DRA 5007 Medicare Hospital Gainsharing Demonstration
Solicitation

Section 5007 of the Deficit Reduction Act of 2005 (DRA) requires the Secretary to establish a qualified gainsharing demonstration program under which the Secretary shall approve up to six demonstration projects to test and evaluate methodologies and arrangements between hospitals and physicians designed to govern the utilization of inpatient hospital resources and physician work to improve the quality and efficiency of care provided to beneficiaries and to develop improved operational and financial hospital performance with sharing of gains as specified in the project.

The demonstration project will involve arrangements between a hospital and physician under which the hospital provides for remuneration (gainsharing payments) to the physicians (as defined in section 1861(r) or (3)) and practitioners (as described in 1842(b)(18)(C) of the Social Security Act)[1] that represent solely a share of the savings incurred directly as a result of collaborative efforts between the hospital and the physician to improve overall quality and efficiency. Each demonstration project will also provide measures to monitor quality and efficiency in the participating project hospital(s). This 3-year project is to begin January 1, 2007 and end on December 31, 2009.

I. Background

To ensure that all Americans receive high quality health care, the Centers for Medicare & Medicaid Services (CMS) announced in November 2001 its Quality Initiative, with a national launch in November 2002 for nursing homes. The Quality Initiative was expanded in 2003 to home health care agencies and hospitals, and now includes several initiatives for improving the quality and efficiency of care provided in hospitals and physicians' offices. Major components of CMS' strategies to improve health care quality include public communication of provider performance data, and payment approaches that align providers' financial incentives with quality and efficient care processes.

Currently, the CMS Hospital Quality Initiative employs public communication of provider performance data and financial incentives to stimulate and support improvements in hospital

[1] We believe that the reference to section 1842(e)(18)(C) in DRA section 5007(g) is a scrivener's error, and that the reference should be to section 1842(b)(18)(C). Section 5007(g) explicitly provides that the reference to physicians who are permitted to participate in the demo is deemed to include certain practitioners, which we believe is clear evidence of Congress' intent to include such practitioners in the demo. We also note the Conference Report language specifically refers to the inclusion of practitioners as part of the gainsharing arrangement. Since section 1842(e)(18)(C) does not exist, and since section 1842(b)(18)(C) is, with the exception of substituting (b) for (e), identical to that section], specifically defines practitioners, we believe that section 1842(b)(18)(C) is the one that Congress actually intended to reference, and that the substitution of the (e) for the (b) is a scrivener's error. We do not believe that this typographical error impedes any authority to otherwise implement this demonstration.

quality of care. Its public reporting program for comparative hospital quality information began with the launch of its website/web tool Hospital Compare in April 2005. Developed by CMS in partnership with the Hospital Quality Alliance (HQA), which includes the American Hospital Association, Association of American Medical Colleges, Federation of American Hospitals, American Association of Retired Persons, and the AFL-CIO, Hospital Compare displays voluntarily submitted data on a robust, prioritized, and standardized set of quality measures for nearly all U.S. acute care and critical access hospitals.

Also to improve hospital care, CMS and the Centers for Disease Control and Prevention (CDC) in 2003 initiated the Surgical Infection Prevention project, which has since been expanded to the Surgical Care Improvement Project (SCIP). SCIP is a national partnership of organizations to improve patient safety and reduce the incidence of post-operative complications by 25 percent by 2010. In August 2005, the partnership officially launched a multi-year national campaign, relying on lessons learned through a 3-state demonstration project, focusing on the prevention of surgical site infections, peri-operative myocardial infarction, post-operative pneumonia, and respiratory and venous thromboembolism complications.

Through its Hospital Quality Initiative, CMS has joined the increasing number of private and public purchasers that are experimenting with approaches to create financial incentives for hospitals to provide care that is both of high quality and efficient. CMS partnered with Premier, Inc., a national service provider for not-for-profit hospitals, to implement the Hospital Quality Incentive Demonstration in July 2003. Under the 3-year demonstration, participating hospitals will receive bonuses based on their performance on 34 quality measures selected for inpatients with specific clinical conditions: heart attack, heart failure, pneumonia, coronary artery bypass graft, and hip and knee replacements.

