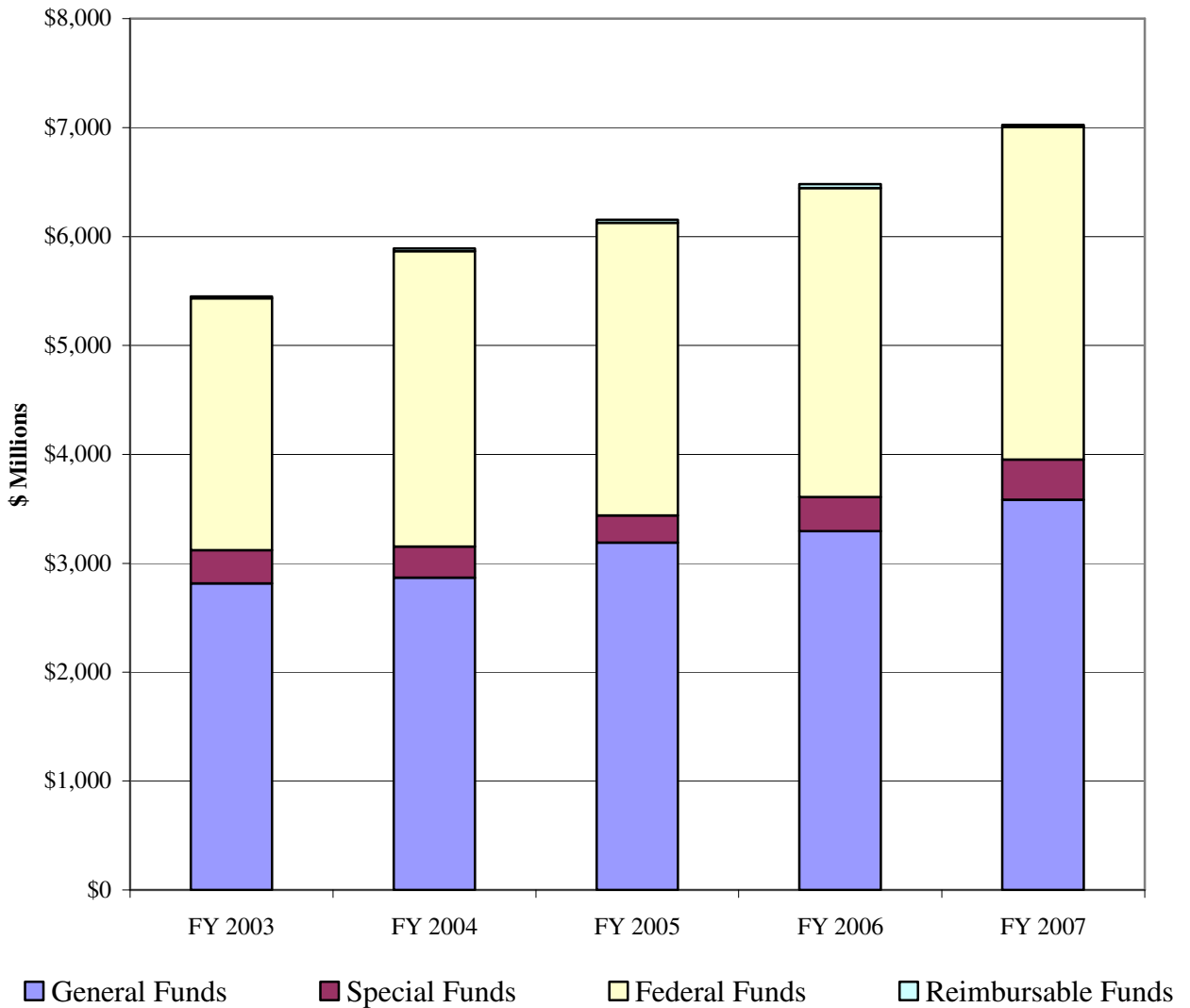

**Department of Health and
Mental Hygiene
Fiscal 2007 Budget Overview**

**Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland**

January 2006

M00
Department of Health and Mental Hygiene
Fiscal 2007 Budget Overview

Department of Health and Mental Hygiene
Five-year Funding Trends
(\$ in Millions)



M00 – DHMH – Fiscal 2007 Budget Overview

**Department of Health and Mental Hygiene
Budget Overview: Stronger Expenditure Growth Apparent
Fiscal 2004 – 2007
(\$ in Millions)**

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>Change FY 04-06</u>	<u>FY 2007</u>	<u>Change FY 06-07</u>
Operations	\$521	\$540	\$555	\$35	\$613	\$57
Contractual Services	5,271	5,518	5,834	\$563	6,300	\$466
Grants	99	96	92	-\$7	112	\$21
Total	\$5,890	\$6,154	\$6,481	\$590	\$7,024	\$544
General Fund	\$2,865	\$3,191	\$3,296	\$431	\$3,583	\$287
Special Fund	\$289	\$248	\$314	\$25	\$368	\$55
Federal Funds	\$2,712	\$2,686	\$2,836	\$123	\$3,052	\$216
Reimbursable Funds	\$24	\$29	\$35	\$10	\$21	-\$14
Total	\$5,890	\$6,154	\$6,481	\$590	\$7,024	\$544
Annual % Change from Prior Year	8.1%	4.5%	5.3%		8.4%	

Note: Excludes fiscal 2006 deficiencies and fiscal 2007 contingent reductions.

Source: Department of Legislative Services; Department of Budget and Management

M00 – DHMH – Fiscal 2007 Budget Overview

**Department of Health and Mental Hygiene
Fiscal 2006 Deficiencies and Fiscal 2007 Contingent Reductions**

<u>Program</u>	<u>Item</u>	<u>General Fund Impact</u>	<u>Total Fund Impact</u>
Fiscal 2006 Deficiencies			
Administration	Funding to offset reversion to State general fund of federal indirect cost recoveries attributed to statewide costs as required by fiscal 2006 budget bill	\$2,684,826	\$2,684,826
Community and Family Health	Supplemental funding for academic health centers for research on cancer and tobacco-related diseases	3,837,250	3,837,250
Departmental	Funds to offset higher than anticipated fuel and utility costs across all DHMH facilities	2,500,000	2,500,000
Medicaid	Prior year deficits	40,000,000	80,857,143
Medicaid	Calendar 2006 cost of Managed Case Organization's rate increase	26,000,000	52,857,143
Fiscal 2006 Deficiencies Total		\$75,022,076	\$142,736,362
Fiscal 2007 Contingent Reductions			
Administration	Reduction contingent on legislation authorizing the assessment of indirect costs on the health regulatory commissions	\$1,185,000	\$0
Medicaid	Reduction contingent on legislation requiring Medicare eligible Kidney Disease Program participants to enroll in the Medicare Drug benefit	1,280,000	1,280,000
Fiscal 2007 Contingent Reductions Total		\$2,465,000	\$1,280,000

