for  
HealthInfoNet**

*July 2010*

July 29, 2010

Mr. Dev Culver  
Executive Director  
HealthInfoNet  
245 Commercial Street, Suite 201  
Portland, Maine 04101

**Electronic Health Records Meaningful Use Incentive Payments:  
Maine Hospitals**

Dear Dev:

Please find enclosed Baker Newman Noyes report that estimates the potential Centers for Medicare and Medicaid Services (CMS) electronic health records (EHR) meaningful use (MU) incentive payments for all eligible Maine hospitals.

We have calculated the estimated MU incentive payments to be worth approximately \$145 million collectively to eligible Maine hospitals over the next four years assuming that all eligible Maine hospitals meet and can attest to meeting the MU requirements within the required timeframe.

If you have any questions, please contact me.

Very truly yours,



Patrick A. Morin  
Principal

Copy to Shaun Alfreds  
Marc Levy

# Electronic Health Records Meaningful Use Incentive Payments: Maine Hospitals

## Table of Contents

	<u>Page</u>
I. Executive Summary	1
II. Introduction	1
III. Assessment Findings – Total	2
IV. Assessment Findings – Medicare PPS	3
V. Assessment Findings – Medicare CAH	5
VI. Assessment Findings – Medicaid	7
VII. Summary	9
Appendix	
• Assessment Methodology	
• Summary of Included Maine Hospitals	

## **Electronic Health Records Meaningful Use Incentive Payments: Maine Hospitals**

### **I. EXECUTIVE SUMMARY**

Baker Newman Noyes (BNN) was engaged by HealthInfoNet (HIN) to research and calculate an estimate of the potential Centers for Medicare and Medicaid Services (CMS) electronic health records (EHR) meaningful use (MU) incentive payments for all eligible Maine hospitals based upon the most currently available guidance and/or rulemaking from CMS and the most currently available hospital-specific data.

On January 13, 2010, CMS published proposed regulations in the Federal Register relative to EHR MU qualifications and incentive payments. On July 13, 2010, CMS issued the final rules relative to EHR MU qualifications and incentive payments. The following report incorporates these final rules.

Based upon the final regulations and available hospital data, we have calculated the estimated MU incentive payments to be worth approximately \$145 million collectively to eligible Maine hospitals over the next four years assuming that all eligible Maine hospitals meet and can attest to meeting the MU requirements within the required timeframe.

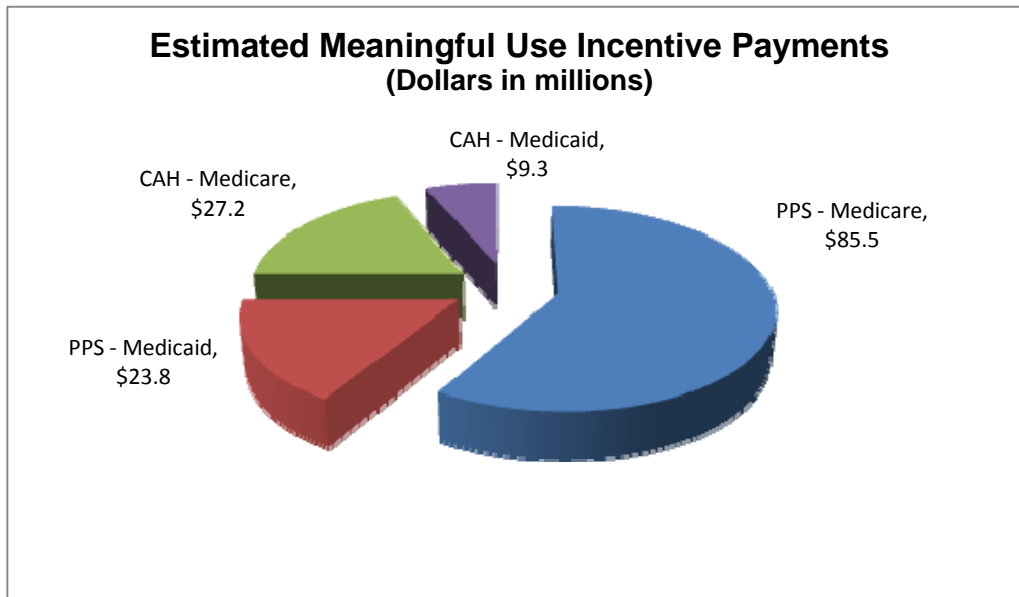
We have not verified the detail from the Medicare cost report, financial statement data or the Critical Access Hospital (CAH) EHR expense data that was utilized in the calculation of the estimated MU incentive payments. Furthermore, the actual MU incentive payments, both for each eligible hospital and collectively for all the eligible hospitals in Maine, will vary from these estimates based upon a number of factors. These factors include, but are not limited to, the ability of each eligible hospital to meet the MU requirements during the first eligible period. We have no responsibility to update this report for events and circumstances occurring after the date of this report unless otherwise engaged by HIN to do so. BNN shall not have any liability to any person or entity that relies on this publication.