A key issue with many hospital-focused public reporting and pay-for-performance initiatives is that physicians—crucial to generating changes in hospital care—often do not participate in the financial rewards of a hospital's quality improvement efforts. The PPS hospitals can reap financial rewards by reducing adverse events and reducing length of stay, and by increasing market share based on a reputation for high quality care. Under Medicare's hospital PPS, for example, hospitals are paid for an inpatient stay based on the average resources used in treating a patient's case identified under a particular Diagnosis-Related Group (DRG). The fewer resources used to treat a patient for a given DRG, the more net revenue the hospital receives.

Under current Medicare law and regulations, hospitals are unable to share the financial gains from improved quality with physicians who practice in those hospitals. Physicians thus have little direct incentive to provide care efficiently or to work together with hospital administrators to look for means for coordinating and improving the cost-effectiveness of care within the hospital.

II. Medicare Hospital Gainsharing Demonstration Program

A. Purpose

The demonstration will determine if gainsharing aligns incentives between hospitals and physicians in order to improve the quality and efficiency of care, and to improve hospital operational and financial performance.

Principles:

- The demonstration will establish six projects, each consisting of one hospital.

- We are particularly interested in proposals that foster partnerships between hospitals and physicians to enhance the overall quality and efficiency of hospital care. We are interpreting the statutory mandate in DRA section 5007(a) to equate quality and efficiency with hospital operational and financial performance. In this demonstration, CMS intends to address the issues of how to improve the quality and efficiency of inpatient care to Medicare beneficiaries and to develop improved operational and financial hospital performance, as called for in the authorizing legislation. We interpret the phrase "improved operational and financial hospital performance" to focus on improved quality and efficiency of care. Thus, operational improvements would cause improvements in the quality and efficiency of care, while financial performance is related to improved efficiency. Other aspects of operational and financial performance are also desirable but are not part of this demonstration since they are not focused actions taken by physicians and other practitioners related to care provided to Medicare beneficiaries.

- CMS will ensure that total costs to Medicare will not rise as a result of the demonstration, that is, the demonstration will be budget neutral or produce savings for the Medicare program. Hospitals may not operate projects that would be expected to save internal costs by shifting patient care to pre-admission or post-acute services, thus increasing total episode costs. Participating hospitals must assume financial risk for any increased cost to Medicare for episodes of care as compared with a baseline year. Hospitals will be required to re-pay Medicare if budget neutrality is not maintained.

- For all projects, we will require that gainsharing be based on net savings, that is, reductions in patient care costs attributable to the gainsharing activity offset by any corresponding [or resulting] increases in costs associated with the same patients.

- For all projects we intend to focus on short-term improvements in quality and efficiency relative to the hospital stay and up to thirty days following the episode of care.

- Safeguards to ensure that the quality of care to beneficiaries is improved in the demonstration are required:

    Prior to the implementation of each demonstration project; CMS will convene an evaluation panel to review the elements of the project to assure that the

proposed demonstration is designed to meet public policy goals, including improving quality and efficiency of care. Applicants are not required to provide for an additional independent review of the project before submitting proposals to CMS.

There will be ongoing measurement and monitoring of hospital quality during the demonstration.

To be eligible to participate in the demonstration, hospitals must comply with all CMS hospital quality improvement program requirements, and must report HQA performance data.

The demonstration will require each site to have a committee of hospital administrators and physicians develop and monitor the demonstration and oversee progress to assure quality. The committee membership must include at least one independent patient advocate or consumer representative who participates in both the development and the operation of the demonstration.

Physicians who fail to adequately meet quality performance targets will not be eligible for gainsharing incentives.

- Incentive payments to physicians will be restricted. Payment to physicians and others must be made in such a manner as to assure a reasonable balance between incentives and the demonstration objectives.

  The incentive payments to individual physicians are limited to 25 percent of the amount that is normally paid to physicians for cases in the gainsharing demonstration.

  Incentive payments must not be based on the volume or value of referrals or business otherwise generated between the hospital and physicians. Payments based on achieved savings are permitted.

  Payments must be linked to improved quality, efficiency, operational and financial performance.

  Gainsharing must be a transparent arrangement that clearly and separately identifies the actions that are expected to result in cost savings.

