

Background on HSCRC Annual Hospital Rate Update (Update Factor)

Background

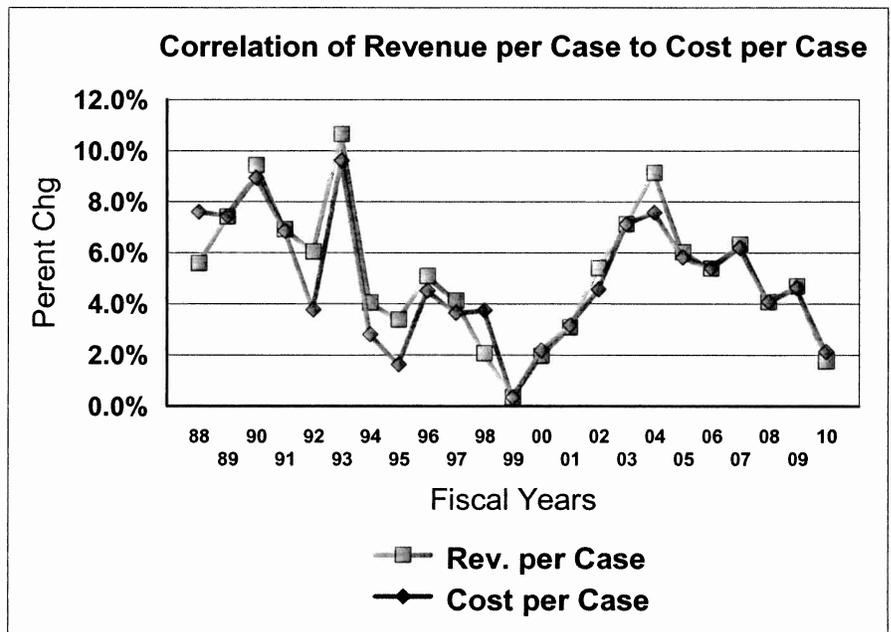
Purpose: HSCRC's primary tool to control the rate of growth of hospital revenues. The trajectory of the Hospital revenue curve also influences hospital decision making relative to their expenditures (hospital costs) in any given year.

HSCRC and Medicare Advisory Commission, experience shows a direct link between year to year revenue increases and year to year cost increases.

Schedule/Timing: HSCRC convenes a work group consisting of payer, hospital and staff representatives to assist staff in proposing a recommendation to the Commission in the spring just prior to the start of the upcoming Fiscal Year (Rate Year).

Change in Revenue per Case vs. resulting Cost per Case Change

	Rev/Case	Cost/Case
88	5.59%	7.60%
89	7.42%	7.44%
90	9.44%	8.94%
91	6.93%	6.86%
92	6.05%	3.77%
93	10.66%	9.61%
94	4.06%	2.81%
95	3.39%	1.63%
96	5.09%	4.52%
97	4.13%	3.65%
98	2.08%	3.74%
99	0.35%	0.34%
00	1.97%	2.18%
01	3.09%	3.17%
02	5.41%	4.56%
03	7.13%	7.11%
04	9.14%	7.57%
05	6.02%	5.82%
06	5.39%	5.39%
07	6.33%	6.18%
08	4.08%	4.08%
09	4.70%	4.62%
10	1.77%	2.12%



Current Update will apply to Fiscal Year 2012 - Year beginning July 1, 2011

Policy Objectives

Balance between these two objectives:

- Affordability of Hospital Care
- Financial Sustainability for Hospital Industry

In recent years - HSCRC has also applied other adjustments to a hospital's Update Factor (rewards and penalties) adding to or subtracting off each hospital's Update - based on their relative performance both efficiency and quality measures.

