Oregon Health Network

Sustainability Plan

April 28, 2009

Executive Summary

● After the conclusion of the Rural Health Care Pilot Program (RHCPP), OHN participants will continue to pay participation fees to support OHN operations, including common network elements not included in telecommunications vendor charges.

● OHN participants will sign participation agreements that include a statement of their intention to continue to participate after the RHCPP is concluded.

● Post RHCPP, OHN participants will continue to be customers of telecommunications vendors for transport links from their sites to the OHN interconnection location. Urban participants will pay their full costs and eligible rural participants will pay the costs not subsidized by the regular Universal Service Fund (USF) rural health care program.

● RHCPP telecommunications vendors paid from RHCPP funds for construction charges to reach rural sites will be required to offer contract renewal options for time periods after the RHCPP.

● OHN will provide centralized administrative support for eligible rural sites to participate in the regular USF rural health care program. New competitive procurements will determine whether more cost-effective solutions than those provided by renewal options are available.

● OHN will provide applications support for participants to ensure the value proposition for their continued participation.

● Ineligible parties will pay 100% of their costs for connecting to OHN exchanges and will pay 100% of the charges for their use of the OHN network operations center (NOC). No transport or NOC services paid for with USAC subsidy will be available to ineligible parties.

Introduction

The purpose of this sustainability plan is to describe how the Federal Communications Commission (FCC) subsidy of Oregon Health Network (OHN) will lead to continued operation after the conclusion of the Rural Health Care Pilot Program (RHCPP). The plan must meet the conditions specified in the FCC letter of October 24, 2008, sent by Dana R. Shaffer, then Chief of the FCC Wireline Competition Bureau to the Universal Service Administrative Company (USAC) regarding eligible costs, restrictions on resale and sustainability. Much of that letter deals with situations not applicable to OHN because OHN will not be using any FCC funds to make capital investments in network facilities or equipment. Rather, OHN will use subsidy funds

to buy eligible services for eligible users from eligible vendors. The heart of the OHN sustainability plan is to transition to the regular Universal Service Fund (USF) program for rural health care subsidy at the conclusion of the RHCPP.

OHN Network Plan

To facilitate later transition to the regular USF rural health care subsidy program, Oregon health care and health care education organizations eligible for RHCPP subsidy will be the customers of record for telecommunications services connecting them to OHN approved data network exchanges, including the NorthWest Access Exchange (NWAX) in Portland and regional exchanges, where applicable. OHN is providing the administrative support needed to obtain the 85% subsidy for eligible users. No RHCPP funds will be used to pay OHN approved exchanges. RHCPP funds will be used to purchase services from network vendors for eligible participants and will not be used to purchase facilities or equipment that will become the property of OHN or participants eligible for RHCPP subsidy. OHN participants will pay the 15% co-payment for all recurring charges from network vendors during the subsidy period and will be responsible for 100% of such payments after the RHCPP. However, most sites are expected to be eligible for subsidy under the regular rural health care subsidy program and OHN will continue to help them obtain those subsidies.

To ensure that the OHN network connections for each eligible user meets standards of quality sufficient for real time health care and health care education applications, as agreed in network service contracts, OHN has selected a Network Operations Center (NOC) contractor to monitor the quality of service on each network link to an eligible participant. In the event of a quality of service problem on any link in the network, the end user may escalate to the OHN NOC to have NOC staff work with telecommunications transport vendors to resolve technical problems. OHN will contract with the NOC vendor for services to eligible OHN participants and will pay the 15% co-payment for such services. In order to minimize costs to OHN and its participants both during and after the RHCPP, the selected NOC vendor, Easy Street Online Services, will continue to provide NOC services under separate contracts to other customers, including health care customers not eligible for RHCPP subsidy. Provision of NOC services to other customers will spread the vendor's fixed costs over a larger customer base and reduce costs for RHCPP eligible users, and hence help make the NOC sustainable. OHN will buy NOC services under a "most favored customer" contract such that the price to OHN will be equal to or lower than prices offered to other customers, including health facilities not eligible for RHCPP subsidy. Having an OHN contract with the NOC vendor that covers only OHN participants eligible for RHCPP subsidy will be less complex than going through complicated cost allocation procedures to determine amounts eligible for subsidy.

