

M00R
Health Regulatory Commissions
Department of Health and Mental Hygiene

Operating Budget Data

(\$ in Thousands)

| | <u>FY 06</u> <u>Actual</u> | <u>FY 07</u> <u>Working</u> | <u>FY 08</u> <u>Allowance</u> | <u>FY 07-08</u> <u>Change</u> | <u>% Change</u> <u>Prior Year</u> |
|--------------------|---------------------------------------------|----------------------------------------------|------------------------------------------------|------------------------------------------------|----------------------------------------------------|
| Special Fund | \$89,707 | \$109,991 | \$118,239 | \$8,248 | 7.5% |
| Total Funds | \$89,707 | \$109,991 | \$118,239 | \$8,248 | 7.5% |

- The Governor's proposed budget exceeds the fiscal 2007 working appropriation by \$8.2 million, or 7.5%. The increase is largely due to a \$4.0 million increase in the Uncompensated Care Fund and a \$3.1 million increase in the Maryland Trauma Physicians Services Fund.
- The proposed budget includes a one-time savings in health insurance costs. If not for the one-time savings, the underlying growth exceeds the adjusted fiscal 2007 working appropriation by \$8.5 million, or 7.8%.
- A \$3.3 million special fund deficiency appropriation is requested for fiscal 2007. Chapter 484 of 2006 expanded the permissible uses of the trauma fund creating additional opportunities to support the trauma centers in fiscal 2007.

Personnel Data

| | <u>FY 06</u> <u>Actual</u> | <u>FY 07</u> <u>Working</u> | <u>FY 08</u> <u>Allowance</u> | <u>FY 07-08</u> <u>Change</u> |
|------------------------|---------------------------------------------|----------------------------------------------|------------------------------------------------|------------------------------------------------|
| Regular Positions | 89.60 | 96.90 | 99.40 | 2.50 |
| Contractual FTEs | <u>0.82</u> | <u>3.00</u> | <u>3.00</u> | <u>0.00</u> |
| Total Personnel | 90.42 | 99.90 | 102.40 | 2.50 |

Vacancy Data: Regular Positions

| | | |
|-----------------------------------|-------|--------|
| Turnover, Excluding New Positions | 3.34 | 3.35% |
| Positions Vacant as of 12/31/06 | 18.00 | 18.58% |

Note: Numbers may not sum to total due to rounding.

For further information contact: Stacy A. Collins

Phone: (410) 946-5530

M00R – DHMH – Health Regulatory Commissions

- The fiscal 2008 allowance has 2.5 more positions than fiscal 2007. The Maryland Community Health Resource Commission (MCHRC) and the Health Services Cost Review Commission (HSCRC) each add one new position, and the remaining increase represents fractions of positions in Maryland Health Care Commission and HSCRC.
- The projected fiscal 2008 turnover rate of 3.35% is 15 percentage points lower than the current vacancy rate. To achieve this turnover rate in fiscal 2008, it will be necessary to maintain 3.34 vacancies. Currently the commissions have 18 vacancies, of which 1 has been vacant for longer than 12 months. Of the 17 shorter term vacancies, 5 positions were added in the fiscal 2007 budget.

Analysis in Brief

Major Trends

Hospital Admission Costs Continue to Meet Standard: HSCRC has maintained the growth in average Medicare hospital admission rates below the national average, allowing the commission to continue regulating hospital rates for all payors.

Issues

Maryland Trauma Physician Services Fund Expenditures Increase Although a Significant Fund Balance Remains: The fund, which reimburses physicians and trauma centers for the cost of providing trauma services, is collecting more than what it is disbursing. Legislation enacted in 2006 is expected to increase disbursements from the fund.

Financial Problems Persist at Prince George's Hospital Center: In recent years, hospital rates regulated through the all-payer system have not been sufficient to recover hospital costs. As a result, the hospital has received a substantial amount of State and county financial support.

Recommended Actions

| | <u>Funds</u> | <u>Positions</u> |
|-----------------------------------------------------|---------------------|-------------------------|
| 1. Reduce funding for contractual employees. | \$ 75,618 | |
| 2. Delete two new positions and associated funding. | 88,694 | 2.0 |
| Total Reductions | \$ 164,312 | 2.0 |

Updates

Full Sunset Reviews: MHCC and HSCRC underwent full sunset reviews during the 2006 interim. Although both commissions are fulfilling their statutory duties, the Department of Legislative Services made a number of recommendations.

M00R – DHMH Health Regulatory Commissions

M00R
Health Regulatory Commissions
Department of Health and Mental Hygiene

Operating Budget Analysis

Program Description

The Maryland Health Care Commission (MHCC) and the Health Services Cost Review Commission (HSCRC), which comprise a portion of Maryland's health care regulatory system, are independent commissions that function within the Department of Health and Mental Hygiene (DHMH). Chapter 280 of 2005 (HB 627) established a new independent regulatory commission, the Maryland Community Health Resources Commission (MCHRC) also within DHMH.

MHCC, formed by the 1999 merger of the Health Care Access and Cost Commission and the Health Resources Planning Commission, has the purpose of improving access to affordable health care; reporting information relevant to availability, cost, and quality of health care statewide; and developing sets of benefits to be offered as part of the standard benefit plan and the nongroup market. The commission's goals include:

- improving the quality of care in the health care industry;
- improving access and affordability of health insurance;
- reducing the cost of health care; and
- guiding the future development of services and facilities regulated under the certificate of need program.