### **II. INTRODUCTION**

This assessment estimates the potential CMS EHR MU incentive payments for all eligible Maine hospitals. The assessment included the 36 eligible Maine hospitals (21 Medicare and Medicaid prospective payment system (PPS) acute care hospitals and 15 Medicare and Medicaid critical access hospitals (CAH)). The assessment utilized the most currently available Medicare cost report and financial statements for eligible Maine hospitals (Appendix 2). The MU incentive payments are estimated based upon the assumption that all eligible hospitals will meet the MU requirements by the required deadlines and thus will be eligible for the maximum amount of MU incentive payments.

### III. ASSESSMENT FINDINGS – Total

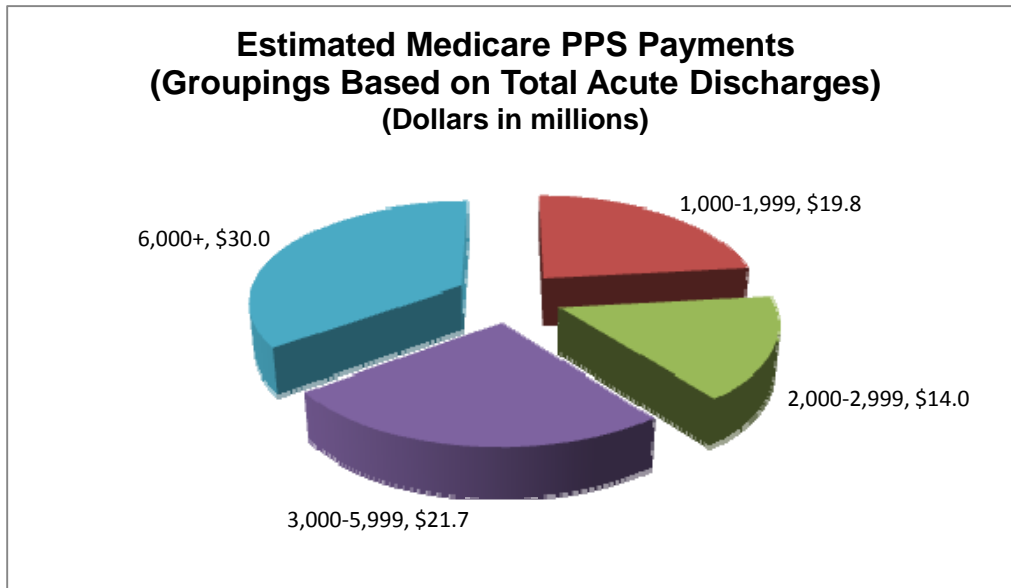
The results displayed below show the estimated MU incentive payments for the 36 participating eligible Maine hospitals as broken out by type of MU incentive payment. The MU incentive payments are estimated based upon the assumption that all eligible hospitals will meet the MU requirements by the required deadlines and thus will be eligible for the maximum amount of MU incentive payments.