  The gainsharing incentive system must be implemented in a manner that is uniform across physicians and can be reviewed and audited.

- We view physician participation as a critical element key to the success of this demonstration.

Projects must show endorsement and commitment to the demonstration by hospital physician staff and participating physicians.

Physicians must voluntarily join the demonstration. There may be no negative consequences to any physician who chooses not to participate.

- Projects must be replicable. The project must be operated in such a manner that the findings of the implementation and evaluation could be applied to the Medicare program if desired.

- To the extent feasible, CMS will provide data to assist hospitals with estimating total Medicare payments for inpatients and gainsharing payment limits for physicians.

- We are seeking to operate this demonstration to test a variety of gainsharing models at a variety of geographic locations, including at least two rural locations.

- There will be an independent evaluation of the demonstration; participating demonstration sites must fully provide information to the evaluator on the operation of the demonstration. Data provided will include but not be limited to data on internal costs, incentive payments, quality indicators, and participating physician identifiers.

- Participants will be fully responsible for all costs associated with the development, implementation or operation of the demonstration.

B. Eligible Organizations

Eligible applicants are limited to inpatient hospitals that receive payment under section 1886(d) of the Social Security Act, which is the authority for the hospital inpatient prospective payment system. Critical access hospitals are not eligible to participate in this demonstration. Section 5007(d) (2) of the DRA mandates approval of not more than six projects, two of which will be located in rural areas.

All applicants must comply with all CMS hospital quality improvement program requirements and must have submitted HQA quality performance data throughout 2005 to be eligible for participation in the demonstration. Additionally, participating hospitals will be required to continue submitting HQA performance data throughout the demonstration period.

All applicants must show evidence that an Internal Quality Committee comprised of hospital and physician representatives exists. This committee will be required to monitor the demonstration project, to focus on how the demonstration will improve quality of care and assure that physicians who are not actively participating in the quality improvement initiatives on which the demonstration is based within the organization are not eligible for incentive payments.

CMS is interested in implementing demonstration projects that investigate the effectiveness of new innovative gainsharing arrangements. Applicants that currently have favorable opinions from the Office of Inspector General for gainsharing arrangements are eligible to apply. However, CMS will not approve a proposal from one of these hospitals if it does not plan to extend gainsharing arrangements to other areas of hospital operations, since we are limited to six projects and such a hospital does not need a Medicare demonstration to operate its existing program. Participating organizations will be required to submit clinical quality performance data to assure quality relative to both medical and surgical admissions is maintained or improved.

All applicants must notify CMS if they currently participate in any other Medicare Demonstration. CMS does not wish to confound testing of the gainsharing arrangements with the effects of other CMS Medicare demonstrations that examine systems to improve clinical quality of care for beneficiaries, such as the Physician Group Practice Demonstration.

C. Identification of Geographic and Hospital Characteristics

CMS is interested in a mix of proposals focusing on both urban and rural areas. The statute requires that two projects be conducted in rural areas. For purposes of this demonstration, a hospital will be considered rural if it is rural under the inpatient prospective payment system (see 42 C.F.R. 412.64(b)(1)). The applicant should describe the characteristics of the hospital and surrounding service area.

The population to be served by this demonstration will be identified by the individual applicants. Considering the fact that this demonstration seeks to test various models of gainsharing, proposals should seek to include a large proportion of the hospital's physician base, community physicians, and potential patient population, as opposed to subsets of either.

To the extent possible, the applicant should provide background information on the number of Medicare fee-for-service beneficiaries served within each applicant hospital. We recognize that the size of the available beneficiary population will vary depending on the geographic location and number of physicians participating in the demonstration. While we are not establishing a minimum size for the demonstration projects, larger size and other factors leading to greater statistical power are important considerations.

III. Conditions of Participation

CMS proposes the following conditions of participation, but will work with each demonstration participant to ensure that the basic principles of the proposed gainsharing model meet the statutory requirements.

