



maryland  
**health services**  
cost review commission

# Final Recommendation for the Update Factors for Rate Year 2025

June 14, 2024

This document reflects the Final Recommendation for the RY25 Update Factor that was approved at the Commission on June 14, 2024.



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## List of Abbreviations

CMS	Centers for Medicare & Medicaid Services
CY	Calendar year
FFS	Fee-for-service
FY	Fiscal Year
FFY	Federal fiscal year refers to the period of October 1 through September 30
GBR	Global Budget Revenue
GSP	Gross State Product
HSCRC	Health Services Cost Review Commission
MHAC	Maryland Hospital Acquired Conditions
PAU	Potentially Avoidable Utilization
QBR	Quality-Based Reimbursement
RRIP	Readmission Reduction Incentive Program
RY	Rate year, refers to the period of July 1 through June 30 of each year
TCOC	Total Cost of Care
UCC	Uncompensated Care

## Overview

Policy Objective	Policy Solution	Effect on Hospitals	Effect on Payers / Consumers	Effects on Health Equity
<p>The annual update factor is intended to provide hospitals with reasonable changes to rates in order to maintain operational readiness while also seeking to contain the growth of hospital costs in the State. In addition, the policy aims to be fair and reasonable for hospitals and payers.</p>	<p>The final recommendation provides an annual update factor of 4.53 percent per capita, a revenue increase of 4.80 percent for hospitals under Global Budgets. This policy also provides an inflation increase of 4.24 percent for hospitals not under Global Budgets, which includes psychiatric hospitals and Mt. Washington Pediatrics.</p>	<p>The annual update factor provides hospitals with permanent and one-time adjustments to their respective rate orders for RY 2025. The update includes changes for inflation, high-cost drugs, care coordination, complexity and innovation, quality, uncompensated care, and others as deemed necessary.</p>	<p>One of the tenets of the update factor determination is to contain the growth of costs for all payers in the system and to ensure that the State meets its requirements under the Medicare Total Cost of Care Agreement. Applied to all payers in the system, the update factor determination ensures that the increases to hospital rates borne by all purchasers of hospital services, including consumers, is reasonable and affordable.</p>	<p>The annual update factor contains the growth of costs for all payers and reflects ongoing investments in population health and health equity. The update factor also reflects quality measures, including within hospital disparities, that aim to improve health disparities across the State.</p>

## Executive Summary

The following report includes a final recommendation for the Update Factor for Rate Year (RY) 2025. This update is designed to provide hospitals with reasonable inflation to maintain operational readiness and to keep healthcare affordable in the State of Maryland.

This recommendation generally follows approaches established in prior years for setting the update factors. As with all HSCRC policies, the aim is equity and fairness for all hospitals and payers that balances the need to provide sufficient resources for operational readiness and necessary investment, while simultaneously ensuring affordability for consumers and purchasers of hospital services, as well as meeting all of the State’s contractual obligations with the federal government.

Staff requests that Commissioners consider the following final recommendations:

For Global Revenues:

- (a) Provide all hospitals with gross inflation increase of 3.24 percent, with an additional 1.00 percent for additional revenue support based on historic underfunding of inflation.
- (b) Provide an overall increase of 4.80 percent for revenue (including a net increase to uncompensated care) and 4.53 percent per capita for hospitals under Global Budgets, as shown in Table 2. In addition, the staff is proposing to split the approved revenue into two targets, a mid-year target, and a year-end target. Staff will apply 49.73 percent of the Total Approved Revenue to determine the mid-year target and the remainder of the revenue will be applied to the year-end target. Staff is aware that there are a few hospitals that do not follow this pattern of seasonality and will adjust the split accordingly.
- (c) Adoption of a catch-up inflation methodology to use in RY 26 and beyond. This methodology, outlined in this report, would include: two-sided risk to ensure hospitals and consumers are equally considered, a 1.00 percent risk corridor to ensure that inflation reconciliations are only performed when there are material variances, and recognition that all additional inflation values will be considered against required savings.
- (d) Establishment of criteria for distribution of set-aside funding. Staff propose the following criteria must be met to provide funding to hospitals with a clear financial hardship: Below State Average Annual Operating Margin, Annual Regulated Operating Margin decline of more than 3 percent, and Annual Total Operating Margin decline of more than 1 percent; or 125 days cash on hand (actual or projected); or Two Consecutive Years of negative Cash Flow from Operations (on the regulated entity). The Commission will create a process where the set aside will be distributed through a competitive exercise and require a corrective action plan for improved financial operations.
- (e) Amend the PAU Shared Savings policy so that statewide impact is equal to -0.02 percent and then cap rewards for hospitals to 0.0 percent. To ensure there is no backsliding in statewide performance, an analysis will be funded out of hospital rates to assess current interventions to reduce PAU, each hospital will have to establish a single point of executive accountability for their PAU reduction strategy, and all hospitals must agree to engage in future PAU performance analyses.
- (f) To ensure continued focus on population health within the State and ensure Hospitals are fully engaged in population health efforts, Hospitals will be required to submit a population health improvement plan. The plan should, at a minimum, (1) identify at least 3 conditions driving avoidable utilization, readmissions, and/or cost within their hospital, (2) describe programs, initiatives, and interventions intended to addressing the