DHMH = Department of Health and Mental Hygiene

Source: Department of Legislative Services; State Budget

M00 – DHMH – Fiscal 2007 Budget Overview

**Department of Health and Mental Hygiene
Budget Overview: All Funding Sources**

Fiscal 2005 – 2007

(\$ in Thousands)

	Actual FY 2005	Working FY 2006	Allowance FY 2007	\$ Change FY 06-07	% Change FY 06-07
Medical Programs/Medicaid	\$4,080,069	\$4,335,024	\$4,705,445	\$370,421	8.5%
Provider Reimbursements	3,881,829	4,122,542	4,460,049	\$337,507	8.2%
Maryland Children's Health Program	135,897	146,409	177,163	\$30,754	21.0%
Other	62,343	66,073	68,233	\$2,160	3.3%
Mental Hygiene	\$776,533	\$806,171	\$866,491	\$60,320	7.5%
Program Direction	6,390	6,412	7,642	\$1,230	19.2%
Community Services	516,662	540,772	583,330	\$42,558	7.9%
Facilities	253,481	258,987	275,519	\$16,532	6.4%
Developmental Disabilities	\$601,117	\$640,495	\$693,367	\$52,872	8.3%
Program Direction	4,842	4,812	5,822	\$1,010	21.0%
Community Services	526,138	565,020	612,759	\$47,739	8.4%
Facilities	70,137	70,663	74,786	\$4,123	5.8%
Community and Family Health	\$274,474	\$272,783	\$289,290	\$16,507	6.1%
Targeted Local Health	65,371	66,352	67,585	\$1,233	1.9%
Women, Infants, and Children	57,471	64,309	62,836	-\$1,473	-2.3%
Cigarette Restitution Fund	38,270	29,167	46,855	\$17,688	60.6%
Other	113,362	112,955	112,015	-\$940	-0.8%
Alcohol and Drug Abuse	\$130,779	\$132,092	\$136,009	\$3,917	3.0%
Other Budget Areas	\$290,711	\$293,972	\$333,797	\$39,825	13.5%
DHMH Administration	42,725	36,369	41,392	\$5,023	13.8%
Office of Health Care Quality	13,782	14,229	15,424	\$1,195	8.4%
Health Occupations Boards	18,875	21,235	23,718	\$2,483	11.7%
Chronic Disease Hospitals	40,119	41,368	44,471	\$3,103	7.5%
AIDS Administration	61,434	53,941	68,332	\$14,391	26.7%
Chief Medical Examiner	7,737	7,835	8,158	\$323	4.1%
Laboratories Administration	22,174	20,265	21,858	\$1,593	7.9%
Health Regulatory Commissions	83,865	98,730	110,444	\$11,714	11.9%
Total Funding	\$6,153,681	\$6,480,536	\$7,024,399	\$543,864	8.4%

Notes: Numbers may not sum to total due to rounding.
Excludes fiscal 2006 deficiencies and fiscal 2007 contingent reductions.