HSCRC was established in 1971 to contain hospital costs, maintain fairness in hospital payment, and provide financial access to hospital care. The commission maintains responsibility for ensuring that the cost of health care is reasonable relative to the cost of service and that rates are set without discrimination. The commission's goals include:

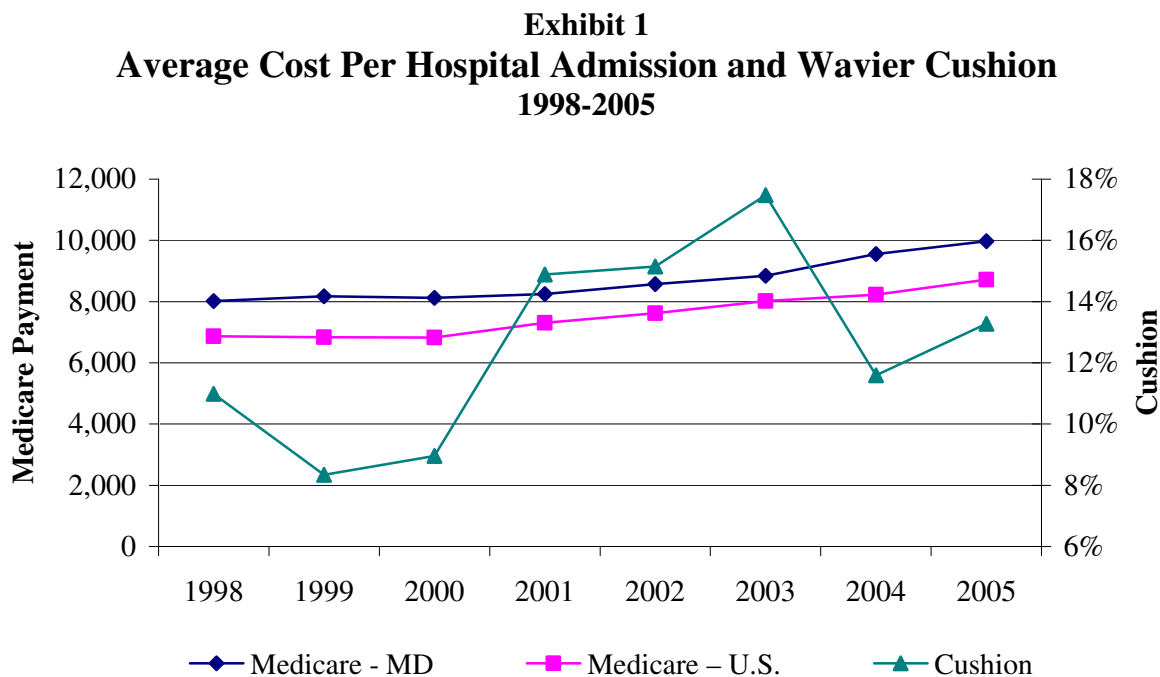
- maintaining affordable hospital care for all Maryland citizens;
- expanding the current system for financing hospital care for those without health insurance; and
- eliminating preferential charging activity through monitoring of hospital pricing and contracting activity.

MCHRC was established to strengthen the safety net for uninsured and underinsured Marylanders. The safety net consists of community health resource centers (CHRC), which range from federally qualified health centers to smaller community-based clinics. MCHRC's responsibilities include identifying and seeking federal and State funding for the expansion of CHRCs, developing outreach programs to educate and inform individuals of the availability of CHRCs, and assisting uninsured individuals under 200% of the federal poverty level to access health care services through CHRCs.

Performance Analysis: Managing for Results

HSCRC sets standard rates that hospitals may charge for the purchase of care. This system encourages access to health care regardless of ability to pay and prevents shifting of costs between payors. The commission's ability to standardize rates for all payors, including Medicare and Medicaid, was established in 1980 by federal legislation, with continued regulation contingent on the commission's ability to contain the rate of growth of Medicare hospital admissions costs.

Exhibit 1 shows average hospital admission costs between 1998 and 2005, the last year for which complete data are available. Although absolute Medicare payments were higher in Maryland than national payments during that period, the total rate of growth since the waiver was approved in 1980 remained below the national average. The cumulative increase in Maryland rates has been 235% since 1981, compared to a national rate of growth of 280% over the same amount of time.



Source: Health Services Cost Review Commission

The cushion, as defined by HSCRC, is the amount Maryland Medicare payments could grow, assuming zero national growth, before the State failed to meet the requirements for continued rate regulation. Between 1999 and 2003, the system increased its cushion from 8.3 to 17.5%, allowing the commission to approve rate increases in fiscal 2004 that enabled hospitals to increase profitability and improve access to capital. The rate increase, by design, eroded the cushion in fiscal 2004.

HSCRC has determined that 10% is the minimum threshold for the waiver cushion. If the waiver cushion approaches this threshold, actions must be taken to constrain costs. The commission typically targets a rate of growth as compared to a national rate of growth over a three-year period. HSCRC is currently in discussions to determine what the growth rate of Maryland hospital payments will be over the next three-year rate cycle (fiscal 2007-2009) as compared to national payments. **HSCRC should comment on the recommendations under consideration for hospital payment growth over the next three years and what the anticipated effect on the cushion will be.**

Fiscal 2007 Actions

Proposed Deficiency

The allowance includes a \$3.3 million special fund deficiency for MHCC. Chapter 484 of 2006 (HB 1164) expanded the permissible uses of the trauma fund allowing for increased appropriations in fiscal 2007. Specifically, the legislation increased the specialties that are eligible for disbursement from the fund and raised the on-call reimbursement formula for trauma centers. Additionally, trauma physicians at three specialty referral centers became eligible to apply for reimbursement. The legislation also directed MHCC to award \$3.3 million in one-time grant funds. These expansions will more closely align collections from the Motor Vehicles Administration (MVA) with disbursements from the fund in fiscal 2007. However, even with the added eligibilities, the trauma fund is expected to end fiscal 2007 with a \$15.3 million fund balance.

Governor's Proposed Budget

The fiscal 2008 allowance increases funding for the commissions (before deficiencies) by \$8.2 million over the fiscal 2007 working appropriation, an increase of 7.5%. When the fiscal 2007 appropriation is adjusted to include the proposed \$3.3 million deficiency, the allowance represents an increase of \$4.9 million, or 4.4%. The increase is largely due to a \$4.0 million increase in the uncompensated care fund and a \$3.1 million increase in the trauma fund, reflected in **Exhibit 2**. The total amount of change in the commissions' budget is detailed in **Exhibit 3**.

