

M00R
Health Regulatory Commissions
Department of Health and Mental Hygiene

Operating Budget Data

(\$ in Thousands)

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Operations	\$7,549	\$7,749	\$7,869	\$319	\$8,230	\$361
Contractual Services	50,308	53,941	65,250	\$14,942	69,844	4,594
Grants	0	0	0	\$0	0	0
Contingent & Back of Bill Reductions	0	0	0	\$0	-39	-39
Adjusted Grand Total	\$57,857	\$61,690	\$73,118	\$15,261	\$78,034	\$4,916
Special Funds	57,857	61,538	72,842	\$14,985	78,073	5,231
Contingent & Back of Bill Reductions	0	0	0	\$0	-39	-39
Adjusted Special Funds	\$57,857	\$61,538	\$72,842	\$14,985	\$78,034	\$5,192
Reimbursable Funds	0	152	276	\$276	0	-276
Adjusted Grand Total	\$57,857	\$61,690	\$73,118	\$15,261	\$78,034	\$4,916
Annual % Change		6.6%	18.5%		6.7%	

- The Health Regulatory Commissions' fiscal 2002 appropriation was reduced \$0.8 million, primarily a result of the hiring freeze. Since that time, hiring exemptions have been granted for nearly all positions, significantly reducing the effect of cost containment on office operations.
- The growth in the Health Regulatory Commissions' budget is due to a \$3 million anticipated increase in the Maryland Trauma Physicians Services Fund and a \$2 million anticipated increase in the Uncompensated Care Fund.
- The allowance includes a \$1.6 million indirect cost assessment on the Health Regulatory Commissions, contingent on budget reconciliation legislation, to reimburse the Department of Health and Mental Hygiene for costs incurred in providing shared services.

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

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Personnel Data

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Regular Positions	101.7	97.7	93.6	-8.1	93.6	0.0
Contractual FTEs	0.3	0.0	2.0	1.7	2.0	0.0
Total Personnel	102.0	97.7	95.6	-6.4	95.6	0.0

Vacancy Data: Regular Positions

Turnover Expectancy	2.91	3.11%
Positions Vacant as of 12/31/03	3.00	3.21%

- Two vacant positions were eliminated in fiscal 2004 as part of an effort to contain the size of the State workforce. This reduction was offset by the addition of two contractual personnel funded with the Maryland Health Care Commission's (MHCC) fiscal 2004 surplus.

Analysis in Brief

Major Trends

Certificate of Need Reviews Increase: New regulations modifying licensing procedures caused a surge in determination of coverage reviews in fiscal 2002. Reviews are expected to remain high due to aging physical plants and increasing nursing home occupancy rates.

Rate of Growth in Net Patient Revenue Increases: MHCC expects Maryland net patient revenue to grow 8% in fiscal 2004, the result of an inflation update designed to improve hospital profitability and access to capital.

Issues

Legislation Establishes Maryland Trauma Physicians Services Fund: Chapter 385, Acts of 2003 established the Maryland Trauma Physicians Services Fund to subsidize the cost of uncompensated and undercompensated care incurred by physicians working in the State's nine trauma centers.

Fund Balances Exceed Targeted Levels: Fund balances in the Health Regulatory Commissions indicate that user fee assessments exceed the actual cost of operations. Despite efforts to reduce the amount of surplus, each of the commissions continues to exceed recommended fund balance levels.

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Cost Containment Shifts Costs to Hospital Payors: Recent cost containment efforts have shifted some of the cost of providing care for the uninsured to the uncompensated care system. Several measures rely on the rate setting system to compensate for service reductions, shifting the cost of providing service to the uninsured from the general fund to hospital payors.

Recommended Actions

	<u>Funds</u>
1. Reduce funding for position reclassifications.	\$ 49,128
Total Reductions	\$ 49,128

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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), the foundation of Maryland's health care regulatory system, are independent commissions that function within the Department of Health and Mental Hygiene (DHMH).

MHCC, formed by the merger in 1999 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.

Performance Analysis: Managing for Results

MHCC operates the certificate of need program, whereby the commission regulates the placement of new health care facilities and services. The certificate of need process was designed to maximize cost effectiveness, quality, and access to health care services by eliminating redundancy and inefficiency in the provision of health care services. Certificates of need are required for all acute general hospitals, specified acute care services, and special hospitals intending to develop or improve capacity, services, or facilities. Managing for Results data in **Exhibit 1** reflect the number of certificate of need determinations and subsequent actions since 2001. New regulations modifying licensure procedures caused a surge in determination of coverage reviews in fiscal 2002. Reviews are expected to remain high due to aging physical plants and increasing nursing home occupancy rates.