Source: Department of Legislative Services; State Budget

M00 – DHMH – Fiscal 2007 Budget Overview

**Department of Health and Mental Hygiene
Budget Overview: General Funds Only
Fiscal 2005 – 2007
(\$ in Thousands)**

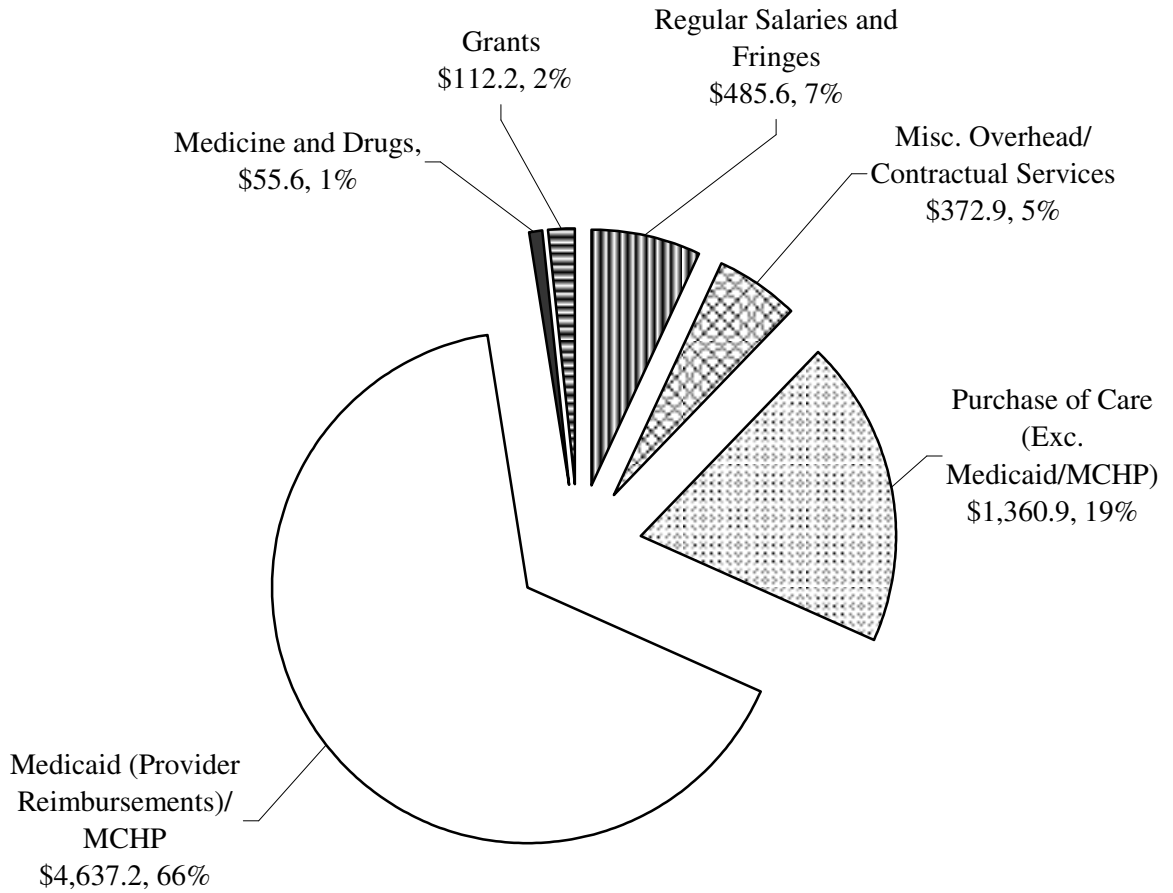
	Actual	Working	Allowance	\$ Change	% Change
	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 06-07</u>	<u>FY 06-07</u>
Medical Programs/Medicaid	\$1,935,043	\$2,013,578	\$2,211,017	\$197,439	9.8%
Provider Reimbursements	1,855,573	1,930,342	2,117,094	\$186,752	9.7%
Maryland Children's Health Program	47,276	49,322	59,086	\$9,764	19.8%
Other	32,194	33,914	34,837	\$923	2.7%
Mental Hygiene	\$573,917	\$577,537	\$611,812	\$34,275	5.9%
Program Direction	5,122	5,028	6,030	\$1,002	19.9%
Community Services	322,656	320,140	336,048	\$15,908	5.0%
Facilities	246,139	252,369	269,734	\$17,365	6.9%
Developmental Disabilities	\$397,606	\$417,390	\$450,992	\$33,602	8.1%
Program Direction	4,203	4,371	4,866	\$495	11.3%
Community Services	324,012	342,796	371,759	\$28,963	8.4%
Facilities	69,391	70,223	74,367	\$4,144	5.9%
Community and Family Health	\$111,699	\$117,993	\$116,080	-\$1,912	-1.6%
Targeted Local Health	60,878	61,859	63,092	\$1,233	2.0%
Women, Infants, and Children	250	250	250	\$0	0.0%
Cigarette Restitution Fund	0	226	0	-\$226	-100.0%
Other	50,571	55,657	52,739	-\$2,919	-5.2%
Alcohol and Drug Abuse	\$79,152	\$78,082	\$82,726	\$4,644	5.9%
Other Budget Areas	\$93,631	\$91,683	\$110,458	\$18,775	20.5%
DHMH Administration	20,618	18,453	25,446	\$6,993	37.9%
Office of Health Care Quality	8,400	8,663	9,571	\$908	10.5%
Health Occupations Boards	175	222	248	\$26	11.7%
Chronic Disease Hospitals	34,768	35,654	38,537	\$2,883	8.1%
AIDS Administration	5,534	4,902	10,666	\$5,764	117.6%
Chief Medical Examiner	7,413	7,551	7,904	\$353	4.7%
Laboratories Administration	16,723	16,238	17,586	\$1,348	8.3%
Health Regulatory Commissions	0	0	500	\$500	100.0%
Total Funding	\$3,191,049	\$3,296,263	\$3,583,085	\$286,821	8.7%

Notes: Numbers may not sum to total due to rounding.
Excludes fiscal 2006 deficiencies and fiscal 2007 contingent reductions.

Source: Department of Legislative Services; State Budget

M00 – DHMH – Fiscal 2007 Budget Overview

**Department of Health and Mental Hygiene
Functional Breakdown of Spending
Fiscal 2007 Allowance
(\$ in Millions)**



MCHP = Maryland Children's Health Program

M00 – DHMH – Fiscal 2007 Budget Overview

**Governor’s Proposed Budget Changes
Department of Health and Mental Hygiene
(\$ in Thousands)**

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
2006 Working Appropriation	\$3,296,263	\$313,951	\$2,835,682	\$34,640	\$6,480,536
2007 Governor's Allowance	<u>3,583,085</u>	<u>368,485</u>	<u>3,051,981</u>	<u>20,849</u>	<u>7,024,400</u>
Amount Change	286,821	54,534	216,300	-13,792	543,864
Percent Change	8.7%	17.4%	7.6%	-39.8%	8.4%

Where It Goes:

Major Personnel Expense Changes	\$40,775
Employee and retiree health insurance (reflects fiscal 2007 increase and fiscal 2006 understatement of costs)	\$24,855
Regular earnings (increments and new positions offset by position abolitions)	6,860
Retirement contributions	4,207
Offset to fiscal 2006 statewide indirect cost general fund reversion	2,685
Other adjustments	1,343
Deferred compensation	825
Tobacco Settlement Initiatives	\$17,688
Governor's Initiative to Conquer Cancer in Maryland	7,957
Governor's Initiative to End Smoking In Maryland	9,731
Major Programmatic Changes (Exc. Medicaid)	\$111,561
Alcohol and Drug Abuse Administration	
Governor's substance abuse initiative (expansion of long-term residential treatment and funding of locally determined priorities)	4,378
Mental Hygiene Administration	
Community mental health fee-for-service funding increased enrollment/utilization	25,391
Community mental health fee-for-service funding 4% rate increase	18,445
Estimated savings from eliminating fraud and abuse	-2,000
Developmental Disabilities Administration	
Wage initiative (Chapter 109 and 110, Acts of 2001)	16,240
Reducing the Waiting List (services to 1,225 clients)	10,000
Transitioning youth initiative (services to 497 clients)	7,689
Increase federal match for services	4,000
Annualization of prior year community placements	2,975
Emergency placements (services to 84 clients)	2,699
Transportation funding	1,754
Waiting List Equity Fund (services to 40 clients)	1,231

M00 – DHMH – Fiscal 2007 Budget Overview

Where It Goes:

Community and Family Health Administrations

Health care for immigrants.....	3,000
Maternal and prenatal health initiative	2,176
Targeted local health formula.....	1,233
Transfer of Maryland Primary Care program to Medicaid.....	-7,365
WIC supplemental nutrition grants and counseling (federal funds).....	-2,010
Prince George's Hospital Center grant.....	-1,320

Other Programs

AIDS Administration: Maryland AIDS Drug Assistance Program.....	11,345
Health Regulatory Commissions: Implementation of Chapter 280, Acts of 2005; operating grants for community health resource centers	7,700
Health Regulatory Commissions: Increase in Uncompensated Care Fund	4,000

Medicaid/Medical Care Programs Administration \$369,117

Changes in medical inflation and enrollment growth.....	350,650
Ongoing cost of fiscal 2006 deficiency expense for managed care rate increase.....	52,857
Physician rate increase	30,000
Expand Pharmacy Assistance Program to include primary care	26,338
Partial restoration of Hospital Day Limits cost containment.....	20,000
Buy-in program to serve employed disabled individuals	11,025
Medicare drug benefit – federal savings.....	-50,000
Remove fiscal 2006 funding associated with fiscal 2005 bills.....	-40,000
Annualize savings from Medicare eligible Maryland Pharmacy Assistance Program participants moving to Medicare drug benefit.....	-31,753

Other 4,723

Total Change \$543,864

Numbers may not sum due to rounding.