conditions identified; (3) specify participation in statewide efforts to address core population health goals, such as reducing maternal mortality and overdose; (4) provide performance improvement indicators and outcomes for the identified conditions and programs, including, as appropriate, measures related to equity.

Staff will convene a workgroup to refine this approach. Failure to submit a population health plan that successfully addresses the conditions outlined above and discussed in the workgroup, will result in a take back of 0.19 percent of inflation removed in the January rate updates.

For Non-Global Revenues including psychiatric hospitals and Mt. Washington Pediatric Hospital:

- (a) Provide an overall update of 3.24 percent for inflation, with an additional 1.0 percent for additional revenue support based on cumulative underfunding of inflation since 2014.
- (b) Withhold implementation of productivity adjustment due to the low volumes hospitals are experiencing.

## Introduction & Background

The Maryland Health Services Cost Review Commission (HSCRC or Commission) updates hospitals' rates and approved revenues on July 1 of each year to account for factors such as inflation, policy-related adjustments, other adjustments related to performance, and settlements from the prior year. For this upcoming fiscal year in the development of the update factor, the HSCRC is considering the impact recent inflationary trends have had on the healthcare industry. As in all the HSCRC policies, this final recommendation strives to achieve a fair and equitable balance between providing sufficient funds to cover operational expenses and necessary investments, while keeping the increase in hospital costs affordable for all payers.

In July 2018, CMS approved a new 10-year Total Cost of Care (TCOC) Model Agreement for Maryland, which began January 1, 2019. The TCOC Model requires that the State reach an annual total cost of care savings of \$408 million relative to the national growth rate by 2026, relative to a 2013 base year. In addition, the State committed to continue to limit the growth in hospital costs in line with economic growth, continue quality improvements, and improve the health of the population. The annual savings target for CY 2024 is \$336 million.

To meet the ongoing requirements of the Model, HSCRC will need to continue to ensure that state-wide hospital revenue growth is in line with the growth of the economy. The HSCRC will also need to continue to ensure that the Medicare TCOC Savings Requirement is met. The approach to developing the RY 2025 annual update is outlined in this report, as well as Staff's estimates on calendar year Model tests.

## Hospital Revenue Types Included in this Recommendation

There are two categories of hospital revenue:

1. Hospitals under Global Budget Revenues, which are under the HSCRC's full rate-setting authority. The proposed update factor for hospitals under Global Budget Revenues is a revenue update. A revenue update incorporates both price and volume adjustments for hospital revenue under Global Budget Revenues. The proposed update should be compared to per capita growth rates, rather than unit rate changes.
2. Hospital revenues for which the HSCRC sets the rates paid by non-governmental payers and purchasers, but where CMS has not waived Medicare's rate-setting authority to Maryland, and, thus, Medicare does not pay based on those rates. This includes freestanding psychiatric hospitals and Mount Washington Pediatric Hospital. The proposed update factor for these hospitals is strictly related to price, not volume.

This recommendation proposes Rate Year (RY) 2025 update factors for both Global Budget Revenue hospitals and HSCRC regulated hospitals with non-global budgets.

## Overview of Final Update Factors Recommendations

For RY 2025 HSCRC staff is proposing an update of 4.53 percent per capita for global budget revenues and an update of 3.24 percent for non-global budget revenues. These figures are described in more detail below.

## Calculation of the Inflation/Trend Adjustment

For hospitals under both revenue types described above, the inflation allowance is central to HSCRC's calculation of the update adjustment. The inflation calculation blends the weighted Global Insight's First Quarter 2024 market basket growth estimate with a capital growth estimate. For RY 2025, HSCRC Staff combined 91.20 percent of Global Insight's First Quarter 2024 market basket growth of 3.30 percent with 8.80 percent of the capital growth estimate of 2.60 percent, calculating the gross blended amount as a 3.24 percent inflation adjustment. Global Insights has not yet released its CY 2024 First Quarter book, which historically is the reference staff use to determine annual inflation.

