Maryland Hospital Association

December 5, 2014

John M. Colmers
Chairman, Health Services Cost Review Commission
3910 Keswick Road
Suite N-2200
Baltimore, Maryland 21211

Dear Chairman Colmers:

At its June 11, 2014 public meeting, the Health Services Cost Review Commission (HSCRC) voted to establish "the update factor for a 6 month period to allow for consideration of calendar year performance…(to) monitor and review results on an ongoing basis and make changes as needed on January 1st." Furthermore, the "Commissioners decided to postpone additional infrastructure funding until January, when better information will be available on the first year status of the waiver and the effectiveness of the initial infrastructure funding can be evaluated."[1] As we near completion of the first full year under the state's new all-payer demonstration model, it is important to recall the final recommendations from the HSCRC's Advisory Council, which advised the Commission to *"...strike a balance between near-term cost control, which is paramount, and making the required investments in physical and human infrastructure necessary for success. If we do not meet the near-term targets, there will be no long-term program. But, if we fail to make the needed infrastructure investments, we will not have the toolkit of reforms necessary to achieve lasting success" and "(g)iven the challenging targets in this initiative, goals should be set in the aggregate as close to the targets as practicable based on the degree of comfort that individual targets will be met."*[2] There is sufficient information now available to the Commission to re-visit its original action. On behalf of our 65 hospital and health system members, the Maryland Hospital Association (MHA) requests that the Commission increase rates statewide, by 0.75 percent, effective January 1, 2015. We make this request in light of the following:

1) **Maryland's hospitals have outperformed the limits**
   Maryland's hospitals will significantly outperform the all-payer model limits in the first calendar year. Projected Maryland hospital spending per capita for the year is 2.01 percent - 44 percent below the waiver's 3.58% per capita limit. Further, although the five-year cumulative savings requirement of $330 million did not anticipate savings in the first year of the new model, Center for Medicare & Medicaid Innovation data show Maryland's hospitals on target to generate between $30 million and $40 million of savings this year alone. The

[1] Minutes of the 509th meeting of the Health Services Cost Review Commission, June 11, 2014
[2] Advisory Council final report dated January 31, 2014, p.6

results of calendar year 2014 are clear: Maryland's hospitals are outperforming the financial targets of the new model.

2) **A January 1 rate adjustment creates no risk of exceeding the waiver's financial limits**
Aggregate Maryland hospital revenue is capped under the Global Budget Revenue /Total Patient Revenue (GBR/TPR) payment model. Under the old waiver, hospital revenues increased as volume increased, so limiting hospital rates did not guarantee hospital revenue control. This is no longer the case: *hospital revenues cannot exceed the collective GBR/TPR caps*. A January 1 increase in rates does not threaten Maryland's ability to meet the new waiver's revenue ceiling. The GBR/TPR methodologies cap revenue, both prices and volume, providing stable and predictable costs for payers no longer at risk for increased hospital volume. Moreover, when the original update was considered last June, not all hospitals had completed individual global budget contracts with the Commission that would ensure individual spending ceiling compliance; those agreements are now in place in every hospital in the state, with all applicable Maryland hospital revenues capped.

3) **Investing in care coordination and population health infrastructure is essential to waiver success**
The spending limits included in the new waiver along with the global budget limits were intended to be aggressive, creating incentives for hospitals and health systems to dramatically change the way they provide hospital care and health care in their communities. And that is exactly what is happening in Maryland. But moving rapidly from volume-based to value-based payment requires significant and immediate change and investment in new health care delivery models. A January 1 rate adjustment would help ensure and speed the needed investments. The HSCRC Advisory Council underscored to this Commission the essential investment in care coordination activities needed for Maryland to be successful under the new waiver, including activities outside the regulated hospital environment. Care coordinators, community health workers, transportation services, behavioral health services, population health-related information technology and data analytics are just a few examples of the new investments required for the five year success under the new model. The need for these investments was acknowledged by the Commission, when GBR hospitals received slightly higher global budgets to help fund needed new infrastructure. As Maryland's hospitals will significantly outperform the all-payer financial requirements this year, now is the time to release additional funds by way of a mid-year rate increase to facilitate those investments.

4) **Hospital margins have improved, but remain vulnerable**
As reflected in the attached chart, hospital operating margins have increased this year, but previous declines in 2012 and 2013, forced severe operational cutbacks and created for hospitals an unstable financial footing. As Maryland's hospitals embrace the new value-based model, they must do better with less, controlling health care spending in accordance

with the triple aim. However, hospitals are only beginning to recover from these recent downturns and a six-year history of below-inflation updates.

Maryland's hospitals are doing their part to meet the objectives of the waiver and lower health care costs for everyone. But all stakeholders, including health plans and the public, share responsibility for transforming care in Maryland. A 0.75 percent mid-year rate increase balances population health investment needs with cost containment. Maryland hospital financial performance is well below the waiver's ceiling. We ask the state and the HSCRC to partner with hospitals to invest now to leverage even greater savings and performance improvement as the new waiver model evolves.

We appreciate the Commission's consideration of this critically important issue. If you have any questions, please contact me.

