

M00R
Health Regulatory Commissions
Department of Health and Mental Hygiene

Operating Budget Data

(\$ in Thousands)

	FY 05	FY 06	FY 07	FY 06-07	% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$0	\$0	\$500	\$500	
Special Fund	<u>83,865</u>	<u>98,730</u>	<u>109,944</u>	<u>11,214</u>	<u>11.4%</u>
Total Funds	\$83,865	\$98,730	\$110,444	\$11,714	11.9%

- Chapter 280, Acts of 2005 established the Maryland Community Health Resources Commission (MCHRC) within the Department of Health and Mental Hygiene. The inclusion of MCHRC in the Health Regulatory budget increases the allowance \$8.2 million.
- Collections for the Health Services Cost Review Commission's Uncompensated Care Fund are expected to grow to \$78 million in fiscal 2007, increasing the commission's budget by \$4.0 million.

Personnel Data

	FY 05	FY 06	FY 07	FY 06-07
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	92.60	89.60	97.90	8.30
Contractual FTEs	<u>2.00</u>	<u>2.00</u>	<u>3.00</u>	<u>1.00</u>
Total Personnel	94.60	91.60	100.90	9.30

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	3.29	3.36%
Positions Vacant as of 12/31/05	5.80	6.47%

- In fiscal 2006, 3 positions were abolished to comply with the fiscal 2006 position cap.

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

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- The 2007 allowance has 8.3 more positions than fiscal 2006. MCHRC receives 4 new positions; the Maryland Health Care Commission (MHCC) is adding 3.3 new positions, including 1 contractual conversion; and the Health Services Cost Review Commission is adding 1 position.
- The allowance adds 2 contractual Health Policy Analyst II positions offset by the elimination of a similar contractual position.
- The budgeted turnover rate for the Health Regulatory Commissions is 3.36%. To meet this turnover rate, the commissions on average require 3.29 vacancies.

Analysis in Brief

Major Trends

Hospital Admission Costs Continue to Meet Standard: The Health Services Cost Review Commission 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 Maintains a Significant Fund Balance: The fund, which reimburses physicians and trauma centers for the cost of providing trauma services, is collecting more than what it is disbursing. Assuming no changes in current law and comparable costs, MHCC is projecting a \$18.0 million fiscal 2006 ending fund balance, 50% higher than fiscal 2005.

Recommended Actions

	<u>Funds</u>	<u>Positions</u>
1. Delete funds and associated position for the State Public Sector Health Policy Center.	\$ 500,000	1.0
Total Reductions	\$ 500,000	1.0

Updates

Preliminary Sunset Reviews: The Maryland Health Care Commission and the Health Services Cost Review Commission underwent preliminary sunset reviews during the 2005 interim. The evaluations were positive overall containing only a few recommendations. Full sunset reviews for both commissions are waived by the Legislative Policy Committee until July 1, 2017. However, legislation (SB 153) to alter the date by which the evaluations are to be conducted was reported unfavorably by the Senate Finance Committee.

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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 Maryland's health care regulatory system, are independent commissions that function within the Department of Health and Mental Hygiene (DHMH). Chapter 280 (HB 627), Acts of 2005 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.

