



STATE OF VERMONT
JOINT FISCAL OFFICE

MEMORANDUM

To: James Reardon, Commissioner of Finance & Management
From: Nathan Lavery, Fiscal Analyst
Date: August 6, 2009
Subject: JFO #2388

On August 5, 2009, the Joint Fiscal Committee voted to approve acceptance of this item:

JFO #2388 — \$46,550 grant from the Commonwealth Fund to the Legislature – Health Care Reform Commission. These grant funds will finance the development of an Accountable Care Organization (ACO) financial model to meet the requirements of Sec. 6(d)(2) of Act 49 of 2009.

[JFO received 8/04/09]

We ask that you inform the Secretary of Administration and your staff of this action.

cc: James Hester, Director



STATE OF VERMONT
JOINT FISCAL OFFICE

MEMORANDUM

To: Joint Fiscal Committee Members
From: Nathan Lavery, Fiscal Analyst
Date: August 4, 2009
Subject: Grant request

Enclosed please find one (1) request that the Joint Fiscal Office has received from the administration.

JFO #2388 — \$46,550 grant from the Commonwealth Fund to the Legislature – Health Care Reform Commission. These grant funds will finance the development of an Accountable Care Organization (ACO) financial model to meet the requirements of Sec. 6(d)(2) of Act 49 of 2009.

[JFO received 8/04/09]

The Joint Fiscal Office has reviewed this submission and determined that all appropriate forms bearing the necessary approvals are in order.

In accordance with the procedures for processing such requests, this item has been placed on the Joint Fiscal Committee's agenda for August 5, 2009.

cc: James Reardon, Commissioner
James Hester, Director



State of Vermont
Department of Finance & Management
109 State Street, Pavilion Building
Montpelier, VT 05620-0401

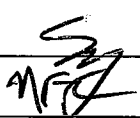

Agency of Administration

[phone] 802-828-2376
[fax] 802-828-2428

STATE OF VERMONT
FINANCE & MANAGEMENT GRANT REVIEW FORM

Grant Summary:	Grant from The Commonwealth Fund to support Vermont Pilot of an Accountable Care Organization, 2009 Act 49, Section 6				
Date:	7/30/2009				
Department:	Legislature				
Legal Title of Grant:	Financial Modeling for Vermont's Accountable Care Organization Pilot				
Federal Catalog #:	N/A				
Grant/Donor Name and Address:	The Commonwealth Fund, 1150 17 th St.NW, Ste 600, Washington, D.C.				
Grant Period:	From:	7/31/2009	To:	5/31/2010	
Grant/Donation	\$46,550				
	SFY 1	SFY 2	SFY 3	Total	Comments
Grant Amount:	\$46,550	\$	\$	\$	

Position Information:	# Positions	Explanation/Comments
Additional Comments:	Requesting as agenda item for 8/5/09 JFC meeting. Governor's approval required by 32 VSA Sec 6	
	DS 7/30/09	

Department of Finance & Management		(Initial)
Secretary of Administration		(Initial)
Sent To Joint Fiscal Office		Date

REC'D JUL 30 2009

RECEIVED

AUG 04 2009

JOINT FISCAL OFFICE

STATE OF VERMONT REQUEST FOR GRANT ACCEPTANCE (Form AA-1)

BASIC GRANT INFORMATION				
1. Agency:	Vermont State Legislature			
2. Department:	Health Care Reform Commission			
3. Program:				
4. Legal Title of Grant:	Vermont Pilot of an Accountable Care Organization			
5. Federal Catalog #:				
6. Grant/Donor Name and Address:	The Commonwealth Fund, 1150 17th St. NW, Suite 600 Washington, DC 20036			
7. Grant Period:	From:	7/31/2009	To:	5/30/2010
8. Purpose of Grant:	Fulfill requirement of Act 49 of 2009 (Section 6 (d)) to develop a financial model for an ACO			
9. Impact on existing program if grant is not Accepted:	Model can not be built			
10. BUDGET INFORMATION				
	SFY 1	SFY 2	SFY 3	Comments
Expenditures:	FY	FY	FY	
Personal Services	\$	\$	\$	
Operating Expenses	\$	\$	\$	
Grants	\$	\$	\$	
Total	\$	\$	\$	
Revenues:				
State Funds:	\$	\$	\$	
Cash	\$	\$	\$	
In-Kind	\$	\$	\$	
Federal Funds:	\$	\$	\$	
(Direct Costs)	\$	\$	\$	
(Statewide Indirect)	\$	\$	\$	
(Departmental Indirect)	\$	\$	\$	
Other Funds:	\$	\$	\$	
Grant (source)	\$46,500	\$	\$	
Total	\$46,500	\$	\$	
Appropriation No:		Amount:	\$	
			\$	
			\$	
			\$	
			\$	
			\$	
			\$	
		Total	\$	

STATE OF VERMONT REQUEST FOR GRANT ACCEPTANCE (Form AA-1)

PERSONAL SERVICE INFORMATION

11. Will monies from this grant be used to fund one or more Personal Service Contracts? Yes No
 If "Yes", appointing authority must initial here to indicate intent to follow current competitive bidding process/policy.

Appointing Authority Name: Jim Hester Agreed by: JNH (initial)

12. Limited Service Position Information:	# Positions	Title
Total Positions	0	

12a. Equipment and space for these positions: Is presently available. Can be obtained with available funds.