Exhibit 1
Program Measurement Data
Health Regulatory Commissions
Fiscal 2001 – 2005

	<u>Actual</u> <u>2001</u>	<u>Actual</u> <u>2002</u>	<u>Actual</u> <u>2003</u>	<u>Est.</u> <u>2004</u>	<u>Est.</u> <u>2005</u>	<u>Ann.</u> <u>Chg.</u> <u>01-03</u>	<u>Ann.</u> <u>Chg.</u> <u>03-05</u>
Maryland Health Care Commission							
Certificate of need actions	28	17	30	35	35	3.5%	8.0%
Determinations and precicensure reviews	118	177	152	165	170	13.5%	5.8%
Health Services Cost Review Commission							
National average cost per hospital admission (annual percentage change)	3.3%	5.9%	6.0%	5.5%	5.5%	34.8%	-4.3%
Maryland average cost per hospital admission (annual percentage change)	3.0%	5.7%	4.0%	8.1%	6.7%	15.5%	29.2%
Uncompensated Care Fund	\$41.5	\$47.3	\$50.9	\$54.0	\$56.0	10.7%	4.9%
Annual percentage change	11.8%	14.0%	7.6%	6.1%	3.7%	-19.7%	-30.2%

Source: Department of Health and Mental Hygiene

HSCRC sets rates that hospitals may charge for the purchase of care. The commission's ability to standardize rates for all payors, including federal Medicare and Medicaid programs, was established in 1980 by federal legislation, contingent on the commission's ability to contain the rate of growth of hospital admissions costs. In fiscal 2004 the commission expects Maryland net patient revenue to grow 8%, the result of an inflation update included in fiscal 2004 rates to improve hospital profitability and access to capital. Despite these increases, the rate of growth in Medicare admissions

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costs, a subset of total hospital admissions, is expected to remain below the national average, allowing the State to maintain its waiver to set hospital rates.

In addition to regulating hospital rates, HSCRC also maintains the State's uncompensated care fund. The commission makes an assessment on all acute care hospitals in the State in accordance with State law and redistributes all funds collected to those hospitals that treat a higher proportion of the State's uninsured population. The uncompensated care program, designed to ensure that hospitals treat patients regardless of their ability to pay, distributes funds among State hospitals with the highest rates of uncompensated care. Growth in the fund in recent years, illustrated in Exhibit 1, reflects growth in net patient revenue statewide and across the nation.

Governor's Proposed Budget

The fiscal 2005 allowance increases funding for the commissions by \$4.9 million, an increase of 7%. The increase is primarily attributable to anticipated increases in the Maryland Trauma Physicians Services Fund and the Uncompensated Care Fund, reflected in **Exhibit 2**. The total amount of change in the commissions' budgets is detailed in **Exhibit 3**.

Exhibit 2 Distribution of Funding by Commission Fiscal 2002 – 2005 (\$ in Thousands)

	<u>FY 03 Actual</u>	<u>FY 04 Working Approp.</u>	<u>FY 05 Allowance</u>	<u>FY 04 - 05 Change</u>
Maryland Health Care Commission				
Administration	\$7,726	\$8,663	\$8,601	-0.7%
Maryland Trauma Physician Services Fund	0	7,000	10,000	42.9%
Subtotal	\$7,726	\$15,663	\$18,601	18.8%
Health Services Cost Review Commission				
Administration	\$3,103	\$3,455	\$3,433	-0.6%
Uncompensated Care Fund	50,861	54,000	56,000	3.7%
Subtotal	\$53,964	\$57,455	\$59,433	3.4%
Total	\$61,690	\$73,118	\$78,034	6.7%