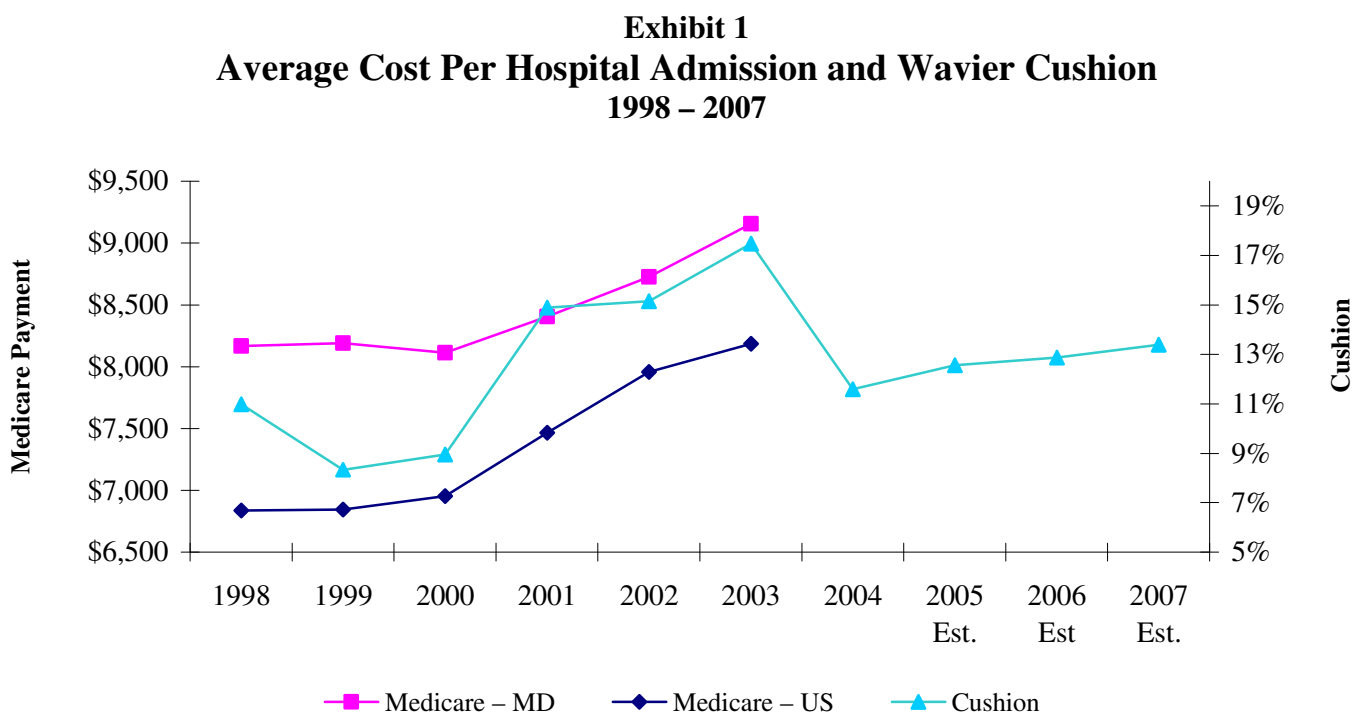
MCHRC was established to strengthen the safety net for uninsured and underinsured Marylanders. The safety net consists of community health resource centers (CHRC), which could

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 2003, 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 208% since 1981, compared to a national rate of growth of 257% over the same amount of time.



Source: Health Services Cost Review Commission

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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 15.9%, allowing the commission to approve rate increases in fiscal 2004 that allowed hospitals to increase profitability and improve access to capital. The rate increase, by design, eroded the cushion in fiscal 2004. HSCRC is projecting the cushion to increase between fiscal 2004 and 2007, based on inflationary pressures and national trends. The commission maintains a cushion goal of 10% relative to federal payments. **HSCRC should comment on the staff recommendation under consideration by the commission to increase hospital rates less than the national average over the next three years and the anticipated effect on the cushion.**

Governor's Proposed Budget

The fiscal 2007 allowance increases funding for the commissions \$11.7 million over the fiscal 2006 working appropriation, an increase of 11.9%. The increase is largely due to the establishment of MCHRC. Excluding the new commission, the budget increases \$3.5 million, or 3.5%. The increase is largely due to a \$4.0 million increase in the Uncompensated Care Fund, reflected in **Exhibit 2**. The total amount of the change in the commissions' budgets is detailed in **Exhibit 3**.

