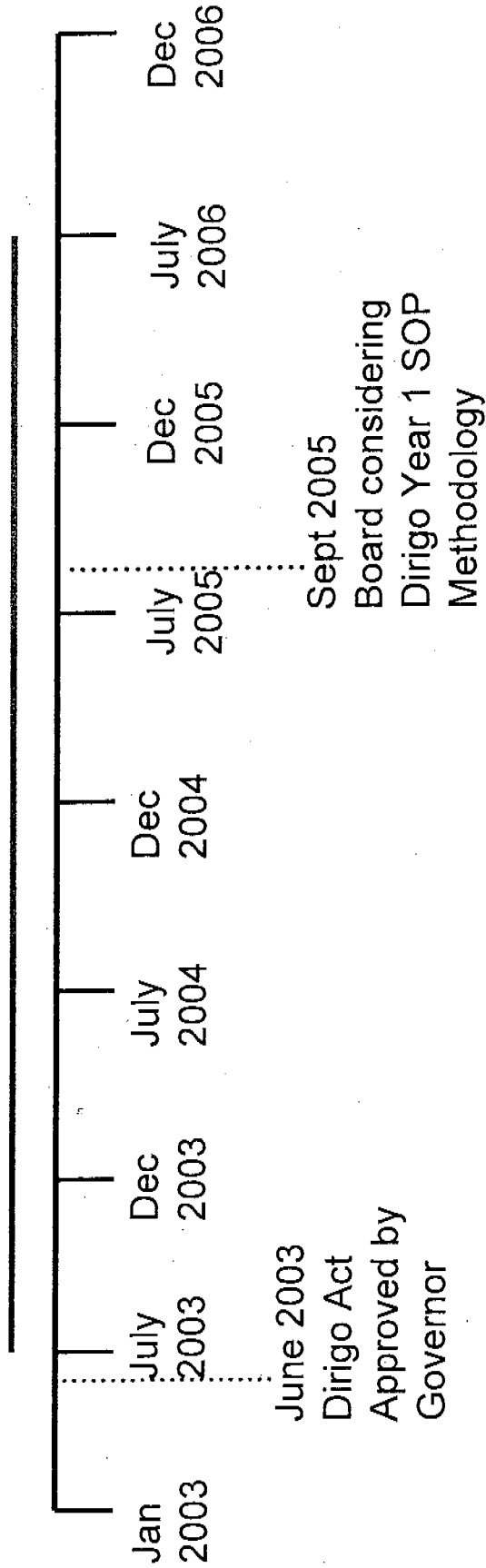


Methodology for Estimation of Savings Attributable to the Limit on Consolidated Operating Margins and Cost per Case-Mix Adjusted Discharges of Acute Hospitals

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Dirigo Time Line



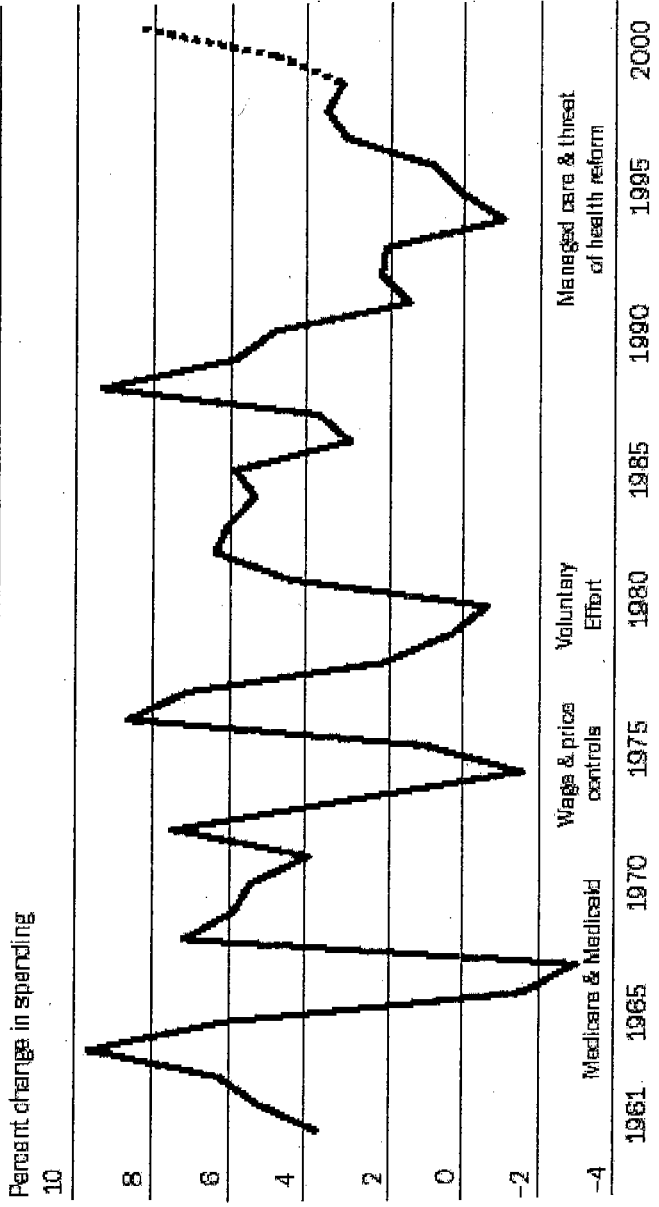
Dirigo Year 1: CMAD and COM voluntary limits applied