Source: BNN Assessment Methodology – see Appendix 1

## IV. ASSESSMENT FINDINGS – Medicare PPS

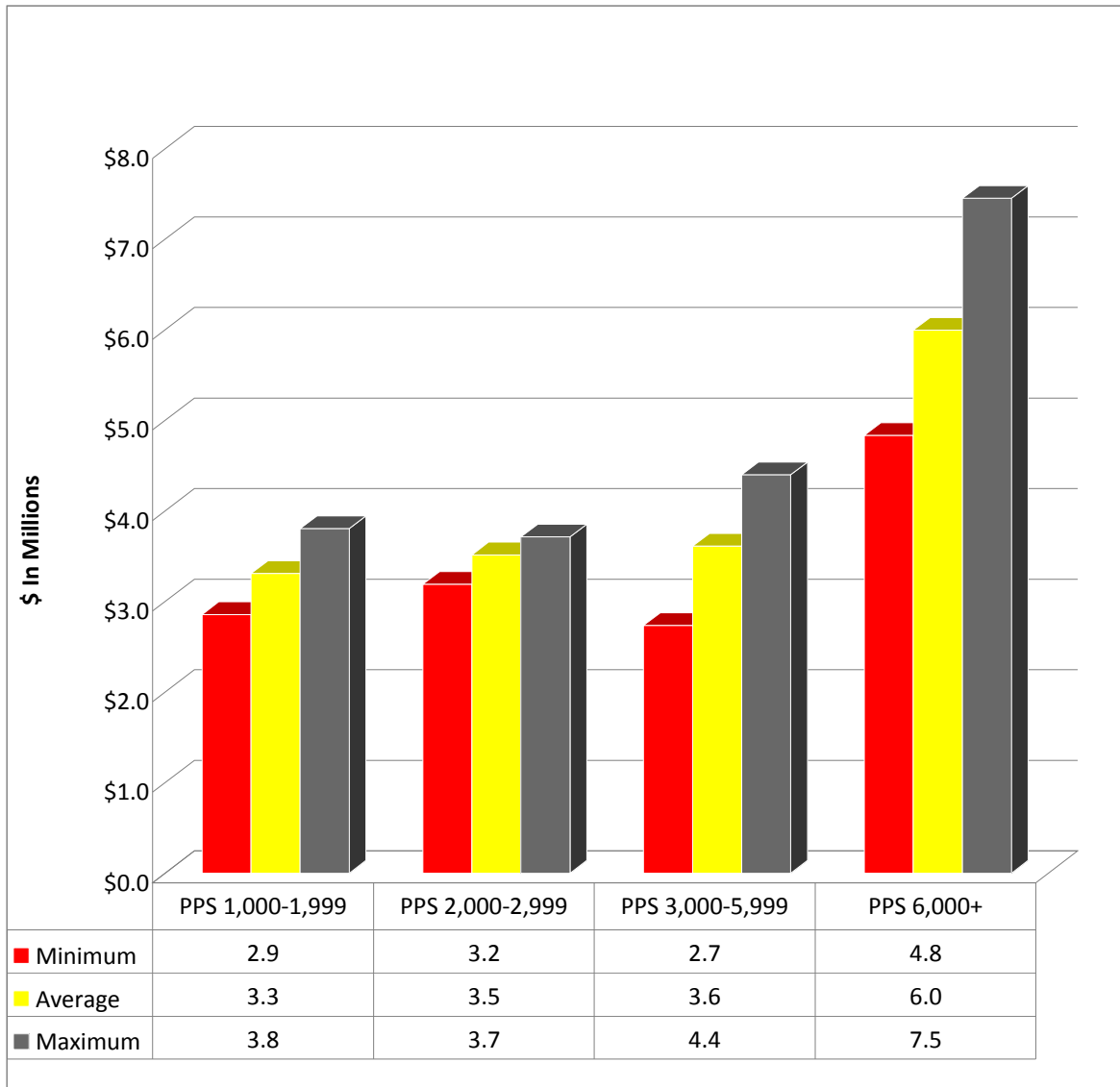
The results displayed below show the estimated Medicare MU incentive payments for all 21 eligible Maine Medicare PPS hospitals, grouped based upon total acute discharges per the most recent Medicare cost report. The MU incentive payment calculation takes into account, in part, the Medicare days to total days (adjusted by the hospital's patient revenue<sup>1</sup> net of charity care) and total discharges. The MU incentive payments are estimated based upon the assumption that all eligible hospitals will meet the MU requirements by the required deadlines and thus will be eligible for the maximum amount of MU incentive payments.



Source: BNN Assessment Methodology – see Appendix 1

In order to demonstrate the averages that may be applicable to the respective 21 eligible Maine Medicare PPS hospitals, the following chart demonstrates the average and range of estimated Medicare PPS MU incentive payments that correlate with the groupings based on acute discharges presented above.

## Comparative Estimated Medicare PPS Payments (Groupings Based on Acute Discharges)



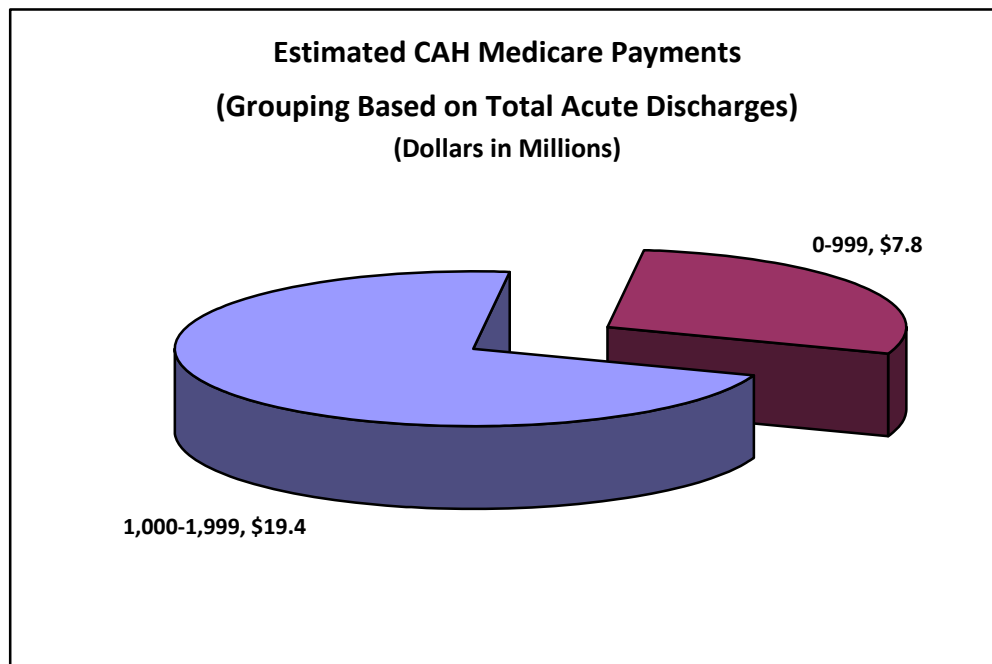
Source: BNN Assessment Methodology – see Appendix 1