Components of the Update Factor

Components Traditionally Used per HSCRC Policy

- 1 - Market Basket (MB) estimate: A national index forecasting the inflation rate for major categories of hospital factor inputs (wage growth, supplies, contractual services, capital, etc.) for the period covered by the update.
- 2 - Forecast Error: Estimate of average forecasting error of MB index (compares final MB to projected MB) for past 3 years.
- 3 - System "Slippage" : Accounting for factors that add to or subtract from the expected rate of growth. (Examples include: Full Rate Reviews that go into effect in a given year, impact of "spenddowns" on hospital rates, lower than expected volume changes - variations from projected volume adjustment)
- 4 - Policy Adjustment: Component of update allows HSCRC to implement short-term policy. In past this has meant positive policy adjustments to rates when HSCRC wishes to increase profitability (such as in the period FY 2004 - FY 2006 - and beyond) and negative policy adjustments when it wishes to improve the the affordability of hospital care and improve our position vis-a-vis the nation
- 5 - Case Mix Increase/Allowance: Adjustment (add-on) to the update to account for historical trend in mix patients treated by hospitals year to year. Aging of population, changes in technology, etc. Factors that influence the acuity of patients and the intensity of treatment. Usually ranges from 0.5-1.0% per year.
- 6 - Volume Adjustment : Adjustment to reflect long term relationship of fixed to variable costs. Current Policy is to reflect costs as 85% variable and 15% fixed over the long-term. Thus, for increases in volumes there is a 15% fixed cost adjustment (hospitals are allowed to keep 85 cents on every dollar associated with volume increases)

These factors are applied to both hospital inpatient revenue (the Charge per Case or CPC) and to hospital outpatient revenue (the Charge per Visit or CPV).

Medicaid Assessments

In recent years (FY 2010 and FY 2011), the Commission has also had to factor in the impact of applying the Medicaid assessment on rates and on hospitals directly.

The impact of applying the Medicaid assessment on rates - will be to decrease hospital affordability and erode our position vs the US (on both the waiver test and an overall cost per case basis)

The impact of applying the Medicaid assessment directly on hospitals - will be to directly place more financial pressure on hospitals and potentially erode profitability.

FY 2012 Magnitude	\$370 mill.	about 3.0% of regulated Net pt. Rev.
GME Component	\$17.5 mill.	

Impact of the Policy Adjustment and Medicaid Assessment on Hospitals

Note: The "Policy Adjustment" and the Assessment applied directly on hospitals - both place more financial pressure on hospitals to lower costs.

Beyond some magnitude, both the Policy Adjustment and the Direct Assessment will erode profitability however.

Update Factor Example (FY 2011)

	CPC increase	CPV increase	
1 Market Basket Forecast	2.29%	2.29% From "Global Insights" annual forecast	
2 MB forecast error	<u>0.38%</u>	<u>0.38%</u> MB had been consistently under estimatec	
	2.67%	2.67%	
3 Slippage	<u>0.03%</u>	<u>0.03%</u>	
Subtotal	2.70%	2.70%	
4 Policy Adjustment	-1.29%	-1.29%	
5 Case Mix Limit	0.50%	1.35% Lessor of actual or limit applied separately to I/P and O/P	
6 Volume Adjustment	<u>-0.23%</u>	<u>-0.23%</u> Calculated based on prior yr change	
Total Update	1.68%	2.53%	
Resulting blend	<table border="1"><tr><td>2.00%</td></tr></table>	2.00%	
2.00%			

Structural Elements

In the past, the payer and hospital industries have agreed on either "formula-driven" updates that cover one or more years (i.e., link the final update to other exogenous standards or targets).

Periods covering FY 01 - 03 HSCRC adopted a "three-year rate arrangement" based on a formula

Periods covering FY 04-06 HSCRC adopted another "three-year rate arrangement" based on a exogenous target

In past years FY 07-11, no consensus on multi-year arrangements have been reached.

Indicators of Performance and Ability of HSCRC to Balance Policy Objectives

Recent Hospital Financial Performance

FY 2009 YTD December		
Operating Profit	\$121.6 mill.	2.02%
Total Profit	(\$508.5) mill.	-8.34%
YE Operating Profit		2.74%

FY 2010 YTD December		
Operating Profit	\$127.30 mill.	2.04%
Total Profit	\$256.40 mill.	5.92%
YE Operating Profit		2.37%

FY 2011 YTD December		
Operating Profit	\$180.0 mill.	2.80%
Total Profit	\$432.2 mill.	6.46%