13. AUTHORIZATION AGENCY/DEPARTMENT

I/we certify that no funds beyond basic application preparation and filing costs have been expended or committed in anticipation of Joint Fiscal Committee approval of this grant, unless previous notification was made on Form AA-1PN (if applicable):	Signature: <u>[Signature]</u>	Date: 7/29/2009
	Title: Director, Health Care Reform Commission	
	Signature: _____	Date: _____
	Title: _____	

14. ACTION BY GOVERNOR

<input checked="" type="checkbox"/> Accepted	<u>[Signature]</u>	7/31/09
<input type="checkbox"/> Rejected	(Governor's signature)	Date:

15. SECRETARY OF ADMINISTRATION

<input checked="" type="checkbox"/> Request to JFO	<u>[Signature]</u>	7-31-09
<input type="checkbox"/> Information to JFO	(Secretary's signature or designee)	Date:

16. DOCUMENTATION REQUIRED

Required GRANT Documentation	
<input type="checkbox"/> Request Memo	<input type="checkbox"/> Notice of Donation (if any)
<input type="checkbox"/> Dept. project approval (if applicable)	<input type="checkbox"/> Grant (Project) Timeline (if applicable)
<input checked="" type="checkbox"/> Notice of Award	<input type="checkbox"/> Request for Extension (if applicable)
<input type="checkbox"/> Grant Agreement	<input type="checkbox"/> Form AA-1PN attached (if applicable)
<input type="checkbox"/> Grant Budget	

End Form AA-1

Jim Hester - Your proposal

From: "Stuart Guterman"
To:
Date: 7/17/2009 8:46 PM
Subject: Your proposal
CC: "Ed L. Schor" , "Anne-Marie Audet" , "Heather Drake" , "Gretchen Hagelow" , "Ashley Fryer"

Hi, Jim—

I'm glad to inform you that your proposal, "Vermont Pilot of an Accountable Care Organization," has been approved for funding. I will be your primary contact point at the Fund, but Ed Schor and Anne-Marie Audet also will be directly involved. It would be good to talk by phone soon to discuss the schedule for the project and more specifics. If you'll let us know when you are available between July 23 and 31, we can try and find a time when all of us can talk. Thanks, and I look forward to working with you.

Stu

Stuart Guterman
Assistant Vice President
Director, Program on Payment System Reform
The Commonwealth Fund
1150 17th St. NW, Suite 600
Washington, DC 20036
Phone: (202) 292-6735
Fax: (202) 292-6835
E-mail: sxg@cmwf.org
Web site: www.commonwealthfund.org

2009

S.129 ACO as enacted into law in Act 49

* * * Accountable Care Organization Pilot Project * * *

Sec. 6. ACCOUNTABLE CARE ORGANIZATION WORK GROUP

(a) It is the intent of the general assembly that all Vermonters receive affordable and appropriate health care at the appropriate time, and that health care costs be contained over time. In order to achieve this goal and to ensure the success of health care reform, it is essential to pursue innovative approaches to a system of health care delivery that integrates health care at a community level and contains costs through community-based payment reform, such as developing an accountable care organization. It is also the intent of the general assembly to ensure sufficient state involvement and action in designing and implementing an accountable care organization in order to comply with federal anti-trust provisions by replacing competition between payers and others with state regulation and supervision.

(b)(1)(A) The commission on health care reform shall convene a work group to support the development of an application by at least one Vermont network of community health care providers for participation in a national accountable care organization (ACO) state learning collaborative sponsored by the Dartmouth Institute for Health Policy and Clinical Practice and the Brookings Institution with the intent that at least one ACO pilot project be implemented in Vermont no later than July 1, 2010. The network of community health care providers shall include primary care professionals, specialists, hospitals, and other health care providers and entities.

(B) An accountable care organization is an entity that enables networks of community health care providers to become accountable for the overall costs and quality of care for the population they jointly serve and to share in the savings created by improving quality and slowing spending growth as described in *Fostering Accountable Health Care: Moving Forward in Medicare* by Fisher et al, Health Affairs w219, 2009.

(2) The commission shall research other opportunities to create proposals to establish an ACO pilot project or another similar payment reform pilot project, which may become available through participation in a demonstration waiver in Medicare, payment reform in Medicare, national health care reform, or other federal changes that support the development of accountable care organizations.

(c)(1) The commission shall solicit participation in the work group from a broad group of interested stakeholders, including the secretary of administration or designee, the commission of banking, insurance, securities, and health care administration or designee, the director of the office of Vermont health access or designee, representatives of private insurers, employers, consumers, and representatives of health care professionals and facilities interested in participating in the ACO pilot project.

(2) To the extent required to avoid federal anti-trust violations, the commissioner of banking, insurance, securities, and health care administration shall facilitate and supervise the participation of health care professionals, health care facilities, and insurers in the planning and implementation of an accountable care organization. The department shall ensure that the application includes sufficient state supervision over these entities to comply with federal anti-trust provisions. The department shall propose to the commission any legislation necessary for implementation of the ACO pilot project.

Purpose

1/2

(3) The director of the office of Vermont health access shall propose to the commission a plan for including Medicaid, VHAP, and Dr. Dynasaur in the accountable care organization, including a model for recapturing a portion of anticipated savings from participation in an ACO which would be reinvested with health care professionals and facilities. Notwithstanding section 1901 of Title 33, the commission, with consultation from the health access oversight committee, may approve the director of Vermont health access' plan for including Medicaid, VHAP, and Dr. Dynasaur in the ACO pilot project if it is necessary for the director to apply for the waiver amendment outside of the legislative session to ensure implementation of the ACO pilot project no later than July 1, 2010.

(d) The work group shall:

(1) identify local community health care professional and facility networks interested in participating in the ACO pilot project and assist them in qualifying as a site;

(2) develop a financial model for the community provider network involved in the accountable care organization to estimate the fiscal impact of the ACO pilot project on payers, the local community health care professional and facility network, and the state, including a model for recapturing a portion of anticipated savings from participation in an ACO which would be reinvested with health care professionals and facilities; and

(3) ensure that the ACO pilot project proposal is coordinated with the Blueprint for Health, existing medical home projects, and shared decision-making pilot projects.

(e) No later than January 15, 2010, the commission on health care reform shall report to the house committees on health care and human services and the senate committee on health and welfare on the ACO state learning collaborative application, the status of the development of an application by a Vermont network of health care providers, and any proposed legislation necessary for the implementation of the ACO pilot project.

(f) The work group shall cease to exist on January 1, 2011.

Sec. 7. ACCOUNTABLE CARE ORGANIZATION PILOT; MEDICAID WAIVER

If the plan provided for under Sec. 6(c)(3) of this act is approved by the commission on health care reform, the director of Vermont health access shall apply to the Centers on Medicare and Medicaid Services (CMS) for an amendment to the Global Commitment for Health Medicaid Section 1115 waiver to allow for participation in a national accountable care organization state learning collaborative sponsored by the Dartmouth Institute for Health Policy and Clinical Practice and the Brookings Institution.