M00 – DHMH – Fiscal 2007 Budget Overview

**Department of Health and Mental Hygiene
Regular Employees (FTE)
Fiscal 2005 – 2007**

	<u>Actual FY 2005</u>	<u>Working FY 2006</u>	<u>Allowance FY 2007</u>	<u>Change FY 06-07</u>	<u>% Change FY 06-07</u>
DHMH Administration	473.5	457.1	458.1	1.0	0.2%
Office of Health Care Quality	183.4	187.4	194.4	7.0	3.7%
Health Occupations Boards	182.5	200.0	216.0	16.0	8.0%
Community and Family Health Administration	340.7	350.7	342.7	-8.0	-2.3%
AIDS Administration	62.0	100.0	97.0	-3.0	-3.0%
Chief Medical Examiner	76.0	76.0	76.0	0.0	0.0%
Chronic Hospitals	575.8	569.8	568.3	-1.5	-0.3%
Laboratories Administration	278.5	272.5	272.5	0.0	0.0%
Alcohol and Drug Abuse Administration	49.5	49.5	64.0	14.5	29.3%
Mental Hygiene Administration	3,401.2	3,373.6	3,376.6	3.0	0.1%
Administration	86.2	86.2	89.2	3.0	3.5%
Institutions	3,315.0	3,287.4	3,287.4	0.0	0.0%
Developmental Disabilities Administration	1,240.2	1,228.2	1,215.2	-13.0	-1.1%
Administration	146.5	148.5	148.5	0.0	0.0%
Institutions	1,093.7	1,079.7	1,066.7	-13.0	-1.2%
Medical Care Programs Administration	592.3	618.7	635.7	17.0	2.7%
Health Regulatory Commissions	92.6	89.6	97.9	8.3	9.3%
Total Regular Positions	7,548.1	7,573.0	7,614.3	41.3	0.5%

Source: State Budget

- The vacancy rate of the department as of December 31, 2005, was 7.6%, or 574.7 vacancies. This compares to the statewide vacancy rate (excluding higher education) of 6.9%.
- The budgeted turnover rate for the department is 5.29%. To meet this turnover rate, the department on average requires 572.74 vacancies.

M00 – DHMH – Fiscal 2007 Budget Overview

- There has been some change in the department’s regular personnel complement between the fiscal 2006 legislative appropriation and fiscal 2006 working appropriation. Overall, the department’s regular workforce has increased by 28 full-time equivalent (FTE) positions. Specific elements of change include:
 - the addition of 14 FTE positions as a result of interagency transfer (21 FTE transferred into the department offset by 7 FTE transferred out);
 - the addition of 41 FTE positions in the AIDS Administration as a result of conversions of positions previously contracted out; and
 - the abolition of 27 positions as identified by the Executive Branch as part of the statewide position cap required under Section 38 of Chapter 443, Acts of 2005 (Fiscal 2006 Budget Bill).

- The regular position count in the fiscal 2007 allowance is 41.3 FTEs above the working appropriation. This change consists of:
 - 62.8 new positions, the bulk of which are contract/contractual conversions;
 - the abolition of 21.5 regular positions from various parts of the department with the largest concentration from the Potomac Center (10 abolished FTEs).

M00 – DHMH – Fiscal 2007 Budget Overview

**Department of Health and Mental Hygiene
Contractual Employees (FTE)
Fiscal 2005 – 2007**

	<u>Actual FY 2005</u>	<u>Working FY 2006</u>	<u>Allowance FY 2007</u>	<u>Change FY 06-07</u>	<u>% Change FY 06-07</u>
DHMH Administration	13.4	14.7	13.8	-0.9	-6.1%
Office of Health Care Quality	4.0	5.4	5.4	0.0	0.0%
Health Occupations Boards	29.8	34.9	30.1	-4.8	-13.6%
Community and Family Health Administration	10.2	16.6	17.3	0.7	4.1%
AIDS Administration	0.0	0.0	0.0	0.0	0.0%
Chief Medical Examiner	2.1	6.0	6.0	0.0	0.0%
Chronic Hospitals	19.8	19.8	21.6	1.8	9.2%
Laboratories Administration	2.9	2.8	2.8	0.0	0.0%
Alcohol and Drug Abuse Administration	2.2	3.2	3.2	0.0	0.0%
Mental Hygiene Administration	227.8	195.9	205.1	9.2	4.7%
Administration	1.9	2.8	2.9	0.1	3.2%
Institutions	225.8	193.1	202.2	9.1	4.7%
Developmental Disabilities Administration	82.3	109.4	114.1	4.7	4.3%
Administration	22.4	37.4	36.4	-1.0	-2.7%
Institutions	59.9	72.0	77.7	5.7	7.9%
Medical Care Programs Administration	43.4	61.2	55.6	-5.6	-9.1%
Health Regulatory Commissions	2.0	2.0	3.0	1.0	50.0%
Total Contractual Positions	439.8	471.8	477.9	6.2	1.3%