Source: Department of Health and Mental Hygiene

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

	<u>FY 03</u> <u>Actual</u>	<u>FY 04</u> <u>Approp.</u>	<u>FY 05</u> <u>Allowance</u>	<u>FY 04-05</u> <u>Change</u>	<u>FY 04-05</u> <u>% Change</u>
Special Funds	\$61,538	\$72,842	\$78,073	\$5,231	7.2%
Contingent & Back of Bill Reductions	0	0	-39	-39	
Adjusted Special Funds	\$61,538	\$72,842	\$78,034	\$5,192	7.1%
Reimbursable Funds	\$152	\$276	\$0	-\$276	-100.0%
Adjusted Grand Total	\$61,690	\$73,118	\$78,034	\$4,916	6.7%

Where It Goes:

Personnel Expenses

Salary adjustments including reclassifications and hiring above base	\$149
Increments and other compensation	105
Reduction in turnover expectancy	61
Employee and retiree health insurance	20
Other fringe benefit adjustments	-2

Other Changes

Increase in Maryland Trauma Physicians Services Fund	3,000
Increase in Uncompensated Care Fund.....	2,000
Data analysis costs related to production of report cards.....	76
Data processing and database development contracts	75
Contracts related to development of rate setting methodologies.....	-100
Reduction in number of evaluations	-173
Expiration of State planning grant.....	-276
Other adjustments	-19

Total **\$4,916**

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

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Personnel Expenses

Adjustments to employee compensation account for \$0.3 million of the increase in the fiscal 2005 allowance. The inclusion of increments accounts for \$0.1 million of the increase; other salary adjustments, namely hiring above base, account for an additional \$0.1 million. The allowance also includes \$0.2 million, an increase of \$49,128, for reclassification of existing positions pursuant to the commissions' independent salary setting authority. Chapter 702, Acts 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 the appropriate job classifications and grades. In October 2002 the department developed a position evaluation methodology to guide position reclassification. MHCC reclassified 14 positions in fiscal 2003 consistent with independent salary setting authority. The commission has reclassified three positions to date in fiscal 2004; additional reclassifications are possible depending on need. HSCRC began limited reclassification in fiscal 2004 and expects to continue the process through fiscal 2005.

Operating Expenses

Operating expenses increase \$4.6 million in the fiscal 2005 allowance. The increase is a result of anticipated increases in collections for two pass-through funds administered by the commissions, offset by reductions in operating expenses.

Collections for the Maryland Trauma Physicians Services Fund are expected to increase \$3 million in fiscal 2005. This fund, established in 2003 to subsidize the cost of uncompensated and undercompensated care incurred by physicians working in the State's trauma centers, will increase from \$7 million to \$10 million in fiscal 2005. The HSCRC budget increases \$2 million due to increases in collections for the Uncompensated Care Fund, an assessment on all acute care hospitals in the State redistributed to those hospitals that treat a higher proportion of the State's uninsured population. Collections are anticipated to increase from \$54 million to \$56 million in fiscal 2005.

Increases are offset by net reductions in miscellaneous operating expenses. The commissions contract with independent consultants for production of evaluations related to standards of care and rate setting. MHCC expects a \$151,255 increase in contractual costs related to production of report cards and database implementation, offset by a \$173,000 reduction in the number of studies. HSCRC anticipates a \$99,926 decrease in independent analysis and research of rate setting methodologies. In past years, the commissions have underestimated these expenses, adding funds by budget amendment throughout the year to reduce fund balance levels.

The fiscal 2005 allowance also reflects the expiration of a \$0.3 million State planning grant. MHCC, in conjunction with Johns Hopkins School of Public Health, was awarded funds from the Health Resources Administration to develop plans for providing access to affordable health care coverage for Maryland residents. Preliminary findings indicate an increase in the number of uninsured Maryland residents from 2000 to 2001; the study also found that uninsured Maryland

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residents tend to be more affluent than uninsured residents of other states. Additional results from the study will be released soon.

Indirect Cost Assessment

The Governor's proposed budget assumes an indirect cost assessment of \$1.6 million on the Health Regulatory Commissions, contingent on enactment of budget reconciliation legislation. Current law exempts the commissions from paying indirect costs to DHMH. Legislation proposed by the administration would assess the commissions at a rate consistent with the indirect cost charge to federal grants: 32% of base salary levels. These revenues would be transferred to the department to defray the cost of shared services, including personnel services and access to the department's attorneys general and budget management office.