Vermont Pilot of an Accountable Care Organization

1. Contact information

James A. Hester, Ph.D.
Director, Health Care Reform Commission
Vermont State Legislature
14-16 Baldwin St., Montpelier, VT 05633
phone: 802 828-1107
e mail: jhester@leg.state.vt.us

2. Statement of problem and purpose of grant

Vermont's health care reform strategy has been based on a comprehensive set of initiatives which have included

- expanding coverage for care to reduce the uninsured population to 4% by 2010
- accelerating the implementation of health information technology as a catalyst for improving performance of the health system, and
- bending the medical cost curve through delivery system reform to improve the prevention and treatment of chronic illnesses.

Payment reform has long been recognized as an essential component of the last component - successful delivery system reform. Vermont has already implemented a unique set of enhanced medical home pilots which combine an all payer (Medicaid, Medicare and commercial insurer) model of medical home payments to primary care practices with support for new local care coordination teams which enable the practices to function as a true medical home. However, bending the medical cost curve requires expanding the payment reform to encompass the complete local delivery system including the local hospital, specialist physicians and other key caregivers.

During its 2009 session, the Vermont State Legislature passed legislation (S.129, Section 6) supporting the implementation of a pilot Accountable Care Organization site as the next phase of payment reform in Vermont's health care reform. The legislation supported the development of applications by Vermont provider organizations for programs such as the national ACO learning collaborative being developed by the Dartmouth Institute for Health Policy and Clinical Practice and the Brookings Institution. The legislation followed up on the findings of the ACO pilot feasibility study conducted by the Health Care Reform Commission in 2008 as authorized by Act 203 (Section 2), which instructed the Commission to "... assess the feasibility of alternative designs for a pilot project to test using a system-wide budgeting initiative at the regional level within the state, including a design based on the accountable care organization model. "

The purposes of this grant are to

- a) provide technical assistance through the Health Care Reform Commission in the development of an ACO financial model. One of the results of the feasibility study was a specific request for such a tool by four provider sites,

to assist potential them in understanding the impacts of utilization changes, alternative payment models, and revenue shifts on the different components of the ACO – the hospital, specialist physicians, primary care physicians and other providers. The 2009 ACO legislation specifically called for the Commission to develop such a model, but provided no funding for it.

The model would have two major components: a revenue model which is utilization driven and a cost model which would approximate the fixed and variable cost structures for the major types of provider participating in the ACO, but with a major focus on the community hospital. The revenue model would be constructed using the baseline parameters for a specific ACO site: population, per capita medical expenses allocated among key categories of providers and types of services. These baseline parameters could be varied to tailor the model to different ACO sites. Since the purpose of the savings sharing incentive for the ACO is to reduce inappropriate utilization, the financial model would test the gross differential revenue impact of various interventions on the different provider members of the ACO. The model would have to make assumptions about the types and scale of changes in utilization for different interventions based on evidence. For example, the Blueprint financial impact model has estimated the statewide impact of the enhanced medical home based on demonstrated reductions in readmissions for chronic illnesses and in ER visits. The ACO model would simulate the impact of these same changes at the community level, allocating the changes to primary care physicians, specialists, and the community hospital.

The cost model would be designed to test options for adjusting the fixed cost structures of providers to actually pull costs out of the delivery system, particularly the community hospital. This step is critical to actually achieving system savings because if utilization drops, but the cost structure doesn't change, then all that happens is that the costs are spread across a smaller base of utilization and unit prices increase. The model would also be designed to test the impact of different savings sharing designs to assist in the transition to a lower cost structure.

- b) synthesize the material developed during the 2008 ACO feasibility study and summarize the lessons learned from this effort. It was the first statewide effort in the country to assess the issues involved in actually implementing an ACO. A broad based workgroup of stakeholders including commercial and public payers, four possible ACO provider organizations, the statewide hospital association, the statewide medical society, employers, regulators and researchers participated in the study. Policy staff from the Dartmouth Institute for Health Policy and the Brookings Institution were also actively involved and provided a national perspective, as well as evidence from the research foundations for the ACO model. The study assessed the major design issues and potential

'showstoppers' in four different areas including scope of the ACO, responsibilities and selection criteria for an ACO, financial structure and administrative issues. Given the growing interest in savings sharing models such as the ACO, it would be valuable to disseminate the results of the feasibility study to a broader audience.

3. Project's targeted audiences

The primary audience for the financial model would be the potential ACO provider sites in Vermont, as well as other Vermont stakeholders, particularly commercial payers, public payers, regulators and employers who have a continuing interest in understanding the ACO model. By statute, the Commission will continue through December, 2010 the ACO workgroup that participated in the feasibility study. The primary audience for the synthesis of the feasibility study would be stakeholders in other regions/states who are considering implementing an ACO.

4. Project design, schedule and work plan

- a) ACO financial model: the model would build on the statewide financial impact model developed by the Blueprint for Health. Preliminary conversations have been held with the leadership of the Blueprint, the consultant who developed their model, the Vermont Association of Hospitals and Health Systems, two physician practice management organizations and a potential ACO pilot site. The project advisory committee would involve representatives from each of those groups. The initial model for one location would be developed in approximately 90 days with a target due date of 12/1/09, with testing of scenarios to refine the model for approximately one month. The model would then be modified for a second site, with a target date of 3/1/09, and one month of subsequent testing of scenarios and refinement.
 - b) Synthesis of ACO feasibility study: the synthesis would be primarily conducted by Jim Hester with the assistance of the staff from Dartmouth and Brookings who were a resource for the feasibility study. Timetable would be to have a draft report by 10/15/09 and a final document by 11/15/09. We are open to suggestions regarding what format to use for the report to ensure that it reaches a broad audience in a timely manner.
5. Expected outcomes are the development of two tools which will assist in the implementation of an ACO pilot in Vermont in 2010 and educate a broader audience outside of Vermont regarding key implementation issues for the ACO model.
6. Total project cost and requested amount: The total project cost for the financial model is estimated to be \$53,400 including staff time. The requested amount is \$39,500 to cover the direct costs of the consultants who will actually build the model. The total project cost for the synthesis of the feasibility study is estimated to be \$12,000 and the requested amount is \$7,000 to cover the costs of the

consulting firm. The combined total cost for the two projects is \$65,400 and the requested total grant request is \$46,500.