Exhibit 2
Distribution of Funding by Commission
Fiscal 2005 – 2007
(\$ in Thousands)

	<u>FY 05</u> <u>Actual</u>	<u>FY 06</u> <u>Working Approp.</u>	<u>FY 07</u> <u>Allowance</u>	<u>FY 06 – 07</u> <u>Change</u>
Maryland Health Care Commission				
Administration	\$8,828	\$10,289	\$10,165	-1.2%
Maryland Trauma Physician Service Fund	2,431	10,000	10,000	0.0%
Subtotal	\$11,259	\$20,289	\$20,165	-0.6%
Health Services Cost Review Commission				
Administration	\$3,853	\$4,441	\$4,052	-8.8%
Uncompensated Care Fund	68,753	74,000	78,000	5.4%
Subtotal	\$72,606	\$78,441	\$82,052	4.6%
Maryland Community Health Resource Commission				
Administration	n/a	n/a	\$527	n/a
Unified Data System	n/a	n/a	1,700	n/a
Operating and technology Grants	n/a	n/a	6,000	n/a
Subtotal	n/a	n/a	\$8,227	n/a
Total	\$83,865	\$98,730	\$110,444	11.9%

Source: Maryland Operating Budget Fiscal Year 2007

Exhibit 3
Governor's Proposed Budget
Health Regulatory Commissions
Department of Health and Mental Hygiene
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Total
2006 Working Appropriation	\$0	\$98,730	\$98,730
2007 Governor's Allowance	<u>500</u>	<u>109,944</u>	<u>110,444</u>
Amount Change	\$500	\$11,214	\$11,714
Percent Change		11.4%	11.9%
 Where It Goes:			
Personnel Expenses			
New positions – 3.3 positions for HSCRC and MHCC			\$194
Increments and other compensation.....			159
Employee and retiree health insurance			148
Position reclassifications, per Chapter 702, Acts of 1999			123
Contributions to employee retirement system.....			61
Fiscal 2006 understated health insurance base.....			54
Salary reduction to reflect fiscal 2006 position abolitions.....			-109
Turnover adjustments.....			-21
Other Changes			
Increase uncompensated care fund			4,000
New Health Policy Center including 1 position.....			500
Contract services for evaluation of health care data			142
Contract services to process, edit, and maintain medical databases			76
Replacement of laptop computers and data processing equipment.....			32
Increase in salary for contractual health policy analysts.....			23
Reduction of indirect cost assessment			-1,882
Other adjustments			-13
Maryland Community Health Resources Commission			
Operating and information technology grants.....			6,000
Unified Data System			1,700
Other operating expenses.....			281
Four new positions.....			246
Total			\$11,714

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

Personnel Expenses

The Governor’s proposed budget adds 8.3 positions to the Health Regulatory Commissions budget, including one contractual conversion, as shown in **Exhibit 4**.

Exhibit 4
New Positions
Fiscal 2007

<u>Commission</u>	<u>Job Function</u>
MHCC	
Program Manager I	Implement IT initiatives including connecting consumers, providers, and payers to a regional data sharing utility.
Program Manager I	Staff the proposed Public Sector Health Policy Center.
Health Policy Analyst II	Contractual conversion – certification of need reviews.
Program Manager I and Administrator I	Fractions of positions totaling .3.
HSCRC	
Health Policy Analyst II	Analytical support for three areas including the nursing faculty support program, the case-mix audit program, and the collection of outpatient data.
MCHRC	
Executive Director	Commission director
Program Manager	Manage grants and funding, provide technical assistance to community health resource centers, and act as liaison with hospitals.
Health Policy Analyst	Staff commission meetings and prepare reports
Management Specialist III	Secretarial and administrative support

Source: Health Regulatory Commission; Department of Health and Mental Hygiene

The allowance also includes \$0.4 million, an increase of \$122,718 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 appropriate job classifications and grades for each of these positions. MHCC has reclassified 42 of 65 positions since fiscal 2003 with an additional 9 reclassifications budgeted for fiscal 2007; HSCRC has reclassified 15 of 28 positions with an additional 5 reclassifications budgeted for fiscal 2007.