Under the proposal, MHCC would be assessed \$1.3 million; HSCRC would be assessed \$0.4 million. If implemented, the amount of the assessment, added to the commissions' current budgets and the proposed 1.6% cost-of-living adjustment, would raise user fee assessments to statutory limits. **Exhibit 4** details the proposed changes. The indirect fee assessment as proposed would leave the commissions little room for growth in future fiscal years. MHCC is not currently in a position to raise its statutory fee limit; the commission made a commitment to its payors in 2001 that it would not seek another increase for a period of five years. HSCRC, by contrast, is suggesting additional budget reconciliation language that would increase the commission's statutory fee limit to \$4.5 million in fiscal 2005.

Exhibit 4
Proposed Indirect Cost Assessment
(\$ in Millions)

	<u>MHCC</u>	<u>HSCRC</u>
Fiscal 2005 allowance	\$8.63	\$3.44
Cost-of-living adjustment	0.08	0.04
Indirect cost assessment	1.29	0.43
Total	\$10.00	\$3.91
User fee limit	\$10.00	\$4.00

Source: Maryland Health Care Commission; Health Services Cost Review Commission; Department of Legislative Services

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Impact of Cost Containment

The fiscal 2005 allowance reflects the elimination of \$39,157, the appropriation for matching employee deferred compensation contributions up to \$600, contingent upon enactment of a provision in budget reconciliation legislation.

Issues

1. Legislation Establishes Maryland Trauma Physicians Services Fund

Chapter 385, Acts of 2003 established the Maryland Trauma Physicians Services Fund to subsidize the cost of uncompensated and undercompensated care incurred by physicians working in the State's nine trauma centers. The legislation required MHCC and HSCRC to jointly establish a methodology by which physicians and trauma centers would be reimbursed for losses incurred in treating trauma patients without adequate health care coverage. The commissions were required to take into account the extent to which trauma-related costs, including on-call and standby costs, are otherwise subsidized by hospitals, the federal government, and other sources or revenue in developing the methodology. In addition, HSCRC was required to include trauma center costs in the State's hospital rate setting system.

Purpose of the Legislation

Trauma centers in Maryland and nationwide have been under increasing financial pressure, largely due to managed care rates for trauma physicians. Standby costs, or compensation for physicians awaiting the arrival of trauma patients, are not fully reimbursed by managed care organizations, causing many centers to subsidize these costs to retain medical personnel. These and other costs of providing uncompensated and undercompensated care have forced each of the State's trauma centers to provide some level of subsidy to its physicians, costs which range from \$0.4 million to \$0.9 million each year.

Trauma centers in Pennsylvania, Nevada, and Oregon have temporarily closed or downgraded their status due to staffing shortages related to physician reimbursement rates and rising medical malpractice insurance premiums. In Maryland, Washington County Hospital in Hagerstown suspended its trauma program in June 2002 due to the inability to provide required 24-hour staffing. Although the program reopened in October 2002, it was downgraded from a Level II to a Level III trauma center. More recently, Peninsula Regional Medical Center in Salisbury has expressed concerns about its ability to continue as a trauma center due to similar staffing problems. Closures and downgrades compromise access to trauma care services, resulting in delays in accessing care.

Implementing the Legislation

The Maryland Trauma Physicians Services Fund consists of a \$2.50 annual surcharge on all Maryland vehicle registrations. The fund, administered by MHCC, is expected to generate between \$10 million and \$12 million each year. Reimbursement is provided to physicians for costs incurred up to \$250,000 each year and trauma centers for on-call costs not otherwise reimbursed. The fund also provides funds, estimated at \$3.8 million in fiscal 2004, to the Maryland Medical Assistance Program to align Medicaid rates for trauma services with Medicare reimbursement rates. A smaller

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portion of funds will reimburse MHCC for administrative costs incurred in administering the program.

The commissions should comment on the implementation of the Maryland Trauma Physicians Services Fund.

2. Fund Balances Exceed Targeted Levels

State law requires fees assessed by the Health Regulatory Commissions to be used exclusively to cover the actual documented costs of fulfilling the statutory and regulatory duties of the commissions; a fund balance indicates that the amount of user fees collected exceeds the cost of commission operations. Sunset reviews have suggested that the commissions carry a maximum fund balance of 10% of annual appropriations in case of unforeseen expenses. As the commissions are exclusively financed through annual assessments on health care facilities and practitioners, a small balance provides a contingency in case of unexpected midyear costs. As detailed in **Exhibit 5**, each of the commissions projects fiscal 2005 ending balances in excess of 10% of annual costs.

