

R55Q00
Aid to University of Maryland Medical System

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	\$2,714	\$2,824	\$3,052	\$228	8.1%
Special Fund	<u>6,964</u>	<u>4,617</u>	<u>6,700</u>	<u>2,083</u>	<u>45.1%</u>
Total Funds	\$9,677	\$7,442	\$9,752	\$2,311	31.1%

- The allowance includes a \$0.2 million increase in general funds to offset anticipated growth in uncompensated care expenses at the Montebello Rehabilitation Program at Kernan Hospital.
- The allowance increases by \$2.0 million funds available to the R Adams Cowley Shock Trauma Center from the Maryland Emergency Medical System Operation Fund for facility renewal.

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

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Analysis in Brief

Major Trends

Patient Activity Grows Moderately: Demand for services at the Shock Trauma Center has increased at an annual average rate of 4.4% since fiscal 2002.

Issues

The University of Maryland Medical System Submits Report Addressing the Shock Trauma Center Capital Needs: Over the next five years, the Shock Trauma Center is planning to spend \$83.0 million to renew and upgrade equipment, technology, and infrastructure. The University of Maryland Medical System is requesting dedicated State capital assistance of \$37.5 million, or 45% of total costs, including \$17.5 million in special funds and \$20.0 million in general obligation bonds.

Recommended Actions

	<u>Funds</u>
1. Reduce funds for the Montebello Rehabilitation Program at Kernan Hospital.	\$ 115,140
2. Reduce funds for facility renewal at the R Adams Cowley Shock Trauma Center.	1,000,000
Total Reductions	\$ 1,115,140

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Operating Budget Analysis

Program Description

The University of Maryland Medical System (UMMS), a private nonprofit corporation, was created by legislation in 1984 to provide governance and management over the operation of the formerly State-run University of Maryland Hospital. The mission of the medical system is to provide tertiary care to the State and surrounding areas, to provide comprehensive care to the local community, and to serve as the primary site for health care education and research for the University System of Maryland. The system includes the James Lawrence Kernan Hospital, the Marlene and Stewart Greenebaum Cancer Center, University Hospital, R Adams Cowley Shock Trauma Center, and University Specialty Hospital.

Direct State support is provided to two elements of the university medical system: the Montebello Rehabilitation Program at Kernan Hospital and the R Adams Cowley Shock Trauma Center. The Montebello Program, transferred to the medical system in 1992, receives continuing general fund support for costs associated with treating the uninsured; funds also offset a portion of the program's capital costs. The Shock Trauma Center, the State's Primary Adult Resource Center for the treatment of trauma, receives special funds from the Maryland Emergency Medical System Operations Fund.

