STATE OF MARYLAND
DEPARTMENT OF HEALTH AND MENTAL HYGIENE

HEALTH SERVICES COST REVIEW COMMISSION
4160 Patterson Avenue, Baltimore, Maryland 21215
Phone: 410-764-2605 · Fax: 410-358-6217
Toll Free: 1-888-287-3229
www.hscrc.state.md.us

Memorandum

To: HSCRC Commissioners

From: Steve Ports

Date: February 1, 2012

RE: Summary of FY 13 State Operating, HSCRC, and Medicaid Budgets

---

This memorandum is intended to describe the overall FY13 Maryland State Operating Budget picture, highlight the Medicaid provisions in the budget that relate to the Health Services Cost Review Commission, and update the Commission on any changes proposed in the HSCRC FY 13 budget.

State Budget

In December 2010, the Maryland General Assembly's Spending Affordability Committee recommended that the State eliminate the structural deficit over a 3-year period – in FY 2012, FY 2013, and FY 2014. At the time, the State's structural Deficit was estimated to be $2 billion. The FY 12 budget is expected to reduce the deficit to $1.1 billion by YE FY2012. With the cost containment measures and revenue enhancements proposed in the budget and related legislation, it is expected that by the end of FY 2013, the deficit would be reduced to $404 million.

Medicaid Budget

Overall, the proposed budget increases Medicaid expenditures by 3.37% (from $7.08 billion to $7.32 billion), and enrollment is expected to grow by 5.6%. Included in the budget is the continuation of provider taxes on all major Medicaid providers. The language included in the Budget Reconciliation Act last year (during the 2011 Legislative Session) requires that:

> *For fiscal year 2013 and every fiscal year thereafter, the Commission and the Department of Health and Mental Hygiene shall adopt policies that will provide at least $389,825,000 from a combination of special fund revenues and General Fund savings from reduced hospital or other payments made by the Medicaid program. The policies adopted under this subsection shall be in lieu of the hospital assessment and remittance revenue generated in fiscal year 2012, but may include hospital assessments and remittances. To the maximum extent*

possible, the Commission and the Department shall adopt policies that preserve the State's Medicare waiver.

The amounted included in the Medicaid budget from the Medicaid Deficit Assessment/Remittance in FY 13 is $413 million – a 6.2% increase from FY 2012, or an additional $24 million. As in FY 13, the Commission is to determine how this burden would be distributed among hospitals (through a remittance), and payers or purchasers of care (through an assessment). In FY 12, the Commission required that $333 million of the $389 million assessment/remittance be implemented through an increase in rates and the remaining $56 million accrue through a remittance from HSCRC regulated hospitals.

In addition, the Medicaid budget anticipates cost containment from the following policy changes:

- Tiering of Clinic and ED Services – The Medicaid budget assumes a savings of $30 million in General Funds, $60 million total funds (including the federal match). This assumes the Commission would change its existing policy of prohibiting hospitals to tier their Clinic and ED rates.

- DSH Pooling – Savings to Medicaid of $9.1 in General Funds and $18.2 in total funds (including the federal match) is expected from pooling Disproportionate Share similar to how uncompensated care is currently pooled. The FY 13 Budget Reconciliation and Financing Act includes language in the HSCRC's statute to authorize (but does not require) the Commission to conduct such DSH pooling.

- Reducing Payments for Enrollees in Medicaid's Medically Needy Program – The Budget expects $36 million in General Fund savings and $72 million total savings from this policy. Details have not been provided on how this would be implemented.

- MCO Rate Cut – MCO rates are proposed to be reduced by 1% in FY 13. In FY 12, MCO rates were cut by 1.5%.

- Freeze in payments to D.C. and non-HSCRC Hospitals

The growth in the Medicaid budget is based on three factors: enrollment, utilization and rates. The budget assumes that hospital rates would increase by 3.8% for inpatient services, and 4.65% for outpatient services, for a combined increase of 4.13%. This rate of increase includes the following elements:

- Market Basket;
- Inflation Forecast Error;
- HSCRC Policy Adjustment;
- Slippage;
- Volume Adjustment;
- Case Mix;
- Markup; and
- Medicaid Deficit Assessment

HSCRC Budget

There were not cuts to the requested HSCRC budget for FY 2013. The budget as proposed would increase over FY 12 by 3.7%. Since the Commission received 3 new positions in the FY 12 budget (for a total of 34), no new positions are included in the FY 13 budget.