Other common network elements discussed in the OHN proposal to the FCC include network exchanges and Internet2 (I2) and/or National Lambda Rail (NLR) connections. No RHCPP funds will be used to contract with exchanges for OHN services. OHN Request for

Proposals (RFP) # 1 resulted in exchanges being selected that offered "no cost to OHN" proposals. The response to the OHN request for proposals for I2/NLR service resulted in price proposals that were too high for OHN to justify at this time. The value proposition to OHN participants was not evident. Rather than spend subsidy funds on services that would be difficult to sustain after the RHCPP, OHN determined not to contract for such services at this time. OHN did reserve the right to request new proposals at a later time and will be prepared to enter into a contract for such services later, provided that the prices and the value proposition for participants permitted those costs to be included in a sustainability plan. Since all points reachable through I2/NLR can be reached through the public Internet, connections to those networks are not critical to OHN sustainability.

Network Infrastructure Ownership

As noted above, OHN will be using telecommunications services from telephone companies and other network providers, not taking title to physical assets such as fiber optic lines or switching equipment. Therefore, the Oregon network facilities made possible by the RHCPP subsidy will continue to be available after the pilot program period. OHN will require that future vendors of network access and transport services include in their service contracts renewal options at guaranteed prices such that the optional contract period is at least 10 years from contract start, in order to ensure that OHN members continue to get the benefits of any RHCPP program subsidies for construction and installation charges. However, because telecommunications is a cost declining industry and because competitive bidding will be required to obtain subsidies from the regular USF rural health care program, participants are not expected to enter into vendor contracts of more than five years. Having a guaranteed renewal price in the original contracts will provide a guarantee of continued availability of service in the unlikely event that future competitive bidding processes do not result in lower prices.

Rural health clinics are often financially marginal enterprises that endure a lot of closures and (hopefully) re-openings. If any particular OHN participant discontinues use at some time after the end of the subsidy period, the network facilities will continue to be owned by the telecommunications provider and available for them to use to serve other customers. In cases where there was a significant RHCPP subsidy of non-recurring charges, OHN will require that the vendor give OHN a right of first refusal to continue the service contract and renewal options in the event of a clinic closing so that the subsidized facilities could be made available to another health care organization, or other arrangements can be made consistent with FCC orders, rules or Commission directives that result in sustainability of the network. Based on the OHN experience with the bids received in response to RFP #1, OHN believes that where there is competitive bidding by multiple telecommunications vendors, the vendors are not charging close to 100% of their construction costs as non-recurring charges. In the first RFP non-recurring charges from selected vendors were significantly lower than the estimated costs included in OHN budgets. By letting telecom vendors own the technology with the ability to use some of the capacity for other users, OHN is getting better prices and can therefore serve more eligible users

with the available funds. In its comparison of prices offered by potential telecommunications vendors, OHN adds the non-recurring cost to 60 times the monthly recurring cost and gives the maximum evaluation points for price to the vendor with the lowest total price over the five-year period. In cases where there is only a single vendor bidding for services to a particular site and significant non-recurring costs are quoted, OHN will ask for certification from the vendor that the non-recurring charges in the bids do not represent close to 100% of the actual construction costs. OHN will exercise due diligence to ensure that non-recurring charges correlate appropriately with the term of the service contract.

Telecommunications Costs

As noted above, each OHN participant will be the customer of record with the telecommunications carrier providing the transport connection from their location to specified OHN exchange locations. The costs of interconnecting OHN participants at the NorthWest Access Exchange (NWAX), which is the primary OHN interconnection location, and other regional exchanges are included in the fees each participant will pay to the network vendors that connect them to those exchanges. During the RHCPP, all participants will pay the 15% co-payments for recurring service charges from telecommunications vendors for services to their facilities. Hospitals based in urban locations will pay all of their 15% co-payments for both recurring and non-recurring charges. (Non-recurring charges for urban institutions are not expected to be large because it is unlikely that new telecommunications facilities will need to be constructed to connect their locations.)