Exhibit 2
Distribution of Funding by Commission
Fiscal 2006-2008
(\$ in Thousands)

| | <u>Actual</u> <u>2006</u> | <u>Working</u> <u>Approp.</u> <u>2007</u> | <u>Allowance</u> <u>2008</u> | <u>\$ Change</u> <u>2007-2008</u> | <u>% Change</u> <u>2007-2008</u> |
|-------------------------------------------------------|--------------------------------------------|----------------------------------------------------------------------|-----------------------------------------------|----------------------------------------------------|---------------------------------------------------|
| Maryland Health Care Commission | | | | | |
| Administration | \$8,715 | \$9,695 | \$10,454 | \$759 | 7.8% |
| Maryland Trauma Physician Services Fund | 7,240 | 10,000 | 13,100 | 3,100 | 31.0% |
| Subtotal | \$15,955 | \$19,695 | \$23,554 | \$3,859 | 19.6% |
| Health Services Cost Review Commission | | | | | |
| Administration | \$4,177 | \$4,068 | \$4,319 | \$251 | 6.2% |
| Uncompensated Care Fund | 69,567 | 78,000 | 82,000 | 4,000 | 5.1% |
| Subtotal | \$73,744 | \$82,068 | \$86,319 | \$4,251 | 5.2% |
| Maryland Community Health Resources Commission | | | | | |
| Administration | \$9 | \$528 | \$666 | \$138 | 26.1% |
| Unified Data System | n/a | 1,700 | 1,700 | 0 | 0.0% |
| Operating and technology Grants | n/a | 6,000 | 6,000 | 0 | 0.0% |
| Subtotal | \$9 | \$8,228 | \$8,366 | \$138 | |
| Total | \$89,708 | \$109,991 | \$118,239 | \$8,248 | 7.5% |
| Fiscal 2007 Deficiency Appropriation | | | | | |
| Maryland Trauma Physician Services Fund | | \$3,300 | | | |
| Total | \$89,708 | \$113,291 | \$118,239 | \$4,948 | 4.4% |

Source: Governor's Budget Books, Fiscal 2008

Exhibit 3
Governor's Proposed Budget
DHMH – Health Regulatory Commissions
(\$ in Thousands)

| How Much It Grows: | <u>Special</u> <u>Fund</u> | <u>Total</u> |
|----------------------------|---------------------------------------|---------------------|
| 2007 Working Appropriation | \$109,991 | \$109,991 |
| 2008 Governor's Allowance | <u>118,239</u> | <u>118,239</u> |
| Amount Change | \$8,248 | \$8,248 |
| Percent Change | 7.5% | 7.5% |

Where It Goes:

Personnel Expenses

| | |
|--------------------------------------------------------------|-------|
| Contributions to employee retirement system..... | \$129 |
| New positions – 1.4 HSCRC, 1 MCHRC, and 0.1 MHCC..... | 89 |
| Increments and other compensation..... | 85 |
| Turnover adjustments..... | 45 |
| Other fringe benefit adjustments..... | 21 |
| Health insurance costs decline due to one-time savings | -219 |

Other Changes

| | |
|---------------------------------------------------------------------------------------|-------|
| Uncompensated Care Fund | 4,000 |
| Maryland Trauma Physicians Services Fund | 3,100 |
| MHCC contract services for evaluation of health care data..... | 663 |
| HSCRC contract services for analysis and research of rate setting methodologies | 232 |
| Advertising expense based on three-year average of actual costs..... | 53 |
| Rent expense | 32 |
| Other adjustments..... | 22 |
| MCHRC – travel expense | 20 |
| Printing expense – decrease due to a greater number of reports posted on web | -24 |

| | |
|--------------|----------------|
| Total | \$8,248 |
|--------------|----------------|

Note: Numbers may not sum to total due to rounding.

Personnel Expense

The 2008 allowance adds 2.5 positions to the Health Regulatory Commissions budget, as shown in **Exhibit 4**.

Exhibit 4 New Positions Fiscal 2008

Commission

Job Function

MHCC

Administrator II

Fraction of a position totaling 0.1.

HSCRC

Program Manager III

Collect and analyze quality measurement and statistical information. Establish and implement a methodology to alter the diagnosis related group payment system.

Fiscal Account Technician II

Fraction of a position totaling 0.4.

MCHRC

Office Secretary III

Secretarial and administrative support.

Source: Health Regulatory Commissions

The allowance also includes \$0.2 million for reclassification of existing positions pursuant to the commissions' independent salary setting authority. The decrease is due to 3 fewer position reclassifications in fiscal 2008. Chapter 702 of 1999 classified commission staff hired after September 30, 1999, as members of the executive service, management service, or special appointments in the State Personnel Management System. It further allowed the commissions, in consultation with the Secretary of DHMH, to determine appropriate job classifications and grades for each of these positions. MHCC has reclassified 47 of 65 positions since fiscal 2003 with an additional 7 reclassifications budgeted for fiscal 2008; HSCRC has reclassified 19 of 30 positions with an additional 2 reclassifications budgeted for fiscal 2008.

MHCC and HSCRC Operating Expenses

Operating expenses increase \$8.2 million (before deficiencies) in the fiscal 2008 allowance. The growth in the commissions' budget is primarily the result of an increase in the Uncompensated Care Fund, an assessment on all acute care hospitals in the State. Funds collected are redistributed by the commission to those hospitals that treat a higher proportion of the State's uninsured population. Collections are anticipated to increase from \$78.0 million in fiscal 2007 to \$82.0 million in fiscal 2008. Also, adding to the growth in the budget is a \$3.1 million increase in the Maryland Trauma Physician Services Fund.

M00R – DHMH – Health Regulatory Commissions

Excluding the increase in the Uncompensated Care Fund and the trauma fund, the budget is increasing \$1.0 million, or 0.9%. The increase is largely due to a \$0.9 million net increase in contractual services. The commissions' contract with independent consultants for production of evaluations related to standards of care and rate setting methodologies. In fiscal 2008, the MHCC budget includes a net increase of \$0.7 million primarily for evaluations related to standards of care, including ongoing quality assessments of angioplasty waiver services, a nursing home satisfaction survey, and a pilot project to develop a Preferred Provider Organization (PPO) Consumer Guide. The PPO guide will provide comparative quality information on PPO's in Maryland. This project is designed to inform the public and improve PPO quality of care. The proposed HSCRC budget includes a \$0.2 million increase for a variety services to support the rate setting process. This amount is consistent with fiscal 2006 actual expenditures.