Regulated vs. Unregulated Profits in Past Years

FY 2010 Unregulated Losses June YE hospitals					Physician Losses as Proportion of Total Unreg. Loss
	<u>Regulated</u>	<u>Unregulated</u>	<u>Total Operating</u>	<u>Physician Part B Losses</u>	
FY09 Op Profit	\$582.3	(\$316.3)	\$266.0	(\$263.7)	83.37%
Op. Margin	5.86%	-32.88%	2.44%	-91.40%	
Note: FY 09 data here reflect only June YE hospitals					
FY08 Op Profit	\$561.1	(\$290.3)	\$270.8	(\$217.3)	74.88%
Op. Margin	5.24%	-30.05%	2.32%	-83.67%	
FY07 Op Profit	\$536.2	(\$207.1)	\$329.1	(\$154.0)	74.37%
Op. Margin	5.37%	-22.23%	3.02%	-65.26%	
FY06 Op Profit	\$462	(\$188)	\$273	(\$134)	71.44%
Op. Margin	5.01%	-23.31%	2.73%	-63.68%	
FY05 Op Profit	\$415	(\$146)	\$269	(\$115)	78.38%
Op. Margin	4.91%	-19.75%	2.93%	-62.14%	
FY04 Op Profit	\$351	(\$150)	\$202	(\$94)	62.84%
Op. Margin	4.51%	-21.19%	2.37%	-54.86%	
FY03 Op Profit	\$249	(\$131)	\$118	(\$81)	61.77%
Op. Margin	3.54%	-20.30%	1.54%	-60.46%	

Recent Maryland System Performance vs. US hospital Performance (rev per case & cost case)

HSCRC current Target is to be 6.0% below the US on Cost per Adjusted Admission

	2003	2004	2005	2006	2007	2008	2009
	AHA	AHA	AHA	AHA	AHA	AHA	AHA
MD vs. US on Cost per Case	Actual	Actual	Actual	Actual	Actual	Actual	Actual
US Hospitals	\$8,233	\$8,665	\$9,099	\$9,565	\$10,029	\$10,480	\$10,842
MD Hospitals	\$7,824	\$8,339	\$8,767	\$9,381	\$10,028	\$10,494	\$10,726
Above/Below US	-4.97%	-3.76%	-3.65%	-1.92%	-0.01%	0.13%	-1.07%

Note: US appears to be growing between 2.7-3.0% per year currently. Also, as HSCRC moves hospitals toward more global/bundled payment structures, charge per case and cost per case in Maryland will be expected to increase.

Recent and Projected Waiver Performance

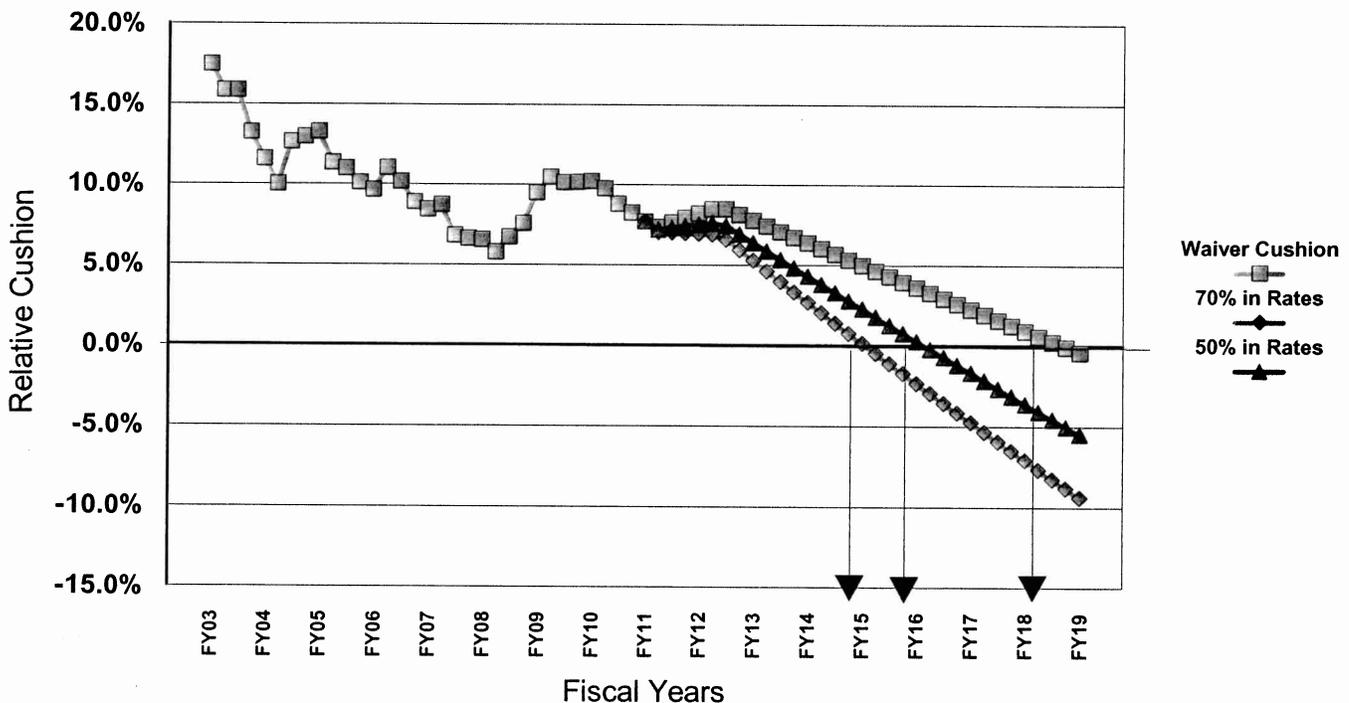
Most Recent Waiver Test as of September 2009 = 10.46%