## V. ASSESSMENT FINDINGS – Medicare CAH

The results displayed below show the estimated Medicare MU incentive payments for all 15 participating eligible Maine CAH's. The MU incentive payment calculation takes into account, in part, the Medicare days to total days adjusted by the hospital's patient revenue<sup>2</sup> (net of charity care) and the actual current year and undepreciated EHR depreciation expense on the Medicare cost report as well as the to be depreciated EHR expense that will be included on future Medicare cost reports. The EHR depreciation expense (actual, undepreciated and future) included in the assessment methodology is based on actual information as provided by the CAH hospitals. For any CAH hospital that did not respond to the request for information, no expense was estimated and thus their estimated Medicare MU incentive payments have not been calculated. The MU incentive payments are estimated based upon the assumption that all eligible hospitals will meet the MU requirements by the required deadlines and thus will be eligible for the maximum amount of MU incentive payments.

On page 444 of the July 13, 2010 federal register, CMS states that the MU incentive payment is to be the single Medicare payment for CAH EHR costs, in lieu of the reimbursement that eligible CAH's would normally receive via the Medicare cost report. As such, the Medicare contractors will review, and if necessary, offset these costs, from the Medicare cost report to ensure that these costs are removed before the final settlement takes place. CMS is taking these steps to ensure that CAH's are not receiving Medicare reimbursement twice for the same expenses (i.e., to avoid "double dipping").

Please note that unlike the Medicare and Medicaid PPS MU incentive payment methodology, there is no four year transition factor allocation. Qualifying CAH's can receive up to four years of MU incentive payments based upon each year's *actual* data. For the purpose of this assessment of eligible CAH MU incentive payments, we have used the Medicare and Medicaid PPS MU incentive payment four year transition factor allocation. This methodology will present the estimated eligible CAH MU incentive payments as a conservative estimate and this estimate might not reconcile to each individual hospital's internal assessment of their own potential MU incentive payments.