MHCC and HSCRC Operating Expenses

Operating expenses increase \$2.8 million in the fiscal 2007 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 \$74.0 million in fiscal 2006 to \$78.0 million in fiscal 2007. Offsetting the increase is a \$1.9 million reduction in indirect cost assessment, as the provision charging the assessment was only effective in fiscal 2006.

Excluding the increase in the Uncompensated Care Fund and the reduction in the indirect cost assessment, the budget is increasing \$0.7 million or 7.4%. The increase is largely due to the inclusion of \$0.5 million to finance the creation of the Public Sector Health Policy Center within the MHCC. The policy center will be dedicated to long-term policy planning for the State's public sector health financing and delivery systems. The three major projects proposed as initial priorities include (1) State policy options to address the rise in health care costs; (2) Innovations in Medicaid policies and programs; and (3) long-term care.

Other changes result from modifications to contracts for special projects. The commissions' contract with independent consultants for production of evaluations related to standards of care and rate setting. In fiscal 2007, the MHCC budget includes a net increase of \$0.1 million for these services, resulting mainly from ongoing quality assessments of primary angioplasty waiver services. The commissions also contract with independent consultants to collect, process, and maintain databases related to claims data and hospital inpatient medical records. In fiscal 2007, the allowance increases \$76,461 for ongoing database management services. Smaller changes include an increase in salary and benefits for two new contractual MHCC health policy analysts, offset by the elimination of a similar contractual position, and the purchase of replacement laptop and data processing equipment.

Indirect Cost Assessment

The Governor's proposed budget assumes an indirect cost assessment of \$1.2 million contingent on the enactment of legislation. The proposed legislation would assess the commissions at 18% of base salary levels, a reduction from 32% in fiscal 2006. The revenues would be transferred to the department to defray the cost of shared services, including general accounting and budget management. **Exhibit 5** details the proposed changes for fiscal 2007.

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 occupational 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 2007 administrative costs for the MHCC are anticipated to be 97% of the current user fee limit, and HSCRC's are expected to exceed the cap. The assessment of indirect cost charges will result in administrative expenses in excess of the current user fee limits for both commissions. To fund the indirect cost liability, the commissions will either increase user fees, or use some of their excess fund balance. If the General Assembly does not increase the fee limit, the commissions would be forced to draw down their fund balances to cover their expenses.

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

	<u>MHCC</u>	<u>HSCRC</u>
Fiscal 2007 allowance	\$9.67 ¹	\$4.05
Proposed indirect cost assessment	.76	0.39
Total	\$10.43	\$4.44
Current user fee limit	\$10.00	\$4.00
Proposed User Fee Limit	\$12.00	\$5.00
Fiscal 2006 Est. Fund Balance	\$2.0	\$.76

¹ Excludes \$0.5 million in general funds.

Source: Maryland Operating Budget Fiscal Year 2007; Health Regulatory Commission

The budget bill includes language making a \$1.2 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.**

Maryland Community Health Care Resources Commission

Chapter 280, Acts of 2005, created MCHRC to increase access to primary and specialty health care for lower-income individuals and provide operating grants to CHRC around the State. The commission is financed by the value of the non-profit premium tax exemption, less the subsidies required for the Senior Prescription Drug Assistance Program and the Maryland Pharmacy Discount Program. The MCHRC fund is expecting \$8.0 million in revenue in fiscal 2007, slightly less than the \$8.2 million included allowance; however, the fund is carrying a \$2.0 million balance due to unspent fiscal 2006 revenues.

