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TO: Oregon's 32 Type A/B Hospitals
Coordinated Care Organizations

FROM: Tina Edlund
Acting Director, Oregon Health Authority

RE: Rural Health Reform Initiative – Decision regarding transitioning A/B hospitals

As you know, Oregon is engaged in comprehensive health system transformation, and hospitals are an integral part of that transformation. In 2011, the Oregon Legislature passed HB 3650 directing the Oregon Health Authority (OHA) to begin transitioning rural (Type A/B) hospitals to alternative payment methodologies consistent with coordinated care.

OHA was also charged with identifying and transitioning only those rural hospitals that could remain financially viable after changing their basis for payment, which historically is based on their cost. To determine which hospitals should transition and which should not, OHA convened an advisory work group with representatives from coordinated care organizations (CCOs), the Office of Rural Health (ORH) and Type A/B (rural) hospitals through the Oregon Association of Hospitals and Health Systems (OAHHS).

Working with three independent consultants and an independent actuarial firm (Optumas), the advisory work group developed a method to evaluate a hospital's readiness to transition to the new payment methodology. The advisory work group agreed to base its recommendation on the following:

- 1) A baseline analysis that assessed the payment relative to expected cost risk of adopting a prospective payment system (PPS);
- 2) The Medicaid relevance in relationship to the hospital's entire book of business;
- 3) The Financial Strength Index of each hospital; and
- 4) Demographic/community characteristics in which the hospitals are located.

The advisory work group developed a decision tree based on these factors through an iterative process guided by Optumas. Using this decision tree, the advisory work group recommended that of the 32 rural hospitals in Oregon:

- 18 should transition to an alternative payment methodology aligned with coordinated care; and
- 14 should maintain cost-based reimbursement.

To see the list of hospitals, please refer to Appendix C of the [final report issued by Optumas](#)

As the acting director of the Oregon Health Authority, I have accepted these recommendations.

OHA is committed to supporting the transitioning rural hospitals and CCOs as they negotiate new contracts. The goal is to have new contracts reflecting new payment methodologies in place by January 1, 2015.

In addition, OHA will work to further support a hospital glide path to the alternative payment model. Through the budget process and in collaboration with hospitals and other stakeholders, OHA will explore with the Legislature the creation of a temporary, one-time transition fund to ensure access to health services in rural areas.

While the decision has been made for this coming year, transitioning rural hospitals is an ongoing process. OHA will review the decision tree every two years to reevaluate which hospitals should continue with an alternative payment methodology. However, to allow some flexibility after the first year, OHA will re-evaluate hospitals again by the end of the first quarter of 2015 for the January 1, 2016, contracts.

The next step is the rule-making process, which OHA will begin in May. To provide continuity, OHA will use the Rural Health Reform Initiative advisory group as its Rules Advisory Committee.

If you have any questions, please contact OHA Finance Director Jeff Fritsche at jeffrey.p.fritsche@state.or.us

In closing, I want to thank the advisory group for its hard work, and I want to reiterate how important this initiative is. For those hospitals that are able, transitioning to an alternative payment methodology is an essential part of Oregon's health system transformation and achieving our goals of better health, better care at lower costs for all Oregonians.