All participants understand that after the RHCPP they will be responsible for paying 100% of the network charges to connect them to OHN. Some of the RHCPP subsidy will be for one-time construction and installation charges for getting broadband facilities to the premises of eligible OHN participants. Once initial construction in completed, OHN anticipates that the monthly recurring charges at the end of the RHCPP will be affordable to participants.

Rural participants eligible to participate in the regular rural health care program of the Universal Service Fund (USF) expect to obtain some subsidy from that fund when the costs of telecommunications services to their eligible rural sites substantially exceed comparable costs to serve urban locations. However, they understand that the regular program may be changed and that there are no guarantees concerning how it will operate at the end of the RHCPP. For rural participants, the opportunity to receive telecommunications subsidies from the regular USAC rural health care subsidy program will be an important factor permitting sustainability. Oregon is a very rural state that includes many sparsely populated “frontier” counties. At least one Oregon health facility is not applying for the 85% RHCPP subsidy, because their subsidy under the regular program is more than 85%. Most rural sites in Oregon that are eligible for subsidy under the regular USF rural health care program have not done so because of the cumbersome administrative process required to obtain the subsidy. Most rural clinics do not have staff with the skills and the time to work the process. Oregon has been much more successful in receiving

funds from the USF schools and libraries ("E-rate") program because Oregon had established centralized staffing in the state government to assist schools with the administrative processes necessary to obtain the funding. After the RHCPP, OHN will provide that centralized support for eligible rural health sites.

The continuing benefits for urban hospitals to justify financial support of OHN after the RHCPP include the ability to provide medical services to and receive patient referrals from the rural sites on the network. The advantages to them do not depend on a subsidy for telecommunications services. OHN will increase the network quality available for health applications. Current Internet Protocol networks, especially if they cross the public Internet, do not have the quality or reliability necessary for telemedicine consults or for some workforce development video applications. This increase in quality—particularly quality making videoconferencing reliable throughout the state—should result in significant travel cost savings and staff efficiencies, especially for hospital systems with more than one physical location. Substitution of telecom for travel should be easy with quality networks, especially when the networks come with an 85% subsidy. Some of the savings in telecommunications costs could be used to pay for additional user premises equipment that takes advantage of the new opportunities. The OHN technical plans should improve both OHN on-net and off-net Internet quality, making it easier to establish quality connectivity with employees (including physicians) working or on-call at home and with patients at their homes or assisted living facilities.

OHN will permit larger hospitals in Oregon to expand their outreach to smaller hospitals and clinics throughout the state. Specialty consulting services in all branches of medicine could be offered to any hospital or clinic connected to OHN, without having to establish leased line telecom services to those locations prior to offering services. The additional revenues to major hospital systems through offering telemedicine services should result in better bottom line performance both from the consults themselves and any resulting referrals. Smaller hospitals should be able to provide more services to their patients in their local facility through telemedicine services offered by larger hospitals. Transfers of patients between hospitals should be more effective with videoconference pre-transfer consults between the hospitals.

OHN participants will sign a "participation agreement" in which they state their intention to continue participation in OHN after the RHCPP is over. However, non-profit organizations, particularly those dependent on federal or state government funding, as most are, will not be able to enter into binding contractual commitments of funding for periods more than five years into the future.

As noted, OHN is structured so that participating entities are the customers of record with the telecommunications providers and so that what is being obtained from the telecommunications providers is leased capacity from their sites to the OHN exchange location. This arrangement should make it easy to transition from the RHCPP to the regular program that

pays the difference between urban and rural rates or the non-urban portion of mileage-based rates for comparable service. Even though Internet services may be provided over the leased capacity, this arrangement is necessary to ensure that rural participants are eligible for the full difference between urban and rural rates, not just the subsidy for Internet services that is capped at 25 percent. OHN anticipates that the services to be obtained under the regular program after the RHCPP will be procured under a new round of competitive bidding with the condition that service providers bidding must be providers eligible to receive the standard rural subsidy of the difference between rural and urban rates or the USAC mileage-based subsidy and not be limited by the 25% subsidy limit for Internet-only services. The network connections being leased under the RHCPP are all services with guaranteed capacity and network quality of service from the user premises location to a designated OHN exchange location. Therefore, OHN anticipates that the same vendors will be eligible to provide subsidized services under the regular USF program without the 25% limit that applies to Internet-only services, provided that their service renewal options under the RHCPP subsidy program or a new lower bid price is the most cost-effective solution provided in a new round of competitive bidding.