A. Gainsharing – Physician Incentive Payment Methodology

Proposed demonstration projects must provide a sound plan for sharing of gains between the hospital and physicians or physician groups. This arrangement will consist of the hospital

providing gainsharing payments to the physician(s) that represents solely a share of the savings incurred directly as a result of collaborative efforts between the hospital and the physician(s) to improve quality and efficiency. Under section 5007(c)(1) of the DRA, a gainsharing payment to a physician under and in accordance with this project shall not constitute a violation of section physician inducement under 1128A, remuneration under section 1128B, or a financial relationship under section 1877 of the Social Security Act. Entities will remain subject to these laws in all other aspects of their operations. Gainsharing arrangements and physician payments must nonetheless meet the following criteria:

- Payment must not induce a physician to reduce or limit services that are medically necessary to a patient entitled to benefits under the Medicare program.

- Payments must not be based on the volume or value of referrals or business otherwise generated between the hospital and physician.

- Payments must be linked to actions that improve overall quality and efficiency and result in cost savings.

- Gainsharing payments to physicians may not exceed 25% of the amount that is normally paid to physicians for cases included in the gainsharing demonstration.

While the gainsharing approach is applicable to all care provided at the hospital, some projects may focus efforts on particular categories of care. In these cases, the projects must provide rationale on how quality and efficiency of care will improve within the category of care chosen, and explain why the particular area of care is a good candidate to test gainsharing arrangements.

Projects must include a detailed explanation of:

- The proposed clinical process of care intervention designed to promote the efficient use of resources.
- The patient population targeted by the proposed intervention.
- The physicians and hospital department(s) that will be subject to the intervention.
- Details of how physicians participating in the intervention can directly affect use of hospital resources required to treat the targeted population.
- The timing and periodicity of incentive payment determinations and the timing and method of distribution of savings to participating physicians.
- How financial gains to the hospital are measured.
- What proportion of those gains to the hospital are shared with physicians.

- How the portion of the gains shared with physicians are allocated among physicians, specifically, how quality, patient safety, and internal efficiency measures influence that allocation.

B. Patient Notification

The proposed demonstration project must include a notification process to inform patients of the hospital's participation in the demonstration project. The notification process must be clearly documented.

C. Monitoring of Quality and Efficiency/Performance Standards

The proposed demonstration must provide measures to ensure that the quality and efficiency of care provided to patients who are treated in a demonstration hospital is continuously monitored, measured, evaluated, tracked and documented to ensure that quality is maintained or improved. Improvements in quality and efficiency which lead to improved operational and financial hospital performance must be achieved to justify physician gainsharing payments. Quality and efficiency will be monitored for interrelated purposes, to the extent feasible at the level of an individual hospital and its ability to provide follow-up on data on individual patients; to ensure patient care is not compromised; and to guarantee financial incentives are tied to improved hospital performance.

The demonstration project must support improved hospital quality and efficiency. Hospitals that participate in the demonstration will be required to continue to submit quality performance data. Hospital Compare began with a "starter set" of 10 process measures for acute myocardial infarction (AMI), heart failure, and community-acquired pneumonia. The measure set has been expanded subsequently to 21 measures, and Hospital-CAHPS (HCAHPS) patients' perspectives on care measures will be added in 2007. For fiscal years (FYs) 2005 and 2006 CMS' Reporting Hospital Quality Data for Annual Payment Update (RHQDAPU) program provides a financial incentive for all prospective payment system (PPS) hospitals to submit data on the 10-measure starter set. For FY 2007, hospitals must submit data on an expanded set of measures in order to receive a higher annual payment update. For detailed information on the HQA hospital quality measure, refer to the following website: http://www.cms.hhs.gov/HospitalQualityInits.

Hospitals will be expected to propose other measures that may be appropriate to measure and monitor improvements in hospital quality and efficiency specific to the gainsharing activities they propose to undertake. These additional measures might be drawn from among the following sources: HQA measures; National Quality Forum- (NQF-) endorsed measures; HCAHPS patients' perspectives on care measures; measures of surgical complication rates, in-hospital and after discharge; Agency for Health Care Research and Quality hospital-level patient safety indicators; 30-day mortality measures; other CMS quality measures; and other evidence-based quality measures developed by the relevant medical specialty society or a consensus of the peer-reviewed literature.