Indirect Cost Assessment

The Governor's proposed budget assumes an indirect cost assessment of \$1.3 million contingent on the enactment of legislation. Similar assessments were imposed in each of the last three years. The proposed legislation would assess the commissions at 18% of base salary levels. The revenues would be transferred to the department to defray the cost of shared services, including personnel and budget management. **Exhibit 5** details the proposed changes for fiscal 2008.

The administrative budget of HSCRC is supported by user fees assessed on hospitals, and the administrative budget of MHCC is supported by user fees assessed on hospitals, nursing homes, insurance companies, and the health occupation boards. Currently, total annual fees assessed by MHCC and HSCRC are capped at \$10 million and \$4 million, respectively. As shown in Exhibit 5, the fiscal 2008 administrative costs for both commissions are expected to exceed the caps even before the inclusion of the indirect cost assessment. MHCC indicates that it will use its fund balance to pay the fiscal 2008 indirect cost assessment, and HSCRC indicates that it will either increase user fees or use some of its excess fund balance to finance the assessment. **Appendix 5** provides the MHCC and HSCRC fund balances.

Exhibit 5 **Proposed Fiscal 2008 Indirect Cost Assessment** **(\$ in Millions)**

| | <u>MHCC</u> | <u>HSCRC</u> |
|-----------------------------------|--------------------|---------------------|
| Fiscal 2008 allowance | \$10.45 | \$4.32 |
| Proposed indirect cost assessment | .84 | .41 |
| Total | \$11.29 | \$4.73 |
| Current user fee limit | \$10.00 | \$4.00 |
| Proposed User Fee Limit | \$12.00 | \$5.00 |
| Fiscal 2007 Est. Fund Balance | \$1.72 | \$0.42 |

Source: Governor's Budget Books, Fiscal 2008; Health Regulatory Commissions

M00R – DHMH – Health Regulatory Commissions

The budget bill includes language making a \$1.3 million reduction to general funds for the department's General Services Administration contingent upon authorization of the indirect cost assessment in the proposed legislation. **The Health Regulatory Commissions should comment on how the assessment of indirect cost recoveries will impact the user fee assessments.**

Issues

1. Maryland Trauma Physician Services Fund Expenditures Increase Although a Significant Fund Balance Remains

Background

Chapter 385 of 2003 established the Maryland Trauma Physicians Services Fund with the intent of stabilizing the delivery of trauma services in the State. The fund, financed with a \$5 surcharge on all Maryland vehicle registrations, subsidizes physicians and hospitals that provide trauma care. The fund reimburses trauma physicians for uncompensated care losses, emergency on-call services, and undercompensated care. Undercompensated care raises Medicaid payments to 100% of the Medicare rate when a Medicaid patient receives trauma care at a designated trauma center.

The law also provides for an annual grant for stand-by costs incurred by Children's National Medical Center in Washington, DC for providing pediatric trauma services to Maryland residents. In addition to these forms of reimbursement, HSCRC has adjusted hospital rates, as required by law, to include trauma-related stand-by expenses. The total amount of the rate increase in fiscal 2006 was \$4.3 million. As a result, the trauma fund does not reimburse stand-by expenses.

Trauma Fund Eligibility Expands

Since its inception in fiscal 2004, the Trauma Fund has collected substantially more in revenues than it has disbursed. At the end of fiscal 2006, the fund balance was approximately \$16.6 million. Three primary reasons account for the large fund balance.

1. **Limited Eligibility Criteria** – specialties that commonly provide trauma care – including trauma surgeons, orthopedic surgeons, neurosurgeons, intensive care unit (ICU) physicians, anesthesiologists, and emergency physicians – were the only specialties eligible for uncompensated and undercompensated care reimbursement from the fund.
2. **On-call Payment Capped by Specialty** – on-call reimbursement for each trauma center was capped by specialty type. For example, if one specialist at a trauma center only used a portion of the eligible on-call reimbursement, another specialist at that trauma center was not eligible to then claim the unused portion. As a result, trauma centers were not realizing their full reimbursement.
3. **Reimbursement for Medicaid Overestimated** – in fiscal 2006, requests for reimbursement to raise Medicaid payments to 100% of the Medicare rates only amounted to \$350,000, substantially less than the original estimate of \$2.0 million per year. This may be due to the recent increase in Medicaid fees for a number of specialties, including emergency medicine, orthopedics, and neurosurgeons. The Medicaid fees for these specialties are now about 100%

M00R – DHMH – Health Regulatory Commissions

of the Medicare fee and as a result the need for underpayment of Medicaid services has declined.

Disbursements from the fund are expected to increase beginning in fiscal 2007 as a result of more recent legislation. Chapter 484 of 2006 (HB 1164) increased the specialties that are eligible for uncompensated and undercompensated care and raised the on-call reimbursement formula for Level II and Level III trauma centers. Also, trauma physicians at three specialty referral centers are now eligible for uncompensated and undercompensated care reimbursement. Additionally, in fiscal 2007, funding is available for trauma center equipment purchases. These expansions will more closely align collections from the MVA with disbursements from the fund in fiscal 2007. **Exhibit 6** presents the significant changes authorized by HB 1164.

