

M00R
Health Regulatory Commissions
Department of Health and Mental Hygiene

Operating Budget Data

(\$ in Thousands)

	FY 07	FY 08	FY 09	FY 08-09	% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
Special Fund	\$101,067	\$119,557	\$153,501	\$33,944	28.4%
Reimbursable Fund	<u>0</u>	<u>201</u>	<u>0</u>	<u>-201</u>	<u>-100.0%</u>
Total Funds	\$101,067	\$119,758	\$153,501	\$33,743	28.2%

- The Governor's proposed budget for fiscal 2009 represents a \$33.7 million increase over the fiscal 2008 working appropriation. Employee and retiree health insurance as well as longer-term Other Post Employment Benefits (OPEB) liability funding, account for \$0.3 million of the total increase. Adjusting for the cost increase associated with health insurance and other long-term OPEB liability funding, the increase in the Governor's proposed budget for fiscal 2009 is \$33.4 million over the fiscal 2008 working appropriation.
- The majority of the increase in funding for the Health Regulatory Commissions is due to the addition of a new program to administer the Working Families and Small Business Health Coverage Act, Chapter 7 of the 2007 special session. The Governor included \$30 million for this new program.

Personnel Data

	FY 07	FY 08	FY 09	FY 08-09
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	96.90	99.40	92.60	-6.80
Contractual FTEs	<u>0.62</u>	<u>1.00</u>	<u>1.00</u>	<u>0.00</u>
Total Personnel	97.52	100.40	93.60	-6.80

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	2.78	3.00%
Positions Vacant as of 12/31/07	16.60	16.70%

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

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- The fiscal 2009 allowance includes a net loss of 6.8 positions in the Health Regulatory Commissions; 8.8 positions are abolished in accordance with the Board of Public Works (BPW) action to reduce executive branch PINs, and 2.0 new positions are added.
- The projected fiscal 2009 turnover rate is 3.0%. In order to achieve the projected turnover rate in fiscal 2009, it will be necessary to maintain 3.04 vacancies. Following the BPW decision to abolish 8.8 positions at the Health Regulatory Commissions on January 30, 2008, the agency has 8.0 vacancies out of an authorized 90.6 positions and a vacancy rate of 8.8%.

Analysis in Brief

Major Trends

Average Cost of Hospital Admissions in Maryland Continue to Be Lower Than the National Average: Although hospital costs continue to rise, the Health Services Cost Review Commission (HSCRC) has regulated rates in Maryland hospitals such that they consistently demonstrate lower cost per admission as compared to the national average. In fiscal 2007, the cost per admission in Maryland was 3.51% below the national average.

Growth in Medicare Costs Remain Below the National Average: Growth in Medicare costs in Maryland has remained consistently below the national average, a requirement of maintaining the Medicare waiver. Even though Maryland has maintained a slower rate of growth than the national average, it has slipped below the 10% cushion that HSCRC prefers to keep to maintain the waiver.

Issues

Small Employer Health Benefit Plan Premium Subsidy Program: Chapter 7 of the 2007 special session designates a subsidy program offered to small employers and their employees if the employer has not offered health insurance for at least 12 consecutive months. It will be the responsibility of the Maryland Health Care Commission (MHCC) to administer this program and promulgate regulations to govern the program.

Medicare Waiver Tests: In 1977, HSCRC was granted a Medicare waiver by the federal government which allows HSCRC to set the Medicare reimbursement rate for hospitals. In order to maintain the waiver, two conditions must be met: (1) the cumulative rate of growth in Medicare payments to hospitals is no greater than that of the national average; and (2) all payors in the system must pay the same amount. Issues have arisen which have the potential to violate these conditions, thereby leaving the waiver status in jeopardy.

Recommended Actions

1. Concur with Governor's allowance.

Updates

Report on Habilitative Services Offered in Maryland: MHCC prepared a report examining the way that habilitative services are currently provided in the private market, how much it would cost to extend the State's current insurance mandate to individuals 19 or older, and whether or not the Maryland Health Insurance Program could serve as an alternative to the private market to cover these types of services. This report was required by the *2007 Joint Chairmen's Report*.