Source: State Budget

M00 – DHMH – Fiscal 2007 Budget Overview

**Department of Health and Mental Hygiene
Budget Overview: Selected Caseload Measures
Fiscal 2004 – 2007**

	<u>Actual</u> <u>FY 2004</u>	<u>Actual</u> <u>FY 2005</u>	<u>Working</u> <u>FY 2006</u>	<u>Allowance</u> <u>FY 2007</u>	<u>Change</u> <u>FY 06-07</u>	<u>% Change</u> <u>FY 06-07</u>
Medical Programs/Medicaid (Average Monthly Enrollment)						
Medicaid	502,861	522,138	531,885	538,568	6,683	1.3%
Maryland Children's Healthcare Program	98,420	95,019	102,830	111,220	8,390	8.2%
Developmental Disabilities Administration						
Total Clients Served in Various Settings						
Residential Services	4,634	4,770	4,930	5,122	192	3.9%
Day Services	8,623	9,049	9,377	10,244	867	9.2%
In-home Support Services	7,708	8,120	8,156	8,983	827	10.1%
Average Daily Census at Institutions	389	380	361	258	-103	-28.5%
Mental Hygiene Administration						
Average Daily Populations at State-run Psychiatric Hospitals:						
Hospitals Excluding RICAs and Assisted Living	1,198	1,186	1,189	1,214	25	2.1%
RICAs	111	114	113	144	31	27.4%
Assisted Living	93	89	91	105	14	15.4%
Total	1,402	1,389	1,393	1,463	70	5.0%
Number Receiving Community Mental Health Services:						
Medicaid Eligible	76,383	75,914	80,000	86,000	6,000	7.5%
Medicaid-ineligible	13,038	16,824	16,000	14,000	-2,000	-12.5%
Total	89,421	92,738	96,000	100,000	4,000	4.2%
Alcohol and Drug Abuse Administration						
Total Clients Served in Various Settings						
Outpatient	33,227	33,250	33,915	34,593	678	2.0%
Correctional	2,520	2,731	2,786	2,841	55	2.0%
Residential	8,185	8,905	9,083	9,326	243	2.7%
Halfway House	1,164	1,501	1,531	1,562	31	2.0%
Methadone	8,546	9,874	10,071	10,273	202	2.0%
Detoxification	5,599	5,838	5,955	6,074	119	2.0%
Total	59,241	62,099	63,341	64,669	1,328	2.1%

Source: Department of Legislative Services; Department of Health and Mental Hygiene

Issues

1. The State of the State's Health – 2005

One of the more comprehensive nationwide health rankings is developed by the United Health Foundation (a nonprofit, private foundation established by UnitedHealth Group), the American Public Health Association (an organization representing public health professionals), and Partnership for Prevention (a national nonprofit organization dedicated to health improvement). Since 1990 in a publication entitled *America's Health: State Health Rankings*, individual state rankings have been produced using data that represent a broad range of issues affecting a population's health, that are available at a state level, and that are current. Data and the ranking methodology are regularly reviewed by a large panel of public health experts and can change from year-to-year.

The purpose of these rankings is two-fold: to stimulate public conversation concerning health in the states and to provide information to facilitate citizen participation in discussions about health policy.

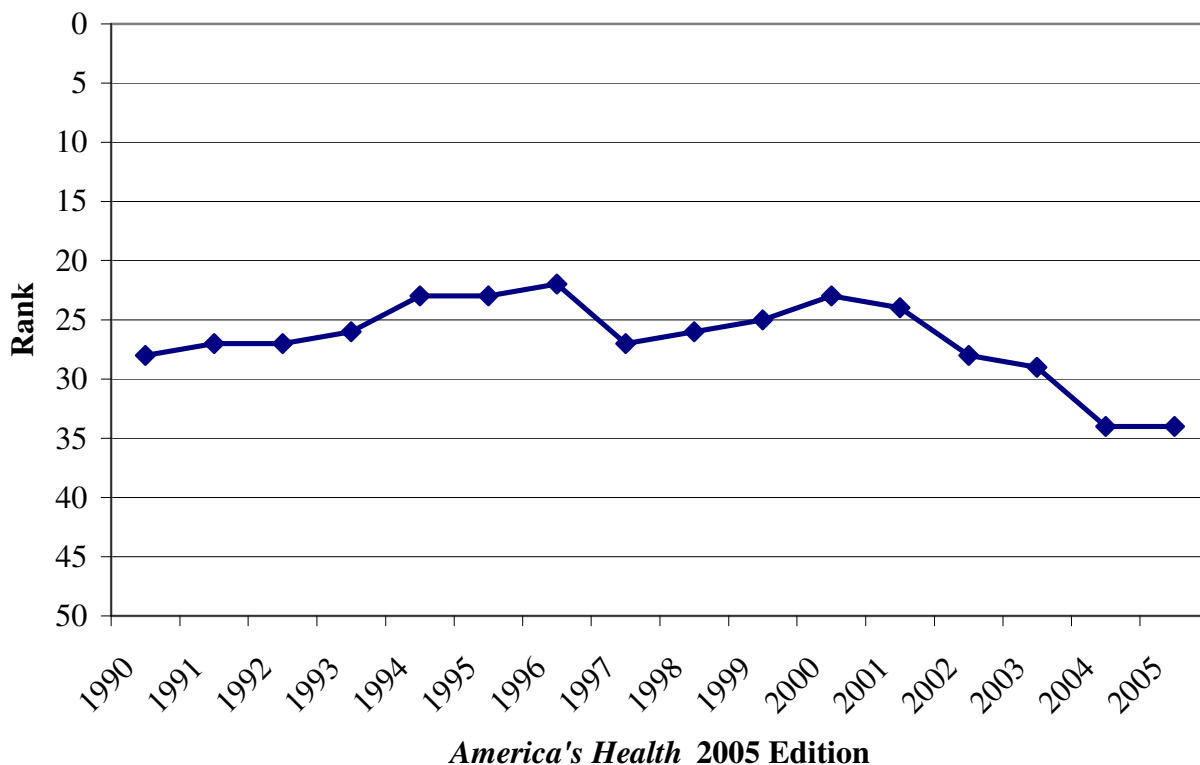
Data are collected in two broad categories:

- Risk factors which are in turn broken into three groupings:
 - Personal behaviors (prevalence of smoking, motor vehicle deaths, prevalence of obesity, and high school graduation);
 - Community environment (violent crime offenses, lack of health insurance, infectious disease, children in poverty, and occupational fatalities); and
 - Health policies (per capita public health spending, immunization coverage, and adequacy of prenatal care).
- Outcomes (limited activity days, cardiovascular deaths, cancer deaths, total mortality, infant mortality, and premature death).

Data for each component is appropriately adjusted and weighted and combined into a single State overall health score. Risk factors ultimately contribute just under 60% of a State's overall score, with outcomes just over 40%.

As shown in **Exhibit 1**, in the 2005 edition of *America's Health*, Maryland's overall ranking based on this combined health score is thirty-fourth, unchanged from 2004, and still the lowest in the 16 years this particular ranking has been done.