Exhibit 6
2006 Legislative Changes to the Maryland Trauma Physician Services Fund

| | <u>Previously</u> | <u>Under Current Law</u> |
|--------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Trauma Physician Eligibility | Eligibility limited to six specialties: trauma surgeon, orthopedic surgeon, neurosurgeon, ICU physician, anesthesiologist, and emergency physician. | Eligibility expanded to all physicians who provide care in a trauma center to a trauma patient. |
| Emergency Physicians | Total statewide reimbursement capped at \$250,000 annually. | Total statewide reimbursement capped at \$275,000 annually. |
| On-call Formula | Level II and III trauma center on-call ceilings capped at 20% and 30% respectively of Medicare's RCE by specialty. | Level II and III trauma center on-call ceilings capped at 30% and 35%, respectively, of Medicare's RCE by trauma center. |
| Children' National Medical Center Standby Grant | Annual grant for stand-by expenses capped at \$250,000. | Annual grant for stand-by expenses capped at \$490,000. |
| Maryland Trauma Specialty Referral Centers | Not eligible for reimbursement | Physicians at three specialty hospitals are now eligible for reimbursement. ¹ |
| Trauma Grant Program² | n/a | 1) One-time equipment grants totaling \$3.0 million for the seven Level II and III trauma centers; 2) One-time \$300,000 grant to subsidize on-call services for the Curtis National Hand Center. |

ICU: Intensive Care

RCE: Reasonable Compensation Equivalent

¹Johns Hopkins Health System Burn program; the Eye Trauma Center at the Wilmer Eye Institute; and Curtis National Hand Center.

²Each trauma center will be eligible for a \$425,000 equipment grant. The equipment must be used in trauma care.

Note: Level II Trauma Centers: The Johns Hopkins Bayview Medical Center, Prince George's Hospital Center, Sinai Hospital of Baltimore, and Suburban Hospital. On-call services are reimbursed for trauma surgeons, orthopedic surgeons, and neurosurgeons.

Level III Trauma Centers: Washington County Hospital, Western Maryland Health System, and Peninsula Regional Medical Center. On-call services are reimbursed for trauma surgeons, orthopedic surgeons, neurosurgeons, and anesthesiologists.

Source: Chapter 484 of 2006 (HB 1164); Maryland Trauma Physician Service Fund Fiscal 2006 Annual Report

Revenues Exceed Disbursements Even with Increased Disbursements

Exhibit 7 shows revenues and disbursements from the fund for fiscal 2005 through 2006 and projected revenues and disbursements in fiscal 2007 through 2008. In fiscal 2006, the fund accrued \$12.6 million, disbursed approximately \$8.2 million, and ended the year with a \$16.6 million balance. In each of the last two fiscal years, the fund has collected substantially more than it has disbursed despite increasing payments. In fiscal 2006, 65% of the funds collected were distributed as compared to 55% in fiscal 2005.

Exhibit 7 Maryland Trauma Physicians Services Fund Revenue and Expenditures Fiscal 2005-2008 (\$ in Thousands)

| | Fiscal 2005 <u>Actual</u> | Fiscal 2006 <u>Actual</u> | Fiscal 2007 <u>Est.</u> | Fiscal 2008 <u>Est.</u> |
|----------------------------------------------|------------------------------|------------------------------|----------------------------|----------------------------|
| Beginning Fund Balance | \$6,836 | \$12,131 | \$16,558 | \$15,300 |
| Revenue (\$5 MVA registration fee) | 11,655 | 12,554 | 12,834 | 13,116 |
| Available Revenue | \$18,491 | \$24,685 | \$29,392 | \$28,416 |
| Uncompensated Care | \$2,119 | \$3,563 | \$4,080 | \$5,100 |
| Trauma On-call Service | 3,469 | 3,902 | 5,622 | 6,653 |
| Undercompensated Care (Medicaid) | 387 | 350 | 400 | 650 |
| Children's National Medical Center | 275 | 275 | 490 | 490 |
| Audit Expense and TPA | 110 | 63 | 200 | 205 |
| One-time Equipment Grant | 0 | 0 | 3,000 | 0 |
| One-time Standby Grant to Curtis Hand Center | 0 | 0 | 300 | 0 |
| Total Expenses | \$6,360 | \$8,153 | \$14,092 | \$13,098 |
| Recoveries | 0 | 26 | 0 | 0 |
| Trauma Fund Balance | \$12,131 | \$16,558 | \$15,300 | \$15,318 |

TPA: Third Party Administrator

Note: Fiscal 2004 costs include \$1.5 million in on-call, uncompensated care, Medicaid, Children's National Medical Center Grant funds, and unused funds for service provided for the period January 1 through June 30, 2004, but not submitted for payment until after June 30, 2004.

Fiscal 2005 costs include \$3.0 million in on-call, uncompensated care, and Medicaid obligations for services provided for the period January 1 through June 30, 2005, but not submitted for payment until after June 30, 2005.

Fiscal 2006 costs include \$4.2 million in on-call, Children's National Medical Center Grant funds and uncompensated care obligations for services provided for the period January 1 through June 30, 2006, but not submitted for payment until after June 30, 2006.

Source: Maryland Trauma Physician Service Fund Fiscal 2006 Annual Report

MHCC is estimating a \$15.3 million ending balance in fiscal 2007, 7.6% less than fiscal 2006. Even with the recent legislative changes, the fund's projected balance at the end of fiscal 2007 is substantial and not likely to be significantly reduced in fiscal 2008. However, fiscal 2008 marks the first year that ongoing spending is aligned with annual revenue collections.

In January 2007, MHCC contracted with a third party administrator (TPA) to process trauma fund claims. The TPA will establish a more standard and efficient claim adjudication process. MHCC expects the TPA to start processing claims in March 2007.

Full Sunset Review Trauma Fund Recommendations

During the 2006 interim, MHCC underwent a full sunset review. The review issues several recommendations related to the trauma fund. First, it suggests amending the commission's statute to modify the due date of the trauma fund's annual report to November 1 (currently September 1). Second and more significantly, the review recommends that a discussion of options under consideration to reduce the fund balance be incorporated in the 2007 annual report. The options should include both one-time-only uses for eliminating the accrued surplus and, if necessary, ongoing uses to align annual expenditures with annual revenues. The sunset evaluation also suggests that the discussion of options examine the desirability of providing funds directly to trauma centers for the purpose of subsidizing trauma physician costs. According to the evaluation, grants to the trauma centers, with strong accountability for the use of the funds, could achieve the purpose of maintaining adequate physician coverage at the trauma centers, but with less red tape.

The commissions should comment on the impact the new eligibility requirements are having on the fund.