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

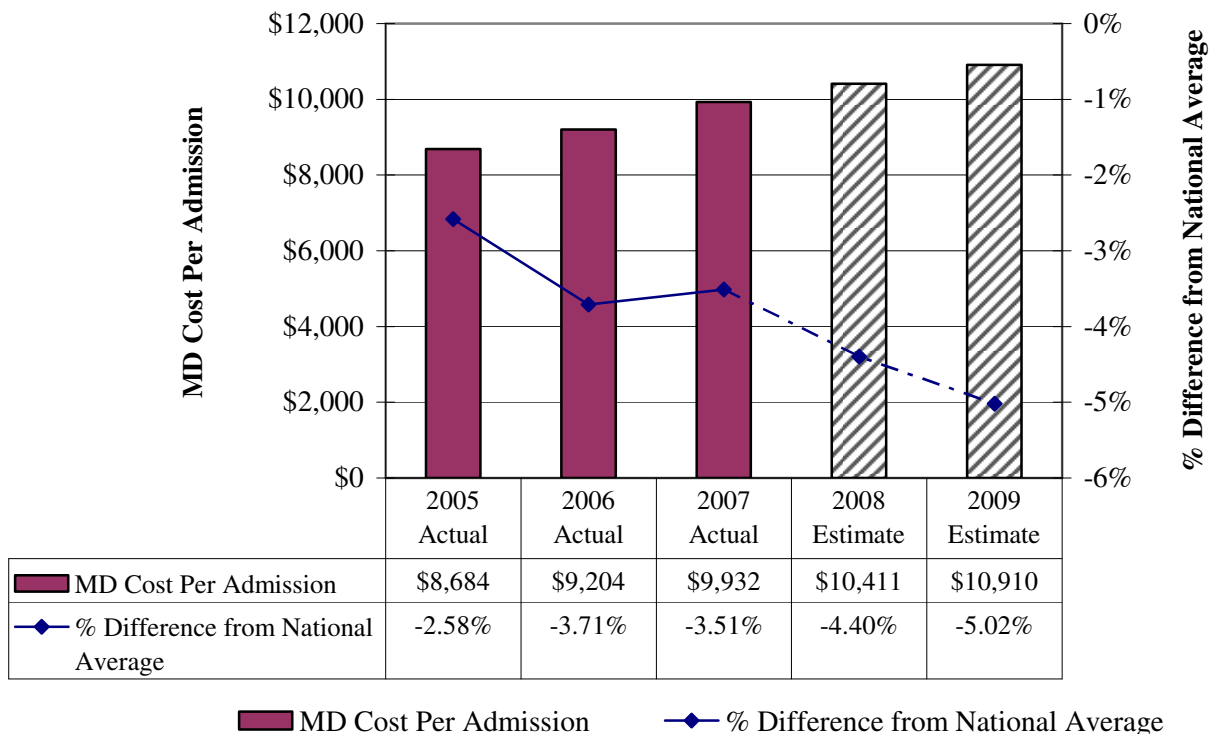
MCHRC was established to strengthen the safety net for uninsured and underinsured Marylanders. The safety net consists of community health resource centers (CHRC), which range from federally qualified health centers to smaller community-based clinics. MCHRC's responsibilities include identifying and 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 was established to contain hospital costs, maintain fairness in hospital payments, provide for financial access to hospital care, and disclose information on the operation of hospitals in the State. In this role, one of the duties of HSCRC is to set standard rates that hospitals may charge for the purchase of care. This system encourages access to healthcare regardless of ability to pay and prevents cost shifting 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 illustrates the average cost of admission in Maryland hospitals. It is not surprising that hospital costs continue to rise and are estimated to rise in fiscal 2008 and 2009. However, HSCRC has regulated rates in Maryland hospitals such that they consistently demonstrate lower cost per admission as compared to the national average. In fiscal 2007, the cost per admission in Maryland was 3.51% below the national average.

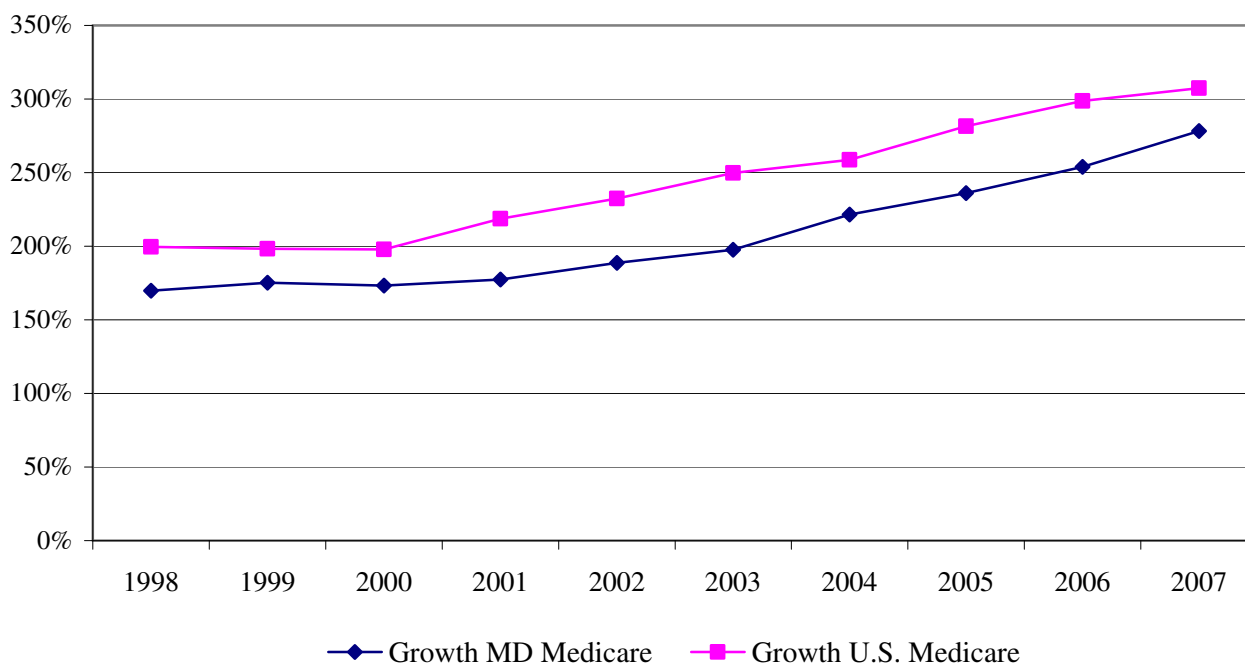
Exhibit 1
Cost Per Admission in Maryland vs. National Average
Fiscal 2005-2009



Source: Department of Health and Mental Hygiene

Exhibit 2 focuses only on the growth of Medicare costs in Maryland compared with the national average between 1998 and 2007. As the graph displays, growth in Medicare costs have remained consistently below the national average, a requirement of maintaining the Medicare waiver. The cumulative increase in Maryland rates has been 278% since 1981, compared to a national rate of growth of 307% over the same amount of time.