Exhibit 1
America's Health: State Health Ranking – 1990 to 2005 – Maryland



Source: United Health Foundation

As shown in **Exhibit 2**, short-term data trends for health outcomes between 2004 and 2005 are mostly positive. However, the one negative trend, in infant mortality, is significantly worse.

Looking only at risk factors, short-term data trends are much more mixed:

- Significant improvements are shown in terms of prevalence of smoking, violent crime rates, and infectious disease rates. Interestingly, there was a general improvement in these factors nationwide.
- Significant declines are shown in terms of prevalence of obesity (also a growing problem nationwide) and an increase in persons lacking health insurance.

Exhibit 2
Various Health Outcomes and Risk Factors
U.S. and Maryland: 1990, 2004, and 2005

<u>Outcome</u>	<u>1990</u>		<u>2004</u>		<u>2005</u>	
	<u>Maryland</u>	<u>Maryland Rank</u>	<u>Maryland</u>	<u>Maryland Rank</u>	<u>Maryland</u>	<u>Maryland Rank</u>
Limited Activity Days (Days in last 30 days)	3.9	25	2	18	2	16
Cardiovascular Deaths (Deaths per 100,000 population)	409	28	328.6	29	324.1	29
Cancer Deaths (Deaths per 100,000 population)	219.7	49	208.4	32	207.2	32
Total Mortality (Deaths per 100,000 population)	912.2	35	864.1	27	859.6	28
Infant Mortality (Deaths per 1,000 live births)	11.6	41	8.2	41	8.7	46
Premature Death (Years lost per 100,000 population)	9,145	36	8,071	34	8,014	33
<u>Risk Factor</u>						
Prevalence of Smoking (% of Population)	29.7	26	20.1	12	19.5	10
Motor Vehicle Deaths (Deaths per 100 million miles driven)	2.0	11	1.2	10	1.2	10
Prevalence of Obesity (% of Population)	12.0	29	21.9	23	23.9	32
High School Graduation (% of incoming 9th graders)	76.5	25	74.1	18	74.1	18
Violent Crime (Offenses per 100,000 population)	768.0	45	770.0	48	701.0	48
Lack of health insurance (% without coverage)	8.9	11	13.9	23	14.6	30
Infectious Disease (Cases per 100,000 population)	41.1	38	43.9	49	40.3	48
Children in poverty (% of persons under 18)	16.4	17	10.6	4	11.0	8
Occupational fatalities (Deaths per 100,000 workers)	5.7	5	3.7	7	4.2	12
Per capita public health spending (\$ per person)		n/a	192.0	12	189.0	14
Immunization coverage (% of children 19-35 months receiving selected vaccines)		n/a	81.3	17	80.0	34
Adequacy of prenatal care (% of pregnant women receiving adequate care)		n/a	72.4	33	70.9	38

Note: Year refers to year that the ranking is made. The data used to make that ranking are the most current available.

Source: *America's Health: State Health Rankings – 2005 Edition*

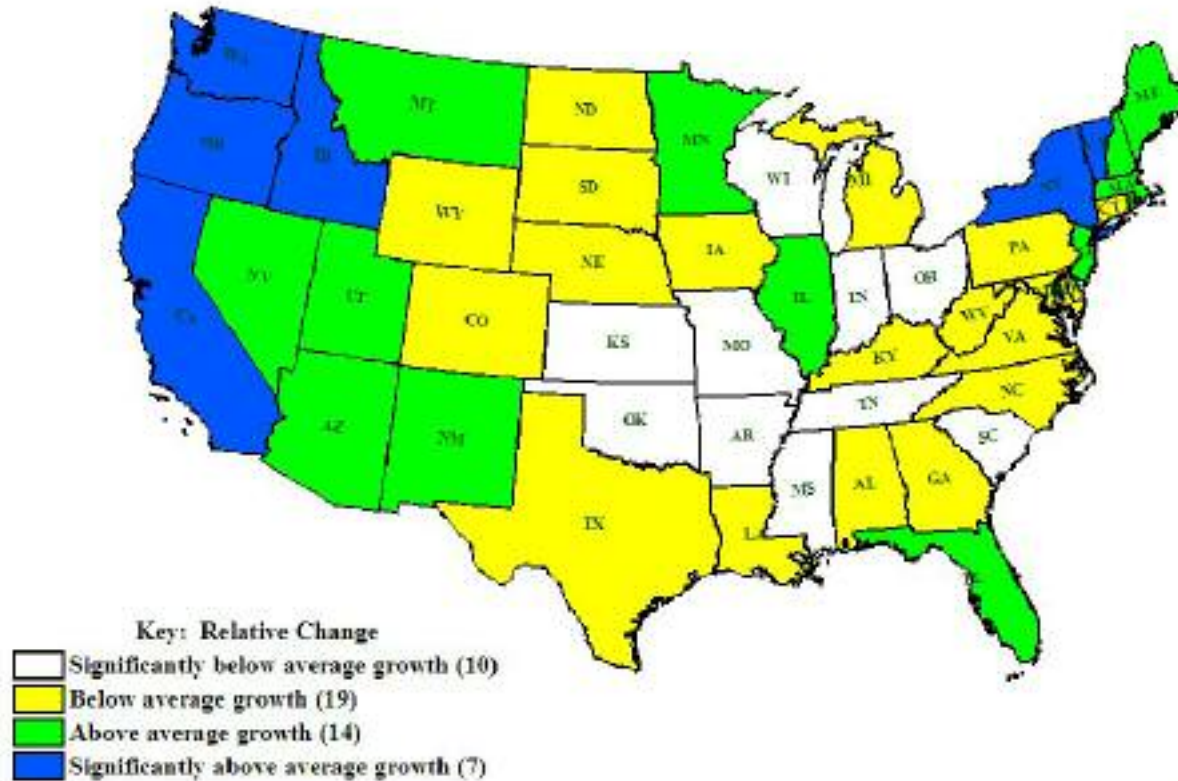
M00 – DHMH – Fiscal 2007 Budget Overview

Long-term trends (1990 to 2005) in all health outcomes are positive. Similarly, long-term trends for risk factors are positive with the exception of prevalence of obesity, lack of health insurance, and high school graduation rates. Each of these three risk factors is also identified in the 2005 edition of *America's Health* as a measure that should challenge policymakers nationally. To be sure, in Maryland, the increase in the number of uninsured and the prevalence of obesity is markedly greater than the concomitant national increase.

