

R55Q00
Aid to University of Maryland Medical System

Operating Budget Data

(\$ in Thousands)

	FY 06	FY 07	FY 08	FY 07-08	% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$2,824	\$2,937	\$3,055	\$117	4.0%
Special Fund	<u>4,617</u>	<u>6,700</u>	<u>6,764</u>	<u>64</u>	<u>1.0%</u>
Total Funds	\$7,442	\$9,637	\$9,819	\$181	1.9%

- The allowance includes a \$117,000 increase in general funds to offset anticipated growth in uncompensated care expenses at the Montebello Rehabilitation Program at Kernan Hospital.
- The allowance increases \$64,000 in funds available to the R Adams Cowley Shock Trauma Center from the Maryland Emergency Medical System Operations Fund for operating support.

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

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Analysis in Brief

Major Trends

Patient Activity Decreases: For the first time since 1992, admissions and total patient days decreased in fiscal 2006. Between fiscal 2005 and 2006, patient days decreased 6.5% primarily due to a 3.7% drop in admissions. The average length of stay dropped from 4.73 days to 4.59 days. However, for fiscal 2007 the University of Maryland Medical System is projecting total patient days 5.6% greater than the 2006 level, primarily due to an increase in nurses, an increase in inter-hospital transfers, and the conversion of beds to accommodate more inter-hospital transfers.

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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.

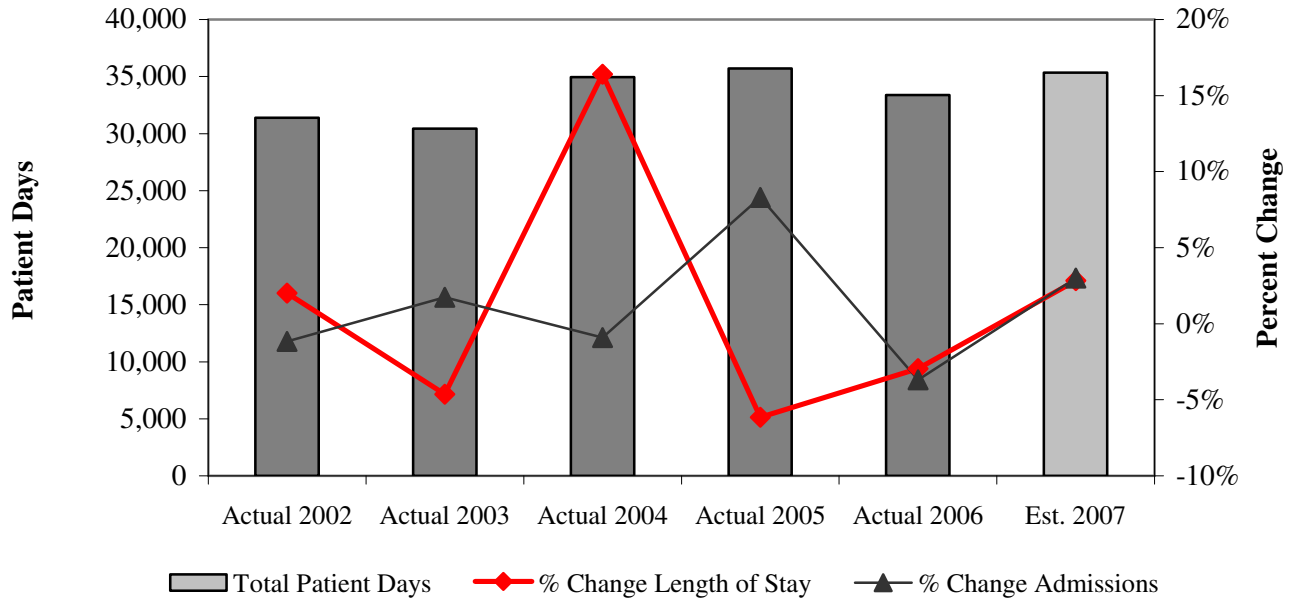
Direct State support is provided to two elements of the university medical system: the Montebello Rehabilitation Program at Kernan Hospital and the R Adams Cowley Shock Trauma Center. The Montebello Program, transferred to the medical system in 1992, receives continuing general fund support for costs 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. Improved on-site protocols were developed in collaboration with the Maryland Institute for Emergency Medical Services System 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 Shock Trauma.

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. For the first time since 1992, both admissions and total patient days have decreased. Between fiscal 2005 and 2006, patient days decreased 6.5 percentage points primarily due to a 3.7% drop in admissions. Average length of stay dropped from 4.73 days to 4.59 days. This is contrasted by increases from fiscal 2002 to 2005 in the total number of admissions at an average annual rate of 3.0% and the average length of stay at an average annual rate of 1.4%, resulting in an average annual increase in patient days of 4.4%. The drop in admissions reflects lost admissions due to Shock Trauma being at full bed capacity, as well as a shortage of nurses. Shock Trauma was designed to handle up to 3,500 admissions and continues to convert more space to critical care beds in order to operate at its current level of approximately 7,500 admissions. Lost admissions are typically diverted to other hospitals in the area including the Washington Hospital Center, Johns Hopkins Hospital, and Christiana Hospital in Delaware.

**Exhibit 1
Change in Number of Patient Days
Fiscal 2002-2007**



Source: University of Maryland Medical System

Shock Trauma expects an increase in admissions, in patient days, and in length of stay for fiscal 2007. Nurses have recently been recruited and trained at higher rates, and Shock Trauma is in the process of converting beds from acute care to intensive and intermediate care, allowing for more inter-hospital transfers. 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 5.6% greater than in fiscal 2006.