Exhibit 2
Medicare Growth: Maryland vs. National Average
Fiscal 1998-2007

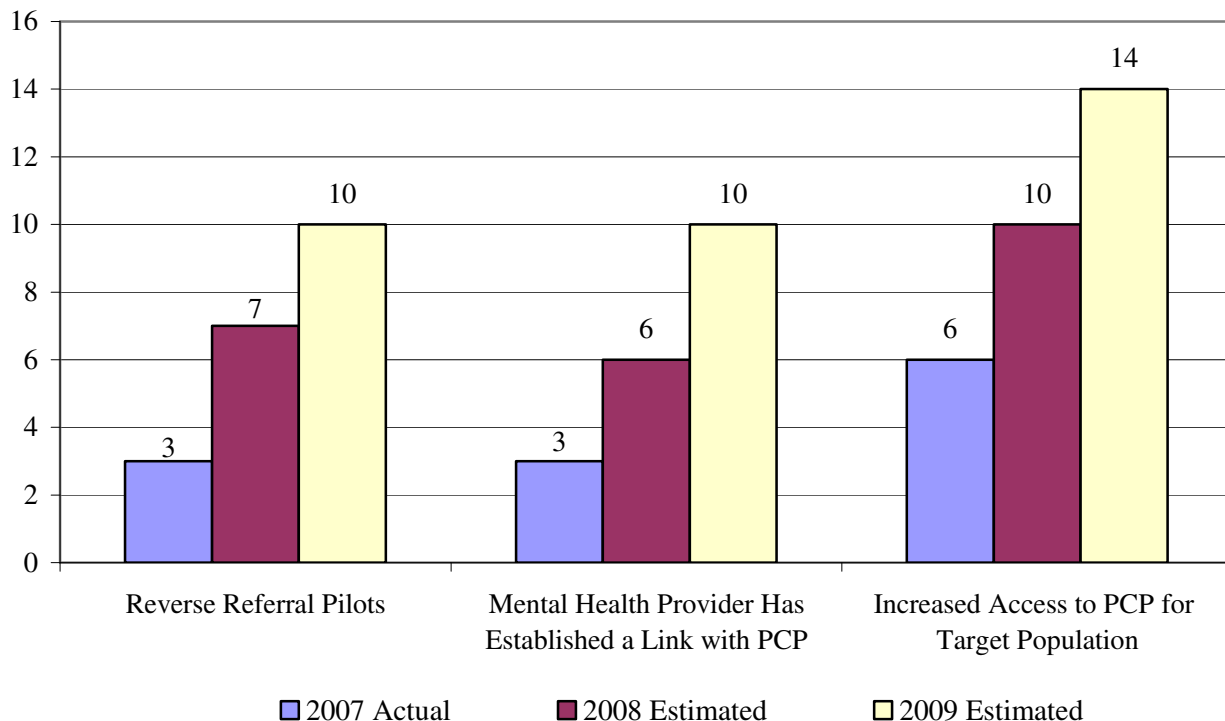


Source: Department of Health and Mental Hygiene

Even though Maryland has maintained a slower rate of growth than the national average, it has slipped below the 10% cushion that HSCRC prefers to keep to maintain the waiver. The cushion, identified 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. As HSCRC raises the rates that hospitals are allowed to charge patients, the cushion inevitably shrinks. In fiscal 2007, HSCRC reported a 7.71% difference in rate of growth for Medicare, meaning that the Maryland Medicare payments could grow, in the absence of national growth, up to 7.71% before the waiver would be jeopardized.

MCHRC was established during the 2005 General Assembly to strengthen the safety net for low-income, uninsured and underinsured Marylanders. Fiscal 2007 is the first full year that MCHRC has been in working operation and has awarded grants to achieve its goals. **Exhibit 3** shows the initiatives undertaken by MCHRC in order to create greater access to affordable, coordinated, and integrated care for the target population.

**Exhibit 3
Maryland Community Health Resources Commission Grants
Fiscal 2007-2009**



PCP: Primary Care Physician

Source: Department of Health and Mental Hygiene

MCHRC has three main goals: (1) to decrease the use of hospital emergency departments for non-urgent care by utilizing reverse referral pilot programs; (2) to improve coordination of mental health and/or substance abuse treatment providers and primary care providers by encouraging the establishment of links between the two providers; and (3) to improve access to primary care for the targeted population. These three goals are shown in Exhibit 3 along with the respective achievement in each category.

Fiscal 2008 Actions

Impact of Cost Containment

Cost containment actions approved by the Board of Public Works (BPW) reduced the special fund appropriation \$9,331, which resulted in decreased funding for supplies and materials for the Health Regulatory Commissions.

Governor’s Proposed Budget

The Governor’s allowance for the Health Regulatory Commissions increases by \$33.7 million, or 28.2%, over the fiscal 2008 working appropriation, as shown in **Exhibit 4**. The agency is virtually completely special funded through user fees and other special fund revenue. Reimbursable support decreases by \$0.2 million due to a one-time budget amendment in fiscal 2008.

The majority of the increase experienced by the agency in the fiscal 2009 allowance is the addition of the Small Employer Health Benefit Plan Premium Subsidy Program which will be administered by MHCC and account for \$30 million of the total increase. Special funds from the Maryland Health Insurance Plan (MHIP) will be used to fund this program.

Personnel

Personnel expenses in the allowance decrease by \$17,738 compared to the fiscal 2008 working appropriation. The major factor in the change is the abolition of 6.8 full-time equivalent positions, which account for a decrease of \$0.6 million. The reductions in personnel were made in accordance with the BPW decision to eliminate PINs across all executive agencies. That large decrease is offset by several smaller increases in the allowance. Health insurance costs and Other Post Employment Benefits liability funding account for an increase of \$0.4 million. Also, two new positions were added to HSCRC, a health services rate analyst and a computer network specialist, and account for an increase of \$0.1 million. Lastly, increments and other fringe benefits account for an increase of \$0.1 million in the fiscal 2009 allowance.

Operating Expenses

Maryland Health Care Commission

As mentioned earlier, the driving factor in the operating expenses for the Health Regulatory Commissions is the addition of the small business premium subsidy program administered by MHCC, which accounts for \$30 million of the total increase. The program is special funded through revenue generated by MHIP and was authorized by Chapter 7 of the 2007 special session.