Cushion is projected to decline gradually in CY 2010, stabilize and then erode Fy 2013-2019

In period FY 2010 and into FY 2011 - Charge per Case growth is outstripping Approved rate update (likely due to reduced case volumes, reduced admissions vs. Observation cases and other)

Forecasts have not attempted to factor in this dynamic or the impact of TPR and ARR rate arrangements. These payment methods will exacerbate waiver erosion

Actual and Projected Relative Cushion



Estimated Impact of Pooling GME

	Gross Revenue After UCC Re-allocation	Medicaid FY 2009			Actual GME			Current Medicaid Impact				Redistributed GME			Revised Medicaid Impact				MCO Portion of DME	Revenue Shift by Hospital	
		FFS %	MCO %	Total Percent	DME	IME	Total GME	FFS DME Portion	MCO DME Portion	IME	Total GME	DME	IME	Total GME	FFS DME Portion	MCO DME Portion	IME	Total GME			
WASHINGTON CO.	223,394,748	2.89%	8.54%	11.43%	0	0	0	0	0	0	0	0	3,400,164	10,414,626	13,814,791	98,234	290,531	1,190,778	1,289,011	0	13,814,791
UNIVERSITY OF MD.	842,933,462	12.25%	19.07%	31.33%	46,867,800	132,255,573	179,123,373	5,743,641	8,938,861	41,432,341	47,175,981	12,829,810	39,297,419	52,127,229	1,572,291	2,446,965	12,310,892	13,883,183	8,938,861	-126,996,144	
PRINCE GEORGES HO	217,180,262	18.96%	13.01%	31.97%	3,330,600	11,522,266	14,852,866	631,491	433,307	3,683,685	4,315,176	3,305,577	10,124,908	13,430,485	626,746	430,051	3,236,948	3,863,694	433,307	-1,422,381	
HOLY CROSS	364,539,191	7.80%	7.14%	14.94%	1,651,300	4,759,197	6,410,497	128,826	117,938	711,195	840,022	5,548,443	16,994,757	22,543,200	432,862	396,275	2,539,629	2,972,490	117,938	16,132,704	
FREDERICK MEM.	247,191,462	2.56%	7.11%	9.66%	0	0	0	0	0	0	0	3,762,360	11,524,025	15,286,386	96,192	267,366	1,113,567	1,209,759	0	15,286,386	
HARFORD MEM.	84,919,156	1.92%	5.25%	7.17%	0	0	0	0	0	0	0	1,292,506	3,958,917	5,251,423	24,847	67,844	283,910	308,757	0	5,251,423	
ST. JOSEPH'S	366,629,648	1.74%	4.72%	6.46%	0	0	0	0	0	0	0	5,580,261	17,092,214	22,672,475	97,089	263,240	1,103,680	1,200,769	0	22,672,475	
MERCY	342,911,197	5.84%	13.85%	19.69%	4,399,300	15,029,042	19,428,342	256,825	609,234	2,958,661	3,215,487	5,219,256	15,986,464	21,205,719	304,693	722,785	3,147,142	3,451,835	609,234	1,777,377	
JOHNS HOPKINS	1,482,912,525	6.34%	12.87%	19.22%	49,123,600	201,138,683	250,262,283	3,116,535	6,323,872	38,654,151	41,770,686	22,570,566	69,133,138	91,703,704	1,431,938	2,905,597	13,285,772	14,717,711	6,323,872	-158,558,579	
DORCHESTER GEN.	48,306,308	8.67%	8.72%	17.39%	0	0	0	0	0	0	0	735,243	2,252,032	2,987,275	63,777	64,094	391,665	455,442	0	2,987,275	
ST. AGNES	329,899,069	6.38%	13.78%	20.16%	6,096,900	18,034,851	24,131,751	388,825	840,247	3,635,639	4,024,464	5,021,206	15,379,840	20,401,046	320,223	692,000	3,100,416	3,420,639	840,247	-3,730,705	