2. Financial Problems Persist at Prince George's Hospital Center

Background

The Prince George's County Health System consists of five facilities: Prince George's Hospital Center (PGHC), Laurel Regional Hospital, Gladys Spellman Specialty Hospital and Nursing Center, Bowie Health Center, and Dimensions Surgery Center. These facilities, which serve approximately 180,000 patients per year, are owned by Prince George's County and operated by Dimensions Health System, Inc. (Dimensions). Dimensions is a private not-for-profit corporation that has a lease agreement with the county through 2042. In recent years, however, hospital rates regulated through the all-payer system have not been sufficient to recover hospital costs.

Financial problems, most of which are centered at PGHC, are the result of significant long-term debt and pension obligations, as well as the types of patients the hospital typically serves. Half of the center's patients are either Medicaid-eligible or uninsured, the highest proportion of any hospital in Maryland. Medicaid reimbursement rates for physician services are generally low, and although hospitals receive uncompensated care payments to account for uninsured patients, the

payments do not cover the cost of physician services. As a result, PGHC must pay physicians approximately \$12 million annually for their services. In other hospitals, the reimbursements physicians receive from private insurance companies mostly make up for the lower Medicaid rates and uninsured patients.

In recognition of PGHC's financial problems, HSCRC increased rates to provide additional revenue assistance of \$34 million between fiscal 2001 and 2007. In addition, as shown in **Exhibit 8**, the State has provided \$26.6 million since fiscal 2003 in operating and capital support. Prince George's County has also provided significant operating support.

Exhibit 8
Prince George's Hospital System – State Support
Fiscal 2003-2007
(\$ in Millions)

| <u>Fiscal Year</u> | <u>State Support</u> | | <u>County Support Tied to State Support</u> |
|--------------------|----------------------|---------------|---------------------------------------------|
| | Operating | Capital | |
| 2003 | \$2.0 | | \$3.0 |
| 2004 | | | |
| 2005 | | \$4.3 | \$20.0 in operating support over four years |
| 2006 | 1.3 | 5.0 | |
| 2007 | 10.0 | 4.0 | \$15.0 in operating support |
| Total | \$13.3 | \$13.3 | \$38.0 |

Source: February 20, 2004 Memorandum of Understanding between the State of Maryland and Prince George's County; Department of Health and Mental Hygiene; Department of Legislative Services

HSCRC should comment on why the rate system and Uncompensated Care Fund have not been sufficient to offset the hospital's financial problems and whether the rate system or fund should be further adjusted to compensate the hospital for its unique financial issues.

Recommended Actions

| | <u>Amount Reduction</u> | <u>Position Reduction</u> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|--------------------------------------|
| 1. Reduce funding for the Maryland Health Care Commission contractual employees. The reduction allows for a 30% increase over actual fiscal 2006 spending. | \$ 75,618 SF | |
| 2. Delete two new positions (NEW001 Program Manager at the Health Services Cost Review Commission (HSCRC) and NEW002 Office Secretary III at the Maryland Community Health Resources Commission (MCHRC)) and associated funding. The vacancy rates at HSCRC and MCHRC are 21% and 75%, respectively. This action implements the Spending Affordability Committee recommendation to not create new positions if the vacancy rate is in excess of 8%. | 88,694 SF | 2.0 |
| Total Special Fund Reductions | \$ 164,312 | 2.0 |

Updates

1. Full Sunset Reviews

During the 2006 interim, the Department of Legislative Services (DLS) conducted full sunset evaluations of MHCC and HSCRC. DLS found that both commissions are fulfilling their statutory requirements and recommended that the statutes of both commissions be amended to modify the date by which the commissions must next undergo sunset review to July 1, 2017. The evaluations also contained a number of other recommendations. The major recommendations for each commission are summarized below.

Maryland Health Care Commission

- MHCC's statute should be amended to increase the ceiling on user fees from \$10.0 million to \$12.0 million.
- MHCC should continue to implement the recommendations of the Certificate of Need (CON) Task Force and should continue to include stakeholders and DHMH in this process. MHCC should report to the General Assembly by October 1, 2007, with a follow-up report by October 1, 2008, regarding the process of implementation. MHCC should also include in the reports its progress in implementing recommendations of the 2001-2002 evaluation, particularly recommendations involving a research project for elective angioplasty and a reorganization of the licensing and CON laws for home-based health care services. These areas have been the subject of legislation in recent years.
- To provide sufficient time for MHCC to prepare and obtain approval for the annual report on the trauma fund, Maryland law should be amended to modify the due date to November 1. In addition, the report which would be due on November 1, 2007, should include a discussion of options for reducing the fund surplus. The options should include both one-time-only uses for eliminating the large surplus that has accrued in the early years of the fund and, if the surplus is continuing to grow, ongoing uses to align annual expenditures with annual revenues. The discussion of options should also examine the desirability of providing funds directly to trauma centers for the purposes of subsidizing trauma physician costs at the centers. A grant to the trauma centers, with strong accountability for the use of the funds, could achieve the purpose of maintaining adequate physician coverage at the trauma centers, but with less red tape.
- The Joint Legislative Task Force on Small Group Market Health Insurance is required to review numerous issues confronting the small group market and report to the General Assembly by July 1, 2007. Given the strong interest expressed by commissioners, insurers, and business representatives in expanding the range of offerings available to small employers, the task force should consider the desirability of altering statute to allow carriers to sell other health benefit plans, in addition to the standard plan.