There are other smaller costs associated with operating MHCC and carrying out its mission. Included in the budget is \$17,734 for a contractual worker to meet the needs of the new Small Business Reform initiative. Also, there is a \$44,828 increase to maintain the medical care database based on claims data for health care services rendered by health professionals in the State. Software purchases in fiscal 2009 increase the budget by \$11,000, and increased rent accounts for \$23,436.

The agency reduces its funding for special projects by \$0.4 million as compared to the fiscal 2008 working appropriation. The type of projects undertaken with these funds help to direct the commission on evaluating issues in health care delivery and financing, developing policy options for the commission and the General Assembly, and analyzing healthcare proposals by other interested stakeholders. While the agency is spending less on this program area in fiscal 2009, there are still important issues being studied and options being discussed.

Exhibit 4
Governor’s Proposed Budget
DHMH – Health Regulatory Commissions
(\$ in Thousands)

How Much It Grows:	Special Fund	Reimb. Fund	Total
2008 Working Appropriation	\$119,557	\$201	\$119,758
2009 Governor’s Allowance	<u>153,501</u>	<u>0</u>	<u>153,501</u>
Amount Change	\$33,944	-\$201	\$33,743
Percent Change	28.4%	-100.0%	28.2%
Where It Goes:			
Personnel Expenses			-\$18
Health insurance – reduce long-term post employment benefit liability			\$299
Two full-time equivalent (FTE) positions for the Health Services Cost Review Commission ...			94
Employee and retiree health insurance – pay-as-you-go costs			90
Increments and other compensation.....			74
Turnover rate decrease from 3.35% to 3.00%			38
Other fringe benefit adjustments.....			11
Abolished positions.....			-624
Maryland Health Care Commission			\$29,517
Small Business Health Insurance Premium Subsidy program administered by the Maryland Health Care Commission (MHCC).....			30,000
Data processing costs for the maintenance of medical care database.....			45
Rent.....			24
Grade and step increase for 1.0 FTE contractual worker to meet the needs of new Small Business Reform and Maryland Health Policy Reform Initiatives.....			18
Software purchases and upgrades			11
Reduced costs for contractual projects.....			-380
Report on future mental health services continuum needs in Maryland encumbered in fiscal 2008.....			-201
Health Services Cost Review Commission			\$2,702
Uncompensated Care			3,000
Contractual consultants assisting with analysis and research of rate setting methodologies.....			-298
Maryland Community Health Resources Commission			\$1,517
Operating grants awarded to community health resource centers			1,500
Costs associated with shared positions with the Health Occupation Boards and MHCC.....			17
Other			\$25
Other costs across all program areas.....			25
Total			\$33,743

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

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Also, there is a decrease in the budget of \$0.2 million, which represents funds appropriated in fiscal 2008 to report on the future mental health services continuum needed in Maryland. HB 50 of the 2007 session directed MHCC to develop a plan to guide Maryland for future mental health needs. The commission has currently contracted with the University of Maryland to develop a plan to guide the future role and capacity of the Maryland psychiatric hospitals.

Health Services Cost Review Commission

Operating expenses for HSCRC increase by \$2.7 million in the fiscal 2009 allowance. Revenue generated for the uncompensated care fund is estimated at \$85 million, a \$3 million increase over the fiscal 2008 working appropriation. In September 1996, HSCRC approved a methodology that spreads the costs associated with uncompensated care more evenly across all hospitals in the State. This methodology calls for a 0.75% assessment to be made against all acute care hospitals in the State, which is then distributed to those hospitals that treat the higher proportion of uninsured individuals.

Besides the increase in the uncompensated care fund, HSCRC's budget decreases by \$0.3 million to reflect lower expenditures on contractual consultants that assist with the analysis and research of rate setting methodologies. The agency will still enter into contracts for consultants to analyze rates to ensure that hospital rates fairly and accurately represent the reasonable costs of providing care. However, expenditures for that purpose are expected to be lower than the fiscal 2008 working appropriation.

Maryland Community Health Resources Commission

The legislation establishing MCHRC provides funds and authority to award operating grants to Community Health Resource Centers (CHRC) aimed at strengthening the safety net for uninsured and underinsured individuals. Special fund income from the Community Health Resources Commission Fund, a non-lapsing fund, is used to award grants each year. Money from the fund covers administrative costs for MCHRC as well as costs associated with maintaining a unified data information system among community health resource centers. Section 19-2201 of the Health General Code specifies that the MCHRC maintain this system and that funding be limited to \$1.7 million in fiscal 2007 and thereafter. In accordance with this statute, \$1.7 million is included in the MCHRC fiscal 2009 allowance for the unified data information system.

The allowance also includes \$7.5 million for operating grants, a \$1.5 million increase over the fiscal 2008 working appropriations. Grants are awarded to CHRCs, which range from Federally Qualified Health Centers to smaller community-based clinics or community health centers. The operating grants are awarded to nonprofit and for-profit health centers that help communities develop more coordinated, integrated systems of community-based care for low-income uninsured and underinsured individuals. The commission develops a "call for proposals" that specifies the intent of the grant that is being disbursed. Generally, the commission targets five main health care areas for the operating grants: 1) increased utilization of primary care physicians; 2) dental health; 3) mental health; 4) substance abuse and treatment; and 5) access to and funding for school-based health centers. The call for proposals developed by the commission is circulated to the public via a mass

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email distribution and via notice on the commission's web site. Information technology grants are also distributed by the commission to streamline or improve the networks within which low-income individuals are served.