SINAI	565,818,607	5.61%	13.01%	18.62%	12,886,100	33,314,377	46,200,477	722,347	1,676,640	6,202,091	6,924,438	8,612,003	26,378,370	34,990,373	482,757	1,120,527	4,910,824	5,393,581	1,676,640	-11,210,104	
BON SECOURS	94,107,486	14.42%	16.52%	30.93%	0	0	0	0	0	0	0	1,432,356	4,387,276	5,819,632	206,506	236,573	1,357,141	1,563,647	0	5,819,632	
FRANKLIN SQUARE	374,780,957	7.05%	14.68%	21.74%	7,495,500	19,537,755	27,033,255	528,685	1,100,630	4,246,969	4,775,655	5,704,327	17,472,227	23,176,554	402,347	837,616	3,797,980	4,200,328	1,100,630	-3,856,701	
WASHINGTON ADV.	248,275,586	7.18%	7.19%	14.36%	0	0	0	0	0	0	0	3,778,861	11,574,567	15,353,428	271,247	271,567	1,662,628	1,933,875	0	15,353,428	
GARRETT CO.	35,418,689	14.52%	9.59%	24.11%	0	0	0	0	0	0	0	539,088	1,651,213	2,190,301	78,278	51,677	398,049	476,328	0	2,190,301	
MONTGOMERY GEN.	126,064,410	1.69%	5.14%	6.83%	0	0	0	0	0	0	0	1,918,755	5,877,102	7,795,857	32,436	98,684	401,615	434,050	0	7,795,857	
PENINSULA GEN.	349,629,074	1.81%	8.13%	9.94%	0	0	0	0	0	0	0	5,321,505	16,299,650	21,621,155	96,573	432,441	1,620,357	1,716,930	0	21,621,155	
SUBURBAN	211,020,694	1.21%	2.20%	3.40%	181,800	751,452	933,252	2,193	3,993	25,568	27,761	3,211,826	9,837,750	13,049,576	38,744	70,536	334,722	373,466	3,993	12,116,324	
ANNE ARUNDEL GEN.	361,762,121	2.31%	3.39%	5.70%	0	0	0	0	0	0	0	5,506,175	16,865,291	22,371,466	127,402	186,511	961,507	1,088,909	0	22,371,466	
UNION MEM.	376,845,622	6.48%	11.44%	17.92%	9,010,600	22,042,595	31,053,195	583,801	1,030,813	3,949,824	4,533,624	6,924,006	21,208,076	28,132,082	753,233	1,138,675	5,794,872	6,548,106	1,030,813	-7,748,962	
MEM. CUMBERLAND	96,676,468	4.45%	14.68%	19.13%	0	0	0	0	0	0	0	1,471,457	4,507,041	5,978,498	65,550	215,996	862,368	927,918	0	5,978,498	
BRADDOCK	154,728,625	8.71%	6.87%	15.58%	0	0	0	0	0	0	0	2,355,036	7,213,423	9,568,459	205,098	161,852	1,123,960	1,329,058	0	9,568,459	
ST. MARY'S	112,655,433	10.63%	26.24%	36.87%	0	0	0	0	0	0	0	1,714,664	5,251,978	6,966,642	182,302	449,937	1,936,533	2,118,834	0	6,966,642	
BAYVIEW	454,915,285	10.88%	16.45%	27.32%	18,416,400	39,325,994	57,742,394	2,003,442	3,028,636	10,745,393	12,748,835	6,200,006	21,208,076	28,132,082	753,233	1,138,675	5,794,872	6,548,106	3,028,636	-29,610,312	
CHESTER RIVER	55,301,452	2.83%	8.74%	11.57%	0	0	0	0	0	0	0	841,712	2,578,145	3,419,856	23,803	73,543	298,167	321,970	0	3,419,856	
UNION OF CECIL	117,485,914	3.64%	9.06%	12.70%	0	0	0	0	0	0	0	1,788,186	5,477,174	7,265,360	65,162	161,928	695,571	760,733	0	7,265,360	
CARROLL CO. GEN.	177,839,655	6.86%	2.54%	9.40%	0	0	0	0	0	0	0	2,706,796	8,290,855	10,997,652	185,688	68,755	779,353	965,040	0	10,997,652	