One Time vs. Recurring Network Charges

Some of the OHN RHCPP subsidy funding will be used for the one-time charges (construction and installation fees) necessary to construct broadband facilities to reach eligible rural locations that currently lack adequate broadband facilities. The state of Oregon has provided state funds to pay for the 15% co-payment of one time charges needed to connect rural locations eligible for RHCPP subsidy. Once the telecommunications vendors have installed facilities needed to reach those sites, the recurring charges are expected to be affordable for most hospitals, clinics and colleges. For rural locations with recurring charges substantially higher than those in urban locations, OHN will assist in identifying and applying for subsidies from the regular USF rural health care program, if it is still available, and/or from other government and charitable foundation sources. As noted above, OHN participants do understand that they are ultimately responsible for paying for the telecommunications connections needed to reach their facilities. The fact that they will be the customers of record with the telecommunications vendor serving them and are responsible for recurring cost co-payments during the RHCPP subsidy period underlines that responsibility.

There may be some turnover of participants during and after the RHCPP, but the network design permits both the addition of new sites and withdrawal of other sites without any negative impact on the network as a whole. Each telecommunications link from a participant organization to an OHN exchange location is independent of other links.

Estimating Standard USAC Rural Health Care Subsidy Amounts

Data transport vendors serving planned Oregon Health Network participant sites, including vendors selected by OHN as a result of OHN RFP # 1 under the RHCPP, currently use

mileage-based charges to permit their eligible users to participate in the current USF RHC subsidy program using the mileage-based subsidy calculation option. Therefore, OHN is using the mileage-based option to estimate future costs under the standard RHC program for sustainability plan purposes. (In the event that mileage-base pricing is not available when getting bids for USAC-subsidized RHC sites after the RHCPP, the alternate method of using the difference between urban and rural rates would be used to calculate the actual subsidy.)

Mileage-based prices are a function of both mileage and the amount of network capacity being provided. In OHN RFP # 1, bids were requested for data transport from four different rural communities to Portland. Each community has a different mileage to Portland, the requested amount of data capacity for each community was different and a different telecommunications vendor won the bid for each community. See Table 1 below for community, mileage, data capacity requested, and percentage subsidy permitted under the current RHC USAC mileage subsidy rules, using the formula (mileage to Portland minus the Standard Urban Distance for Portland (11 miles)) divided by (the mileage to Portland). The table also shows the monthly recurring cost for the data capacity requested and the cost per mile per month per 10 MB.

Table 1

Community	Mileage	Data Capacity	Percentage subsidy permitted	Monthly Recurring cost	Mile per month cost per 10 Mb
Baker City	304	20 Mb	96%	$ 839	$1.38
Enterprise	317	10 Mb	97%	$1,150	$3.63
Newport	114	100 Mb	90%	$1,350	$1.18
Pendleton	208	30 Mb	95%	$1,775	$2.84
Average	236	40 Mb	95%		$2.26

Since all OHN participants connect to OHN in Portland, the relevant mileage to use for each site is the distance from their community to Portland. OHN used highway mileages as an estimate for each site, recognizing that this estimate may be adjusted when USAC calculates the Maximum Allowable Distance (MAD) for each site. Using the USAC mileage subsidy formula, any eligible entity in a rural community 63 miles or more from Portland would receive a subsidy under the regular program that is equal to or greater than the 85% subsidy permitted under the RHCPP. Of the current or planned eligible rural sites expected to be OHN participants, 88 percent are 63 or more miles from Portland and 12 percent are 62 miles or less from Portland. Therefore approximately 88 percent of the eligible rural sites would receive the same or greater subsidy under the regular program and 12 percent would have a lesser subsidy.