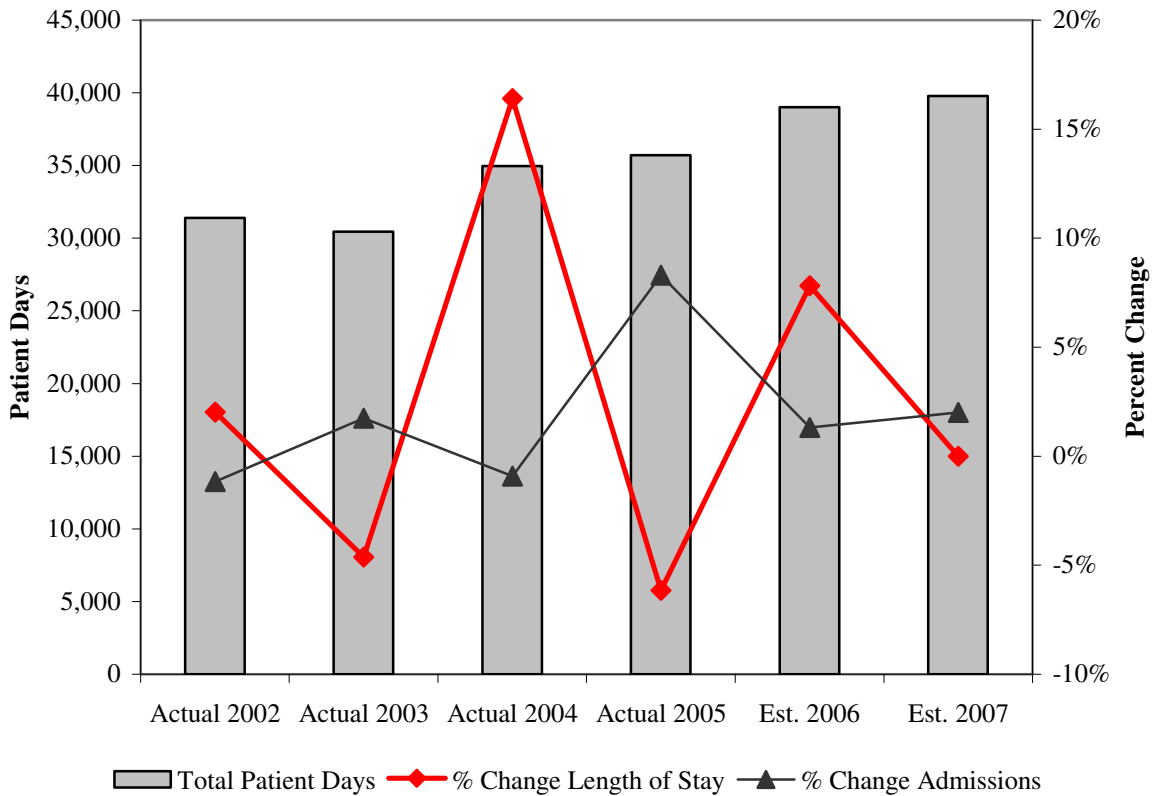
Performance Analysis: Managing for Results

The Shock Trauma Center, according to State law, is the core element of the State's Emergency Medical System and serves as the State's primary adult trauma medical resource center. In addition, the center accepts statewide referrals for the treatment of head, spinal, and multiple trauma injuries and serves as the regional trauma center for the greater Baltimore area.

Demand for services at the Shock Trauma Center, as measured by the total number of patient days, is displayed in **Exhibit 1**. The number of patient days generally reflects two variables: the number of admissions and the average length of stay. Despite annual fluctuations in activity, the total number of admissions and the average length of stay have increased at an average annual rate of 3.0 and 1.4%, respectively from 2002 to 2005, resulting in an average annual increase in patient days of 4.4%. Between 2004 and 2005, patient days increased 2.2%, primarily due to an 8.3% increase in admissions. The growth in patient days reflects increases in medical acuity driven by improved on-site protocols and increased inter-hospital transfers. Patients transferred between hospitals generally require extensive medical care.

Improved on-site protocols were developed in collaboration with the Maryland Institute for Emergency Medical Services to identify and direct patients most in need of level one trauma care to Shock Trauma. This process has resulted in only the most severely injured patients being treated at

Exhibit 1
Change in Number of Patient Days
2002 – 2007



Source: University of Maryland Medical System

Shock Trauma. Additionally, over the past two years inter-hospital transfers have increased 16% due to a decline in the availability of specialized physicians to provide trauma care to critically injured patients in regional and community hospitals. Consequently, for fiscal 2007 UMMS is projecting total patient days 11.4% greater than the fiscal 2005 level primarily due to population growth and increased inter-hospital transfers.

Governor's Proposed Budget

The Governor's proposed budget includes \$9.8 million for ongoing support of the Montebello Rehabilitation Program at Kernan Hospital and the R Adams Cowley Shock Trauma Center. Changes relative to the fiscal 2006 working appropriation appear in **Exhibit 2**.