HARBOR HOSP.	180,598,942	5.85%	21.87%	27.71%	3,904,200	10,019,362	13,923,562	228,348	853,661	2,776,764	3,005,112	2,748,794	8,419,493	11,168,287	160,771	601,029	2,333,377	2,494,148	853,661	-2,755,275	
CIVISTA	95,328,469	4.27%	7.73%	12.00%	0	0	0	0	0	0	0	1,450,940	4,444,198	5,895,138	61,912	112,147	533,137	595,049	0	5,895,138	
MEM. EASTON	147,787,555	2.48%	11.56%	14.05%	0	0	0	0	0	0	0	2,249,390	6,889,832	9,139,222	55,789	260,140	967,684	1,023,474	0	9,139,222	
MARYLAND GEN.	158,423,577	15.02%	27.41%	42.43%	3,119,100	11,522,266	14,641,366	468,409	854,932	4,888,552	5,356,961	2,411,275	7,385,681	9,796,956	362,111	660,920	3,133,523	3,495,635	854,932	-4,844,410	
CALVERT MEMORIAL	102,287,960	3.03%	7.50%	10.53%	0	0	0	0	0	0	0	1,556,867	4,768,648	6,325,515	47,180	116,759	502,142	549,322	0	6,325,515	
NORTHWEST	190,321,493	5.61%	9.05%	14.66%	0	0	0	0	0	0	0	2,896,775	8,872,757	11,769,532	162,526	262,279	1,301,165	1,463,691	0	11,769,532	
BALTIMORE/WASHING	279,072,862	1.12%	4.99%	6.11%	178,000	1,252,420	1,430,420	1,988	8,888	76,525	78,513	4,247,609	13,010,331	17,257,940	47,435	212,102	794,958	842,393	8,888	15,827,520	
G.B.M.C.	363,973,127	1.70%	4.62%	6.32%	4,412,622	14,778,558	19,191,180	75,015	203,873	934,037	1,009,052	5,539,828	16,968,367	22,508,195	94,177	255,952	1,072,438	1,166,615	203,873	3,317,015	
MCCREARY	14,945,541	12.84%	16.43%	29.27%	0	0	0	0	0	0	0	227,478	696,759	924,236	29,200	37,385	203,950	233,150	0	924,236	
HOWARD CO. GEN.	210,812,937	3.02%	7.46%	10.49%	0	0	0	0	0	0	0	3,208,664	9,828,064	13,036,728	97,055	239,411	1,030,588	1,127,643	0	13,036,728	
UPPER CHESAPEAKE	192,100,798	0.82%	6.07%	6.89%	0	0	0	0	0	0	0	2,923,857	8,955,708	11,879,564	23,906	177,578	617,142	641,048	0	11,879,564	
DR'S COMMUNITY HO	166,251,864	2.73%	6.30%	9.03%	0	0	0	0	0	0	0	2,530,425	7,750,635	10,281,059	69,012	159,361	699,503	768,516	0	10,281,059	
SOUTHERN MD.	200,882,913	4.29%	6.87%	11.16%	0	0	0	0	0	0	0	3,057,524	9,365,128	12,422,653	131,181	209,979	1,044,965	1,176,146	0	12,422,653	
LAUREL REGIONAL	80,242,752	5.34%	22.81%	28.15%	0	0	0	0	0	0	0	1,221,329	3,740,904	4,962,233	65,183	278,583	1,052,949	1,118,132	0	4,962,233	
FORT WASHINGTON	41,943,992	3.35%	6.78%	10.14%	0	0	0	0	0	0	0	638,406	1,955,422	2,593,828	21,405	43,314	198,235	219,640	0	2,593,828	
ATLANTIC GENERAL	70,490,220	0.53%	4.93%	5.46%	0	0	0	0	0	0	0	1,072,891	3,286,242	4,359,134	5,723	52,905	179,576	185,299	0	4,359,134	
KERNANS	97,174,889	12.40%	12.27%	24.67%	3,001,900	2,755,324	5,757,224	372,385	368,252	679,801	1,052,186	1,479,044	4,530,277	6,009,321	183,475	181,439	1,117,722	1,301,197	368,252	252,097	
GOOD SAMARITAN	259,670,577	5.23%	10.90%	16.13%	5,018,000	10,520,330	15,538,330	262,583	546,898	1,697,092	1,959,675	3,952,298	12,105,800	16,058,097	206,817	430,750	1,952,852	2,159,669	546,898	159,768	
SHADY GROVE	285,901,812	4.52%	8.71%	13.23%	0	0	0	0	0	0	0	4,351,549</									