7. Organizational staffing and financial resources:

Dr. Hester, the Director of the Commission, would be the Principle Investigator for both efforts. For the financial model, he would be assisted by Greg Peters, consultant to the Blueprint for Health, and Steve Kappel, consultant to the Commission. Mr. Peters created the statewide financial impact model for the Blueprint and Mr. Kappel has built a number of economic models for the commission and the Legislature's Joint Fiscal Office. They would be responsible for actually building the ACO model. They would be assisted by a Steering Committee composed of financial specialists from the hospital and physician practice management communities who would provide specific expertise and guidance on data for the model. For the synthesis of the feasibility study, he would be assisted by Elliot Fisher and Julie Lewis of Dartmouth and Aaron McKethan of Brookings. Ms. Lewis and Dr. McKethan participated in the Vermont feasibility study and have been the lead project staff for the development of the national ACO learning collaborative. They would assist in the writing of the synthesis, while Dr. Fisher has agreed to review and comment on working drafts. Administrative support would be provided by the Commission's administrative assistant, Loring Starr.

The Commission was created by statute in 2005 to be the state legislature's vehicle for providing legislative oversight for the implementation of health reform and policy direction for health reform legislation. It consists of four state senators appointed by the President pro tem of the Senate, four state representatives appointed by the Speaker of the House, and two appointees by the Governor. Its staff are employees of the Vermont State Legislature and all of its revenues come from state general funds. The funding for Dr. Hester and Loring Starr would come from the commission budget. The time for the other Vermont participants, other than the consultants, would be donated by their organizations.

ATTACHMENT 2
Payment and Reporting Schedule

**Financial Modeling for Vermont's Accountable Care
Organization Pilot
Vermont State Legislature
James Hester, Ph.D.
\$46,550 for 10 months (July 31, 2009 – May 31, 2010)**

Grant #20090669

Date Payments to Grantee or Report Due to Fund

7/31/2009	Executed Letter of Agreement
8/15/2009	Check for \$37,240
10/15/2009	Draft issue brief of 2008 ACO feasibility study for publication by the Fund
11/15/2009	Final issue brief
12/01/2009	Development of initial model for ACO pilot site #1
1/15/2010	Update on testing of scenarios and refinement of the model
3/01/2010	Development of modified model for ACO pilot site #2
4/15/2010	Update on testing of scenarios and refinement of the model
5/31/2010	Final narrative report
6/30/2010	Final financial report for period (7/31/09-5/31/10)
7/15/2010	Check for \$9,310, dependent upon actual expenses

Note:

1. Deliverables must be submitted to the Fund on or before the dates specified. The Fund encourages grantees to submit reports by electronic mail, wherever appropriate.
2. Financial reports should be submitted in the format of the Fund's Financial Report form, which will accompany the first payment. It is also available in electronic form at: <http://www.cmwf.org/resources/resources.htm>
3. Fund guidelines on publications and narrative reporting are available at: <http://www.cmwf.org/resources/resources.htm>

Award

4. If reports are not received by the scheduled due date, it may be necessary for the Fund to delay payment until the next payment cycle (the Fund makes payments twice a month, on or about the 15th and the last day of the month).
5. Fund policy requires that at least 10 percent of the grant be withheld until the final grant products are received and approved by the Fund. Final payment amount will be made based on actual expenditures, not to exceed the total grant amount.

SXG/hd
July 23, 2009

Beatty, David

From: Jim Hester [jhester@leg.state.vt.us]
Sent: Thursday, July 30, 2009 11:57 AM
To: Beatty, David
Cc: Hunt Blair; Nathan Lavery; Tringe, Heidi
Subject: Acceptance of ACO grant

Attachments: REQUEST_FOR_GRANT_ACCEPTANCE_AA1_Form HCRC ACO.doc; Notice of Award.doc;
VT ACO pilot_v.2.doc; S.129 ACO 5-4-09.doc



REQUEST_FOR_GR
VT_ACCEPTANCE_A Award.doc (25 KB) Notice of
Award.doc (25 KB) VT ACO
pilot_v.2.doc (41 KB) S.129 ACO
5-4-09.doc (30 KB)

Attached is the paperwork we went over this morning for the acceptance of the Commonwealth Fund grant to the Health Care Reform Commission. I will walk over signed hard copies of the AA-1 form this morning. The package includes

- Form AA-1
- copy of e mail notice of award
- Act 49 (old S.129) Section 6 request for the commission to build the ACO financial model (paragraph d)
- grant proposal

Thanks for moving this along so that we can get this through the administration's review in time to have this on the Joint Fiscal Committee agenda for 8/5. The grant begins 7/31/09, they will send us a check in mid August and the first deliverable is due in mid September, so it would be very helpful not to have to wait for the September meeting of Joint Fiscal before we spend the funds.

Heidi and Hunt,
I've copied you on this in case there are any questions about the project. My understanding is that you support accepting the grant.

Jim Hester PhD
Director
Health Care Reform Commission
14-16 Baldwin St
Montpelier VT 05633
802 828-1107 (o)
802 734-1649 (cell)
jhester@leg.state.vt.us

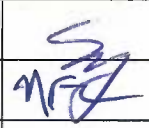
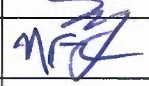
Request to add to JFC 8/5 agenda

State of Vermont
 Department of Finance & Management
 109 State Street, Pavilion Building
 Montpelier, VT 05620-0401