Exhibit 2
State Aid to UMMS
Fiscal 2005 – 2007

	<u>FY 05</u>	<u>Appropriation FY 06</u>	<u>Allowance FY 07</u>	<u>\$ Change FY 06-07</u>	<u>% Change FY 06-07</u>
Montebello Rehabilitation Program					
Debt service	\$750,000	\$750,000	\$750,000	\$0	0%
Uncompensated care	1,963,512	2,074,223	2,302,331	228,108	11%
General Fund Subtotal	\$2,713,512	\$2,824,223	\$3,052,331	\$228,108	8%
Shock Trauma Center					
Operating subsidy	\$3,463,757	\$3,117,381	\$3,200,000	\$82,619	3%
Capital subsidy	3,500,000	1,500,000	3,500,000	2,000,000	133%
Special Fund Subtotal	\$6,963,757	\$4,617,381	\$6,700,000	\$2,082,619	45%
Total	\$9,677,269	\$7,441,604	\$9,752,331	\$2,310,727	31%

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

Montebello Rehabilitation Program at Kernan Hospital

Chapter 248, Acts of 1992 authorized the transfer of the Montebello Center, which provides comprehensive rehabilitation services, from the Department of Health and Mental Hygiene (DHMH) to UMMS. The legislation transferring the center to UMMS noted the financial and administrative limitations of continuing to provide comprehensive services within the system of State government. It was the General Assembly's intent that the operational expertise and financial independence of a major teaching and research institution would allow for continued improvements to patient care.

The legislation provided for ongoing State support for operations at Montebello to offset the cost of uncompensated care and assist in facility renewal. It was established that the State would pay specified amounts through fiscal 1997, after which the State would provide an amount jointly established by DHMH and the medical system. Since fiscal 2003, the amount of uncompensated care has been calculated at 4.29% of adjusted gross regulated revenue, a percentage agreed upon by the

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Department of Budget and Management, the Health Services Cost Review Commission, and the medical system. Funding has also been provided to offset capital costs.

The Governor's proposed budget includes \$2.3 million for uncompensated care costs not otherwise included in hospital rates, an increase of 11% over the fiscal 2006 working appropriation. The allowance also includes \$750,000 for debt service on bonds issued to support construction of the rehabilitation center at Kernan Hospital, the facility at which UMMS has housed the Montebello Rehabilitation Program since 1996.

R Adams Cowley Shock Trauma Center

The State has provided an operating subsidy to the Shock Trauma Center since UMMS was established as a private, nonprofit corporation in 1984. Funds have been provided to offset uncompensated care and standby costs not otherwise recovered in hospital rates; these costs exceed State averages due to the emergency mission of the center and the need to continuously maintain emergency staff. In the past, State funds have also been used to offset expenses incurred in assuming pension costs of State employees who converted to UMMS employment when the medical system became a private corporation.

The Maryland Emergency Medical System Operations Fund was established in 1992 to provide support to State providers of emergency medical services, specifically including the R Adams Cowley Shock Trauma Center. The fund, which generates approximately \$50 million each year from a surcharge on vehicle registrations, has provided an alternate source of State funding for the Shock Trauma Center. Operating support has been provided solely from this source since fiscal 1993. The allowance includes \$3.2 million for the center's operating expenses in fiscal 2007, a 3% increase over the fiscal 2006 working appropriation.

From fiscal 2001 through 2005, the Maryland Emergency Medical System Operations Fund provided \$3.5 million per year to the Shock Trauma Center to support facility and equipment renewal. For fiscal 2006, the State reduced the capital funding to \$1.5 million. The fiscal 2007 allowance provides \$3.5 million for this purpose, a 133% increase over the fiscal 2006 working appropriation.

Issues

1. The University of Maryland Medical System Submits Report Addressing the Shock Trauma Center Capital Needs

The Shock Trauma Center has received an annual operating subsidy from the State since UMMS was established as a private nonprofit corporation in 1984. Since fiscal 1993 this funding has been provided from the Maryland Emergency Medical System Operations Fund. For a five-year period beginning in fiscal 2001, the fund also supported an annual \$3.5 million capital subsidy for UMMS as part of a plan to provide State support for improvements to equipment, technology, and infrastructure at the Shock Trauma Center. Although the five-year commitment ended in fiscal 2005, Shock Trauma received a \$1.5 million capital subsidy in fiscal 2006. The fiscal 2007 allowance includes \$3.5 million for the capital subsidy.