Dirigo Year 2: Hospital study commission meets, discusses and agrees upon Dirigo 1 measures, debates limits and measures to be used in Dirigo 3 (Dirigo 2 uses Dirigo 1 measures by default)

Dirigo Year 3: Begins payor assessment for Dirigo Year 1 measurable savings; payers expected to negotiate payment rates reflecting these savings in Dirigo Year 3

9/6/2005

EXHIBIT J
Annual Change in Private Health Spending Per Capita (Adjusted For Inflation),
1961-2001



SOURCES: Henry J. Kaiser Family Foundation analysis. Private health expenditures per capita, 1960-1999, are from the Centers for Medicare and Medicaid Services (CMS). Changes in private spending per capita, 2000-2001, is estimated based on average premium increases for employer-sponsored coverage from the Kaiser/HRET Survey of Employer-Sponsored Health Benefits.

NOTES: Real change in spending is calculated using the Consumer Price Index (CPI-U) all items, average annual change for 1961-2000 end July-to-July change for 2001. This analysis was inspired by an analysis done by Jeff Merrill and Richard Wassermann more than fifteen years ago. See J.C. Merrill and R.J. Wassermann, "Growth in National Expenditures: Additional Analysis," Health Affairs (Winter 1986): 91-98.

- Savings from Limits on Hospital Consolidated Operating Margin: Methodology

- - Defining “Operating Margin”
 - Defining “Consolidated”
 - Defining the “Year” to which the Limit Applies
 - SOP formula

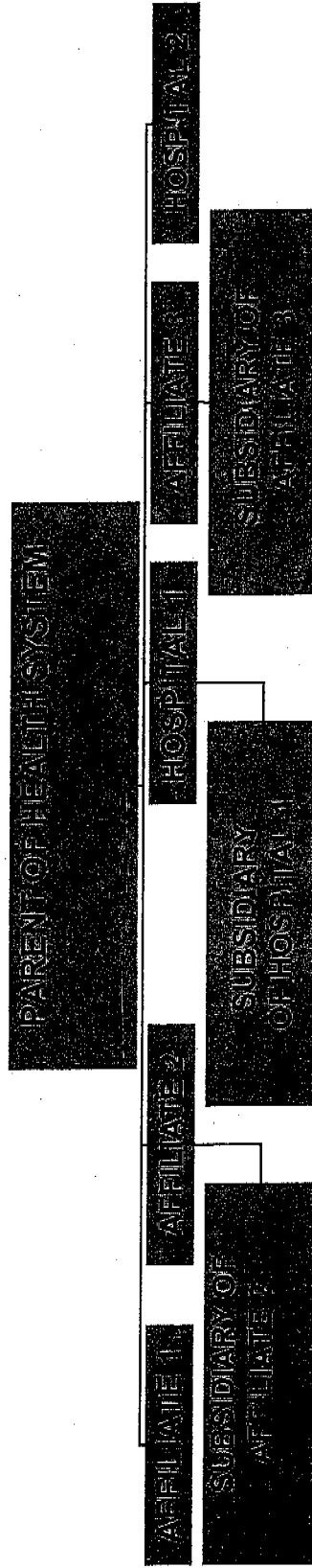
- ● ●

COM: Defining the Operating Margin

- “Operating Revenue minus Operating Expense expressed as a Percentage of Operating Revenue”*
- Operating margins standardized across hospitals to eliminate investment income from operating revenues

