maryland
health services
cost review commission

TO: Hospital CFOs

FROM: Cait Cooksey, Deputy Director – Hospital Rate Regulation

DATE: August 20, 2026

RE: Operationalizing Carve-Outs Update from July 31, 2026

This memorandum serves as a follow-up to the memorandum issued on July 31, 2026, and provides additional details regarding the GBR mechanics associated with the carve-out policy.

Carve-Out Volume Methodology

Previously, hospital rate files reflected carved-out services using a pro rata approach. Following industry feedback and further staff review, staff have revised this approach. The rate files will instead use a baseline of calendar year 2025 (CY 2025) volumes for the carved-out services, subject to the baseline methodology described below.

Hospitals have received a supporting file titled *IN_OUT State IP % Carve-out DRG to Rate Center Mapping_UPDATED for Total Vols. (Support) v1.* This file contains the mapping staff used to crosswalk DRGs from the case-mix data set to the applicable rate center.

The carved-out volume by rate center for each hospital is identified on the Data_Casemix Mapping tab in Column F. This volume is reflected in Column R of the Realignment tab in the hospital rate file.

Supplies, Drugs, and Organ Acquisition

The supplies and drugs carve-outs are based on actual CY 2025 charges for the applicable supplies and drugs, as well as organ acquisition.

For purposes of the rate order mechanics, total charges were used to derive a volume so that the non-carved-out services could be appropriately adjusted within the rate file. Additional detail regarding this calculation is provided on the MSS-CDS tab of the supporting file.

Baseline Flags

Staff would also like to highlight the Baseline Flags tab in the supporting file. The baseline flag identifies the methodology used to establish the volume baseline for each hospital:

- **Baseline Flag = 1:** Generally, hospitals with lower volumes. For these hospitals, staff used a three-year average of CY 2023, CY 2024, and CY 2025 volumes to smooth year-to-year variation and provide a more representative measure of the hospital's experience.
- **Baseline Flag = 0:** Staff used the hospital's actual CY 2025 volume.

Carved Out Revenue

The total revenue associated with the carve-outs will continue to appear on the hospital's Rate Order. Hospitals may calculate the revenue associated with the carve-out by multiplying the carved-out volume reflected in Column R by the applicable approved rate.