Health Services Cost Review Commission

- Medicaid day limits should not be extended beyond their current June 30, 2007 termination date. The Department of Health and Mental Hygiene (DHMH) should work with the Department of Budget and Management (DBM) to identify alternative savings in the fiscal 2008 budget.
- DHMH, in consultation with HSCRC, should assess the impact of day limits on Medicaid enrollees by reviewing data on average length of stay, readmissions, and discharge patterns for Medicaid patients over the three and one-half year period that day limits were in use (January 1, 2004 through June 30, 2007). DHMH should submit a report to the Senate Finance Committee and the House Health and Government Operations Committee, on or before October 1, 2008, summarizing its findings.
- Statute should be amended to (1) clarify legislative intent as to whether DHMH's administrative-cost assessment on HSCRC is ongoing or limited to specific fiscal years; and (2) if the administrative-cost assessment will continue to provide the commission with clear authority to pay the costs from its special fund with user-fee revenues.
- HSCRC should quantify the value of services it currently provides to units within DHMH. If the administrative-cost assessment continues beyond fiscal 2007, the department should review the commission's findings and alter the fiscal 2008 administrative-cost assessment where appropriate.
- HSCRC, in consultation with the Maryland Hospital Association, should study alternative factors to govern increases in annual user-fee assessments. Alternatives to the update factor should ensure that user-fee increases are reasonable without putting undue growth restrictions or compliance burdens on the commission. The commission should submit alternatives to the Senate Finance Committee and the House Health and Government Operations Committee on or before November 1, 2008.
- Statute should be amended to increase HSCRC's user-fee cap beginning in fiscal 2008 to allow sufficient budgetary growth through fiscal 2011. If the intent of the General Assembly is to continue the administrative-cost assessment, the user-fee cap should increase from \$4.0 to \$5.5 million. If it is the intent of the General Assembly to discontinue the administrative-cost assessment, the user-fee cap should be increased from \$4.0 to \$5.0 million.

Current and Prior Year Budgets

Current and Prior Year Budgets Health Regulatory Commissions (\$ in Thousands)

| | <u>General Fund</u> | <u>Special Fund</u> | <u>Federal Fund</u> | <u>Reimb. Fund</u> | <u>Total</u> |
|----------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------------|---------------------|
| Fiscal 2006 | | | | | |
| Legislative Appropriation | \$0 | \$96,624 | \$0 | \$0 | \$96,624 |
| Deficiency Appropriation | 0 | 0 | 0 | 0 | 0 |
| Budget Amendments | 0 | 2,173 | 0 | 0 | 2,173 |
| Cost Containment | 0 | 0 | 0 | 0 | 0 |
| Reversions and Cancellations | 0 | -9,090 | 0 | 0 | -9,090 |
| Actual Expenditures | \$0 | \$89,707 | \$0 | \$0 | \$89,707 |
| Fiscal 2007 | | | | | |
| Legislative Appropriation | \$0 | \$109,864 | \$0 | \$0 | \$109,864 |
| Budget Amendments | 0 | 127 | 0 | 0 | 127 |
| Working Appropriation | \$0 | \$109,991 | \$0 | \$0 | \$109,991 |

Note: Numbers may not sum to total due to rounding.

Fiscal 2006

In fiscal 2006, the budget for the Health Regulatory Commissions closed out at \$89.7 million, which is \$6.9 million less than the legislative appropriation.

The MHCC special fund appropriation increased \$1.4 million as a result of increased user fee assessments provided for in the Budget Reconciliation and Financing Act (BRFA) of 2005. Significant increases were made in the following areas:

- \$1.2 million for administrative support services provided by the Department of Health and Mental Hygiene;
- \$0.1 million for consultant services related to a MHCC report on increasing affordability of health insurance in Maryland; and
- \$55,597 to recognize the fiscal 2006 cost-of-living adjustment (COLA).

\$4.3 million was cancelled primarily due to lower-than-anticipated payments from the Maryland Trauma Physician Services Fund.

The HSCRC special fund appropriation increased \$0.7 million as a result of increased user fee assessments provided for in the 2005 BRFA. Significant increases were made in the following areas:

- \$0.7 million for administrative support services provided by DHMH; and
- \$34,100 to recognize the fiscal 2006 COLA.

\$4.4 million was cancelled because the Uncompensated Care Fund appropriation exceeded payments to hospitals, and \$0.3 million was cancelled primarily as a result of contracts that were appropriated but not awarded.

The CHRC special fund appropriation increased \$67,377 to fund start up costs of the new commission. \$8,959 was used for travel and advertising costs, and the remaining funds were cancelled.

Fiscal 2007

The special fund appropriation increased \$0.1 million representing the commissions share of the fiscal 2007 COLA originally budgeted in DBM.

Audit Findings

| | |
|------------------------------|------------------------------------|
| Audit Period for Last Audit: | March 8, 2002 – September 25, 2005 |
| Issue Date: | March 2006 |
| Number of Findings: | 2 |
| Number of Repeat Findings: | 2 |
| % of Repeat Findings: | 100% |
| Rating: (if applicable) | n/a |

Finding 1: **MHCC did not assess fiscal 2002 user fees in accordance with State law, resulting in an improper allocation of fees among regulated industries; MHCC has not resolved this issue.**

Finding 2: **HSCRC did not collect an uncompensated care assessment totaling approximately \$150,000 from one hospital that was improperly assessed for prior years.**

*Bold denotes item repeated in full or part from preceding audit report.