Agency of Administration

[phone] 802-828-2376
 [fax] 802-828-2428

**STATE OF VERMONT
 FINANCE & MANAGEMENT GRANT REVIEW FORM**

Grant Summary:		Grant from The Commonwealth Fund to support Vermont Pilot of an Accountable Care Organization, 2009 Act 49, Section 6			
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Legal Title of Grant:		Financial Modeling for Vermont's Accountable Care Organization Pilot			
Federal Catalog #:		N/A			
Grant/Donor Name and Address:		The Commonwealth Fund, 1150 17 th St.NW, Ste 600, Washington, D.C.			
Grant Period:		From:	To:		
		7/31/2009	5/31/2010		
Grant/Donation		\$46,550			
	SFY 1	SFY 2	SFY 3	Total	Comments
Grant Amount:	\$46,550	\$	\$	\$	
Position Information:		# Positions	Explanation/Comments		
Additional Comments:		Requesting as agenda item for 8/5/09 JFC meeting. Governor's approval required by 32 VSA Sec 6			DB 7/30/09
Department of Finance & Management					(Initial)
Secretary of Administration					(Initial)
Sent To Joint Fiscal Office					Date

REC'D JUL 30 2009

RECEIVED
 AUG 04 2009
JOINT FISCAL OFFICE

STATE OF VERMONT REQUEST FOR GRANT ACCEPTANCE (Form AA-1)

BASIC GRANT INFORMATION				
1. Agency:	Vermont State Legislature			
2. Department:	Health Care Reform Commission			
3. Program:				
4. Legal Title of Grant:	Vermont Pilot of an Accountable Care Organization			
5. Federal Catalog #:				
6. Grant/Donor Name and Address:	The Commonwealth Fund, 1150 17th St. NW, Suite 600 Washington, DC 20036			
7. Grant Period:	From:	7/31/2009	To:	5/30/2010
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9. Impact on existing program if grant is not Accepted:	Model can not be built			
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Operating Expenses	\$	\$	\$	
Grants	\$	\$	\$	
Total	\$	\$	\$	
Revenues:				
State Funds:	\$	\$	\$	
Cash	\$	\$	\$	
In-Kind	\$	\$	\$	
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(Direct Costs)	\$	\$	\$	
(Statewide Indirect)	\$	\$	\$	
(Departmental Indirect)	\$	\$	\$	
Other Funds:	\$	\$	\$	
Grant (source)	\$46,500	\$	\$	
Total	\$46,500	\$	\$	
Appropriation No:		Amount:	\$	
			\$	
			\$	
			\$	
			\$	
			\$	
			\$	
		Total	\$	

STATE OF VERMONT REQUEST FOR GRANT ACCEPTANCE (Form AA-1)

PERSONAL SERVICE INFORMATION		
11. Will monies from this grant be used to fund one or more Personal Service Contracts? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If "Yes", appointing authority must initial here to indicate intent to follow current competitive bidding process/policy. Appointing Authority Name: Jim Hester Agreed by: <u>JAH</u> (initial)		
12. Limited Service Position Information:	# Positions	Title
Total Positions	0	
12a. Equipment and space for these positions:		<input type="checkbox"/> Is presently available. <input type="checkbox"/> Can be obtained with available funds.
13. AUTHORIZATION AGENCY/DEPARTMENT		
I/we certify that no funds beyond basic application preparation and filing costs have been expended or committed in anticipation of Joint Fiscal Committee approval of this grant, unless previous notification was made on Form AA-1PN (if applicable):	Signature: <u>[Signature]</u>	Date: 7/29/2009
	Title: Director, Health Care Reform Commission	
	Signature: _____	Date: _____
	Title: _____	
14. ACTION BY GOVERNOR		
<input checked="" type="checkbox"/>	Check One Box: Accepted	_____ (Governor's signature)
<input type="checkbox"/>	Rejected	Date: 7/31/09
15. SECRETARY OF ADMINISTRATION		
<input checked="" type="checkbox"/>	Check One Box: Request to JFO	_____ (Secretary's signature or designee)
<input type="checkbox"/>	Information to JFO	Date: 7-31-09
16. DOCUMENTATION REQUIRED		
Required GRANT Documentation		
<input type="checkbox"/> Request Memo <input type="checkbox"/> Dept. project approval (if applicable) <input checked="" type="checkbox"/> Notice of Award <input type="checkbox"/> Grant Agreement <input type="checkbox"/> Grant Budget	<input type="checkbox"/> Notice of Donation (if any) <input type="checkbox"/> Grant (Project) Timeline (if applicable) <input type="checkbox"/> Request for Extension (if applicable) <input type="checkbox"/> Form AA-1PN attached (if applicable)	
End Form AA-1		

Jim Hester - Your proposal

From: "Stuart Guterman"
To:
Date: 7/17/2009 8:46 PM
Subject: Your proposal
CC: "Ed L. Schor" , "Anne-Marie Audet" , "Heather Drake" , "Gretchen Hagelow" , "Ashley Fryer"

Hi, Jim—

I'm glad to inform you that your proposal, "Vermont Pilot of an Accountable Care Organization," has been approved for funding. I will be your primary contact point at the Fund, but Ed Schor and Anne-Marie Audet also will be directly involved. It would be good to talk by phone soon to discuss the schedule for the project and more specifics. If you'll let us know when you are available between July 23 and 31, we can try and find a time when all of us can talk. Thanks, and I look forward to working with you.

Stu

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2009

S.129 ACO as enacted into law in Act 49

* * * Accountable Care Organization Pilot Project * * *

Sec. 6. ACCOUNTABLE CARE ORGANIZATION WORK GROUP

(a) It is the intent of the general assembly that all Vermonters receive affordable and appropriate health care at the appropriate time, and that health care costs be contained over time. In order to achieve this goal and to ensure the success of health care reform, it is essential to pursue innovative approaches to a system of health care delivery that integrates health care at a community level and contains costs through community-based payment reform, such as developing an accountable care organization. It is also the intent of the general assembly to ensure sufficient state involvement and action in designing and implementing an accountable care organization in order to comply with federal anti-trust provisions by replacing competition between payers and others with state regulation and supervision.

(b)(1)(A) The commission on health care reform shall convene a work group to support the development of an application by at least one Vermont network of community health care providers for participation in a national accountable care organization (ACO) state learning collaborative sponsored by the Dartmouth Institute for Health Policy and Clinical Practice and the Brookings Institution with the intent that at least one ACO pilot project be implemented in Vermont no later than July 1, 2010. The network of community health care providers shall include primary care professionals, specialists, hospitals, and other health care providers and entities.

