



COMMONWEALTH of VIRGINIA  
*Department of Medical Assistance Services*

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October 3, 2013

**MEMORANDUM**

TO: The Honorable Walter A. Stosch  
Chairman, Senate Finance Committee

The Honorable Lacey E. Putney  
Chairman, House Appropriations Committee

FROM: Cynthia B. Jones *Cynthia Jones*  
Director, Virginia Department of Medical Assistance Services

SUBJECT: Report on the Contract with George Mason University for  
Health Innovation Efforts

The 2013 Appropriation Act, Item 307 JJJJ, allocated \$1,670,000 in general funds to the Department of Medical Assistance Services (DMAS) for two years of grant support for a contract with George Mason University (GMU) for health innovation efforts as well as for grants to public and private organizations for projects designed to reduce the rising cost of health care. Attached is the required report on the allocation of the aforementioned funds to the Chairmen of the House Appropriations and Senate Finance Committee.

Should you have any questions or need additional information, please feel free to contact me at (804) 786-8099.

CBJ/

Enclosure

pc: The Honorable William A. Hazel, Jr., MD, Secretary of Health and Human Resources

**Department of Medical Assistance Services  
Report to the General Assembly**

***Report on the Contract with George Mason University for Health Innovation Efforts***

**September 2013**

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The 2013 Appropriation Act, Item 307 JJJJ, allocated \$1,670,000 in general funds to the Department of Medical Assistance Services (DMAS) for two years of grant support for a contract with George Mason University (GMU) for health innovation efforts as well as for grants to public and private organizations for projects designed to reduce the rising cost of health care. This correspondence will serve as the required report on the allocation of the aforementioned funds, which is to be submitted by September 30, 2013, to the Chairmen of the House Appropriations and Senate Finance Committee.

The Department contracted with George Mason University in October 2012. GMU subsequently entered into a sub-agreement with the Virginia Center for Health Innovation (VCHI), which is a public-private partnership to accelerate the adoption of value-driven models of wellness and healthcare. George Mason oversees the utilization of the funds by its subcontractors and provides direct assistance to VCHI.

Len N. Nichols, Ph.D., Director of GMU's Center for Health Policy Research and Ethics, works closely with VCHI in laying the groundwork for consumers, employers, providers (including the state government), and insurers to engage in and share information on best practices and innovation in health care that will collaboratively drive better value in the system. Through this contract, GMU provides operating funds to VCHI, also enabling VCHI to enter into subcontracts for additional research and support services in development of a Virginia Health Innovation Plan (VHIP).

Since October 2012, the Virginia Center for Health Innovation has been working on a four-year Virginia Health Innovation Plan, which will enable Virginia to compete for the State Innovation Model Initiative: Model Testing Awards through the Centers for Medicare & Medicaid Services (CMS) in late 2013 or early 2014. States may seek grants of up to \$60 million to test new payment and delivery models that may lower costs for Medicare, Medicaid and CHIP, while maintaining or improving the quality of care for beneficiaries. This initiative presumes that multi-payer models with broad stakeholder input and engagement will achieve sustainable delivery system transformation that improves health system performance. Completion of the VHIP will also position VCHI to seek implementation grants from a wide range of interested corporate and philanthropic partners.

VHIP development has been guided by a 78-member Advisory Board chaired by the Secretary of Health and Human Resources, William A. Hazel, Jr., M.D. The following six workgroups were created to facilitate input and engagement.

- Improving Early Childhood Outcomes
- Educating and Engaging Consumers to Purchase Value
- Improving Transparency and the Availability of Data
- Payment and Delivery Reform: Improving Chronic Disease Care
- Payment and Delivery Reform: Care Integration
- Improving the Effectiveness, Efficiency and Appropriate Mix of the Health Care Workforce

To assist in the work of the VHIP Advisory Group, a Virginia Health Innovation Inventory was conducted and resulted in more than 300 submissions. In June 2013, a *Call to Action* was finalized and lays out a Virginia Health Innovation Vision with three strategic pathways and nine action strategies.

These documents can be accessed on the VCHI web site, [www.vahealthinnovation.org](http://www.vahealthinnovation.org). VCHI is currently developing detailed implementation plans for each of the nine action strategies and a VHIP draft is expected to be complete in November 2013. VCHI will work thereafter to secure implementation funding.

GMU has provided ongoing support to VCHI and the aforementioned work groups, which includes disseminating knowledge about innovative models of wellness and health care, and developing stakeholder demonstration projects with data compilation, analysis and economic modeling. Toward this end, GMU undertook research with de-identified Medicaid claims and encounter data provided by DMAS for 2011 and 2012 for six different sub-populations of clinical and financial interest (e.g., age and clinical condition or medical event). These sub-populations were identified as areas of interest by research teams at Virginia Commonwealth University (VCU), Carilion, University of Virginia (UVA), Bon Secours, and Sentara health systems. GMU analyzed the data to produce baseline expenditures, per member per month, by key service line (e.g., inpatient and outpatient hospital, emergency department, outpatient physician services). The baselines were used to help each team complete the financial sustainability analysis required for the upcoming State Innovation Model Initiative, but also necessary for a similar recent CMS grant opportunity, the Health Care Innovation Awards - Round Two. The Round Two proposals were due by August 15, 2013, and five of the above teams submitted grant proposals.

GMU and the teams also developed statistical models to explain variations in health expenditures for each population and simulate how the average expenditure for a target population could be expected to vary. This variation in average expenditure under various scenarios was central to developing a new payment model that would properly incent an appropriate clinical intervention to improve patient care and outcomes, while at the same time, lowering costs enough to finance the intervention in perpetuity. In most cases, a risk adjusted global capitation amount for each patient in the target population was proposed. This type of risk adjusted global payment could be paid to contracted managed care plans or directly to health care providers, depending on future DMAS and CMS policy choices.

GMU will continue to work with VCHI on completion of the Virginia Health Innovation Plan and on the subsequent submission of a proposal for the State Innovation Model Initiative: Model Testing Awards.

As of September 17, 2013, total expenditures from this allocation are \$420,262.54 (GMU expenses of \$85,996.35 and VCHI expenses of \$334,266.19). Both GMU and VCHI have incurred substantial additional expenses under the aforementioned contracts that have not yet been submitted to DMAS for reimbursement.