The Maryland Department of Health's
Responses to the DLS FY 2019
Health Regulatory Commissions Budget Analysis
February 22, 2018 (House) and February 26, 2018 (Senate)

MHCC and DBM should comment on what the objective MFR goals for the HIE are and should be prepared to publish these goals within next year's budget books. (pg. 3, 7)

MHCC concurs and will work on a new goal in Spring with DBM.

HSCRC should comment on how it plans to address the increasing per capita revenue growth rate for hospitals to make sure it does not surpass 3.58% next year. (pg. 3)

Initial data given to DLS on hospital revenue growth did not accurately take into account an adjustment that was made for a 1% undercharge in the second half of CY 2016. Actual revenues were below the global budget ceiling for CY 2016 and the new DLS numbers have been adjusted to reflect the hospital undercharge. After adjusting for the undercharge, Year 4/CY2017 All-Payer Hospital Revenue growth was 3.05%, within the 3.58% ceiling.

Additionally, the 3.58% test is a cumulative test over the duration of the 5-year model, meaning that Maryland's hospital revenue growth cannot exceed a compounded 3.58% annual rate. Through 2017, the maximum increase that would be allowable is 15.11%. Maryland's compounded growth is only 7.84%. Therefore, the Model is not at risk and Maryland is meeting performance metrics.

Finally, HSCRC anticipates a lower update factor for FY 2019 in order accordance with actions taken by the Medicare program to lower costs. A low update factor will ensure that the State is in compliance with the All-Payer metric concerning hospital revenue growth.

HSCRC should provide an update on when both the extension and new expanded model contract will be signed, and further provide what contingency plans the commission has if the expanded contract is not signed. (pg. 3)

Maryland negotiators have been working diligently with CMMI and CMS on the clearance of the Total Cost of Care Model. A term sheet was agreed to in May 2017 and was making significant progress through the end of calendar year 2017. However, turnover within the U.S. Department of Health and Human Services caused the clearance process to stall. A new HHS Secretary was appointed in January and the State is working to brief the Secretary and his staff on the tenets of the Maryland TCOC Model.

The turnover at HHS affects both the extension and the approval for the TCOC Model and we expect that the clearance process should get back on track now that a permanent Secretary is in place.
Finally, the work that hospitals and providers are doing under the current All-Payer Model will only further support the TCOC Model in the future. The TCOC Model builds on important work

started under the hospital All-Payer Model, including global budget incentives, a focus on population health, care redesign programs, and MACRA eligibility for participating physicians.

HSCRC should also comment on what plans, if any, it has to address particularly high profit rates at various hospitals. (pg. 3)

The HSCRC currently only reviews regulated and unregulated operating profits at Maryland hospitals. We do not look at total profits which could include stock market gains and other investments not regulated by the HSCRC.

Operating profits in the current fiscal year were greater due to a higher update factor. The update factor for FY 19 will likely be much lower to be in compliance with our Model requirements. This will result in lower operating profits for Maryland hospitals.

Finally, while hospital operating profits on regulated services may have increased, profits on unregulated services have declined resulting in lower overall operating margins. Hospitals are now encouraged to invest in non-hospital services to provide appropriate care to patients in less costly settings, thus reducing hospital costs and increasing regulated profits. Regulated volumes may have declined but unregulated expenses are increasing to achieve these savings.

Unregulated expenses that have increased include: physician support, addiction services, population health, and care coordination infrastructure. These expenses are not regulated hospital expenses, but are part of the industry's strategy to manage high-risk patients.

The commissions should comment on how they anticipate dealing with the projected fund balance deficit at the end of fiscal 2019. The Department of Legislative Services (DLS) also recommends that the appropriation be reduced to the appropriate level. (pg. 3-4, 18)

The $6 million excess in allowance with expenditure reductions will remediate the balance deficit projected. The commissions concur with DLS's recommendation.

DLS recommends reducing the appropriation for the Uncompensated Care Fund to the appropriate level. (pg. 4, 20)

HSCRC concurs with this recommendation.

HSCRC should comment on the reasons the per capita hospital growth exceeded 3.58% in 2017 and how it plans to make sure it does not happen again. (pg. 7)

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Finally, HSCRC anticipates a lower update factor for FY 2019 in order accordance with actions taken by the Medicare program to lower costs. A low update factor will ensure that the State is in compliance with the All-Payer metric concerning hospital revenue growth.