Exhibit 5
Health Regulatory Commissions' Estimated Fund Balance
Fiscal 2002 – 2005
(\$ in Millions)

	<u>MHCC</u>	<u>HSCRC</u>
Fiscal 2002 Fund Balance	\$2.04	\$1.20
Fiscal 2003 revenue collection	\$8.58	\$3.12
Fiscal 2003 expenses	-7.57	-3.16
Fiscal 2003 Fund Balance	\$3.05	\$1.16
Balance relative to fiscal 2003 revenues	36%	37%
<i>Prior year estimate of balance</i>	<i>16%</i>	<i>22%</i>
Fiscal 2004 revenue collection	\$8.22	\$3.03
Fiscal 2004 expenses	-8.39	-3.46
Fiscal 2004 Fund Balance	\$2.88	\$0.74
Balance relative to fiscal 2004 revenues	35%	24%
<i>Prior year estimate of balance</i>	<i>17%</i>	<i>14%</i>
Estimated fiscal 2005 revenue collection	\$6.86	\$3.44
Estimated fiscal 2005 expenses	-8.60	-3.44
Fiscal 2005 Fund Balance	\$1.10	\$0.74
Balance relative to fiscal 2005 revenues	16%	21%

Note: MHCC fiscal 2005 balance percentage is calculated based on expenses as revenues have been lowered temporarily to reduce the commission's fund balance.

Source: Department of Health and Mental Hygiene

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Fiscal 2002 cost containment measures limited the commissions' ability to reduce their fund balances. User fees are assessed annually based on the amount of the legislative appropriation. Cost containment was imposed subsequent to the commissions' collection of user fees, limiting fiscal 2002 expenditures but not fiscal 2002 collections. As a result, both the MHCC and the HSCRC fiscal 2002 ending balance exceeded projections.

The commissions have been reducing their surpluses by increasing their appropriation midyear by budget amendment, allowing the commissions to spend additional funds without increasing assessments. In fiscal 2002 MHCC increased its appropriation \$0.6 million by budget amendment for costs related to office relocation and additional studies; HSCRC increased its appropriation \$0.5 million by budget amendment for office relocation and consulting costs. These actions partially offset the effect of cost containment on commission surpluses but still resulted in a net increase in the fund balances. HSCRC collected only 90% of the amount of its fiscal 2004 appropriation from its users, allowing for further reductions in the current fiscal year.

MHCC Develops Plan to Return Surplus Funds to Payees

MHCC has developed a two-year plan to reduce its surplus, currently 35% of revenues. The commission apportions assessments among hospitals, nursing homes, insurance companies, and health practitioners according to an estimate of each of the payees' contribution to the commission's workload, consistent with guidelines established in statute. The surplus will be returned to these payees according to the percentage of revenue each generates, detailed in **Exhibit 6**. Fees for hospitals, nursing homes, and insurance companies will be reduced by the amount listed in fiscal 2005. Fees for the health occupations boards will be reduced over fiscal 2005 and 2006 to ensure that those licensees on a biennial renewal schedule receive equal benefit.

Exhibit 6 MHCC Fees Returned to Payees Fiscal 2005 – 2006

	<u>Percentage of Workload</u>	<u>Assessment Returned</u>
Insurance companies	37.5%	\$750,000
Hospitals	28.5%	570,000
Health occupations boards	21.0%	420,000
Nursing homes	13.0%	260,000
	100%	\$2,000,000

Source: Maryland Health Care Commission

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MHCC last apportioned assessments in 2001 upon enactment of legislation that exempted health care practitioners below a minimum income threshold from user fee assessments. At that time, the health occupations boards advised the commission that 106,000 health care practitioners would meet minimum income requirements. The commission's biennial assessment was set at \$34 based on that assumption. Upon implementation, the commission found that the actual number of such payees was nearly 120,000. As a result, the commission collected \$208,250 in excess of anticipated levels. The second component of the surplus reduction plan calls for these funds to be returned to health care practitioners through reduced fees in fiscal 2005 and 2006. In addition, the standard annual fee charged in future years will be adjusted to reflect the actual number of health care practitioners. The combination of these measures is expected to reduce the commission's surplus to \$1.1 million by the end of fiscal 2005.