Sincerely,

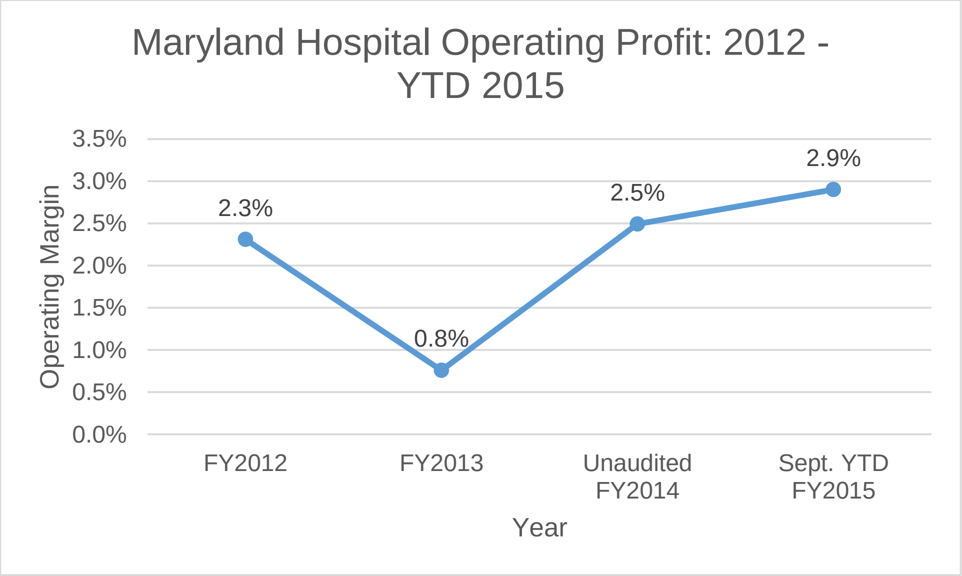
Carmela Coyle
President & CEO
Maryland Hospital Association

Attachment

cc: Herbert Wong, PhD, Vice Chairman
George H. Bone, MD
Stephen F. Jencks, MD, MPH
Jack C. Keane
Donna Kinzer, Executive Director
Bernadette Loftus, MD
Thomas R. Mullen

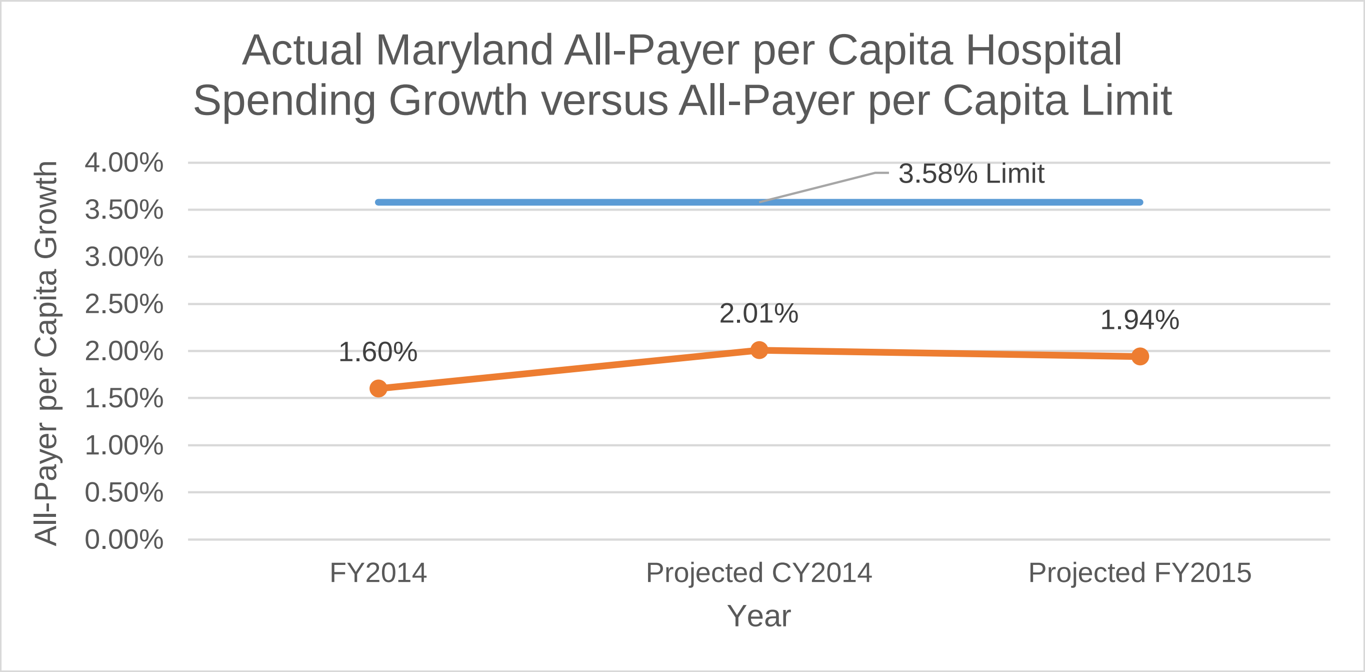
Operating Margins

- Hospital operating margins are below the traditional 2.75 percent target
  - Neither one year (FY 2014), nor three months (FY 2015), are sufficient to reflect stable profitability



All-Payer per Capita Growth

- Maryland's hospitals are significantly below the 3.58 percent limit, and will continue below the limit through FY 2015



Growth in Medicare Hospital Payment per Beneficiary

- Maryland Medicare Hospital Payment per Beneficiary is growing slower than the national average.
  - Maryland's hospitals are expected to generate savings in year one, exceeding the model's requirement for year one.