The Governor's proposed budget includes \$6.0 million to fund operating grants and \$1.7 million to develop a unified data system among the CHRC's. The allowance also includes \$0.2 million to fund 4 new positions and \$0.2 million for anticipated non-personnel operating costs. The commission is not staffed in fiscal 2006 and will not hire an executive director until fiscal 2007. The fiscal 2006 position cap on executive and management service positions prohibited the department from hiring a director in fiscal 2006. **DHMH should comment on the likelihood of disbursing \$6.0 million in grant funds given that the commission will not be fully staffed until after the start of fiscal 2007.**

Issues

1. Maryland Trauma Physician Services Fund Maintains a Significant Fund Balance

Chapter 385, Acts 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, provides funding to subsidize the cost to physicians and hospitals of providing trauma care. The fund specifically addresses three costs of providing trauma services:

- **Uncompensated Care:** Trauma physicians, including surgeons, anesthesiologists, orthopedists, and neurosurgeons, are eligible for reimbursement from the fund at 100% of the Medicare rate. Applicants must document that the patient treated is without health insurance and not eligible for medical assistance in applying for reimbursement.
- **Undercompensated Care:** Trauma physicians are also eligible for reimbursement equal to the difference between Medicaid and Medicare rates when treating an enrollee of the State Medicaid program.
- **On-call Services:** The cost of maintaining on-call physicians to respond within 30 minutes to a trauma event has contributed to losses at many trauma centers. The centers are eligible for payment of costs not otherwise reimbursed for minimum on-call physician staffing according to standards established by the Maryland Institute for Emergency Medical Services Systems.

The law also provides for administrative costs and an annual grant, not to exceed \$275,000, 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 2005 was \$4.1 million. As a result stand-by expenses do not have an impact on the fund.

Available Funding Exceeds Requests for Reimbursement

The Maryland Trauma Physicians Services Fund began to collect revenue on July 1, 2003, though physicians and trauma centers did not become eligible for reimbursement until October 1, 2003. Reimbursement for undercompensated care claims was available for services rendered as of December 1, 2003, coinciding with the launch of other software changes in the Medicaid program.

Exhibit 6 shows revenues and disbursements from the fund for fiscal 2004 and 2005. In fiscal 2005, the fund accrued \$11.7 million, disbursed \$6.4 million, and ended the year with a \$12.1 million balance. In each of the last two fiscal years, the fund has collected substantially more than what it has disbursed. In fiscal 2005, 55% of the funds collected were distributed as compared to 35% in fiscal 2004.

Exhibit 6
Maryland Trauma Physicians Services Fund Revenue
Fiscal 2004 – 2005
(\$ in Thousands)

	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>
Beginning Fund Balance	\$0	\$6,836
Revenue (\$5 MVA registration fee)	10,442	11,655
Available Revenue	\$10,442	\$18,491
Uncompensated Care	\$1,090	\$2,124
Trauma On-call Service	2,279	3,469
Undercompensated Care (Medicaid Patients)	31	386
Children’s National Medical Center Grant	206	275
Audit Expense	0	110
Total Expenses	\$3,606	\$6,364
Trauma Fund Balance	\$6,836	\$12,127

Notes: Fiscal 2004 costs include \$1.5 million in on-call, uncompensated care, Medicaid, Children’s National Medical Center Grant funds, and unused funds for services provided for the period January 1, through June 30, 2004, but not submitted for payment until after July 2004 (fiscal 2005).

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 July 2005 (fiscal 2006).

Source: Maryland Trauma Physician Service Fund Fiscal 2005 Annual Report

The most significant source of unused funds to date is the undercompensated care aspect of the program, designed to compensate physicians for the difference between Medicaid and Medicare rates when treating an enrollee of the State Medicaid program. Originally estimated at \$2.0 million each year, requests for this type of reimbursement amounted to \$0.4 million in fiscal 2005. Furthermore, the Maryland Patients Access to Quality Health Care Act of 2004, of the 2004 Special Session, provided additional funds to raise Medicaid physician rates. Accordingly, this will reduce the demand for Medicaid reimbursement.