Using the winning bids for each of these four communities, OHN calculated the average cost per mile per 10 Mb of data transport capacity at $2.26 per mile. That number is not particularly relevant for OHN sustainability budget planning purposes since each OHN participant will be the customer of record both during the RHCPP and after the transition to the

regular rural health care subsidy program during the sustainability plan period. Given the cost declining nature of the telecommunications industry this average price is likely to be lower five years from now. The amount of data capacity needed five years from now is likely to be more than what is needed today and the amount is likely to be different for different sites. Given the large number of telecommunications providers serving rural Oregon and the differences in prices from provider to provider, a certain amount of price variation can be expected, depending on which parts of rural Oregon they serve and the amount of competition available at that location. OHN hopes that competition will increase and help to further lower prices.

The significant fact learned from these estimates is that no matter how much data capacity is needed at each site five years from now, and no matter what the prices are five years from now, the percentage subsidy under the standard program is estimated to be equal to or greater than the 85% subsidy under RHCPP for all rural sites 63 or more miles from Portland, as most of the Oregon rural sites are. For most OHN participants, the transition to sustainability will result in a greater subsidy than that available under RHCPP. OHN participants, by stating in their OHN participation agreement their intention to continue after the RHCPP, will agree that the anticipated subsidy benefits after the RHCPP are likely to be sufficient for them to continue their participation.

A spreadsheet showing the estimated support amounts for all of the potential OHN sites eligible to participate in the regular RHCP once the pilot program is concluded is included as an attachment. The figures in the spreadsheet are based on the following assumptions:

1. Except where specified otherwise in Letters of Agency already received, estimates were based on 10 Mbps of bandwidth.
2. The rate per mile per 10 Mbps was based on information received from the RFP#1 responses.
3. All of the vendors are eligible service providers under the RHCP.

These assumptions will be verified and/or changed as more sites receive bids and contract for services.

Sustainable Costs for the NOC

Based on the budgets provided by proposers of NOC services in response to OHN RFP #1, the continuing cost of NOC services at the conclusion of the RHCPP will be less than $100 per month per site. Given the expected decline in costs for the electronic monitoring devices on end user premises over the next five years, and the possible reduction in costs due to potential sharing of costs with other potential customers for NOC services, it is reasonable to expect that a competitive price five years hence will be closer to $50 per month per site. Assuming that these costs will not be eligible for USAC subsidy after the RHCPP, OHN will ensure that the fees

charged to participants will be sufficient to recover those costs. (Alternately, since new competitive bidding is planned for post RHCPP transport services, contracts with transport vendors could be structured so that NOC costs are included as part of the OHN network access and transport fees. Users would pay for telecommunications services from their network transport vendors and the network transport vendors would be the direct customers for NOC services.) The plan to have OHN competitively bid a single contract for continued NOC services after the RHCPP will most likely get the best price. Since USAC subsidy rules would not apply at that point, OHN participants ineligible for USAC subsidy such as health insurers that would benefit from lower administrative costs resulting from electronic rather than paper access to bills and medical records, could subsidize the NOC costs for poorer rural clinics. The OHN fee structure would continue to have higher fees for larger hospital systems that would benefit from referrals from rural clinics and smaller hospitals. Benefits of paying the OHN fees include OHN support of telehealth applications. See Appendix 1 for the OHN fee structure.

Source for 15% Funding

As noted above, the 15% co-payment for all network transport recurring costs will be paid by the end user participants in OHN. Monthly recurring costs will be a significantly larger part of the total budget than planned in the original proposal because that budget was based on two years of recurring costs and we are now able to use RHCPP subsidies for up to five years of recurring costs. Fortunately, funds are available for that longer subsidy period because bids are coming in with lower than expected non-recurring costs. The state of Oregon has provided state funds totaling $1.5 million to pay for the 15% co-payment of one time charges (non-recurring) needed to connect locations eligible for RHCPP subsidy and for the 15% co-payment for NOC charges. This is in addition to $200,000 of state funding provided for OHN operational costs. All but $500,000 of that funding has been deposited in OHN accounts. The balance is expected prior to June 30, 2009. The exact amount of additional funds needed for the 15% co-payment of nonrecurring costs, if any, will not be known until responses to Requests for Proposals have been received. Based on bids received in response to RFP 1, OHN believes that we have sufficient funds on hand or contractually committed to cover all of the 15% co-payments for non-recurring charges for connectivity to eligible rural sites. OHN contingency plans, in the event additional funds are needed, include a $1.5 million request for state funds that is pending in the current Oregon legislative session (Senate Bill 747) and plans to apply for federal stimulus funding under the American Recovery and Reinvestment Act (ARRA).