Taken together, over the long-term, Maryland's overall health score has shown improvement. However, as is reflected by the State's fall in ranking over the same period, the rate of improvement in that overall score is relatively slower than for other states. Indeed, as shown in **Exhibit 3**, Maryland is one of 19 states that has had below average growth in its overall health score between 1990 and 2005 (and in fact almost falls into the category of significantly below average growth – growth of more than one standard deviation from the mean—with 10 other states). Two additional points can be made from Exhibit 3:

- States that have seen significantly above average and above average growth in health scores are predominantly in the West and North East of the nation, with the Mid-West and South experiencing much slower improvement in scores.
- It does not appear that states with above average or significantly above average growth in their overall score are those states that in 1990 had poorer outcomes and high risk factors and thus had the more room for improvement. Nor, conversely, that those states showing below average or significantly below average growth in their overall score are those states that had good outcomes and low risk factors and thereby less room for improvement. With few exceptions, those states that ranked poorly in 1990 continue to rank poorly and see below average improvement in overall health scores, while top-ranking states retain those rankings and still achieve above average improvement in overall health scores.

Exhibit 3
Annual Change in Overall America's Health Score: 1990 to 2005 – Percent



Note: Alaska had significantly above average growth in its overall health score; Hawaii had above average growth in its overall health score.

Source: *America's Health: State Health Rankings – 2005 Edition*

2. Wide Variation Exists within the Department of Health and Mental Hygiene Both on the Methodology Used to Set Provider Rates and Which Providers Receive Rate Increases

The fiscal 2007 allowance contains a significant number of rate increases for services provided under contract to the Department of Health and Mental Hygiene (DHMH). In some cases the increases are expected, based as they are on statutory requirements. Others could not be anticipated because they are discretionary, competing with many other priorities in the annual budget process.

For the majority of health care services delivered through DHMH contracts, the department itself establishes the rates. Six separate administrations within the department set rates for and/or pay providers, each serving unique populations, providing varying services, using different rate-setting methodologies, and paying different rates. In addition, the Health Services Cost Review Commission sets hospital rates.

Seven major rate-setting methodologies are used for health care providers: capitation, case-rates, contracts, cost-based grants, fee-for-service, formulas, and per diems. The use of a particular method is based on what has historically been used, what best suits a particular service, or ultimate programmatic goals.

Nature of Provider Rate Increases

Provider rates may be generally classified as mandated, proactively regulated, negotiated, or discretionary. Mandated rates (1) are set in statute; (2) include a requirement for periodic adjustment or update in statute; or (3) are driven by a legislative directive. Proactively regulated rates are considered to be rates set in regulation that include a requirement for periodic adjustment or update. Such rates can be anticipated unless specific action is taken to reduce them. Negotiated rates, though based on data, include a degree of conference and negotiation between the rate-setting organization and the providers. Discretionary rates are set by the rate-setting agency, typically in regulation, based on available funds, enrollment, and other factors.

Mandated rate increases include those for Medicaid physicians and providers of services to the developmentally disabled, which have received substantial rate increases under legislative directives. Proactively regulated rates include those for services under the Older Adults Medicaid waiver, which has a regulatory annual inflationary adjustment. Negotiated rates include hospital and managed care organization (MCO) rates. The majority of provider rates are discretionary in that they have no statutory requirement or mandated update factors; and thus, they may be set at the discretion of DHMH according to funding availability and programmatic goals.

Summary of Selected Provider Rate Increases

In recent years, despite budget limitations, a number of health care providers including most of the major provider categories that have been driving the increases in DHMH's overall budget, have received annual rate increases. As shown in **Exhibit 4**, for these providers, the average increase between fiscal 2002 and 2006 was 4.7%, although the range of increase varied quite sharply from provider to provider, from 1.8 to 7.4%.

Exhibit 4
Comparison of Selected Provider Rate Increases
Fiscal 2002 – 2006
Percentage Rate Increase

<u>Provider</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>Average Increase FY 02-06</u>
DDA – Day Services ¹	-	6.8%	5.9%	0.3%	11.6%	6.2%
DDA – Residential Services ¹	-	11.5%	5.2%	1.7%	11.1%	7.4%
DDA – Supported Employment ¹	n/a	-	4.5%	5.6%	7.5%	5.9%
Hospitals	4.0%	3.2%	5.3%	4.8%	5.0%	4.5%
Medicaid – Adult/Medical Day Care	2.0%	2.2%	1.1%	2.7%	1.2%	1.8%
Medicaid – Home Health	2.2%	2.1%	3.3%	3.3%	2.5%	2.7%
Medicaid – Living at Home Waiver	n/a	1.7%	2.5%	2.5%	2.5%	2.3%
Medicaid – MCOs ²	7.9%	8.5%	5.3%	5.8%	6.3%	6.8%
Medicaid – Nursing Homes	12.1%	7.9%	4.2%	3.8%	6.4%	6.9%
Medicaid – Older Adults Waiver	n/a	2.2%	2.5%	2.0%	2.0%	2.2%
Average Rate Increase³	5.6%	5.1%	4.0%	3.3%	5.6%	4.7%

¹ DDA rate increases includes funding provided under the Wage Initiative.

² MCO rates are calendar year.

³ Unweighted average.

Source: COMAR; Department of Health and Mental Hygiene; Department of Legislative Services