The increase in authorized funds in fiscal 2009 for operating grants, a \$1.5 million increase over fiscal 2008, is targeted for additional dental health initiatives delivered by qualified CHRCs. **Appendices 2 and 3** list the grants that have been awarded in fiscal 2007 and 2008. The latest call for proposal was published in December 2007; awardees will receive the remaining grants for fiscal 2008. **The agency is asked to comment on any effects that the initiatives carried out thus far from grants awarded to CHRCs have had on the health care delivery system for uninsured and underinsured individuals, including savings from reduced uncompensated care in the health care system.**

Issues

1. Small Employer Health Benefit Plan Premium Subsidy Program

Chapter 7 of the 2007 special session established a Small Employer Health Benefit Plan Premium Subsidy Program and tasked MHCC with administering the program and promulgating regulations that will govern the program. The plan will provide a premium subsidy of up to 50% of both the employer and employee contribution, or a contribution limit set by the commission, for businesses that employ between two and nine employees who have not offered health insurance to their employees for the previous 12 months. In order to qualify for the premium subsidy, the employer must also offer a wellness benefit. Regulations are currently being developed by MHCC to clarify eligibility requirements, to set State subsidy amounts, and to develop the wellness benefit required by law. MHCC expects to insure 15,000 previously uninsured individuals through the new initiative beginning in July 2008.

Funding Source

In fiscal 2009, \$30 million from the MHIP fund will be transferred to the Health Care Coverage Fund to carry out the premium subsidy program. The MHIP is a State-managed health insurance program, otherwise known as a high-risk pool, for Maryland residents whose health status prohibits them from obtaining private health insurance. The MHIP fund consists of premiums for coverage that the MHIP issues, premiums paid by enrollees of the Senior Prescription Drug Assistance Program, a portion of the hospital assessment revenue collected by MHCC, income from investments and interest on investments, and tax revenue from non-profit health plans.

Annualization costs for the premium subsidy will begin in fiscal 2010. Although the number of individuals served will remain stable, there will be increased costs due to health care inflation. The Department of Health and Mental Hygiene (DHMH) has estimated a 6% inflation factor for the subsidy program, as shown in **Exhibit 5**. According to the Henry J. Kaiser Family Foundation, health insurance premiums rose 11.8% for companies with between 3 and 24 employees across the country.

Exhibit 5
Subsidy Premium Costs with Inflation
Fiscal 2009-2013
(\$ in Thousands)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Small Employer Health Benefit Plan Premium Subsidy	\$30,000	\$31,800	\$33,708	\$35,730	\$37,874

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

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In the out-years, the subsidy program will be funded by savings associated with lower uncompensated care costs due to the newly insured population. According to Section 19-214 of the Health-General code, HSCRC “shall determine the savings realized in averted uncompensated care for each hospital individually...and may assess an amount in each hospital’s rate equal to a portion of the savings realized in averted uncompensated care for that hospital.” The money collected by HSCRC will be deposited into the Health Care Coverage Fund to cover the costs in fiscal 2010 and beyond. The agency is still in the process of developing methodology to determine the savings resulting from lower uncompensated care costs as well as the best way to collect the savings from each hospital.

General funds may also be needed in future years to supplement this subsidy program if the amount of savings collected by HSCRC from averted uncompensated care costs does not meet the total need of the program.

The future source of funding for the programs enacted by the Working Families and Small Business Health Coverage Act of the 2007 special session, including the premium subsidy for small businesses as well as expansion in the Medicaid program, has not yet been finalized by DHMH. The budget analysis for the Medical Care Programs Administration, which houses the Medicaid budget, discusses the health care expansion efforts in great detail. Specifically, issues concerning the future funding stream for the programs, the possible difficulties of tracking uncompensated care savings, and the method to collect that savings from hospitals are raised in that analysis. Additionally, the Department of Legislative Services recommends that funds be restricted until DHMH submits a report detailing the method used to collect hospital uncompensated care savings, MHIP assessments, or any other revenues used to fund the health care expansion efforts. The requirements for this recommendation are included in the Medical Care Programs Administration analysis.

In advance of the report requested via the Medical Care Programs Administration analysis, the agency is asked to comment on the progress it has made to identify an appropriate methodology for determining uncompensated care savings and the suitable manner to assess the savings from the respective hospitals. The special fund revenue identified by this methodology is expected to provide the revenue stream needed to preserve the fiscal integrity of the Small Employer Health Benefit Plan Premium Subsidy Program in future fiscal years.

Additionally, the agency is asked to comment on the status of outreach to small businesses as well as the status of the wellness component that will be required for the small business subsidy.

2. Medicare Waiver Tests

On July 1, 1977, HSCRC was granted a Medicare waiver by the federal government. The waiver exempts Maryland hospitals from Medicare’s prospective payment system that reimburses hospitals on a diagnosis-based method. Under the waiver, Medicare agrees to reimburse hospitals at the rates set by HSCRC. The waiver allowed Maryland to establish an “all payor” system, in which every payor for hospital care pays the same rates for hospital services. As a result, hospitals annually realize an estimated \$800 million in Medicare reimbursements above that which would be received absent the all payor system.

To maintain the waiver, HSCRC must ensure that two conditions are met: (1) the rate of growth in Medicare payments to Maryland hospitals from 1981 to the present is no greater than the rate of growth in Medicare payments to hospitals nationally over the same time period; and (2) all payors in the system must pay the same amount.