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Other sources contributing to the unused fund balance include some centers not paying on-call for all specialties and billing for less than the maximum allowable hours. Additionally, some centers made on-call payments but could not document the amount. MHCC advises that most centers have improved tracking of on-call costs which may lead to an upward trend in payments in fiscal 2006. Also, the Children's National Medical Center reported difficulty documenting costs related to standby expenses as physicians that serve the trauma center are salaried.

MHCC continues to work with its partners in this program, HSCRC and the Maryland Institute of Emergency Medical Services Systems, to improve awareness and administration of the fund. The commission has worked with trauma centers to maximize reimbursement for trauma services, providing education on required documentation and reducing administrative requirements as appropriate. However, assuming no changes in current law and comparable costs, MHCC estimates a \$18.0 million fiscal 2006 ending balance, 45% higher than fiscal 2005.

The commission will collect applications for reimbursement through the end of January for costs incurred in the first half of fiscal 2006 and again in July for costs incurred in the last half of the year. Expenditures for the first half of fiscal 2006 total approximately \$3.6 million. The commissions will submit a report by September 1 on the total amount of grants awarded in fiscal 2006.

Options to Increase Utilization of the Fund

Given the sizable balance in the fund, the General Assembly may wish to expand eligibility to the fund or consider reducing the Motor Vehicle Administration (MVA) surcharge. **Exhibit 7** provides possible options offered by MHCC, which if implemented could increase fund disbursements by \$4.8 million in fiscal 2007.

Exhibit 7
Estimated Cost to the Trauma Fund of Proposed Legislative Options
(\$ in Thousands)

	<u>Est. Additional Annual Costs</u>
<i>Options to Expand Uncompensated Care Payments</i>	
Expand the number of physicians eligible to submit an uncompensated care application by adding all trauma physician specialties (Currently six physician specialties are eligible to participate in the fund). ¹	\$1,000
Remove the \$250,000 annual cap on payments to emergency room physicians.	50
Allow certified registered nurse anesthetist (CRNA) working under the medical direction of an anesthesiologist to bill the fund (currently only anesthesiologists can be reimbursed for services from the fund).	100
Expand the definition of trauma care to include patients seen at specialty referral centers, such as the burn and hand centers.	500
<i>Options to Expand On-call Payments</i>	
Raise Level II trauma centers on-call ceiling to 30% of Medicare’s reasonable compensation equivalent (RCE). (Current payments are capped at 20% and 30% of the RCE for Level II and Level III trauma centers, respectively).	1,040
Remove the specialty-specific ceilings and allow trauma centers to obtain payment for on-call with no limitation on specialty eligibility.	1,500
Raise Children’s National Medical Center’s Standby Allowance (Current ceiling is \$275,000).	250
<i>Options to Change Medicaid Payments</i>	
Reimburse Medicaid for selected trauma services up front. Currently payment is made retroactively. This option would reduce administrative expenses.	-25
<i>Other Possible Administrative Changes</i>	
Increase MHCC and HSCRC flexibility to define how the fund is used.	350
Total Additional Fund Disbursements	\$4,765
Reduce MVA collection fees from \$5 to \$4 on a registration or registration renewal.	-\$2,300

¹ Physicians eligible to submit uncompensated care applications include a trauma surgeon, an orthopedic surgeon, a neurosurgeon, an intensive care unit physician, an anesthesiologist, or an emergency physician who provides care in a trauma center on the State trauma registry.

Source: Fiscal 2005 Maryland Trauma Physician Services Fund Annual Report

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The commissions should comment on the current status of applications to the Maryland Trauma Physician Services Fund and options under consideration to reduce the fund balance.