Source: BNN Assessment Methodology – see Appendix 1

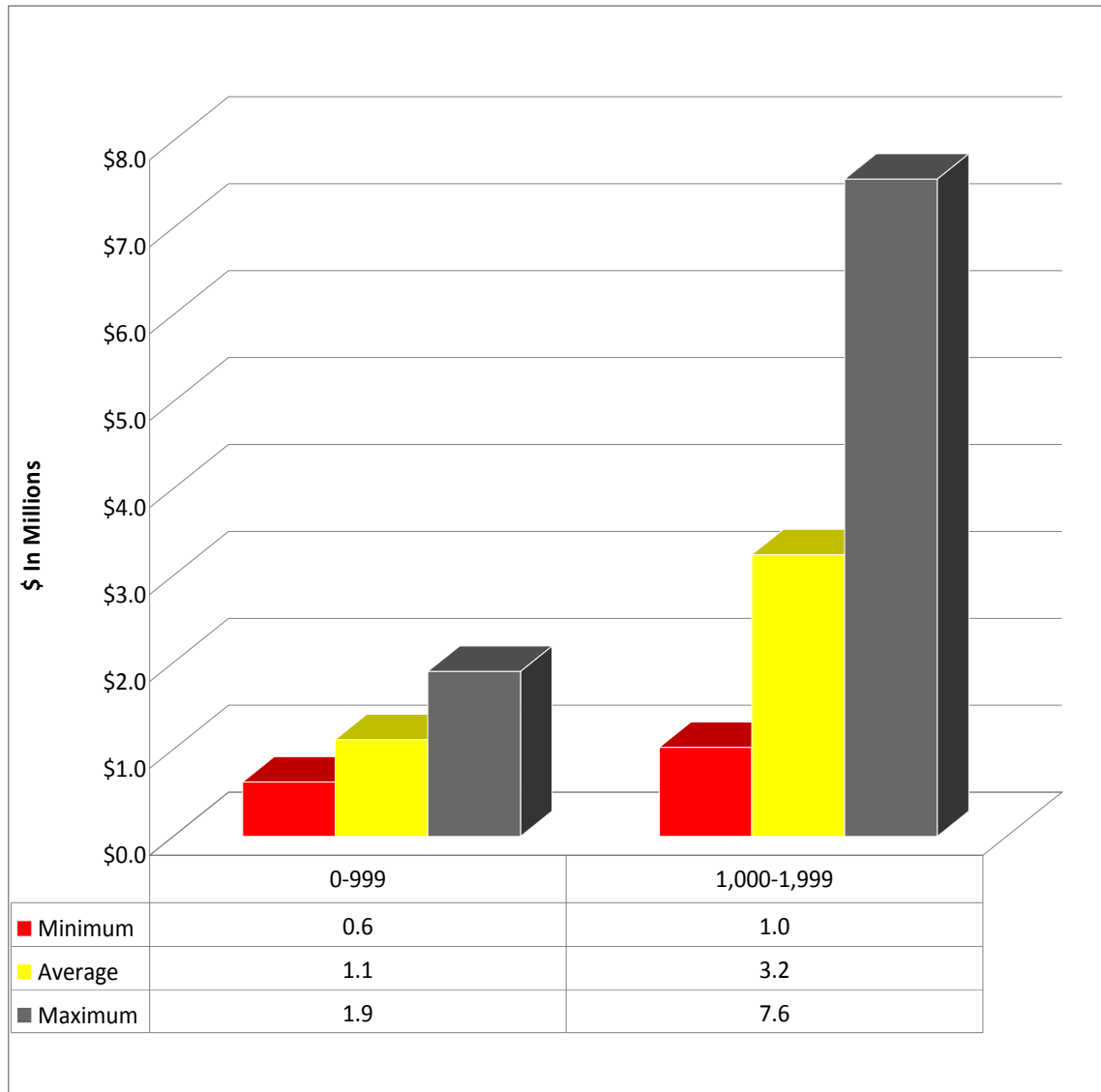
---

<sup>2</sup> Per W/S C of the Medicare cost report



In order to demonstrate the averages that may be applicable to the respective 15 eligible Maine Medicare CAH hospitals, the following chart demonstrates the average and range of estimated Medicare CAH MU incentive payments that correlate with the groupings based on acute discharges presented above.

## Comparative Estimated Medicare CAH Payments (Groupings Based on Acute Discharges)

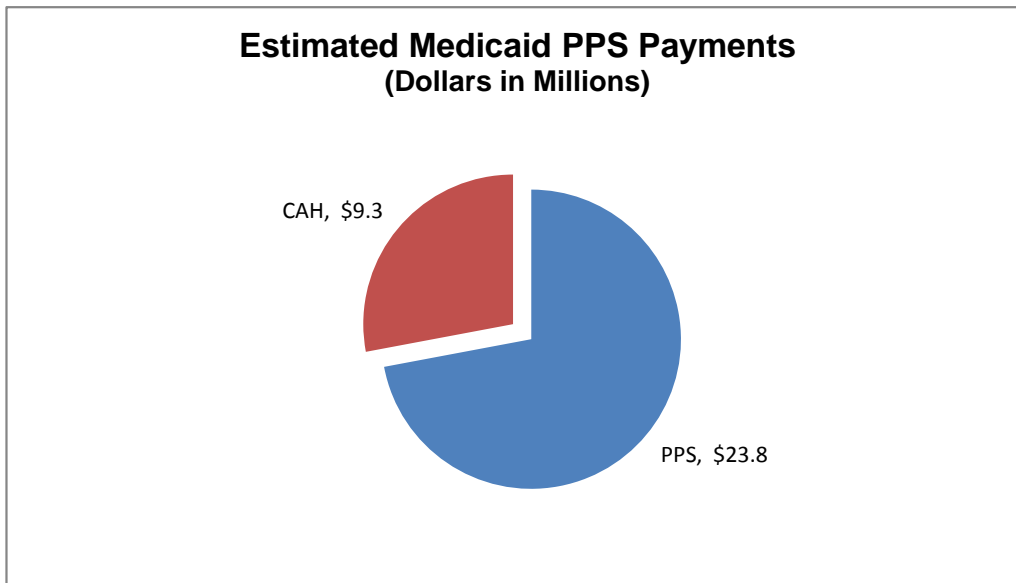


Source: BNN Assessment Methodology – see Appendix 1

## VI. ASSESSMENT FINDINGS – Medicaid

The results displayed below show the estimated Medicaid MU incentive payments for the 21 eligible and participating Maine PPS and the 15 CAH hospitals grouped based upon total acute care beds per the Medicare cost report. In addition, the Medicaid MU incentive payment regulations include a provision, as part of the calculation, for a three-year Medicaid growth/decline trending factor. For the purpose of these estimated MU incentive payments, we have not included any growth/decline trending factors. The MU incentive payments are estimated based upon the assumption that all eligible hospitals will meet the MU requirements and thus will be eligible for the maximum amount of MU incentive payments.