The matching funds commitments made in the original application were for “in-kind” contributions that were ruled ineligible for the 15% cash co-payment requirements of the RHCPP. The health systems that offered those “in-kind” matching funds are supporting OHN in other ways, including paying significant participation fees to support the administration of OHN and serving on the OHN board and on its committees.

Commitments from Network Members

As of early April, 2009, approximately 40 eligible organizations requesting subsidized connections to 75 eligible sites have signed letters of agency as indications of their intent to participate in Oregon Health Network. Some of these organizations are requesting connections to their own network of eligible sites. Approximately 370 eligible sites will be reached once these connections are completed. Participants will be asked to sign participation agreements committing their participation for the duration of the RHCPP and indicating their intent to continue following the pilot program, as OHN transitions from the pilot program to the regular rural health care USF program. These organizations are the "early adopters". After a USAC funding commitment letter is received and other organizations see that the program is really working, OHN expects the number of committed eligible organizations to increase to 150 and the total number of sites reached to approach 500.

Sustainability Period

The sustainability plan assumptions are that the continued funding from USAC's regular rural health care subsidy program for at least five additional years, for a total of ten years, with every expectation of further continuation beyond that time. Participants will pay their own co-payments to their telecommunications vendors under the terms of the USAC subsidy program as it then exists. The estimated $50 per month per site for NOC costs will be paid from OHN participation fees, with a sliding scale fee structure, as shown in Appendix 1.

Use of the Network by Non-Eligible Entities

No OHN telecommunications facilities or services subsidized by the RHCPP will be available for use by non-eligible entities. OHN will interconnect with non-eligible entities, including health insurers, laboratories and for-profit clinics, at data exchanges (including NWAX) that receive no OHN subsidy. The non-eligible entities will pay all of their costs to connect to NWAX and regional exchanges. NOC services paid for by OHN with USAC subsidy will not be available to non-eligible entities.

Network Management

All of the telecommunications links for OHN are leased by OHN participants from telecommunications carriers that are responsible for meeting the Quality of Service (QoS) conditions specified in the Service Level Agreement (SLA) in the contract between the participant and the selected telecommunications carrier. Therefore the carrier is responsible for management of that link in the network, with the OHN participant responsible for overseeing the performance of its telecommunications contractor. To assist participants in that process, OHN is contracting with a carrier-neutral Network Operations Center (NOC) to provide network monitoring. The NOC would perhaps be more appropriately called a Network Monitoring Center (NMC) because it does not actually control, manage or operate any network. The role of the

NOC is to provide the technical monitoring capability to obtain independent measurement of whether the telecommunications vendors are meeting their contractual quality of service commitments. The NOC also will help OHN participants to get satisfactory responses and performance from their telecommunications vendors, especially in cases where two vendors are pointing fingers at each other as the source of a problem. The NOC will continue to be under contract with OHN to provide network monitoring services to OHN participants, with NOC contract costs paid by OHN from funds received from participation fees paid to OHN by OHN participants. In the most unlikely event that OHN did not have the funds to pay for continued NOC services at the then current rates, the network would still operate, although potentially with reduced capacity to assist its participants with independent monitoring of the technical performance of the network. That is because the participating sites would still be all interconnected through NWAX. It is possible that, in that unlikely event, the NOC vendor might offer its monitoring services directly to those OHN participants desiring such services. In such an event, OHN commits to making satisfactory alternative arrangements to maintain network connectivity and support in an appropriate manner through the sustainability period.