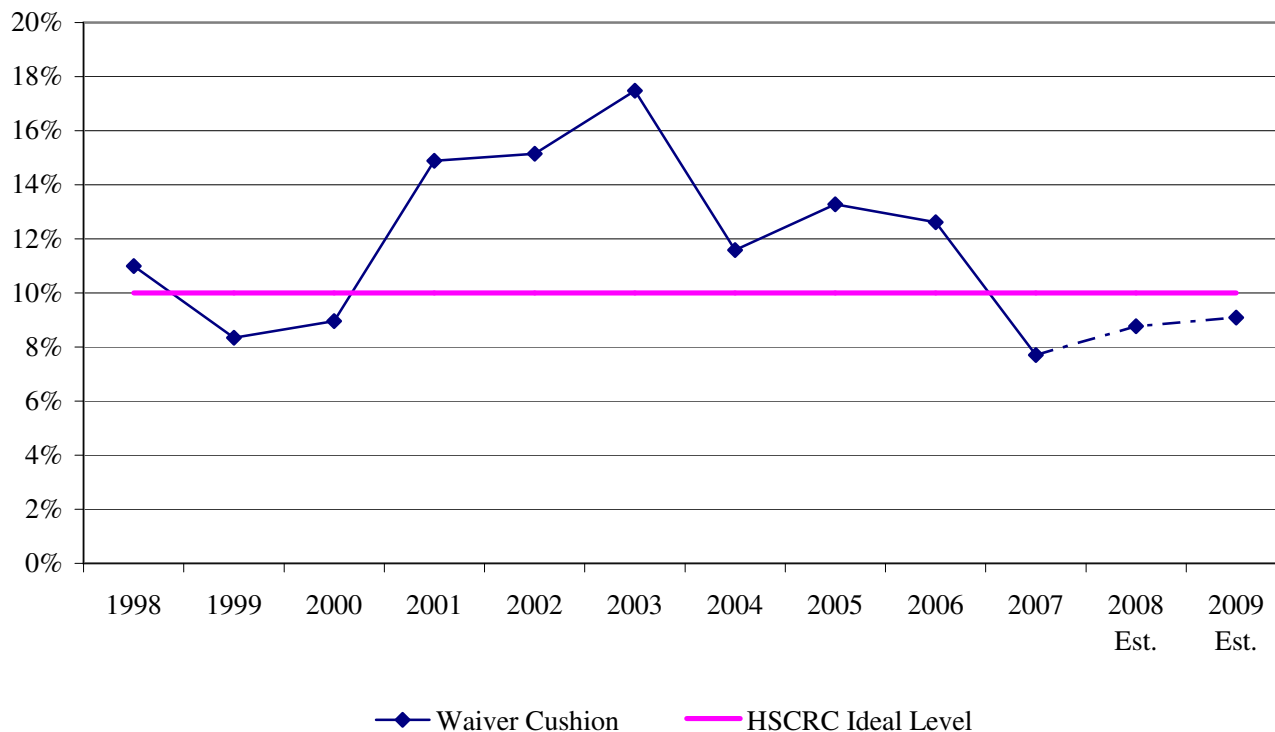
Medicare Growth

If Maryland’s cumulative rate of growth equals or exceeds national growth in Medicare payments per discharge, the all payor system will enter a three-year corrective period. During that time, HSCRC must reduce hospital rates to bring payment growth below Medicare nationally and return Medicare “overpayments” back to the federal government.

The primary measure used to monitor waiver performance is the relative waiver margin calculation, a test performed using an independent economic model that assumes a flat rate of growth in Medicare payments per case. The result of the test is the relative waiver margin or “waiver cushion,” which represents the amount Medicare payments to Maryland could grow, assuming zero growth in Medicare payments nationally, before the State failed to meet its waiver requirements. HSCRC has determined that 10% is the lowest desirable level for the waiver margin. The larger the margin, the more flexibility HSCRC has to adjust rates while simultaneously weathering Medicare payment trends.

As shown in **Exhibit 6**, over the past decade, the waiver cushion has fluctuated below and above the 10% ideal level. As of fiscal 2007, the waiver cushion hit an all time low of 7.71%, after being as high as 17.48% in fiscal 2003.

**Exhibit 6
Medicare Waiver Cushion “Relative Test”
Fiscal 1998-2009**



Source: Department of Health and Mental Hygiene

In May 2007, HSCRC staff grew concerned that four specific issues would put the waiver margin performance in jeopardy: (1) the 6.25% hospital revenue update factor which was adopted in April 2007; (2) the continuation of Medicaid day limits (MDLs); (3) a change in the methodology used by the federal Centers for Medicare & Medicaid Services (CMS) to calculate and update the U.S. Medicare payment figure; and (4) a proposed change by CMS that would reduce Medicare payments nationally, thereby limiting the amount of growth possible in Maryland rates. HSCRC staff projected that these changes would result in substantial erosion of the waiver cushion to approximately 6.33% by June 2009.

All Payor System

The second condition of the waiver is that all payors in the system – Medicaid, Medicare, private insurance, or uninsured individuals – be charged the same amount. As a cost containment measure, MDLs were established that limit the number of days that Medicaid is required to pay for an individual in the hospital. Any days above that limit are considered uncompensated care. MDLs are estimated to provide approximately \$68 million in savings to the Medicaid program but are

detrimental to waiver performance in that these costs are shifted to other payers, thereby violating the all payor system. Also, the growth of Medicare is artificially inflated based on the cost shift from MDLs. If MDLs were eliminated, which would require restoration of funding in the Medicaid budget, the waiver performance could improve by as much as 1%. HSCRC staff argue that MDLs violate the second condition of the Medicare waiver that states that all payors must pay the same rate, by shifting costs from Medicaid to other payors.

Proposed Action

The current rate agreement between HSCRC and hospitals provides that if the waiver cushion is estimated to fall below 7.0%, HSCRC may take action to restore the minimum waiver cushion and reverse any further deterioration of waiver performance. Using this authority, HSCRC staff recommended that the hospital revenue update factors be reduced from the rate approved in April 2007 (6.25%) to 4.5% in fiscal 2008 and 2009 to restore a waiver cushion of 10.0%.