During the 2005 session, the budget committees adopted committee narrative requesting UMMS to submit a report on its long-term capital and facility renewal requirements at the Shock Trauma Center. According to the report, the Shock Trauma Center is projecting a 16% increase in admissions over the next five years driven by increased medical acuity and inter-hospital transfers. To accommodate the growth and to update equipment and infrastructure, the Shock Trauma Center is proposing a \$3.5 million annual State capital subsidy and \$20.0 million in general obligation (GO) bonds.

Capital and Technology Requirements

Shock Trauma's Facility and Technology Plan includes \$83.0 million in expenditures in fiscal 2007 through 2011, as shown in **Exhibit 3**. UMMS is requesting dedicated State capital assistance of \$37.5 million, or 45% of total costs, including \$17.5 million in special funds and \$20.0 million in GO bonds.

Exhibit 3
Capital Funding Sources and Uses
Fiscal 2007 – 2011
(\$ in Thousands)

	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>Total</u>
Uses						
Patient Care Capacity	\$7.4	\$10.1	\$10.3	\$4.5	\$0	\$32.3
Technology	2.0	7.7	5.0	7.9	2.8	25.4
Patient Care Equipment	1.7	3.8	2.9	3.9	2.5	14.8
Building Systems	2.4	1.7	2.3	2.1	2.0	10.5
Total	\$13.5	\$23.3	\$20.5	\$18.4	\$7.3	\$83.0
Sources						
UMMS	\$10.0	\$17.8	\$5.0	\$3.9	\$3.8	\$40.5
Federal Grants	0	2.0	2.0	1.0	0.0	5.0
MEMSOF	3.5	3.5	3.5	3.5	3.5	17.5
State GO Bonds	0	0	10.0	10.0	0	20.0
Total	\$13.5	\$23.3	\$20.5	\$18.4	\$7.3	\$83.0

MEMSOF = Maryland Emergency Medical System Operations Fund

Source: University of Maryland Medical System

The Shock Trauma Center facility renewal and technology plan includes:

- \$32.3 million to increase patient care capacity including constructing a new 12-bed intensive care unit (ICU), adding 24 new acute care beds, building a new trauma outpatient clinic, converting the sixth floor acute care beds into intensive/intermediate care beds, and upgrading operating room infrastructure and equipment;
- \$25.4 million to renew and upgrade technology including installing integrated clinical information systems and improving emergency preparedness;
- \$14.8 million for patient care equipment including full body CT scanners, digital radiography equipment, and a hyperbaric chamber infrastructure and renewal; and
- \$10.5 million to modernize heating, air conditioning, and electrical systems.

The \$20.0 million in GO bonds supports the operating room upgrade (\$9.0 million), the construction of the new 12-bed intensive care unit (\$8.0 million), and the conversion of the sixth floor acute care beds (\$3.0 million).

Exhibit 4 provides the proposed time line for the above projects.

Exhibit 4
Shock Trauma Major Projects – Timetable
Fiscal 2007 – 2011

Project

FY 2007	Upgrade and expand existing sixth floor ICU/IMC bed capacity Relocation and expansion of outpatient clinic initiated Major mechanical system upgrades
FY 2008	Relocation and expansion of outpatient clinic completed Construction of new ICU bed unit on third floor initiated Renovation of adjacent space in University Hospital for acute care beds Advanced operating center and communication center completed
FY 2009	Renovation of six existing operating rooms initiated Construction of new ICU beds on third floor completed Decontamination capability completed Roof and helicopter deck renewal completed
FY 2010	Operating room suite renovation completed CT scanner and diagnostic imaging upgrades Emergency preparedness isolation capabilities completed
FY 2011	Electrical system renewal and upgrades completed Communication and information technology upgrades completed

Source: University of Maryland Medical System

Since fiscal 2004, the Shock Trauma Center has generated profit, primarily due to aggressive prior year efforts to reduce bad debt expense and increased hospital rates. In fiscal 2006 and 2007, the Shock Trauma Center is expected to generate a \$5.3 million profit per year independent of State operating or capital support, a 200% increase over fiscal 2004. Shock Trauma plans to use the profit to support facility renewal and growing operational expenses related to increased patient volume. However, the growth in profitability should mitigate to some degree the size of the State's capital subsidy.