(B) An accountable care organization is an entity that enables networks of community health care providers to become accountable for the overall costs and quality of care for the population they jointly serve and to share in the savings created by improving quality and slowing spending growth as described in *Fostering Accountable Health Care: Moving Forward in Medicare* by Fisher et al, Health Affairs w219, 2009.

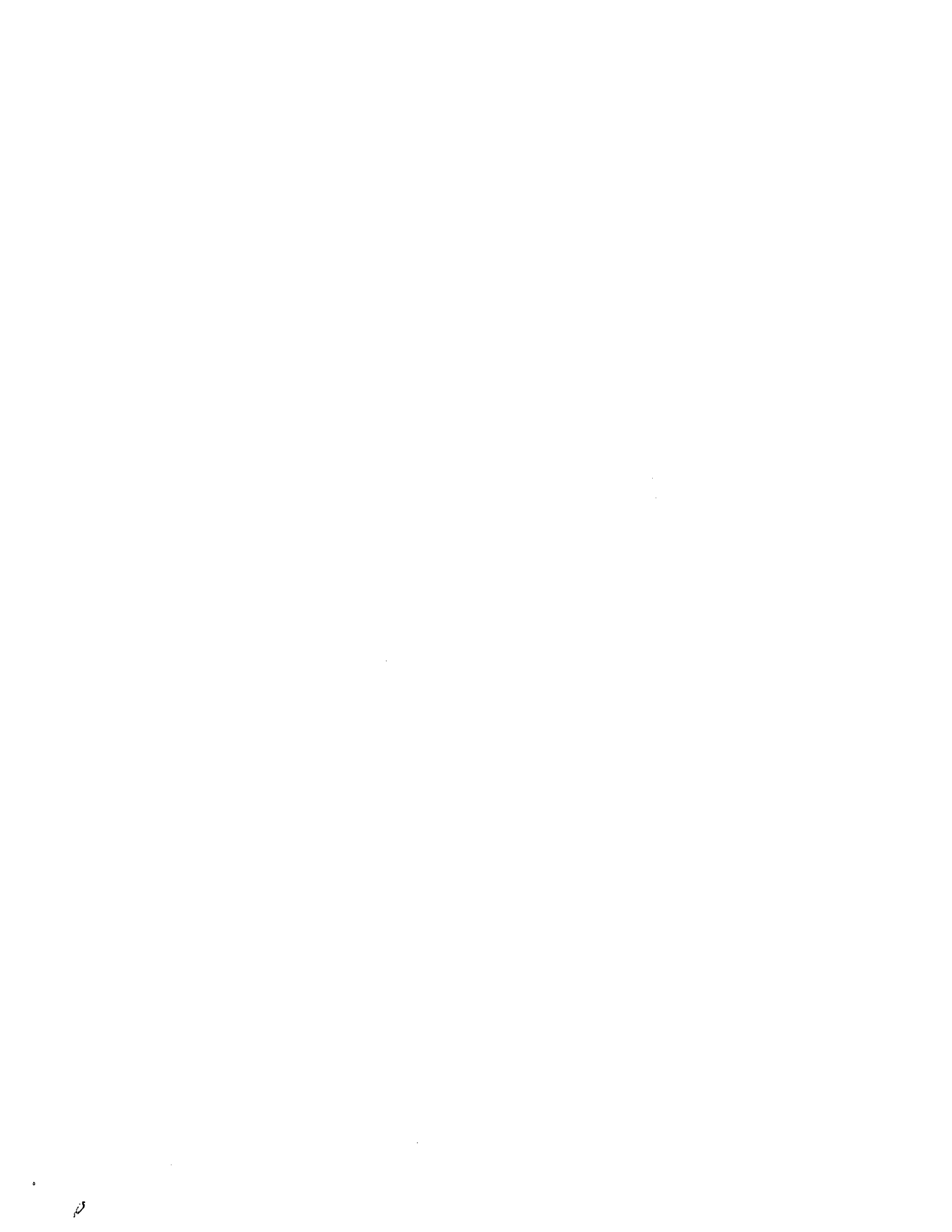
(2) The commission shall research other opportunities to create proposals to establish an ACO pilot project or another similar payment reform pilot project, which may become available through participation in a demonstration waiver in Medicare, payment reform in Medicare, national health care reform, or other federal changes that support the development of accountable care organizations.

(c)(1) The commission shall solicit participation in the work group from a broad group of interested stakeholders, including the secretary of administration or designee, the commission of banking, insurance, securities, and health care administration or designee, the director of the office of Vermont health access or designee, representatives of private insurers, employers, consumers, and representatives of health care professionals and facilities interested in participating in the ACO pilot project.

(2) To the extent required to avoid federal anti-trust violations, the commissioner of banking, insurance, securities, and health care administration shall facilitate and supervise the participation of health care professionals, health care facilities, and insurers in the planning and implementation of an accountable care organization. The department shall ensure that the application includes sufficient state supervision over these entities to comply with federal anti-trust provisions. The department shall propose to the commission any legislation necessary for implementation of the ACO pilot project.

Purpose

1/2



(3) The director of the office of Vermont health access shall propose to the commission a plan for including Medicaid, VHAP, and Dr. Dynasaur in the accountable care organization, including a model for recapturing a portion of anticipated savings from participation in an ACO which would be reinvested with health care professionals and facilities. Notwithstanding section 1901 of Title 33, the commission, with consultation from the health access oversight committee, may approve the director of Vermont health access' plan for including Medicaid, VHAP, and Dr. Dynasaur in the ACO pilot project if it is necessary for the director to apply for the waiver amendment outside of the legislative session to ensure implementation of the ACO pilot project no later than July 1, 2010.

(d) The work group shall:

(1) identify local community health care professional and facility networks interested in participating in the ACO pilot project and assist them in qualifying as a site;

(2) develop a financial model for the community provider network involved in the accountable care organization to estimate the fiscal impact of the ACO pilot project on payers, the local community health care professional and facility network, and the state, including a model for recapturing a portion of anticipated savings from participation in an ACO which would be reinvested with health care professionals and facilities; and

(3) ensure that the ACO pilot project proposal is coordinated with the Blueprint for Health, existing medical home projects, and shared decision-making pilot projects.