Following these recommendations, a Corrective Action Task Force (CATF) was formed at the request of the Maryland Hospital Association. CATF recommended that HSCRC conduct a study of the financial conditions of hospitals in the winter of fiscal 2008 and investigate longer-term initiatives to improve waiver performance. **The agency is asked to comment on actions or proposed actions taken to improve the waiver performance including the impact on future fiscal years.**

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Report on Habilitative Services Offered in Maryland

As required by the 2007 *Joint Chairmen's Report*, MHCC prepared a report on habilitative services in Maryland that addressed three main issues: (1) how are habilitative services currently provided in the private insurance market; (2) how much would it cost the private market to extend the State's current insurance mandate on habilitative services to individuals 19 or older; and (3) could the MHIP serve as an alternative to the private insurance market to cover these types of services?

The State of Maryland currently mandates coverage of occupational therapy (OT), physical therapy (PT), and speech therapy (ST) for children with developmental disabilities due to birth defects, autism spectrum disorder, or cerebral palsy through the age of 18. The report studies the feasibility of extending that coverage to individuals between the age of 19 and 64.

How Are Habilitative Services Currently Provided in the Private Market?

Because of the requirement that services be medically necessary, private insurance coverage for habilitative services for people with developmental disabilities is generally not available. Birth or congenital defects are often times not classified as a disease or injury by private insurance coverage. Also, there is not a consensus as to the efficacy and necessity of habilitative services such as OT, ST, and PT for individuals who have already passed age-defined developmental benchmarks.

While some data suggest that habilitative services enhance an individual's ability to care for oneself and be a productive member of society, there is a lack of large-scale studies to conclusively support the finding that these services are necessary health care treatments.

How Much Would It Cost the Private Market to Extend the State's Current Insurance Mandate to Individuals 19 and Older?

The report stated that the cost to extend coverage to individuals 19 and older depended on a number of factors, including the way in which "habilitative services" are defined. Because of the limited amount of data available on the utilization and costs of habilitative services for adults with developmental disabilities in the private market, the agency found a range of estimates. For Maryland's small employer group policies, the estimated annual per-employee cost of mandated benefits ranged from a low of \$39 to a high of \$261.

Could the MHIP Serve as an Alternative to the Private Market to Cover These Types of Services?

The agency found that the MHIP currently follows the mandates that are used by the Comprehensive Standard Health Benefit Plan (CSHBP) adopted by MHCC, which is geared toward the small group market. The CSHBP currently provides habilitative services for children with developmental disabilities attributable to congenital or birth defects. However, both the MHIP and the CSHBP model mandated coverage after the private insurance market. Because these services are seen as custodial in nature and not medically necessary, private insurance companies have traditionally not covered those services. For that reason, the MHIP would probably not extend habilitative coverage to adults.

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 2007					
Legislative Appropriation	\$0	\$109,864	\$0	\$0	\$109,864
Deficiency Appropriation	0	3,300	0	0	3,300
Budget Amendments	0	1,312	0	105	1,417
Reversions and Cancellations	0	-13,409	0	-105	-13,514
Actual Expenditures	\$0	\$101,067	\$0	\$0	\$101,067
Fiscal 2008					
Legislative Appropriation	\$0	\$118,162	\$0	\$0	\$118,162
Cost Containment	0	-9	0	0	-9
Budget Amendments	0	1,404	0	201	1,605
Working Appropriation	\$0	\$119,557	\$0	\$201	\$119,758

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

Fiscal 2007

In fiscal 2007, the budget for the Health Regulatory Commissions closed out at \$101.1 million, a decrease of \$8.8 million below the original legislative appropriation.

The special fund appropriation was increased by \$127,439 to provide for cost-of-living adjustment (COLA) increases. A deficiency appropriation of \$3,300,000 in special funds was added to fund trauma centers in fiscal 2007. Legislation passed in 2006 expanded the permissible uses of trauma funds creating additional opportunities to support the trauma centers in fiscal 2007.

Special funds increased by \$1,185,000 to cover the costs of administrative support provided by DHMH. Legislation passed in the 2006 session allows DHMH to assess MHCC and HSCRC for administrative support services provided to the agency.

Reimbursable funds from the Mental Hygiene Administration increased by \$105,000 and were targeted for developmental costs of creating a plan to guide future mental health services continuum needed in Maryland. However, these reimbursable funds were returned at the end of fiscal 2007. The costs are planned for fiscal 2008, and a budget amendment is planned for that purpose.

The largest source of the total decrease in the budget for the commissions came in the form of cancelled special funds equal to \$13.4 million collectively due to:

- decreased awards from the Maryland Trauma Physician Services Fund;
- decreased awards from Uncompensated Care Fund;
- no Unified Data System Grants;
- lower grants to community health resource centers; and
- balance from various commission operating costs split between salaries and contractual services.

Fiscal 2008

Cost containment actions approved by BPW reduced the special fund appropriation \$9,331, which resulted in decreased funding for supplies and materials.

Special funds were increased by \$154,429 to account for the fiscal COLA reallocation. Additionally, a budget amendment in the amount of \$1,250,000 in increased special funds was used to cover the costs of administrative support provided by DHMH.

