



THE ASSISTANT SECRETARY OF DEFENSE

WASHINGTON, DC 20301-1200

NOV 18 1996

MEMORANDUM FOR: SURGEON GENERAL OF THE ARMY
SURGEON GENERAL OF THE NAVY
SURGEON GENERAL OF THE AIR FORCE

SUBJECT: Policy for Resource Sharing and Resource Support

A key strength of the TRICARE program is the combination of program flexibility and empowerment at the local level. Military Treatment Facility (MTF) Commanders and leaders at all levels have new options in the application of resources to achieve increased quality of, and improved access to, health care services at an affordable cost. Prominent among these options are resource sharing and resource support, which are features of the Managed Care Support (MCS) Contracts designed to help optimize the Military Health Services System (MHSS) by making the best use of available resources to enhance the productivity of the direct care system, subject to constraints under which the MHSS operates.

MCS contracts are currently structured so that **Government savings associated with resource sharing and resource support are anticipated by the offeror and realized up front by the Government in the form of a reduced bid price.** The MCS bid price formula requires offerors to decrease the amount they bid in health care costs based on projected resource sharing investments and on Government estimates of anticipated assumed resource support savings. As a result, significant contract savings have already been identified for resource sharing and resource support, and are already realized by the Government included in the form of a lower bid price. Actually achieving these savings requires an energetic and cooperative approach by the contractor and the Government to explore, analyze, and negotiate, and monitor agreements. Failure to exploit fully the opportunities for resource sharing, and to a lesser extent, resource support, can result in an increase in MCS contract costs over those projected by the contractor, **with the Government at risk for absorbing a share of the cost overrun.**

Resource sharing allows the MCS contractor, through agreements with military treatment facility (MTF) Commanders, to provide personnel, equipment, equipment maintenance, and supplies necessary to enhance the capability of the MTF to provide health care to CHAMPUS beneficiaries. Additionally, the Associate Deputy General Counsel (Health Affairs) recently reaffirmed the opinion that it is legal for the contractor to transfer funds directly to the MTF as part of a resource sharing agreement. Resource sharing is based on the assumption that costs associated with the provision of these resources will be more than offset by decreased TRICARE (CHAMPUS) costs and result in overall cost avoidance to both the contractor and the government.

New MTF marginal costs occasioned by a resource sharing agreement may be appropriately included in the resources provided by the contractor, but costs that are already in the MTF's base should not be included. It is important to note that It is important that the resource sharing workload be properly accounted for contractors must be credited for workload in accordance with MCS contract guidelines guidelines. In most cases this will involve crediting the contractor with the full amount of the workload enabled by the resource sharing agreement. This does not provide the contractor with any additional funds, but it does protect all parties (the contractor, MTF, and the Government) from a negative bid price adjustment due to increased resource sharing workload.

Resource support is an alternative to resource sharing which provides additional flexibility to MTF Commanders. Under resource support, the MTF Commander may request a task order for personnel, equipment, equipment maintenance, and/or and supplies. The Lead Agent, working with the MTF Commander, negotiates a price with the contractor, and arranges for payment for that resource directly out of funds available to the MTF. Unlike resource sharing, the contractor receives no credit for workload enabled by resource support. Resource support should be given strong consideration when resource sharing cannot be mutually agreed upon, but there is still a compelling reason for the MTF to fund the initiative with its own resources.

It is TRICARE policy to consider resource sharing as the first alternative in initiatives to recapture CHAMPUS workload for which the Government and the contractor are jointly at risk. MTF Commanders shall make a good faith effort to work with the contractor to execute sound resource sharing agreements.

In lieu of resource sharing, MTFs may use a mix of options including direct labor, borrowed labor, non-MCS contracts, resource support, or other federal sharing agreements to efficiently accommodate or retain internal workload which was not reported as DCP CHAMPUS workload and therefore not part of the contractor's up-front bid. Additionally, in newer versions of MCS contracts, with Revised Financing, where the MTF has sole risk for part of the CHAMPUS eligible population, it is envisioned that resource sharing will play a significantly smaller role and resource support or other options a significantly greater role. Nevertheless, in comparing the cost effectiveness of resource sharing to other alternatives to recapture DCP CHAMPUS workload, such as personal service contracting or resource support, consideration must be given to the resource sharing savings already realized by the Government.

A sound but timely business case analysis which uses the standardized Resource Sharing Financial Analysis Worksheet is a prerequisite before entering into either resource sharing or resource support. Decisions about resource sharing have potential for regional impact on health care delivery, and therefore must be approved by the Lead Agent. MTFs should follow Service policy in coordinating agreements with their parent command. Resource sharing agreements determined by the Lead Agent to be in the best interests of the Government and in support of the regional health care plan will be implemented. MTFs will inform Lead Agents of their intent to seek recapture of CHAMPUS workload via a personal or nonpersonal services contract when a cost effective resource sharing or resource support opportunity exists, and the contractor has not achieved the resource sharing threshold bid in the MCS contract.

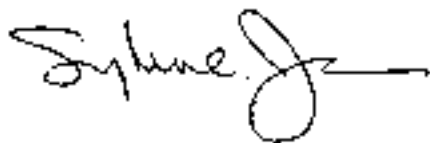
The offerors on an MCS procurement do estimate the resource sharing cost saving factors in a competitive bid environment and a certain assumed level of risk is often reflected in how aggressively the

winning offeror proposes to conduct resource sharing. Due to data lag, ongoing business reengineering, and other aspects of a dynamic environment, resource sharing opportunities will change, possibly adding to this level of risk. Nevertheless, this is a shared risk. Care must be exercised by MTFs and the Lead Agent to ensure that direct-contracting and resource support initiatives do not prevent the contractor from implementing the resource sharing program bid by the offeror and accepted by the Government during the procurement process.

From an MTF perspective, the timing of resource sharing and resource support investments occurs before the realization of benefits through the bid price adjustment process. Reconciling the need for timely investments in resource sharing and resource support must be done within current fiscal year constraints, in light of the inevitable bid price adjustment consequences of delay or inaction. In addition to the application of internally generated MTF savings in resource sharing proposals, Health Affairs will program funds in future years, to augment MTF investments in resource sharing and resource support and ease any perceived MTF financial burden in the current fiscal year.

Appropriate use of resource sharing and resource support offers MTFs the opportunity to enhance access, improve continuity of care, support graduate medical education programs, and meet our readiness mission. Because of the shared risk, the MHSS collectively has a strong incentive to work with the MCS contractors to ensure that resource sharing, resource support, and other cost-saving MCS contract features result in contractor costs that are at or below bid projections. Just as failure to enter into resource sharing agreements has the potential to increase government costs, execution of good agreements increases the possibility of efficiency savings for both the Government and the contractor.

We must aggressively explore new opportunities and carefully monitor existing resource sharing agreements to ensure they serve the best interests of the Government and the beneficiary. Resource sharing proposals which offer a positive return for the Government, and which compare favorably to other alternatives (given consideration of up-front contract savings), should be pursued. I encourage the Services, Lead Agents, and MTF Commanders to aggressively and innovatively pursue resource sharing and resource support opportunities, and reflect the priority of these opportunities in all levels of planning, resourcing and delivering high quality, cost effective, and accessible health care.

A handwritten signature in black ink, appearing to read "Stephen C. Joseph", with a long horizontal flourish extending to the right.

Stephen C. Joseph, M.D., M.P.H.

cc:
Lead Agents

HA POLICY 97-014