Pages 75-78 of the OHN proposal included a detailed work plan that included the establishment of an organization capable of managing and sustaining the network. OHN has since been incorporated as an Oregon non-profit public benefit corporation, has received an Internal Revenue Service certification as a section 501(c)(3) charitable organization, has established a 15-person board of directors representing OHN participants with full legal responsibility and authority for the organization, has hired an executive director and support staff, and continues to manage the efforts of a large number of volunteers serving on the various committees that perform much of the work of OHN. The board has adopted the fee structure detailed below in Appendix 1.

OHN determined that sustainability will be easier when there are more telehealth applications in use throughout the state that require OHN connectivity. OHN staff and volunteers determined that the spotty patchwork of different health insurers' rules for reimbursement of physicians for health services delivered via telemedicine was a potential barrier to the viability of some telemedicine applications. Members of the OHN team, led by OHN partner, the Telehealth Alliance of Oregon, worked with members of the Oregon legislature to convene a work group of telemedicine providers and health insurers to develop consensus Oregon legislation. That legislation requires that all commercial health insurers operating in Oregon reimburse for Oregon health services delivered via telemedicine if they reimburse for similar services provided in a face-to-face setting. That bill, Senate Bill 24, passed the Oregon Senate with a wide bi-partisan majority (only two dissenting votes) and is expected to become law this year.

OHN and its dedicated staff, volunteers and organizational partners are committed to doing whatever is needed to make OHN a sustainable success that the FCC can point to as a major success story for its RHCPP.

Appendix 1

Oregon Health Network

Fee Structure

I. Methods & Approaches to Setting Fees

"Top Down" is a commonly used model for setting fee structures. In the Top Down model, administrative and operating costs are projected. Categories of membership/ participant groups are identified. A fee scale is then established for each category or group. The study estimates the number of participants anticipated per category over a twenty-four month cycle. Estimates per category are summed to determine total anticipated revenues. The anticipated revenues from fees are compared to projected administrative and operating costs. When membership fees are equal to or greater than the administrative and operating costs the final step is taken. The last step reviews the membership fees for believability. Are these fees attainable? If yes, the study is complete and the project can move forward. If membership fees do not cover administrative costs, alternate models must be explored.

The OHN fee structure proposed herein uses a modified Top Down approach. Administrative and operating costs were established for a five-year period. Five categories of users were created (hospitals, community hospitals, other health organizations, industry council members and payers). Because the largest core users of the OHN during the first years of operation will be hospitals and community colleges, a fee structure was built that would achieve sustainability by fees from those two categories alone. It is not reasonable to assume that the OHN will achieve 100% participation of these two groups (if at all) until year four. Therefore, it is projected that OHN administrative and operating costs during the first three years of operation will be supported by a blend of fees and one-time donations. Full OHN sustainability though participant fees is projected to be achieved by year four (and ongoing), in conformance with one of the following scenarios (or any number of permeations in between): 1) if 100% of the hospitals and community colleges (as the core large users of the OHN network) agree to participate and pay their proposed fees; or 2) if the largest one-third of hospitals and community college systems participate; and, in addition, 3-5 of the largest prospective participants from other health aligned systems, payers or industry council participants elect to participate and pay their proposed fees. Over a five-year timeline, we anticipate that OHN Administration and Operations will cost approximately $1,200,000, of which approximately $950,000 will be derived from fees and $250,000 will be derived from donations.

II. Fee Structures

ASSUMPTIONS: The OHN fee structure was developed to be consistent with the dues system that that hospitals are familiar with through their participation in the Oregon Association of Hospitals and Health systems (OAHHS). The levels and revenue ranges for the hospital fee structure are presented on Table 1 below.