**Object/Fund Difference Report
DHMH Health Regulatory Commissions**

| <u>Object/Fund</u> | <u>FY06 Actual</u> | <u>FY07 Working Appropriation</u> | <u>FY08 Allowance</u> | <u>FY07-FY08 Amount Change</u> | <u>Percent Change</u> |
|-----------------------------------------|------------------------|-------------------------------------------|---------------------------|------------------------------------|---------------------------|
| Positions | | | | | |
| 01 Regular | 89.60 | 96.90 | 99.40 | 2.50 | 2.6% |
| 02 Contractual | 0.82 | 3.00 | 3.00 | 0 | 0% |
| Total Positions | 90.42 | 99.90 | 102.40 | 2.50 | 2.5% |
| Objects | | | | | |
| 01 Salaries and Wages | \$ 7,534,283 | \$ 8,680,766 | \$ 8,830,275 | \$ 149,509 | 1.7% |
| 02 Technical and Special Fees | 90,182 | 179,682 | 192,855 | 13,173 | 7.3% |
| 03 Communication | 82,232 | 109,961 | 106,337 | -3,624 | -3.3% |
| 04 Travel | 98,512 | 125,742 | 156,600 | 30,858 | 24.5% |
| 08 Contractual Services | 81,352,228 | 92,637,966 | 100,678,155 | 8,040,189 | 8.7% |
| 09 Supplies and Materials | 69,519 | 73,141 | 80,294 | 7,153 | 9.8% |
| 10 Equipment – Replacement | 49,020 | 57,982 | 41,941 | -16,041 | -27.7% |
| 11 Equipment – Additional | 20,803 | 45,802 | 34,522 | -11,280 | -24.6% |
| 12 Grants, Subsidies, and Contributions | 0 | 7,700,000 | 7,700,000 | 0 | 0% |
| 13 Fixed Charges | 410,632 | 380,043 | 418,049 | 38,006 | 10.0% |
| Total Objects | \$ 89,707,411 | \$ 109,991,085 | \$ 118,239,028 | \$ 8,247,943 | 7.5% |
| Funds | | | | | |
| 03 Special Fund | \$ 89,707,411 | \$ 109,991,085 | \$ 118,239,028 | \$ 8,247,943 | 7.5% |
| Total Funds | \$ 89,707,411 | \$ 109,991,085 | \$ 118,239,028 | \$ 8,247,943 | 7.5% |

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

**Fiscal Summary
DHMH Health Regulatory Commissions**

| <u>Program/Unit</u> | <u>FY06 Actual</u> | <u>FY07 Wrk Approp</u> | <u>FY08 Allowance</u> | <u>Change</u> | <u>FY07-FY08 % Change</u> |
|------------------------------------------------------|------------------------|----------------------------|---------------------------|---------------------|-------------------------------|
| 01 Maryland Health Care Commission | \$ 15,954,512 | \$ 19,694,854 | \$ 23,554,304 | \$ 3,859,450 | 19.6% |
| 02 Health Services Cost Review Commission | 73,743,940 | 82,067,966 | 86,319,032 | 4,251,066 | 5.2% |
| 03 Maryland Community Health Resources Commission | 8,959 | 8,228,265 | 8,365,692 | 137,427 | 1.7% |
| Total Expenditures | \$ 89,707,411 | \$ 109,991,085 | \$ 118,239,028 | \$ 8,247,943 | 7.5% |
| Special Fund | \$ 89,707,411 | \$ 109,991,085 | \$ 118,239,028 | \$ 8,247,943 | 7.5% |
| Total Appropriations | \$ 89,707,411 | \$ 109,991,085 | \$ 118,239,028 | \$ 8,247,943 | 7.5% |

Note: The fiscal 2007 appropriation does not include deficiencies, and the fiscal 2008 allowance does not reflect contingent reductions.

Maryland Health Care Commission Fiscal 2002-2008

| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
|---------------------------------------------|--------------------|---------------------|---------------------|---------------------|---------------------|---------------------|------------------------|
| Beginning Balance | \$1,775,743 | \$2,044,110 | \$3,132,588 | \$4,587,487 | \$3,533,471 | \$3,583,350 | 1,717,285 |
| User Fee Revenues | \$7,684,073 | \$8,628,138 | \$9,025,574 | \$7,694,715 | \$8,764,702 | \$8,611,789 | 10,404,304 |
| Total Revenues Available | \$9,459,816 | \$10,672,248 | \$12,158,162 | \$12,282,202 | \$12,298,173 | \$12,195,139 | \$12,121,589 |
| Direct Costs | \$7,415,706 | \$7,539,660 | \$7,570,675 | \$7,557,620 | \$7,509,831 | \$9,694,854 | \$10,454,304 |
| Indirect Costs/Administrative | | | | \$1,191,111 | \$1,204,992 | \$783,000 | \$843,400 ¹ |
| Total Expenditures | \$7,415,70 | \$7,539,660 | \$7,570,675 | \$ 8,748,731 | \$8,714,823 | \$10,477,854 | \$11,297,704 |
| Ending Balance | \$2,044,110 | \$3,132,588 | \$4,587,487 | \$3,533,471 | \$3,583,350 | \$1,717,285 | \$823,885 |
| Ending Balance as a % of Total Costs | 28% | 42% | 61% | 40% | 41% | 16% | 7% |

¹The Governor's proposed budget assumes an indirect cost assessment on MHCC and HSCRC of \$1.3 million contingent on the enactment of legislation.

Health Services Cost Review Commission Commission Revenues and Expenditures Fiscal 2002-2008

| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
|---------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|------------------------|
| Beginning Balance | \$1,304,161 | \$1,164,536 | \$1,160,129 | \$1,189,539 | \$809,406 | \$988,900 | \$418,934 |
| Adjustment to Balance | -\$252,244 | \$34,129 | \$42,541 | \$100,954 | \$2,672 | — | — |
| User Fee Revenues | \$3,302,734 | \$3,124,290 | \$3,030,240 | \$3,440,668 | \$4,367,294 | \$3,900,000 | \$4,319,032 |
| Total Revenues Available | \$4,354,651 | \$4,322,955 | \$4,232,910 | \$4,731,161 | \$5,179,372 | \$4,888,900 | \$4,737,966 |
| Direct Costs | \$2,999,233 | \$3,102,731 | \$3,012,271 | \$3,217,636 | \$3,489,346 | \$4,067,966 | \$4,319,032 |
| Indirect Costs/Administrative Charges | | | | \$635,369 | \$687,826 | \$402,000 | \$406,600 ¹ |
| Transfers to the General Fund | \$190,882 | \$60,095 | \$31,100 | \$68,750 | \$13,300 | | |
| Total Expenditures | \$3,190,115 | \$3,162,826 | \$3,043,371 | \$3,921,755 | \$4,190,472 | \$4,469,966 | \$4,725,632 |
| Ending Balance | \$1,164,536 | \$1,160,129 | \$1,189,539 | \$809,406 | \$988,900 | \$418,934 | \$12,334 |
| Ending Balance as a % of Total Costs | 37% | 37% | 39% | 21% | 24% | 9% | 0% |

¹The Governor's proposed budget assumes an indirect cost assessment on MHCC and HSCRC of \$1.3 million contingent on the enactment of legislation.