● Definition is that provided in the “Proposal for Maine Hospital Association Report On Charges, Cost Efficiency, and Consolidated Operating Margins,” 2/24/2004
9/6/2005 ⁵

COM: Defining "Consolidated"



Using hospital plus subsidiaries as the Unit of Analysis for COM:
Hospital 1 plus subsidiary of hospital 1 = one unit of analysis
Hospital 2 is a second unit of analysis

Defining "COM" – Year of Analysis

2004 Fiscal Year Begins:	4/1/ 2003	5/1/ 2003	6/1/ 2003	7/1/ 2003	10/1/ 2003	1/1/ 2004
# HOSPITALS	2	2	1	10	13	8
# MOS OVERLAP WITH DIRIGO FY	9	10	11	12	9	6
Weighting Applied to Hospital FY to match Dirigo FY 8/6/2005	75%*2004+ 25%*2005	83%* 2004+ 17%* 2005	92%*2004 + 8%*2005	100%* 2004	75%*2004+ 25%* 2003	50%*2004+ 50%*2003
						7

COM Formula to Determine SOP

- Average 2001-2003 Dirigo-fiscal-year-adjusted (DFYA) operating margins to get a “baseline average operating margin” (BAOM)
- Where BAOM is greater than 3%, and 2004 Dirigo DFYA-operating margin is less than 3%:
$$\text{SOP} = \text{BAOM} * 2004 \text{ DFYA Revenues} - 2004 \text{ DFYA operating income}$$

- ● ●
Savings from Limit on Growth in Hospital Cost per
Case Mix-Adjusted Discharge (CMAD)

- Defining “hospital cost”
- Defining “case-mix-adjusted” discharge
- Defining fiscal year
- Defining baseline growth rates
- Defining SOP

Defining CMAD: Hospital Cost

- Hospital cost definition given in template form to consultant by MHA:
 - Hospital-only (including acute subproviders)
 - Excluding home health agencies, nursing facilities, swing beds, skilled nursing facilities, hospital-owned physician practices, bad debt expenses, teaching, and research
 - Excluding the state hospital tax assessments begun in 2003
 - Data from the Medicare Cost Reports, as filed with MHDO

Defining CMAD: Case-Mix Adjusted Discharge

- MHA defined case-mix-adjusted discharge as the sum of:
 - Inpatient discharges, including newborns, adjusted by the CMS case mix weights applied to all discharges

Plus

- Outpatient adjustment : Outpatient Gross Patient Service Revenue/(Inpatient Gross patient Service Revenue/Inpatient Discharges)

Defining CMAD: Growth Rates

- Baseline growth rate 2001-2003 defined

as:

1. $2000 \text{ CMAD} * (1 + 2001 \text{ HOSPITAL MARKET BASKET INCREASE})$
 $* (1 + 2002 \text{ HOSPITAL MARKET BASKET INCREASE})$
 $* (1 + 2003 \text{ HOSPITAL MARKET BASKET INCREASE})$
= 2003 HOSPITAL MARKET BASKET-ADJUSTED CMAD (HMBI-CMAD)
2. $2003 \text{ DFYA CMAD} - 2003 \text{ HMBI CMAD} = \text{AMOUNT CMAD GREW IN EXCESS OF INFLATION (EG: X)}$
3. X REPRESENTS A COMPOUND RATE OF GROWTH IN EXCESS OF INFLATION EQUAL TO "Y" OVER THE THREE YEARS 2001-2003
4. BASELINE COMPOUND GROWTH RATE = "Y"

- ● ●
Defining SOP related to CMAD

limit:

- If Baseline Compound Growth Rate (BCGR) exceeded 2004 inflation-adjusted growth rate (2004 IAGR), then SOP =
 1. (2003 DFYA CMAD * BCGR)
minus
 2. (2003 DFYA CMAD * 2004 IAGR)
multiplied times
 3. 2004 case-mix and outpatient-adjusted discharges