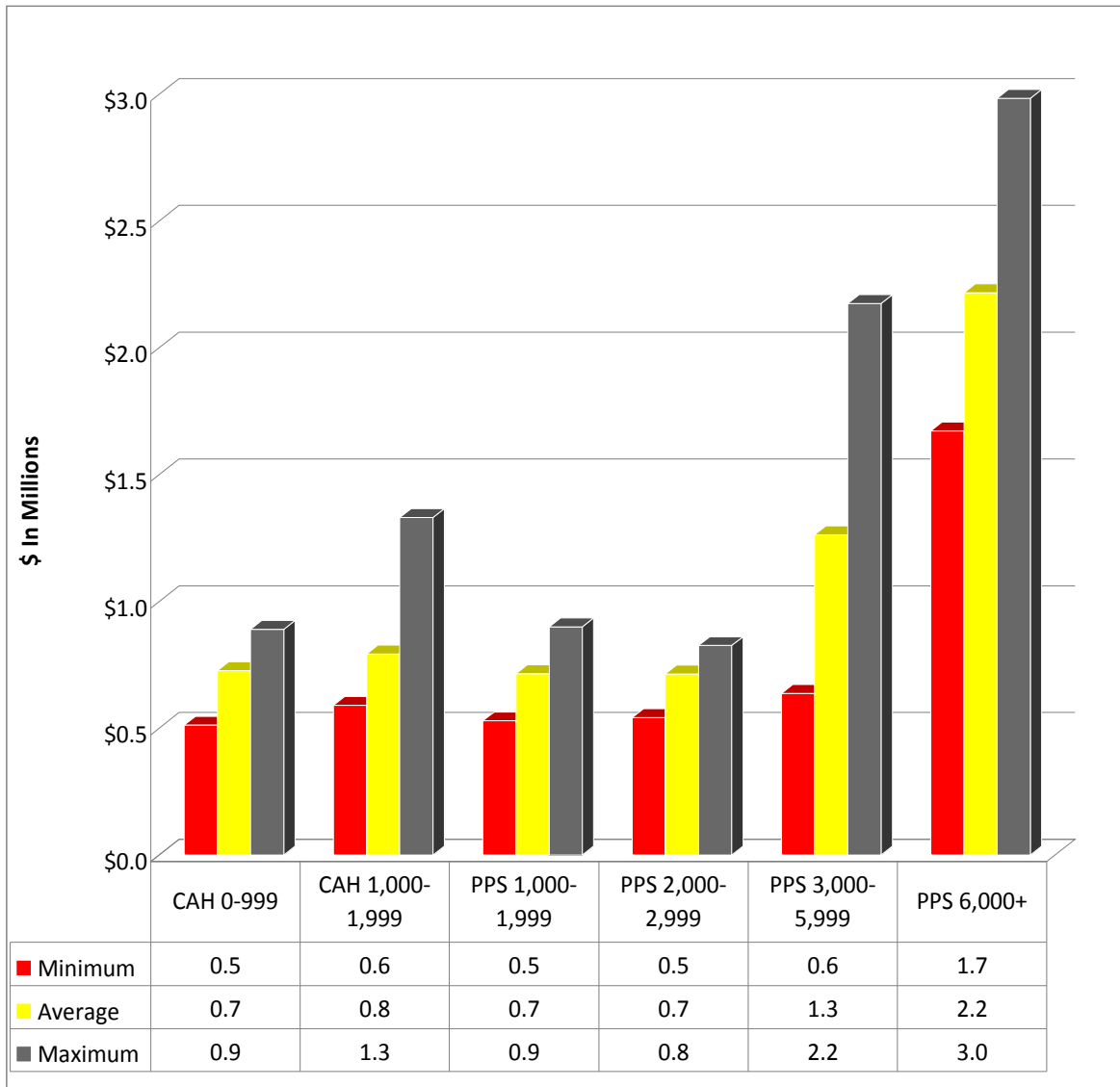
*Note: The Medicaid MU incentive payment proposed regulations require that eligible hospitals must have a Medicaid patient day's utilization of at least 10 percent. For the purpose of this assessment of estimated MU incentive payments, we have chosen to include the estimated MU incentive payments for any facility that had a Medicaid patient days utilization of at least 9 percent. We adjusted the threshold for this analysis due to potential inaccuracies in the current MaineCare claims processing data and the possibility that an eligible hospital can properly identify an additional one percent of Medicaid and/or Medicaid eligible days to achieve the 10 percent threshold. Therefore, for any facility that does not have a Medicaid patient days utilization of at least 9 percent, no estimated MU incentive payment is included in this assessment.*



Source: BNN Assessment Methodology – see Appendix 1

In order to demonstrate the averages that may be applicable to the respective 36 eligible Maine Medicaid hospitals, the following chart demonstrates the average and range of estimated Medicaid MU incentive payments that correlate with the groupings based on acute discharges presented above.