Recommended Actions

	<u>Amount Reduction</u>		<u>Position Reduction</u>
1. Delete funds and associated position (PIN NEW005) for the State Public Sector Health Policy Center. Long-term State public health sector policy planning should be done within existing resources. The three initial priorities include addressing rising health care costs, innovations in Medicaid policies and programs, and long-term care. The Medical Care Programs Administration within the Department of Health and Mental Hygiene has been actively pursuing ways to contain rising health care costs including the creation of the new CommunityChoice and Adult Primary Care programs. Medicaid has also implemented innovative programs such as the Employed Persons with Disabilities Program that allows disabled people to earn a higher income but still qualify for Medicaid. Creating a new Policy Center to research policy areas currently studied by the Medical Care Programs Administration seems redundant and therefore unnecessary.	\$ 500,000	GF	1.0
Total General Fund Reductions	\$ 500,000		1.0

Updates

1. Preliminary Sunset Reviews

The Department of Legislative Services conducted preliminary sunset evaluations of MHCC and HSCRC during the 2005 interim. The evaluations were positive overall containing only a few recommendations.

Maryland Health Care Commission

The preliminary evaluation found that the commission has been effective in accomplishing its mission to reevaluate and modify the health care regulatory system to be responsive to the changing health care environment and the needs of the citizens of the State. The preliminary evaluation recommended MHCC be waived from full evaluation and that legislation be enacted to modify the date by which MHCC must next undergo sunset review to July 1, 2017. Although the recommendation waived full sunset review, the report expressed concern over the size of the commission's fund balance and requested a report due October 1, 2006, on its efforts to reduce the surplus funds in the Maryland Health Care Commission Fund and the Maryland Trauma Physician Services Fund.

Health Services Cost Review Commission

The preliminary evaluation found that the commission has been effective in accomplishing its mission of maintaining the Medicare waiver through its rate-setting system by slowing the growth of hospital rates in comparison with the rest of the country. The preliminary evaluation recommended HSCRC be waived from full evaluation and that legislation be enacted to modify the date by which HSCRC must next undergo sunset review to July 1, 2017. Although the recommendation waived full sunset review, the report expressed concern over the size of the commission's fund balance and the status of the Medicare waiver. The evaluation requested a report due October 1, 2006, on the status of the surplus fund balance and any actions taken to further reduce the surplus, particularly given the possibility of an increase in the user fee cap. The evaluation also requested a report on the current and projected status of the Medicaid waiver, particularly with regard to any threats to the all-payor system.

The Legislative Policy Committee waived the full sunset reviews until July 1, 2017; however, legislation (Senate Bill 153 of 2006) extending the sunset evaluation date from July 1, 2007, to July 1, 2017 for both commissions was reported unfavorably by the Senate Finance Committee.

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 2005					
Legislative Appropriation	\$0	\$77,941	\$0	\$0	\$77,941
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	18,381	0	0	18,381
Cost Containment	0	0	0	0	0
Reversions and Cancellations	0	-12,457	0	0	-12,457
Actual Expenditures	\$0	\$83,865	\$0	\$0	\$83,865
Fiscal 2006					
Legislative Appropriation	\$0	\$96,624	\$0	\$0	\$96,624
Budget Amendments	0	2,106	0	0	2,106
Working Appropriation	\$0	\$98,730	\$0	\$0	\$98,730

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

Fiscal 2005

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The HSCRC special fund appropriation increased \$16.8 million to recognize higher-than-anticipated hospital patient revenue and increased user fee assessments provided for in the Budget Reconciliation and Financing Act of 2004. Significant increases were made in the following areas:

- \$16.0 million increase in the Uncompensated Care Fund to subsidize hospitals with a high percentage of uninsured patients.
- \$0.6 million for administrative support services provided by the Department of Health and Mental Hygiene;
- \$0.2 million for consultants retained by HSCRC to analyze hospital case-mix data and recommend quality improvement measures; and
- \$22,500 to recognize the fiscal 2005 cost-of-living adjustment.

\$8.9 million was cancelled due to lower-than-anticipated payments from the Maryland Trauma Physician Services Fund.

The MHCC special fund appropriation increased \$1.5 million as a result of increased user fee assessments provided for in the Budget Reconciliation and Financing Act of 2004. Significant increases were made in the following areas:

- \$1.3 million for administrative support services provided by the Department of Health and Mental Hygiene;
- \$0.2 million for consultant services for an MHCC report on increasing affordability of health insurance in Maryland; and
- \$37,623 to recognize the fiscal 2005 cost-of-living adjustment.