**Operating Grants Awarded to Community Health Resource Centers (CHRC)
Fiscal 2007**

<u>CHRC</u>	<u>Amount</u>	<u>Description</u>	<u>Date Awarded</u>
Access Carroll, Inc.	\$100,000	Access to Care Service Integration Project	Jan-07
Anne Arundel County Department of Health	\$450,000	The REACH Dental Program	Jan-07
Baltimore Medical System	\$500,000	Serving the Greater Baltimore Area's Growing Hispanic Population	Jan-07
Calvert Memorial Hospital	\$500,000	Aligning Community Health Resources: Improving Access to Care for Marylanders in Calvert County	Jan-07
Chase Brexton Health Services, Inc.	\$200,000	Emergency Department Linkage to Primary Medical and Dental Care	Jan-07
Frederick Community Action Agency	\$353,585	Expanding Access to Primary Care in Frederick County	Jan-07
Health Partners, Inc.	\$499,606	Expanded Primary Care Services in Southern Maryland	Jan-07
Johns Hopkins Bayview Medical Center	\$485,478	Access to Wellness	Jan-07
Montgomery County Department of Health and Human Services	\$491,854	Under One Roof: Integrating Community-Based Mental Health and Substance Abuse Services with Somatic Services	Jan-07
Tri-State Community Health Center	\$395,328	Integration Allegany	Jan-07
Union Memorial Hospital	\$333,720	Buprenorphine Initiative	Jan-07
Walnut Street Community Health Center	\$339,125	Integrated Primary Care at the Walnut Street Community Health Center	Jan-07
Fiscal 2007 Actual Total	\$4,648,696		

**Operating Grants Awarded to Community Health Resource Centers (CHRC)
Fiscal 2008**

Operating Grants Awarded for Dental Health Initiatives

<u>CHRC</u>	<u>Amount</u>	<u>Description</u>	<u>Date Awarded</u>
Choptank Community Health System	\$300,000	Dental Health Expansion	Sep-07
Allegany County Health Department	\$200,000	Dental Health Expansion	Sep-07
Baltimore City Health Department	\$70,750	Dental Health Expansion	Sep-07
Carroll County Health Department	\$29,030	Dental Health Expansion	Sep-07
Garrett County Health Department	\$173,660	Dental Health Expansion	Sep-07
Harford County Health Department	\$435,564	New Dental Health Clinic	Sep-07
Wicomico County Health Department	\$300,000	Dental Health Expansion	Sep-07
Subtotal	\$1,509,004		

Operating Grants Awarded for Information Technology Initiatives

<u>CHRC</u>	<u>Amount</u>	<u>Description</u>	<u>Date Awarded</u>
Allegany County Health Department	\$99,731	Document Storage, Retrieval and Management System for the Behavioral Health Division	Nov-07
Baltimore Medical System, Inc.	\$397,304	Extend Electronic Health Network for Health Centers and School-based Health Clinics	Nov-07
Choptank Community Health System	\$400,000	Implement Electronic Health and Dental Records	Nov-07
St. Luke's House, Inc.	\$350,000	Implement Electronic Medical Record and Billing System	Nov-07
Walnut Street Community Health Center	\$400,000	Update Practice Management System and Implement Electronic Medical Record Component	Nov-07
Community Health Integrated Partnership	\$1,000,000	Implement Electronic Health Records System	Nov-07
Subtotal	\$2,647,035		
Fiscal 2008 Working Total	\$4,156,039		

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

<u>Object/Fund</u>	<u>FY07 Actual</u>	<u>FY08 Working Appropriation</u>	<u>FY09 Allowance</u>	<u>FY08-FY09 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	96.90	99.40	92.60	-6.80	-6.8%
02 Contractual	0.62	1.00	1.00	0	0%
Total Positions	97.52	100.40	93.60	-6.80	-6.8%
Objects					
01 Salaries and Wages	\$ 7,640,179	\$ 8,984,704	\$ 8,966,966	-\$ 17,738	-0.2%
02 Technical and Spec. Fees	67,478	117,237	135,062	17,825	15.2%
03 Communication	99,314	106,337	107,641	1,304	1.2%
04 Travel	81,831	156,600	127,900	-28,700	-18.3%
08 Contractual Services	88,063,335	102,127,530	134,384,161	32,256,631	31.6%
09 Supplies and Materials	67,162	70,963	78,618	7,655	10.8%
10 Equip. – Replacement	34,180	41,941	28,960	-12,981	-31.0%
11 Equip. – Additional	2,766	34,522	32,017	-2,505	-7.3%
12 Grants, Subsidies, and Contributions	4,648,698	7,700,000	9,200,000	1,500,000	19.5%
13 Fixed Charges	361,669	418,049	439,452	21,403	5.1%
Total Objects	\$ 101,066,612	\$ 119,757,883	\$ 153,500,777	\$ 33,742,894	28.2%
Funds					
03 Special Fund	\$ 101,066,612	\$ 119,556,956	\$ 153,500,777	\$ 33,943,821	28.4%
09 Reimbursable Fund	0	200,927	0	-200,927	-100.0%
Total Funds	\$ 101,066,612	\$ 119,757,883	\$ 153,500,777	\$ 33,742,894	28.2%

Note: The fiscal 2008 appropriation does not include deficiencies.

**Fiscal Summary
DHMH Health Regulatory Commissions**

<u>Program/Unit</u>	<u>FY07 Actual</u>	<u>FY08 Wrk Approp</u>	<u>FY09 Allowance</u>	<u>Change</u>	<u>FY08-FY09 % Change</u>
01 Maryland Health Care Commission	\$ 21,967,803	\$ 24,602,532	\$ 53,920,777	\$ 29,318,245	119.2%
02 Health Services Cost Review Commission	74,148,042	86,784,408	89,775,646	2,991,238	3.4%
03 Maryland Community Health Resources Commission	4,950,767	8,370,943	9,804,354	1,433,411	17.1%
Total Expenditures	\$ 101,066,612	\$ 119,757,883	\$ 153,500,777	\$ 33,742,894	28.2%
Special Fund	\$ 101,066,612	\$ 119,556,956	\$ 153,500,777	\$ 33,943,821	28.4%
Total Appropriations	\$ 101,066,612	\$ 119,556,956	\$ 153,500,777	\$ 33,943,821	28.4%
Reimbursable Fund	\$ 0	\$ 200,927	\$ 0	-\$ 200,927	-100.0%
Total Funds	\$ 101,066,612	\$ 119,757,883	\$ 153,500,777	\$ 33,742,894	28.2%

Note: The fiscal 2008 appropriation does not include deficiencies.