## Comparative Estimated Medicaid Payments (Groupings Based on Acute Discharges)



Source: BNN Assessment Methodology – see Appendix 1

## **VII. SUMMARY**

As noted in the Executive Summary, this assessment of potential EHR MU incentive payments to eligible Maine hospitals identifies the following major points:

- Eligible Maine hospitals have the opportunity to qualify for significant Federal incentive payments by meeting the MU requirements as soon as possible in order to qualify for the maximum amount of incentive payments.
- There are opportunities for eligible Maine hospitals to qualify for additional MU incentive payments.
- Eligible Maine hospitals should evaluate their current systems for compliance with the MU requirements due to the need:
  - To act promptly to ensure they are eligible to meet the earliest MU enrollment period in order to receive the maximum benefit.
  - To evaluate the sufficiency of any current or planned EHR to achieve the certification requirements.
  - To assess their readiness and capacity to implement an EHR if they have not yet done so.

# **APPENDIX**

## APPENDIX 1 – BNN ASSESSMENT METHODOLOGY

BNN developed and compiled this assessment based on the available published MU incentive rules and various data sources including the following:

- Medicare cost reports (under FOI)
- Financial statements
- Final CMS Regulations
- Other

This section provides an overview of the calculation methodology:

### MEANINGFUL USE INCENTIVE PAYMENT METHODOLOGY

On January 13, 2010, CMS published the “Medicare and Medicaid programs; Electronic Health Record Incentive; Proposed Rule”. In this proposed rule, CMS described the MU incentive payment calculation methodology. It is based upon the following CMS methodology in the proposed rule that we have calculated the MU incentive payments for all eligible Maine hospitals

#### Meaningful Use Incentive Payments – Medicare PPS

On page 428 of the July 13, 2010 public display of the final rules, CMS described the MU incentive payment calculation for eligible Medicare PPS hospitals. The calculation is as follows:

$$\begin{aligned} \text{Incentive Amount} &= [\text{Initial Amount}] * [\text{Medicare Share}] * [\text{Transition Factor}] \\ \text{Initial Amount} &= \$2,000,000 + [\$200 \text{ per discharge for the } 1,150^{\text{th}} - 23,000^{\text{th}} \text{ discharge}] \\ \text{Medicare Share} &= \text{Medicare} / (\text{Total} * \text{Charity Care}) = [M / (T * C)] \end{aligned}$$

$$\begin{aligned} M &= [\# \text{ of Inpatient Bed Days for Part A Beneficiaries}] + [\# \text{ of Inpatient Bed Days for Medicare Advantage} \\ &\quad \text{(MA) Beneficiaries}] \\ T &= [\# \text{ of Total Inpatient Bed Days}] \\ C &= [\text{Total Charges} - \text{Charges for Charity Care}] / [\text{Total Charges}] \end{aligned}$$

\*If data on charity care is not available, then the Secretary would use data on uncompensated care as a proxy. If the proxy data is also not available, then “C” would be equal to 1.

Based upon the above calculation details as set forth in the final rules by CMS, a facility with the following details, if they meet the MU rules, would qualify for approximately \$1,312,527 in the first year of MU Medicare PPS incentive payments.

$$\begin{aligned} M &= [4,000 \text{ Total Inpatient Bed Days for Medicare Part A and MA Beneficiaries}] \\ T &= [6,500 \text{ Total Inpatient Bed Days}] \\ C &= [\$100,000,000 (\text{Total Charges}) - \$2,000,000 (\text{Charity Care})] / \$100,000,000 (\text{Total Charges}) = .98 \end{aligned}$$

$$\begin{aligned} \text{Initial Amount} &= \$2,000,000 + [\$200 * 451 \text{ (This example has 1,600 total discharges)}] = \$2,090,200 \\ \text{Medicare Share} &= [M / (T * C)] = [4,000 / (6,500 * .98)] = 62.79\% \end{aligned}$$

$$\text{Incentive Amount} = [2,090,000] * [62.79\%] * [1 - \text{Year 1 Transition Factor}] = \$1,312,527$$

## Meaningful Use Incentive Payments – Medicare CAH

On page 440 of the July 13, 2010 public display of the final rules, CMS described the MU incentive payment calculation for eligible Medicare CAH hospitals. The calculation is as follows:

Incentive Amount = [EHR Depreciation Expense]\* [Medicare Share]

EHR Depreciation Expense =

EHR depreciation expense on the current year Medicare cost report +

Remaining EHR depreciation expense that has not been claimed yet on any Medicare cost report

Medicare Share =  $\text{Medicare} / (\text{Total} * \text{Charity Care}) + 20\%$  (Not to exceed 100%) =  $[M / (T * C) + 20\%$  (Not to exceed 100%)]

$M$  = [# of Inpatient Bed Days for Medicare Part A Beneficiaries] + [# of Inpatient Bed Days for MA Beneficiaries]

$T$  = [# of Total Inpatient Bed Days]

$C$  = [Total Charges - Charges for Charity Care\*]/[Total Charges]

\*If data on charity care is not available, then the Secretary would use data on uncompensated care as a proxy. If the proxy data is also not available, then “C” would be equal to 1.