Table 1

OREGON HEALTH NETWORK FEE STRUCTURE			
	Revenue Range	**Revenue Range**	
Level	**Minimum (000)**	**Maximum (000)**	**Rate**
Four	$100,000	and over	0.0148
Three	$40,000	$99,999	0.0246
Two	$20,000	$39,999	0.0369
One*	$0	$19,999	0.0492

***The lowest fee for hospitals is $200. All FQHCs and RHCs will be assessed a fee at this lowest level.**

The same 4 levels and ranges used by the OAHHS (Table I above), have been adopted for the four categories of OHN participants as follows: 1) hospitals (Table 3 below); 2) other health related organizations (Table 4 below); 3) industry council participants (Table 5 below); and payers (Table 6 below). The fees for levels one, two and three for the categories of other health organizations, industry council members and payers are consistent with the highest hospital fee in each of those levels ($1000, $1800, and $3500 respectively). While the hospitals and payers' range extends to a high of $30,000, the other health organizations and industry council members has been capped at $10,000 in that their "value added" is less than for hospitals and payers. Fees for hospitals, other health organizations, and industry council participants are based on gross revenues (in Oregon). The payers' assessed fees are based number of lives insured in Oregon, using ranges that are similar to the hospital ranges. Organizations that fall outside of the four categories (e.g. non revenue producing companies, self-insured groups, Public Health entities, etc.) will be decided on a case-by-case basis, and every effort will be made to be fair and consistent with the established fee structure. Community Colleges have elected to participate as a group and have been assessed a lump fee, which is currently being supported by CCWD (fees may be assumed by individual colleges at some time in the future). That group fee is presented in Table 2 below.

Table 2: Community Colleges

Community Colleges/Collective	150,000

Table 3: Hospitals

OREGON HEALTH NETWORK HOSPITAL FEE STRUCTURE				
	Revenue Range	**Revenue Range**		**Fees**
Level	**Minimum (000)**	**Maximum (000)**	**Rate**	
Four	$100,000	and over	0.0148	
Three	$40,000	$99,999	0.0246	
Two	$20,000	$39,999	0.0369	
One	$0	$19,999	0.0492	
Hospital Organization				**Total Fees**
Providence Health System (7)				Level Four
Legacy Health System (4)				Level Four
OHSU Hospital				Level Four
PeaceHealth (2)				Level Four
Samaritan Health Services (5)				Level Four
Pacific Health Horizons (2)				Level Four
Asante Health System (2)				Level Four
Cascade Healthcare Community (2) *(including Pioneer Memorial Hospital)*				Level Four
Kaiser Permanente				Level Four
Adventist Health System (2)				Level Four
Sky Lakes Medical Center				Level Four
Mercy Medical Center				Level Four
Tuality Healthcare				Level Four

Bay Area Hospital				Level Three
McKenzie-Willamette Medical Center				Level Three
Willamette Falls Hospital				Level Three
Willamette Valley Medical Center				Level Three
Mid-Columbia Medical Center				Level Three
Silverton Hospital				Level Three
Holy Rosary Medical Center				Level Three
Good Shepherd Medical Center				Level Three
Columbia Memorial Hospital				Level Three
Ashland Community Hospital				Level Three
St. Anthony Hospital				Level Two
Grande Ronde Hospital				Level Two
St. Elizabeth Health Services				Level Two
Santiam Memorial Hospital				Level Two
Mountain View Hospital				Level One
Lower Umpqua Hospital				Level One
Curry General Hospital				Level One
Blue Mountain Hospital				Level One
Southern Coos General Hospital				Level One
Lake District Hospital				Level One
Wallowa Memorial Hospital				Level One
Harney District Hospital				Level One
Coquille Valley Hospital				Level One
Pioneer Memorial Hospital (Heppner)				Level One

Total Hospital Fees				**167,300**

Table 4: Health Related Organizations

Level	Revenue Range Minimum (000)	Revenue Range Maximum (000)	Fees
Four	100,000	And over	$10,000
Three	40,000	99,999	$3,500
Two	20,000	39,999	$1800
One	0	19,999	$1000

(FQHCs and RHCs will be assessed a standard fee of $200)

Table 5: Industry Council Participants

Level	Revenue Range Minimum (000)	Revenue Range Maximum (000)	Fees
Four	100,000	And over	$10,000
Three	40,000	99,999	$3,500
Two	20,000	39,999	$1,800
One	0	19,999	$1,000

Table 6: Health Plan Payers

Range in Number of Lives Insured	Fees
100,000 and over	$30,000
40,000-99,999	$3,500
20,000-39,999	$1,800

19,999 and under	$1,000

Note: Please Attach spreadsheet here.