Additionally, if the proposed gainsharing model targets specific populations, departments or areas within the hospital that currently are not measured and monitored, the organization must develop and demonstrate the ability to measure, monitor, and report on quality, efficiency, and operational and financial performance relative to those specific interventions. Applicants shall propose a set of hospital-level and physician-level quality, patient safety, efficiency, and outcome measures that will be the basis for determining how savings from providing more efficient hospital care under the proposed intervention will be shared with physicians who assist in generating that savings.

Hospitals will be required to provide baseline historical data. All data submitted will be subject to validation and audit by CMS or CMS contractors.

D. Referral Limitations

The demonstration must not be structured in a manner that rewards physicians participating in the project on the basis of the volume or value of referrals to the hospital by the physician or business generated between the hospital and physician. Payments may not be based on referrals. Physician incentive payments must be tied to improvements in quality.

Arrangements that encourage physicians to send healthier patients to hospitals offering gainsharing while sending sicker, more costly patients to other neighboring hospitals will not be allowed. Physicians will be expected to maintain referral practices that are conducive to maintaining quality of care, across the spectrum of mild to severe cases, within both participating and neighboring hospitals.

E. Program Monitoring

CMS will conduct ongoing program monitoring throughout the period of program operations. Organizations will be required to comply with CMS requests, including submitting program monitoring data and operational metrics, and hosting site visits. Program monitoring includes performance monitoring on clinical quality, beneficiary and provider satisfaction, savings targets, and operational metrics. Organizations will be expected to provide CMS with ongoing monitoring information by tracking various measures of program performance and operational metrics, including data on cost savings and incentive payments.

F. Independent Formal Evaluation

CMS will contract with an independent evaluator to conduct the formal evaluation of program results. Participating hospitals will be required to cooperate with the independent evaluator to track and provide agreed upon performance data, such as clinical quality performance and financial data, as needed for the evaluation.

IV. Requirements for Submission

A. Selection Process

A CMS review panel will evaluate all submitted applications based upon the application criteria listed in this section of the solicitation and will recommend applicants to be considered for the Gainsharing Demonstration awards. CMS may conduct site visits to selected applicants based upon the review panel recommendations.

B. Application Requirements

Applicants must submit their applications in the standard format outlined in CMS' Medicare Waiver Demonstration Application in order to be considered for review by the technical review panel. Applications not received in this format will not be considered for review. Applications should refer to "5007 Gainsharing Demonstration" and be mailed or delivered to the following address:

Department of Health and Human Services
Centers for Medicare & Medicaid Services
Attention: Lisa Waters, Project Officer
Office of Research Development and Information
MDPG/DPPD
Mail Stop: C4-17-27
7500 Security Boulevard
Baltimore, Maryland 21244

For further information on application submission requirements, contact: Lisa Waters at (410) 786-6615 or GAINSHARING@cms.hhs.gov

The Medicare Waiver Demonstration application follows this demonstration solicitation on CMS's Website at
http://www.cms.hhs.gov/DemoProjectsEvalRpts/MD/itemdetail.asp?itemID=CMS1186805

Applications must be received by **November 17, 2006**. Only applications that are considered "timely" will be reviewed and considered by the technical review panel. Applications must be typed for clarity and must not exceed **40** double-spaced pages, exclusive of the cover letter, executive summary, resumes, forms, and supporting documentation. An unbound original and two copies, plus an electronic copy or CD-ROM must be submitted. Applicants may, but are not required to, submit a total of 10 copies to assure that each reviewer receives an application in the manner intended by the applicant (for example, collated, tabulated, color copies). Hard copies and electronic copies must be identical. Applicants must designate one copy as the official proposal.

Each applicant must provide (1) a letter signed by the chief executive officer or other authorized executive staff administrator or other senior official committing the hospital to participate in the gainsharing project described in the proposal, and (2) a letter from the chief of the medical staff endorsing the proposal and showing evidence of widespread physician support of the project from the hospital's medical staff.