Rate Increases Often Met or Exceeded Benchmarks

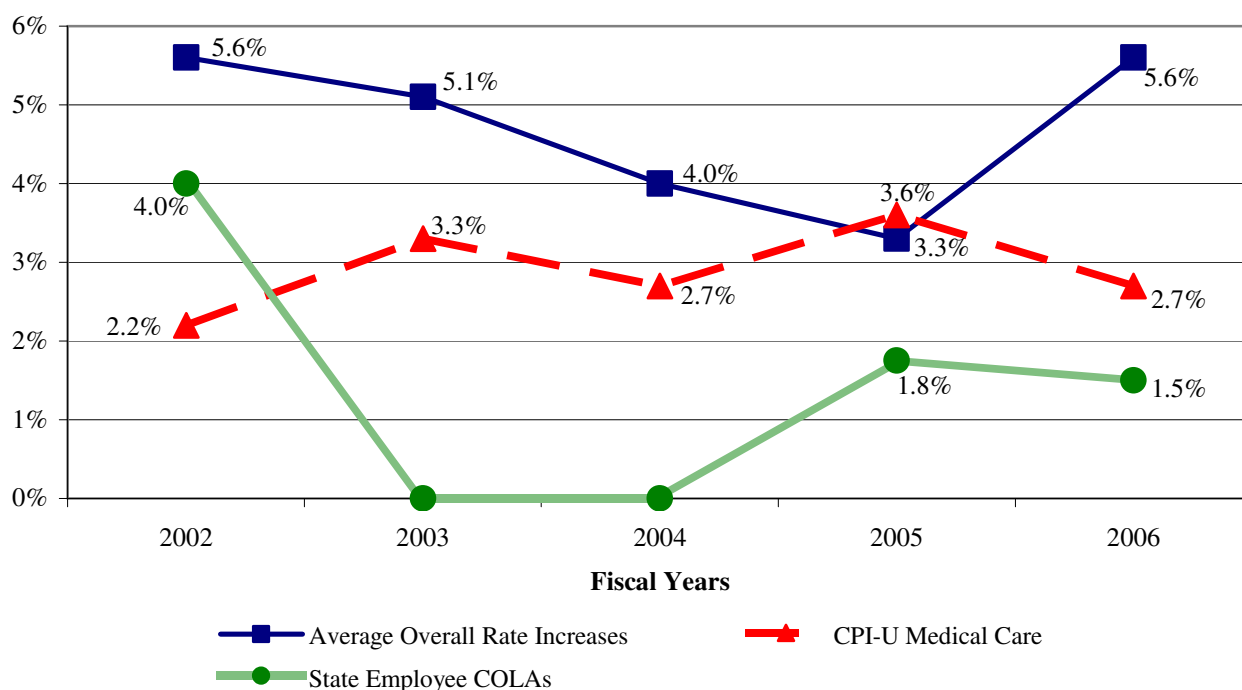
These rate increases can be compared with two benchmarks: the Consumer Price Index for All Urban Consumers (CPI-U) and cost-of-living adjustments (COLAs) for State employees. From fiscal 2002 to 2006, the CPI-U medical care component for Washington-Baltimore increased an average of 2.9% per year (calculating fiscal 2006 using March through November 2005 data only). During the same time period, State employee COLAs, when granted, ranged from 1.5 to 4%, with an average annual increase of 1.45% (no increases were granted in fiscal 2003 or 2004).

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Compared with these benchmarks, from fiscal 2002 to 2006, six major provider categories (including developmentally disabled providers, hospitals, MCOs, and nursing homes) received average increases above, and in some cases twice the rate of, inflation. Four provider categories (including Medicaid adult/medical day care, home health, and the Medicaid waiver programs) received average increases near or below medical inflation. All selected provider categories received average rate increases above the average salary increase for State employees.

When viewed in aggregate, the average overall rate increase for those healthcare providers shown in Exhibit 4 met or exceeded these benchmarks in most years. As shown in **Exhibit 5**, the average overall rate increase exceeded the CPI-U medical care in four of the past five years, dipping below this benchmark by 0.3% in fiscal 2005, a year of tough cost containment actions. The average overall rate increase was above State employee COLAs in each of the past five years.

Exhibit 5
Comparison of Average Overall Rate Increases for Selected Major Healthcare Providers with CPI-U and State Employee COLAs
Fiscal 2002 – 2006



Note: CPI-U Medical Care for fiscal 2006 is calculated March through November 2005 only.

Source: COMAR; Department of Health and Mental Hygiene; Department of Legislative Services

For Other Providers, Rate Increases Have Been Less Frequent, If Available At All

While for some providers, including some of the major providers, rate increases in recent years have been both relatively healthy and predictable, for other providers the opposite has been true. For example:

- Medicaid personal care providers received only one rate increase (10% in fiscal 2006) between fiscal 2002 and 2006.
- Similarly, grant and contract awards (often made to local health departments or equivalent local agencies) received only one COLA between fiscal 2002 and 2006, 2% in fiscal 2002. A comparison with State employee COLAs is pertinent as most local health department employees, for example, are in the State personnel management system and receive the same COLAs and benefits as other State employees.
- Community mental health providers generally received no increase between fiscal 2002 and 2006, a time when the community mental health fee-for-service system was struggling with significant budget deficits. While some small categories of rates increased (for example, in fiscal 2003 rates for outpatient services to children and adolescents increased by an average 27.3%), other provider categories were effectively reduced (for example, the fiscal 2005 switch from fee-for-service to case rates for rehabilitation services).
- A number of providers, such as private duty nurses, received no rate increases.
- Medicaid pharmacists, actually received rate reductions under DHMH cost containment.

Observations and Conclusions

Several observations can be made about the health care provider rates set by DHMH and their associated rate-setting methodologies:

- ***There Is No Standardization of Rates or Rate-setting Methodologies:*** DHMH pays multiple providers with no standardization of how rates are set or the level of rates, even for similar classes of providers or services. Some rates are based on the costs incurred by providers, while others are based on availability of funds. Some rates are annually adjusted for inflation, while others are increased on a discretionary basis. Variation among rates and rate-setting methodologies is beneficial to the State in that it allows flexibility to tailor rates to specific provider types and to achieve specific policy or budgetary goals. However, this variation can be problematic when different classes of providers are providing the same types of services to similar populations, yet are paid significantly different rates.

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- ***Some Provider Rates Have Received Predictable Increases, While Others Lag Behind:*** Hospitals, MCOs, and nursing homes have regularly received rate increases equal to or exceeding the CPI-U and COLAs granted to State employees, while providers such as private duty nurses have not received rate increases since fiscal 2001.
- ***Provider Rates Depend Directly on Availability of Funding:*** Provider rates are dependent on allocated funding. Even rates with automatic inflationary adjustments may not be increased without sufficient funding. Rate increases require long-term funding as increases are built into the base rate for future years.
- ***Provider Rates May Not Be Aligned with Outcomes:*** While some provider rates are tied to outcomes (for example, the new statewide residential contracts let by the Alcohol and Drug Abuse Administration that have specific incentives for performance built into the rate), others have little link to the quality of services actually provided to clients.

DHMH should comment on the wide variation in rate-setting methodologies utilized within the department and the distortions in rates caused by this variation.