Impact of Indirect Cost Assessment on Commission Surpluses

MHCC's plan to return excess funds to its payees would be compromised by the proposed indirect cost assessment. If implemented, MHCC would likely pay the \$1.3 million annual assessment from the fiscal 2004 and 2005 surplus, reducing the balance at the end of fiscal 2005 to targeted levels but precluding the return of excess fees. This action would require the commission to submit a budget amendment to use its existing surplus. At the end of the two-year period, the commission would be required to increase user fees to cover future assessments.

As plans to reduce the HSCRC fund balance are not dependent on a fee reduction plan, the commission's plans would be less affected by the proposed assessment. The commission is proposing budget reconciliation language to raise its statutory cap on user fees from \$4 million to \$4.5 million to accommodate the departmental costs. The relative size of the balance will decrease as the total amount of revenues increases.

3. Cost Containment Shifts Costs to Hospital Payors

HSCRC sets rates hospitals may charge for the purchase of care. The commission's ability to standardize rates for all payors, including Medicare and Medicaid programs, was established in 1980 by federal legislation. Continuation of the program is contingent on the commission's ability to contain the rate of growth in hospital admissions costs. The State has maintained the waiver to regulate hospital rates by maintaining growth in Medicare payments per case at a rate below the national average, commonly referred to as passing the waiver test.

One of the benefits of the waiver system is that Medicare contributes to the State's uncompensated care system, whereby hospitals recoup a portion of the cost of providing care to the uninsured. The commission redistributes funds to hospitals with the highest amounts of uncompensated care through the rate system. The cost of providing this care is also partially reimbursed through the Uncompensated Care Fund. Revenue for this fund is generated by an

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assessment on all acute care hospitals in the State redistributed to hospitals that treat a disproportionately high number of the State's uninsured population.

Recent cost containment efforts have shifted some of the cost of providing health care for the uninsured and the underinsured to the uncompensated care system. Several measures rely on the rate setting system to compensate for service reductions, shifting the cost of providing service to the uninsured from the general fund to hospital payors. A proposed rate increase for Prince George's Hospital Center would have potentially similar effects. Examples of current cost shifts include:

- ***Hospital Day Limits on the Medically Needy:*** The medically needy are defined as parents, children, pregnant women, elderly, or disabled individuals who meet specific income criteria. Individuals with extraordinary medical expenses may also qualify by spending down their income on medical care. Effective January 1, 2004, DHMH has imposed hospital day limits on this population, increasing the amount of uncompensated care at the hospitals. The commission issued a one-time update factor in November 2003 to advance the hospitals 80% of the estimated \$20 million shortfall. This action is scheduled for repeal in fiscal 2006, allowing the commission to lower rates after that time.
- ***Elimination of Mental Hygiene Administration Proxy Beds:*** The Mental Hygiene Administration subsidized the cost of providing mental health services at five hospitals – Carroll, St. Mary's, Union of Cecil, North Arundel, and Peninsula Regional – as an alternative to institutionalization. These payments, which totaled \$1.2 million in fiscal 2003, were eliminated in fiscal 2004 for cost containment. The commission advanced payments to these hospitals to offset the reduction in fiscal 2004 and will do so again in fiscal 2005. This reduction is expected to be permanent.
- ***Possible Privatization of Walter P. Carter Center:*** Proposed legislation would transfer the Carter Center from the Mental Hygiene Administration to the University of Maryland Medical System (UMMS), with care financed by the uncompensated care system. This permanent transfer would require the commission to advance \$10 to \$12 million to UMMS to provide care.

The cost containment actions listed above do not threaten the waiver in the short term; however, continued backfilling through the rate setting system erodes the State's position relative to national admission rates and puts pressure on the Medicare waiver. These actions also commit commission resources, ultimately reducing the amount available for other purposes. **HSCRC should comment on the impact of recent cost containment measures on the Medicare waiver.**

Recommended Actions

	<u>Amount Reduction</u>
1. Reduce funding for position reclassifications to fiscal 2004 working appropriation level. This amount of funding will still allow the commissions to reclassify positions on an as needed basis, consistent with the commissions' independent salary setting authority.	\$ 49,128 SF
Total Special Fund Reductions	\$ 49,128