At a minimum, applicants should ensure that their applications and supplemental materials include the information requested below by section of the application:

1. Cover Letter

2. Application Form

3. Executive Summary – Applicants should submit an Executive Summary that provides a summary of the key elements of the proposal (not to exceed 4 pages)

4. Description of the Proposed Gainsharing Demonstration Design

Applicants should describe the proposed program and how the proposed gainsharing arrangements will improve quality of care, and produce savings for the hospital, and achieve budget or savings for the Medicare program. Applicants should:

- Show how their proposed program meets the design and conditions of participation as stated in this solicitation.

- Describe and identify what actions will result in improved quality/efficiency which lead to cost savings to establish accountability.

- Describe how internal hospital costs and savings will be measured.

- Describe how the proposed gainsharing system will assure improved quality of care, and improve hospital efficiency.

- Describe how the proposed gainsharing system will produce savings to the Medicare program or at a minimum, be budget neutral. The proposed gainsharing system must not increase costs to Medicare.

- Explain how the proposed design is likely to provide key policy insights related to gainsharing and will assist CMS in testing the effects of gainsharing arrangements on hospitals, physicians, and health care delivery systems.

- Describe which areas of inpatient care will be the focus of the project and why these areas were selected.

- Describe the gainsharing arrangements that will exist between the hospitals and physicians. Provide clear rationale of how gains will be shared.

- Describe how financial incentives will align with improved quality outcomes and how performance payments will be distributed.

- Show widespread physician support for the proposal, and explain physician recruitment strategies.

- Explain how the hospital plans to notify beneficiaries of participation in the project.

- Describe how data will be managed and analyzed, providing a detailed description of the analysis that will be conducted.

5. Organizational Structure and Capabilities

The proposal should describe how the applicant will organize and manage the project, describe the sequence of tasks and timeframes slated for completion of critical milestones, and describe management controls and coordination mechanisms that will be utilized to ensure the timely and successful conduct of this project. Potential problems that may be incurred in the process of implementing the project should also be addressed. The proposal should address each of the following:

- Indicate the organization's capacity to effectively conduct this project, and state availability and access to resources and facilities, including staff, consultants, computer systems, and technical equipment.

- Identify key personnel and describe the functions and duties of each. Include a brief description of relevant training, experience, publications, and availability of key personnel for the duration of the project.

- Demonstrate support by all physicians and other caregivers as applicable.

- Describe the formal relationship between the hospital, related organizations, and physician partners including documentation of agreement to participate by all parties involved.

- Describe the governing body that will oversee the operation of the demonstration, and provide detail on how the oversight will be conducted.

6. Quality and Efficiency Improvement/Process and Outcome Improvement

Applicants must define the structure of quality indicators they are proposing to employ in the demonstration and provide a detailed description of how these indicators will be used to improve the overall quality and efficiency of care to beneficiaries, and describe the processes for evaluating and monitoring performance (including sample reports). Applicants also should describe what role the organization's health information systems will play in measuring improvements in quality and provide a detailed description of the organization's process for monitoring and managing their quality assurance programs, including the structure and operation of relevant oversight boards and committees. Finally, applicants should describe all goals they intend to achieve under this demonstration and link quality improvement to specific gainsharing arrangements as applicable.

- The applicant should develop and maintain tracking systems to monitor the collection of data and savings experienced. At a minimum the proposal should:

- Describe the processes and systems utilized to monitor clinical, financial, and operational performance.

- Describe what quality measures will be utilized for the project.

- Identify key metrics collected;

- Describe how the organization will use this information to continuously monitor and improve demonstration design, resolve deficiencies, and guarantee physician and beneficiary satisfaction.

- Describe what process improvements the organization has made over the past 12 months as part of continuous quality improvement related to providers, patients, and training and information systems.

7. Demonstration Implementation Plan

An applicant should provide a detailed implementation plan that includes the following elements:

- A detailed schedule with timeframes for all essential tasks.

- Descriptions of modifications to protocols, services, outreach and education initiatives, timelines, etc. if any.

- Identify the person who will be the liaison, project manager, to CMS for the Gainsharing demonstration. Applicants must describe plans to report demonstration progress to the CMS project officer. All reports must be in a format approved by the project officer.

8. Supplemental Materials

The applicant may submit staff resumes, component participation agreements or other supporting materials relevant to the application proposal.

V. Evaluation Criteria

Technical review panelists will assess and score (using a scale of 100 total points possible) applicants' responsiveness using the following evaluation criteria.