**ESTIMATION OF TOTAL, MEDICAID (FFS) AND MEDICAID (MCO) GRADUATE MEDICAL EDUCATION
REVENUE AT MARYLAND HOSPITALS FOR FISCAL YEAR 2009**

HOSPID	HOSPITAL	GROSS @ 94% (PAYMENT)		COST (MARKUP REMOVED)		GROSS @ 94% (PAYMENT)		GROSS @ 94% (PAYMENT)		COST (MARKUP REMOVED)		COST (MARKUP REMOVED)	
		TOTAL DME	TOTAL IME	TOTAL DME	TOTAL IME	MEDICAID (FFS) GME REVENUE	MEDICAID (MCO) GME REVENUE	MEDICAID (FFS) GME REVENUE	MEDICAID (MCO) GME REVENUE	MEDICAID (FFS) GME REVENUE	MEDICAID (MCO) GME REVENUE	MEDICAID (FFS) GME REVENUE	MEDICAID (MCO) GME REVENUE
210002	University of Maryland Hospital	49,578,118	163,415,750	46,867,800	154,482,199	16,902,007	33,260,196	15,978,014				31,441,940	
210003	Prince Georges Hospital Center	3,520,231	11,226,519	3,330,600	10,621,758	2,585,664	1,980,516	2,446,377				1,873,827	
210004	Holy Cross Hospital	1,734,422	4,153,375	1,651,300	3,954,326	413,486	356,536	393,670				339,449	
210008	Mercy Medical Center	4,636,504	15,966,482	4,399,300	15,149,635	1,081,874	2,702,929	1,026,525				2,564,647	
210009	Johns Hopkins Hospital	51,661,915	262,879,313	49,123,600	249,963,214	29,845,893	39,102,321	28,379,469				37,181,100	
210011	St. Agnes Hospital	6,457,501	18,296,315	6,096,900	17,274,609	1,194,177	2,158,493	1,127,491				2,037,958	
210012	Sinai Hospital	13,612,515	42,388,989	12,886,100	40,126,952	3,493,710	5,636,497	3,307,273				5,335,712	
210015	Franklin Square Hospital Center	7,930,014	18,291,254	7,495,500	17,289,010	1,299,547	3,056,593	1,228,340				2,889,112	
210022	Suburban Hospital	191,835	944,122	181,800	894,736	24,075	14,376	22,815				13,624	
210024	Union Memorial Hospital	9,535,485	30,503,316	9,010,600	28,824,246	1,946,327	2,835,305	1,839,190				2,679,235	
210029	Johns Hopkins Bayview Medical Cent	19,503,041	33,278,098	18,416,400	31,423,959	4,825,878	8,124,058	4,556,997				7,671,414	
210034	Harbor Hospital Center	4,131,260	9,598,087	3,904,200	9,070,562	955,980	2,155,068	903,438				2,036,622	
210038	Maryland General Hospital	3,324,161	11,279,834	3,119,100	10,584,001	1,756,463	4,067,885	1,648,110				3,816,945	
210043	Baltimore Washington Medical Center	187,373	1,386,428	178,000	1,317,072	47,547	69,410	45,168				65,938	
210044	Greater Baltimore Medical Center	4,633,994	15,882,035	4,412,622	15,123,328	347,600	548,824	330,995				522,606	
210056	Good Samaritan Hospital	5,326,818	12,368,637	5,018,000	11,651,575	874,271	1,032,432	823,586				972,577	
210058	James Lawrence Kernan Hospital	3,171,349	4,575,598	3,001,900	4,331,119	303,450	829,519	287,236				785,196	
	TOTAL	189,136,538	656,434,152	179,093,722	622,082,300	67,897,948	107,930,958	64,344,695				102,227,902	