(e) No later than January 15, 2010, the commission on health care reform shall report to the house committees on health care and human services and the senate committee on health and welfare on the ACO state learning collaborative application, the status of the development of an application by a Vermont network of health care providers, and any proposed legislation necessary for the implementation of the ACO pilot project.

(f) The work group shall cease to exist on January 1, 2011.

Sec. 7. ACCOUNTABLE CARE ORGANIZATION PILOT; MEDICAID WAIVER

If the plan provided for under Sec. 6(c)(3) of this act is approved by the commission on health care reform, the director of Vermont health access shall apply to the Centers on Medicare and Medicaid Services (CMS) for an amendment to the Global Commitment for Health Medicaid Section 1115 waiver to allow for participation in a national accountable care organization state learning collaborative sponsored by the Dartmouth Institute for Health Policy and Clinical Practice and the Brookings Institution.

Vermont Pilot of an Accountable Care Organization

1. Contact information

James A. Hester, Ph.D.
Director, Health Care Reform Commission
Vermont State Legislature
14-16 Baldwin St., Montpelier, VT 05633
phone: 802 828-1107
e mail: jhester@leg.state.vt.us

2. Statement of problem and purpose of grant

Vermont's health care reform strategy has been based on a comprehensive set of initiatives which have included

- expanding coverage for care to reduce the uninsured population to 4% by 2010
- accelerating the implementation of health information technology as a catalyst for improving performance of the health system, and
- bending the medical cost curve through delivery system reform to improve the prevention and treatment of chronic illnesses.

Payment reform has long been recognized as an essential component of the last component - successful delivery system reform. Vermont has already implemented a unique set of enhanced medical home pilots which combine an all payer (Medicaid, Medicare and commercial insurer) model of medical home payments to primary care practices with support for new local care coordination teams which enable the practices to function as a true medical home. However, bending the medical cost curve requires expanding the payment reform to encompass the complete local delivery system including the local hospital, specialist physicians and other key caregivers.

During its 2009 session, the Vermont State Legislature passed legislation (S.129, Section 6) supporting the implementation of a pilot Accountable Care Organization site as the next phase of payment reform in Vermont's health care reform. The legislation supported the development of applications by Vermont provider organizations for programs such as the national ACO learning collaborative being developed by the Dartmouth Institute for Health Policy and Clinical Practice and the Brookings Institution. The legislation followed up on the findings of the ACO pilot feasibility study conducted by the Health Care Reform Commission in 2008 as authorized by Act 203 (Section 2), which instructed the Commission to "...assess the feasibility of alternative designs for a pilot project to test using a system-wide budgeting initiative at the regional level within the state, including a design based on the accountable care organization model. "

The purposes of this grant are to

- a) provide technical assistance through the Health Care Reform Commission in the development of an ACO financial model. One of the results of the feasibility study was a specific request for such a tool by four provider sites,

to assist potential them in understanding the impacts of utilization changes, alternative payment models, and revenue shifts on the different components of the ACO – the hospital, specialist physicians, primary care physicians and other providers. The 2009 ACO legislation specifically called for the Commission to develop such a model, but provided no funding for it.

The model would have two major components: a revenue model which is utilization driven and a cost model which would approximate the fixed and variable cost structures for the major types of provider participating in the ACO, but with a major focus on the community hospital. The revenue model would be constructed using the baseline parameters for a specific ACO site: population, per capita medical expenses allocated among key categories of providers and types of services. These baseline parameters could be varied to tailor the model to different ACO sites. Since the purpose of the savings sharing incentive for the ACO is to reduce inappropriate utilization, the financial model would test the gross differential revenue impact of various interventions on the different provider members of the ACO. The model would have to make assumptions about the types and scale of changes in utilization for different interventions based on evidence. For example, the Blueprint financial impact model has estimated the statewide impact of the enhanced medical home based on demonstrated reductions in readmissions for chronic illnesses and in ER visits. The ACO model would simulate the impact of these same changes at the community level, allocating the changes to primary care physicians, specialists, and the community hospital.

The cost model would be designed to test options for adjusting the fixed cost structures of providers to actually pull costs out of the delivery system, particularly the community hospital. This step is critical to actually achieving system savings because if utilization drops, but the cost structure doesn't change, then all that happens is that the costs are spread across a smaller base of utilization and unit prices increase. The model would also be designed to test the impact of different savings sharing designs to assist in the transition to a lower cost structure.

- b) synthesize the material developed during the 2008 ACO feasibility study and summarize the lessons learned from this effort. It was the first statewide effort in the country to assess the issues involved in actually implementing an ACO. A broad based workgroup of stakeholders including commercial and public payers, four possible ACO provider organizations, the statewide hospital association, the statewide medical society, employers, regulators and researchers participated in the study. Policy staff from the Dartmouth Institute for Health Policy and the Brookings Institution were also actively involved and provided a national perspective, as well as evidence from the research foundations for the ACO model. The study assessed the major design issues and potential

'showstoppers' in four different areas including scope of the ACO, responsibilities and selection criteria for an ACO, financial structure and administrative issues. Given the growing interest in savings sharing models such as the ACO, it would be valuable to disseminate the results of the feasibility study to a broader audience.

3. Project's targeted audiences

The primary audience for the financial model would be the potential ACO provider sites in Vermont, as well as other Vermont stakeholders, particularly commercial payers, public payers, regulators and employers who have a continuing interest in understanding the ACO model. By statute, the Commission will continue through December, 2010 the ACO workgroup that participated in the feasibility study. The primary audience for the synthesis of the feasibility study would be stakeholders in other regions/states who are considering implementing an ACO.

4. Project design, schedule and work plan

- a) ACO financial model: the model would build on the statewide financial impact model developed by the Blueprint for Health. Preliminary conversations have been held with the leadership of the Blueprint, the consultant who developed their model, the Vermont Association of Hospitals and Health Systems, two physician practice management organizations and a potential ACO pilot site. The project advisory committee would involve representatives from each of those groups. The initial model for one location would be developed in approximately 90 days with a target due date of 12/1/09, with testing of scenarios to refine the model for approximately one month. The model would then be modified for a second site, with a target date of 3/1/09, and one month of subsequent testing of scenarios and refinement.
- b) Synthesis of ACO feasibility study: the synthesis would be primarily conducted by Jim Hester with the assistance of the staff from Dartmouth and Brookings who were a resource for the feasibility study. Timetable would be to have a draft report by 10/15/09 and a final document by 11/15/09. We are open to suggestions regarding what format to use for the report to ensure that it reaches a broad audience in a timely manner.