A. Proposed Gainsharing Demonstration Design (40 points)

The proposal provides clear and convincing evidence that the demonstration proposed will test and evaluate methodologies and arrangements between hospitals and physicians designed to govern the utilization of inpatient hospital resources and physician work to improve quality of care and develop improved operational and financial hospital performance. In addition, the applicant describes how the proposed model will integrate gainsharing arrangements to:

- Improve quality of care;
- Increase the effectiveness of care provided;
- Improve timeliness in the delivery of care;
- Ensure care is equitable and culturally and ethnically appropriate;
- Improve the financial operation of the organization; and
- Reduce Medicare inpatient hospital payments so as to yield costs savings to Medicare or achieve budget neutrality.

The gainsharing arrangement must clearly state how physician incentive payments will be linked to improvements in quality and overall efficiency. CMS will assess proposed interventions based on the degree to which:

- The size, timing, and focus of the financial rewards are likely to gain the attention of physicians whose behavior they are intended to change;
- Potential financial rewards to individual providers are large enough to promote compliance with quality-improvement and cost-efficient practices;
- Physicians consider the data upon which the incentives are based as valid;
- Financial incentives are combined with non-financial incentives (e.g., internal or external public reporting of data) to enhance performance;
- Financial incentives are consistent with other hospital objectives (e.g., to increase physician use of particular electronic health record functions);
- The payment model is practical, rational, and administrable; and
- No financial rewards result unless there is evidence that quality of care did not diminish
- The demonstration is designed to be budget neutral or yield savings to the Medicare program.

B. Organizational Structure and Capabilities (20 points)

The proposal must demonstrate the following:

- The organizational structure is in place to successfully implement and operate the proposed program;

- The organization has sufficient staff, systems, and other resources to organize, plan, implement, and evaluate all of the proposed clinical and financial components of the program;

- The organization has convened an oversight committee to effectively manage the demonstration to ensure all operational requirements are met. This committee is comprised of hospital administrators, physicians, and consumer advocates, such as a patient ombudsman or hospital ethicist.

- The organization has effective processes in place to monitor use of appropriate health services and control costs to achieve demonstration objectives;

- The organization has effective health information systems that will assist in improving efficiency and quality of care;

- The organization's leadership has demonstrated the ability to influence and direct clinical practice to improve quality, efficiency, processes, and outcomes;

- Administrative arrangements are in place to distribute financial incentives to physicians;

- The organization has widespread physician endorsement and support for the project; and

- The organization is financially solvent and has the ability to compensate Medicare in the event that project fails to achieve budget neutrality.

C. Quality Improvement/Process and Outcome Improvement (20 points)

- The demonstration project's quality assurance program establishes system-wide performance standards for quality of care and services, cost effectiveness, and process and outcome improvements.

- The hospital currently shows evidence of providing high quality services. It currently participates in quality measurement and quality improvement programs.

- The quality and efficiency initiatives, both hospital-wide and those targeted for gainsharing, are clearly defined with dedicated personnel responsible for implementing, monitoring, and integrating changes.

- Relevant process and outcome measures are reported and monitored.

- The hospital quality improvement committee comprised of hospital administrators and physicians exist to oversee the ongoing quality assurance program and the proposed demonstration.

D. Implementation Plan (20 points)

- The organization has clearly defined an implementation plan that includes measurable goals and objectives to improve quality of care and overall hospital efficiency.

- The organization is committed to sharing information with CMS and other entities, such as the demonstration evaluation and monitoring contractors.

- The organization has established processes to identify and resolve potential problems that may arise in the process of implementing such a demonstration project.

VI. Final Selection

The CMS Administrator will make the final selection of participants from among the most highly qualified candidates. CMS plans to select six demonstration project sites, which will include at least two sites/projects located in rural areas. Sites will be selected based on statutory requirements and a variety of other factors including organizational structure, operational feasibility, soundness of and diversity in demonstration design and hospital attributes. Awardees will be subject to CMS demonstration terms and conditions. Under no circumstances will candidates be selected if the organization is unable to demonstrate that its proposal will produce improved quality care and delivery of health care services to Medicare beneficiaries.