Based upon the above calculation details as set forth in the final rules by CMS, a facility with the following details, if they meet the MU rules, would qualify for approximately \$1,447,959 in the first year of MU CAH incentive payments .

$M$  = [600 Total Inpatient Bed Days for Medicare Part A and MA Beneficiaries]

$T$  = [800 Total Inpatient Bed Days]

$C$  = [ $\$25,000,000$  (Total Charges) -  $\$500,000$  (Charity Care)]/ $\$25,000,000$  (Total Charges) = .98

EHR Depreciation Expense = [ $\$500,000$  (on current year Medicare cost report) +  $\$1,000,000$  (depreciation not yet claimed on any Medicare cost report)] =  $\$1,500,000$

Medicare Share =  $[M / (T * C)] - [600 / (800 * .98)] = 76.53\% + 20\% = 96.53\%$

Incentive Amount = [ $\$1,500,000$ ] \* [96.53%] =  $\$1,447,959$

## Meaningful Use Incentive Payments – Medicaid PPS & CAH

On page 570 of the July 13, 2010 public display of the final rules, CMS described the MU incentive payment calculation for eligible Medicaid PPS and CAH hospitals. The calculation is as follows:

$(\text{Overall EHR Amount}) * (\text{Medicaid Share})$  or  $\{\text{Sum over 4 year of } [(\text{Base Amount} + \text{Discharge Related Amount Applicable for Each Year}) * \text{Transition Factor Applicable for Each Year}]\} * \{(\text{Medicaid inpatient-bed-days} + \text{Medicaid managed care inpatient bed-days}) / [(\text{total inpatient-bed days}) * (\text{estimated total charges} - \text{charity care charges}) / (\text{estimated total charges})]\}$

The calculation above works the same way as the Medicare PPS calculation except that if the Medicaid share is less than 10%, then the hospital is not eligible for MU Medicaid PPS and CAH incentive payments and the MU Medicaid PPS and CAH calculation takes into account a 3 year Medicaid growth estimate. For the purpose of this report and for the example below, we have not included a 3 year Medicaid growth estimate.

Based upon the above calculation details as set forth in the final rules by CMS, a facility with the following details, if they meet the MU rules, would qualify for approximately \$213,286 in the first year of MU Medicaid PPS and CAH incentive payments .

$M = [650 \text{ Total Inpatient Bed Days for Medicaid Paid Days and HMO Beneficiaries}]$

$T = [6,500 \text{ Total Inpatient Bed Days}]$

$C = [\$100,000,000 \text{ (Total Charges)} - \$2,000,000 \text{ (Charity Care)}] / \$100,000,000 \text{ (Total Charges)} = .98$

$\text{Initial Amount} = \$2,000,000 + [\$200 * 451 \text{ (This example has 1,600 total discharges)}] = \$2,090,200$

$\text{Medicaid Share} = [M / (T * C)] - [650 / (6,500 * .98)] = 10.20\%$

$\text{Incentive Amount} = [2,090,000] * [10.20\%] * [1 - \text{Year 1 Transition Factor}] = \$213,286$



## APPENDIX 2 – SUMMARY OF INCLUDED HOSPITALS

Hospital	FYE
St. Joseph Hospital	12/31/2009
Miles Memorial Hospital	9/30/2009
Mercy Hospital	12/31/2009
Maine Medical Center	9/30/2009
The Aroostok Medical Center	9/26/2009
Southern Maine Medical Center	4/30/2009
York Hospital	6/30/2009
Mid Coast Hospital	6/30/2009
Central Maine Medical Center	6/30/2009
Parkview Hospital	12/31/2009
Cary Hospital	12/31/2009
Stephens Hospital	9/30/2009
Eastern Maine Medical Center	9/26/2009
St. Mary's Regional Medical Center	12/31/2009
Franklin Memorial Hospital	6/30/2009
Maine General Hospital	6/30/2009
Goodall Hospital	5/31/2009
Inland Hospital	9/26/2009
Maine Coast	6/30/2009
Northern Maine Medical Center	9/30/2009
Penobscot Bay Medical Center	3/31/2009
Blue Hill	3/31/2009
C.A. Dean	9/26/2009
St. Andrews	9/30/2009
Pen Valley	12/31/2009
Mt. Desert Island	4/30/2009
Calais	12/31/2009
Rumford	6/30/2009
Millinocket	6/30/2009
Houlton	9/30/2009
Mayo	9/30/2009
Bridgton	6/30/2009
Down East	12/31/2009
Waldo	9/30/2009
Sebastcook Valley Hospital	9/30/2009
Redington-Fairview General Hospital	6/30/2009