

IN RE: THE PARTIAL RATE * **BEFORE THE HEALTH SERVICES**
APPLICATION OF SHADY GROVE * **COST REVIEW COMMISSION**
ADVENTIST HOSPITAL - * **DOCKET: 2011**
GERMANTOWN EMERGENCY CENTER * **FOLIO: 1926**
GERMANTOWN, MARYLAND * **PROCEEDING: 2116N**

Staff Recommendation

August 11, 2011

This recommendation was unanimously approved by the Commission on August 11, 2011.

Introduction

On May 13, 2011, Shady Grove Adventist Hospital (the "Hospital," or "SGAH") submitted a partial rate application to the Commission on behalf of the Germantown Emergency Center ("GEC") requesting a rate for emergency and related ancillary services provided at the Center. The Hospital is requesting that the rates be approved effective July 1, 2011.

Chapters 505 and 506 of the 2010 Laws of Maryland require the Commission to set rates for all payers for emergency services provided at two freestanding medical facilities operating as pilot projects under legislation passed in 2005 and 2007. The pilot facilities are the Queen Anne's Freestanding Emergency Medical Center and the Germantown Emergency Center. The 2010 legislation also requires the Commission to set rates for all payers for emergency services provided at the Bowie Health Center.

Specifically, the 2005 freestanding medical facility legislation (Chapters 549 and 550 of the 2005 Laws of Maryland):

- Defined a freestanding medical facility as one:
 - in which medical and health services are provided;
 - that is physically separated from a hospital or hospital grounds;
 - that is an administrative part of a hospital or related institution; and
 - that is open 24 hours a day, 7 days per week.
- established a licensure category and process for freestanding medical facilities;
- set standards for freestanding medical facilities;
- created a freestanding medical facility pilot project in Montgomery County which:
 - required private carriers and MCOs to reimburse the pilot project facility based on a contract executed between the facility and the payer; and

- required Medicaid, when paying on a fee-for services basis, to reimburse a project at a rate no less than what is paid by Medicare; and
- required the Maryland Health Care Commission (MHCC) to collect data and report on the operations and utilization of the pilot facility.

The 2010 legislation removed many of these provisions and requires HSCRC to set rates for the pilot projects and the Bowie Health Center, and prohibits any additional freestanding facilities to be established until after July 1, 2015. However, a Certificate of Need would be required.

After the Germantown Emergency Center became the first pilot project in 2005, it attempted to obtain provider-based status from Medicare in order to receive facility fee reimbursement. Ultimately, after various administrative and legal proceedings, it was determined that if the HSCRC did not set a rate for the freestanding medical facility, Medicare would not pay a facility fee. Since the HSCRC will be setting rates for these facilities pursuant to the 2010 legislation, Medicare will begin paying the corresponding facility fee.

In February 2010, MHCC released a report on the operations of the GEC. Some of the key findings include:

- In comparison with hospital emergency departments, a larger proportion of visits to GEC were low acuity, while a smaller proportion were high acuity.
- Data reported on the mode of arrival indicate that the vast majority of patients using GEC walk in for service. In fiscal year 2009, 97% of discharged patients walked in for service, while approximately 3% arrived via public safety ground ambulance.
- GEC did not generate a net profit in its first two years of operation. In fiscal year 2007, losses in the amount of \$994,700 were reported. In fiscal year 2008, losses declined to \$847,300.

- Data on the use of the Hospital emergency department showed that opening GEC reduced demand for care at the hospital emergency department. Over the period 2000 to 2006, emergency department visits at the Hospital increased by an average of 4.5% annually. With the opening of the GEC in fiscal year 2007, volumes at the SGAH emergency department declined by about 10,000 visits or 11.4 percent. In fiscal year 2008, SGAH visits declined another 4.2%, and in 2009 such visits increased slightly.

In compliance with 2010 legislation, on November 3, 2010, the Commission approved provisional rates for the Queen Anne's Freestanding Emergency Center effective October 1, 2010 (HSCRC Proceeding 2090N). These rates will be revisited following the availability of data on actual experience at the Queen Anne's Freestanding Emergency Medical Center, and the outcome of this rate application.

Staff Evaluation

The Commission typically provides a hospital with the lesser of the state-wide median rate or the hospital's requested rate based on projected cost for new services. The Hospital requested that rates be set for Emergency Room, CT Scanner, Laboratory, Radiology Diagnostic, Electrocardiography, Medical Supplies, and Drugs revenue centers based on the actual cost structure of GEC. The staff believes that the approved cost per unit of service for this facility should not be more than that approved at SGAH, since the overhead associated with the freestanding facility should be less than that of the Hospital. Therefore, the staff conducted its review by comparing the requested GEC cost per unit, by revenue center, to the approved cost per unit of SGAH and provided GEC with the lower of the two. Additionally, the staff believes that the cost of GEC should be no more than the statewide median cost. Therefore the staff provided GEC with the lesser of the cost per unit

previously calculated (GEC versus SGAH) and the approved statewide median cost per unit. The cost per unit for each revenue center was then increased by the approved update factor of 1.56%.

Finally, in order to arrive at the approved rate per unit for each revenue center, a markup was calculated based on GEC's actual payer mix and uncompensated care (UCC) for FY 2010. UCC for FY 2010 was \$2,337,961 or 14.89% of charges. The approved markup for FY 2012 is 1.2154.

Recommendation

Based on the above calculations, the staff recommends the following rates at GEC effective July 1, 2011:

	<u>Approved Rate</u>	<u>Units of Service</u>	<u>Approved Revenue</u>
Free Standing Emergency	\$40.80	153,094	\$6,245,579
CT Scanner	\$6.24	97,097	\$605,513
Laboratory	\$1.55	643,170	\$997,042
Radiology Diagnostic	\$29.44	74,029	\$2,179,563
Electrocardiography	\$3.04	32,724	\$99,414
Medical Supplies	Overhead of \$32,918 plus the cost of medical supplies times 1.2154 markup		
Cost of Drugs	Overhead of \$94,362 plus the cost of drugs times 1.2154 markup		

Staff further recommends that the UCC for FY 2013 be based on GEC's actual UCC for FY's 2010 and 2011 and that the UCC for future years be based on the most current three year average. Finally, the staff recommends that the facility report to the Commission all applicable data and information required of all other hospitals regulated under the all-payer system in the time frames dictated by the Commission.