Exhibit 2 illustrates the overall profitability of Shock Trauma. With State support, Shock Trauma has shown a net profit in all but two years since fiscal 1995. UMMS estimates a profit of \$2.7 million in fiscal 2007.

Exhibit 2
Shock Trauma Analysis of Profitability
Fiscal 1995-2007
(\$ in Thousands)

<u>Fiscal Year</u>	<u>Gross Patient Revenue</u>	<u>Net Income (Loss) before State Support</u>	<u>State Operating Support</u>	<u>Net Income (Loss) with State Support</u>
1995	\$67,897	-\$1,909	\$2,900	\$991
1996	67,723	-1,795	2,900	1,105
1997	66,168	-1,730	2,900	1,170
1998	74,422	-3,662	2,900	-762
1999	85,790	-1,840	3,017	1,177
2000	85,496	-4,507	3,108	-1,399
2001	100,032	-2,176	3,201	1,025
2002	114,123	-1,053	3,265	2,212
2003	130,481	-1,215	3,363	2,148
2004	153,973	1,588	3,464	5,052
2005	156,938	5,312	3,464	8,776
2006	168,145	-469	3,117	2,648
2007 Est.	171,508	-469	3,200	2,731

Source: University of Maryland Medical System

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 2007 working appropriation appear in **Exhibit 3**.

**Exhibit 3
State Aid to UMMS**

	<u>Actual FY 2005</u>	<u>Actual FY 2006</u>	<u>Working Appropriation FY 2007</u>	<u>Allowance FY 2008</u>	<u>Difference FY 2007-2008</u>
Montebello Rehabilitation Program					
Debt service	\$750,000	\$750,000	\$750,000	\$750,000	0.0%
Uncompensated care	1,963,512	2,074,223	2,187,191	2,304,679	5.4%
General Fund Subtotal	\$2,713,512	\$2,824,223	\$2,937,191	\$3,054,679	4.0%
Shock Trauma Center					
Operating subsidy	\$3,463,757	\$3,117,381	\$3,200,000	\$3,264,000	2.0%
Capital subsidy	3,500,000	1,500,000	3,500,000	3,500,000	0.0%
Special Fund Subtotal	\$6,963,757	\$4,617,381	\$6,700,000	\$6,764,000	1.0%
Total	\$9,677,269	\$7,441,604	\$9,637,191	\$9,818,679	1.9%

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

Montebello Rehabilitation Program at Kernan Hospital

Chapter 248 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 Department of Budget and Management, the Health Services Cost Review Commission, and UMMS. 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 5.4% over the fiscal 2007 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 (MEMSOF) 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 \$3.3 million for the center's operating expenses in fiscal 2008, a 2% increase over the fiscal 2007 working appropriation.

From fiscal 2001 through 2005, the MEMSOF 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. In fiscal 2007, the State restored funding to \$3.5 million. The fiscal 2008 allowance provides \$3.5 million, the same level as the fiscal 2007 working appropriation.

Recommended Actions

1. Concur with Governor's allowance.

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 2006					
Legislative Appropriation	\$2,824	\$4,617	\$0	\$0	\$7,441
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	0	0	0	0
Actual Expenditures	\$2,824	\$4,617	\$0	\$0	\$7,441
Fiscal 2007					
Legislative Appropriation	\$2,937	\$6,700	\$0	\$0	\$9,637
Budget Amendments	0	0	0	0	0
Working Appropriation	\$2,937	\$6,700	\$0	\$0	\$9,637

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>FY06 Actual</u>	<u>FY07 Working Appropriation</u>	<u>FY08 Allowance</u>	<u>FY07-FY08 Amount Change</u>	<u>Percent Change</u>
Objects					
12 Grants, Subsidies, and Contributions	\$ 7,441,604	\$ 9,637,191	\$ 9,818,679	\$ 181,488	1.9%
Total Objects	\$ 7,441,604	\$ 9,637,191	\$ 9,818,679	\$ 181,488	1.9%
Funds					
01 General Fund	\$ 2,824,223	\$ 2,937,191	\$ 3,054,679	\$ 117,488	4.0%
03 Special Fund	4,617,381	6,700,000	6,764,000	64,000	1.0%
Total Funds	\$ 7,441,604	\$ 9,637,191	\$ 9,818,679	\$ 181,488	1.9%

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

**Fiscal Summary
Aid to University of Maryland Medical System**

<u>Program/Unit</u>	<u>FY06 Actual</u>	<u>FY07 Wrk Approp</u>	<u>FY08 Allowance</u>	<u>Change</u>	<u>FY07-FY08 % Change</u>
0001 Aid to University of Maryland Medical System	\$ 7,441,604	\$ 9,637,191	\$ 9,818,679	\$ 181,488	1.9%
Total Expenditures	\$ 7,441,604	\$ 9,637,191	\$ 9,818,679	\$ 181,488	1.9%
General Fund	\$ 2,824,223	\$ 2,937,191	\$ 3,054,679	\$ 117,488	4.0%
Special Fund	4,617,381	6,700,000	6,764,000	64,000	1.0%
Total Appropriations	\$ 7,441,604	\$ 9,637,191	\$ 9,818,679	\$ 181,488	1.9%

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