Current and Prior Year Budgets

	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Total</u>
Fiscal 2003					
Legislative Appropriation	\$0	\$52,341	\$0	\$0	\$52,341
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	12,024	0	349	12,373
Cost Containment	0	0	0	0	0
Reversions and Cancellations	0	-2,827	0	-197	-3,024
Actual Expenditures	\$0	\$61,538	\$0	\$152	\$61,690
Fiscal 2004					
Legislative Appropriation	\$0	\$65,248	\$0	\$0	\$65,248
Cost Containment	0	0	0	0	0
Budget Amendments	0	7,594	0	276	7,870
Working Appropriation	\$0	\$72,842	\$0	\$276	\$73,118

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

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Fiscal 2003

Appropriations for the following items were increased as a result of higher-than-anticipated special fund collections by HSCRC:

- \$11,200,000 for distributions to hospitals as part of the Uncompensated Care Fund;
- \$230,000 for consulting services related to health care provider reimbursements and case mix data analysis; and
- \$165,000 for costs associated with relocating HSCRC operations to the Reisterstown Road Plaza.

Higher-than-anticipated special fund collections by MHCC increased the appropriations for the following items:

- \$310,000 for costs associated with relocating MHCC operations to the Reisterstown Road Plaza, including modular furniture, security, and cabling; and
- \$120,000 for conducting a study relating to health care provider reimbursements.

Fiscal 2003 special funds were cancelled primarily due to the lag between collection of uncompensated care and processing of hospital payments.

Fiscal 2004

Reimbursable funds increased \$0.3 million as a result of a transfer of a state planning grant from the Medical Care Programs Administration.

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

<u>Object/Fund</u>	<u>FY03 Actual</u>	<u>FY04 Working Appropriation</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	97.70	93.60	93.60	0	0%
02 Contractual	0	2.00	2.00	0	0%
Total Positions	97.70	95.60	95.60	0	0%
Objects					
01 Salaries and Wages	\$ 6,934,808	\$ 7,089,197	\$ 7,461,659	\$ 372,462	5.3%
02 Technical & Spec Fees	20,009	101,870	112,858	10,988	10.8%
03 Communication	61,602	94,732	98,088	3,356	3.5%
04 Travel	93,514	119,008	116,844	-2,164	-1.8%
08 Contractual Services	53,940,810	65,249,645	69,843,510	4,593,865	7.0%
09 Supplies & Materials	60,620	73,631	74,570	939	1.3%
10 Equip - Replacement	175,016	12,432	15,532	3,100	24.9%
11 Equip - Additional	4,697	25,000	0	-25,000	-100.0%
13 Fixed Charges	399,169	352,671	350,373	-2,298	-0.7%
Total Objects	\$ 61,690,245	\$ 73,118,186	\$ 78,073,434	\$ 4,955,248	6.8%
Funds					
03 Special Fund	\$ 61,538,272	\$ 72,842,209	\$ 78,073,434	\$ 5,231,225	7.2%
09 Reimbursable Fund	151,973	275,977	0	-275,977	-100.0%
Total Funds	\$ 61,690,245	\$ 73,118,186	\$ 78,073,434	\$ 4,955,248	6.8%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.

**Fiscal Summary
DHMH - Health Regulatory Commissions**

<u>Unit/Program</u>	<u>FY03 Actual</u>	<u>FY04 Legislative Appropriation</u>	<u>FY04 Working Appropriation</u>	<u>FY03 - FY04 % Change</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 % Change</u>
01 Maryland Health Care Commission	\$ 7,726,382	\$ 8,217,649	\$ 15,662,946	102.7%	\$ 18,629,448	18.9%
02 Health Services Cost Review Commission	53,963,863	57,030,240	57,455,240	6.5%	59,443,986	3.5%
Total Expenditures	\$ 61,690,245	\$ 65,247,889	\$ 73,118,186	18.5%	\$ 78,073,434	6.8%
Special Fund	\$ 61,538,272	\$ 65,247,889	\$ 72,842,209	18.4%	\$ 78,073,434	7.2%
Total Appropriations	\$ 61,538,272	\$ 65,247,889	\$ 72,842,209	18.4%	\$ 78,073,434	7.2%
Reimbursable Fund	\$ 151,973	\$ 0	\$ 275,977	81.6%	\$ 0	-100.0%
Total Funds	\$ 61,690,245	\$ 65,247,889	\$ 73,118,186	18.5%	\$ 78,073,434	6.8%

Note: The fiscal 2004 appropriation does not include deficiencies, and the fiscal 2005 allowance does not reflect contingent reductions.