5. Expected outcomes are the development of two tools which will assist in the implementation of an ACO pilot in Vermont in 2010 and educate a broader audience outside of Vermont regarding key implementation issues for the ACO model.

6. Total project cost and requested amount: The total project cost for the financial model is estimated to be \$53,400 including staff time. The requested amount is \$39,500 to cover the direct costs of the consultants who will actually build the model. The total project cost for the synthesis of the feasibility study is estimated to be \$12,000 and the requested amount is \$7,000 to cover the costs of the

consulting firm. The combined total cost for the two projects is \$65,400 and the requested total grant request is \$46,500.

7. Organizational staffing and financial resources:

Dr. Hester, the Director of the Commission, would be the Principle Investigator for both efforts. For the financial model, he would be assisted by Greg Peters, consultant to the Blueprint for Health, and Steve Kappel, consultant to the Commission. Mr. Peters created the statewide financial impact model for the Blueprint and Mr. Kappel has built a number of economic models for the commission and the Legislature's Joint Fiscal Office. They would be responsible for actually building the ACO model. They would be assisted by a Steering Committee composed of financial specialists from the hospital and physician practice management communities who would provide specific expertise and guidance on data for the model. For the synthesis of the feasibility study, he would be assisted by Elliot Fisher and Julie Lewis of Dartmouth and Aaron McKethan of Brookings. Ms. Lewis and Dr. McKethan participated in the Vermont feasibility study and have been the lead project staff for the development of the national ACO learning collaborative. They would assist in the writing of the synthesis, while Dr. Fisher has agreed to review and comment on working drafts. Administrative support would be provided by the Commission's administrative assistant, Loring Starr.

The Commission was created by statute in 2005 to be the state legislature's vehicle for providing legislative oversight for the implementation of health reform and policy direction for health reform legislation. It consists of four state senators appointed by the President pro tem of the Senate, four state representatives appointed by the Speaker of the House, and two appointees by the Governor. Its staff are employees of the Vermont State Legislature and all of its revenues come from state general funds. The funding for Dr. Hester and Loring Starr would come from the commission budget. The time for the other Vermont participants, other than the consultants, would be donated by their organizations.

ATTACHMENT 2
Payment and Reporting Schedule

**Financial Modeling for Vermont's Accountable Care
Organization Pilot
Vermont State Legislature
James Hester, Ph.D.
\$46,550 for 10 months (July 31, 2009 – May 31, 2010)**

Grant #20090669

Date Payments to Grantee or Report Due to Fund

7/31/2009	Executed Letter of Agreement
8/15/2009	Check for \$37,240
10/15/2009	Draft issue brief of 2008 ACO feasibility study for publication by the Fund
11/15/2009	Final issue brief
12/01/2009	Development of initial model for ACO pilot site #1
1/15/2010	Update on testing of scenarios and refinement of the model
3/01/2010	Development of modified model for ACO pilot site #2
4/15/2010	Update on testing of scenarios and refinement of the model
5/31/2010	Final narrative report
6/30/2010	Final financial report for period (7/31/09-5/31/10)
7/15/2010	Check for \$9,310, dependent upon actual expenses

Note:

1. Deliverables must be submitted to the Fund on or before the dates specified. The Fund encourages grantees to submit reports by electronic mail, wherever appropriate.
2. Financial reports should be submitted in the format of the Fund's Financial Report form, which will accompany the first payment. It is also available in electronic form at: <http://www.cmwf.org/resources/resources.htm>
3. Fund guidelines on publications and narrative reporting are available at: <http://www.cmwf.org/resources/resources.htm>

Award

4. If reports are not received by the scheduled due date, it may be necessary for the Fund to delay payment until the next payment cycle (the Fund makes payments twice a month, on or about the 15th and the last day of the month).
5. Fund policy requires that at least 10 percent of the grant be withheld until the final grant products are received and approved by the Fund. Final payment amount will be made based on actual expenditures, not to exceed the total grant amount.

SXG/hd
July 23, 2009

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5. Fund policy requires that at least 10 percent of the grant be withheld until the final grant products are received and approved by the Fund. Final payment amount will be made based on actual expenditures, not to exceed the total grant amount.

SXG/hd
July 23, 2009

Beatty, David

From: Jim Hester [jhester@leg.state.vt.us]
Sent: Thursday, July 30, 2009 11:57 AM
To: Beatty, David
Cc: Hunt Blair; Nathan Lavery; Tringe, Heidi
Subject: Acceptance of ACO grant

Attachments: REQUEST_FOR_GRANT_ACCEPTANCE_AA1_Form HCRC ACO.doc; Notice of Award.doc; VT ACO pilot_v.2.doc; S.129 ACO 5-4-09.doc



REQUEST_FOR_GR
VT_ACCEPTANCE_A Award.doc (25 KB)



Notice of



VT ACO



S.129 ACO

VT ACO pilot_v.2.doc (41 KB) S.129 ACO 5-4-09.doc (30 KB)

Attached is the paperwork we went over this morning for the acceptance of the Commonwealth Fund grant to the Health Care Reform Commission. I will walk over signed hard copies of the AA-1 form this morning. The package includes

- Form AA-1
- copy of e mail notice of award
- Act 49 (old S.129) Section 6 request for the commission to build the ACO financial model (paragraph d)
- grant proposal

Thanks for moving this along so that we can get this through the administration's review in time to have this on the Joint Fiscal Committee agenda for 8/5. The grant begins 7/31/09, they will send us a check in mid August and the first deliverable is due in mid September, so it would be very helpful not to have to wait for the September meeting of Joint Fiscal before we spend the funds.

Heidi and Hunt,
I've copied you on this in case there are any questions about the project. My understanding is that you support accepting the grant.

Jim Hester PhD
Director
Health Care Reform Commission
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802 734-1649 (cell)
jhester@leg.state.vt.us

Request to add to JFC 8/5 agenda