Given the enhanced profitability of Shock Trauma, it is not unreasonable to ask the facility to contribute a greater share of the project cost going forward. It is, therefore, recommended that the facility share be increased from \$40.5 million (49%) to \$45.5 million (55%) and that the State PAYGO contribution be reduced from \$17.5 million to \$12.5 million. Accordingly, for fiscal 2007 it is recommended that the fiscal 2007 appropriation be reduced by \$1 million.

Recommended Actions

	<u>Amount Reduction</u>	
1. Reduce funds for the Montebello Rehabilitation Program at Kernan Hospital. This action provides a 4% increase in State support, which is the percent increase recognized by the University of Maryland Medical System to provide a reasonable level of support to the program. This reduction still provides \$2.2 million to offset uncompensated care costs.	\$ 115,140	GF
2. Reduce funds for facility renewal at the R Adams Cowley Shock Trauma Center. The Shock Trauma Center is expected to generate a profit in fiscal 2007, aided by increases in hospital rates and ongoing State support for operating expenses. The expected profit margin should mitigate to some degree the size of the State's capital subsidy. An appropriation of \$2.5 million remains, \$1.0 million more than the fiscal 2006 allocation.	1,000,000	SF
Total Reductions	\$ 1,115,140	
Total General Fund Reductions	\$ 115,140	
Total Special Fund Reductions	\$ 1,000,000	

Current and Prior Year Budgets

Current and Prior Year Budgets Aid to University of Maryland Medical System (\$ 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	\$2,713	\$6,964	\$0	\$0	\$9,677
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Cost Containment	0	0	0	0	0
Reversions and Cancellations	0	0	0	0	0
Actual Expenditures	\$2,713	\$6,964	\$0	\$0	\$9,677
Fiscal 2006					
Legislative Appropriation	\$2,824	\$4,617	\$0	\$0	\$7,441
Budget Amendments	0	0	0	0	0
Working Appropriation	\$2,824	\$4,617	\$0	\$0	\$7,441

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

**Object/Fund Difference Report
Aid to University of Maryland Medical System**

<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>
Objects					
12 Grants, Subsidies, and Contributions	\$ 9,677,269	\$ 7,441,604	\$ 9,752,331	\$ 2,310,727	31.1%
Total Objects	\$ 9,677,269	\$ 7,441,604	\$ 9,752,331	\$ 2,310,727	31.1%
Funds					
01 General Fund	\$ 2,713,512	\$ 2,824,223	\$ 3,052,331	\$ 228,108	8.1%
03 Special Fund	6,963,757	4,617,381	6,700,000	2,082,619	45.1%
Total Funds	\$ 9,677,269	\$ 7,441,604	\$ 9,752,331	\$ 2,310,727	31.1%

Note: The fiscal 2006 appropriation does not include deficiencies, and the fiscal 2007 allowance does not reflect contingent reductions.

Fiscal Summary
Aid to University of Maryland Medical System

<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 Aid to University of Maryland Medical System	\$ 9,677,269	\$ 7,441,604	\$ 9,752,331	\$ 2,310,727	31.1%
Total Expenditures	\$ 9,677,269	\$ 7,441,604	\$ 9,752,331	\$ 2,310,727	31.1%
General Fund	\$ 2,713,512	\$ 2,824,223	\$ 3,052,331	\$ 228,108	8.1%
Special Fund	6,963,757	4,617,381	6,700,000	2,082,619	45.1%
Total Appropriations	\$ 9,677,269	\$ 7,441,604	\$ 9,752,331	\$ 2,310,727	31.1%

Note: The fiscal 2006 appropriation does not include deficiencies, and the fiscal 2007 allowance does not reflect contingent reductions.