\$3.6 million was cancelled because the Uncompensated Care Fund appropriation exceeded payments to hospitals.

Fiscal 2006

The special fund appropriation increased \$2.1 million in fiscal 2006. The majority of the increase, \$1.9 million, was due to increased assessments authorized by the 2005 budget reconciliation legislation. Smaller increases are due to consultant services (\$0.1 million) and cost-of-living adjustments for employees of both commissions.

Audit Findings

Audit Period for Last Audit:	August 5, 1999 – March 7, 2002
Issue Date:	September 2002
Number of Findings:	2
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

Finding 1: The Maryland Health Care Commission did not assess fiscal 2002 user fees in accordance with State law, resulting in an improper allocation of fees among regulated industries.

Finding 2: The Health Services Cost Review Commission did not properly calculate uncompensated care assessments for 3 of the 11 hospitals tested, resulting in under assessments of \$268,438 for a two-year period.

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

<u>Object/Fund</u>	<u>FY05 Actual</u>	<u>FY06 Working Appropriation</u>	<u>FY07 Allowance</u>	<u>FY06 - FY07 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	92.60	89.60	97.90	8.30	9.3%
02 Contractual	2.00	2.00	3.00	1.00	50.0%
Total Positions	94.60	91.60	100.90	9.30	10.2%
Objects					
01 Salaries and Wages	\$ 7,196,172	\$ 7,779,081	\$ 8,683,432	\$ 904,351	11.6%
02 Technical & Spec Fees	83,719	138,229	179,682	41,453	30.0%
03 Communication	89,302	116,958	109,961	-6,997	-6.0%
04 Travel	76,679	103,936	125,742	21,806	21.0%
08 Contractual Services	75,995,454	90,107,602	93,087,966	2,980,364	3.3%
09 Supplies & Materials	66,252	72,929	73,141	212	0.3%
10 Equip - Replacement	24,648	31,000	57,982	26,982	87.0%
11 Equip - Additional	0	25,000	45,802	20,802	83.2%
12 Grants, Subsidies, and Contributions	0	0	7,700,000	7,700,000	N/A
13 Fixed Charges	332,751	354,989	380,043	25,054	7.1%
Total Objects	\$ 83,864,977	\$ 98,729,724	\$ 110,443,751	\$ 11,714,027	11.9%
Funds					
01 General Fund	\$ 0	\$ 0	\$ 500,000	\$ 500,000	N/A
03 Special Fund	83,864,977	98,729,724	109,943,751	11,214,027	11.4%
Total Funds	\$ 83,864,977	\$ 98,729,724	\$ 110,443,751	\$ 11,714,027	11.9%

**Fiscal Summary
DHMH Health Regulatory Commissions**

<u>Program/Unit</u>	<u>FY05 Actual</u>	<u>FY06 Wrk Approp</u>	<u>FY07 Allowance</u>	<u>Change</u>	<u>FY06 - FY07 % Change</u>
01 Maryland Health Care Commission	\$ 11,259,122	\$ 20,289,032	\$ 20,164,920	-\$ 124,112	-0.6%
02 Health Services Cost Review Commission	72,605,855	78,440,692	82,051,904	3,611,212	4.6%
03 Maryland Community Health Resources Commission	0	0	8,226,927	8,226,927	
Total Expenditures	\$ 83,864,977	\$ 98,729,724	\$ 110,443,751	\$ 11,714,027	11.9%
General Fund	\$ 0	\$ 0	\$ 500,000	\$ 500,000	N/A
Special Fund	83,864,977	98,729,724	109,943,751	11,214,027	11.4%
Total Appropriations	\$ 83,864,977	\$ 98,729,724	\$ 110,443,751	\$ 11,714,027	11.9%