## Consideration of Hospital Financial Condition

Hospital industry representatives have raised concerns over hospital financial performance in several forums. Staff recognize that recent Fiscal Years have been more financially challenging for hospitals than prior years and that several hospitals are challenged to meet their system debt service coverage ratios. Staff's review of audited hospital financial data shows that profits on regulated activities remained unchanged, from 6.46 percent of regulated net operating revenue in

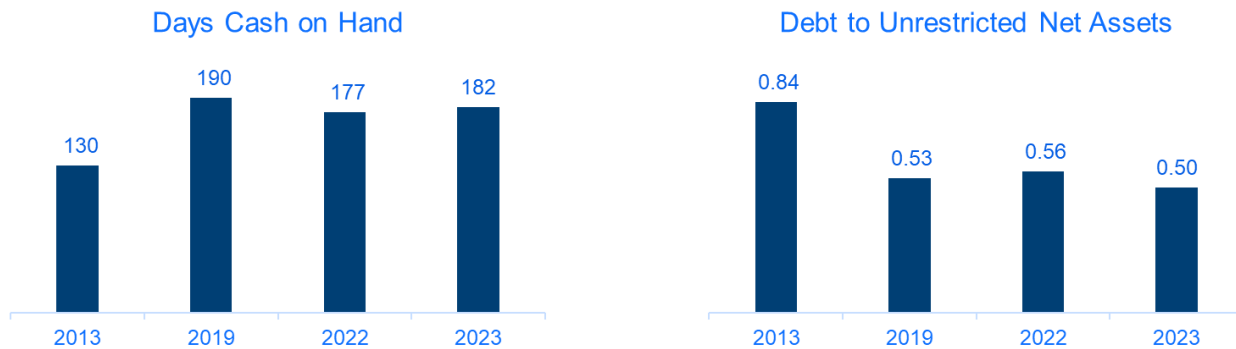
RY 2022 to 6.60 percent of regulated net operating revenue in RY 2023. Profits on hospital operations, which include profits and losses from regulated and unregulated day-to-day activities, decreased from 0.77 percent of total net operating revenue in RY 2022 to 0.01 percent of total net operating revenue in RY 2023.

Unaudited data received by the HSCRC shows that fiscal year-to-date RY 2024 regulated margins through February are 5.90 percent, although that is below last year’s audited amount of 6.60 percent, unaudited regulated margins are typically understated, and staff anticipate fiscal year end audited regulated RY 2024 margins will be at or above RY 2023.

Unaudited data received by the HSCRC shows that fiscal year-to-date RY 2024 total operating margins through February are 1.31 percent, an improvement over the break-even results for RY 2023. Unaudited and audited total operating margins are typically consistent. While average margins are positive, the median unaudited total operating margin for year-to-date RY 2024 is approximately break-even meaning half of all hospitals are losing money. These losses are concentrated among smaller, independent hospitals resulting in the median under-performing the average.

Despite relatively weak financial performance in RY 2023 and, to a lesser extent year-to-date RY 2024, hospital balance sheets, on average, remain stronger than they were prior to GBRs. Figure 1 shows days cash on hand and debt to unrestricted net asset ratio for Maryland domiciled health systems as of June 30, 2013 (pre-GBR), 2019 (pre-pandemic), 2022, and 2023 (most recent years)<sup>1</sup>.

**Figure 1: Balance Sheet Metrics**



Staff generally review industry wide values in assessing financial condition but note that statewide strength does not mean individual hospitals do not have significant challenges. Despite the

<sup>1</sup> Days cash on hand reflects the number of days of cash operating expenses an organization could pay with its unrestricted cash and investments. Debt to Unrestricted Net Assets measures how much debt an organization carries relative to its total balance sheet. Balance sheet metrics are reported at a system level as debt and cash are typically managed at a system level. Only primarily Maryland-domiciled systems are included to avoid swamping the statistics with the results of large national systems that have limited representation in Maryland.



overall balance sheet strength, if operating margins continue to be weak, as in recent fiscal years, select hospitals may experience worsening financial conditions.

## Update Factor Recommendation for Non-Global Budget Revenue Hospitals

For non-global budget hospitals (psychiatric hospitals and Mt. Washington Pediatric Hospital), HSCRC Staff proposes applying the inflation adjustment of 3.24 percent, with an additional 1.0 percent for additional revenue support based on cumulative underfunding of inflation since 2014, and continuing suspension of the productivity reduction. The pandemic's effect on hospitals continues to result in volume declines compared to the pre-pandemic period. It is important to note that these hospitals receive an adjustment based on their actual volume change, rather than a population adjustment. HSCRC staff continues to include these non-global budget hospitals in readmission calculations for global budget hospitals and may implement quality measures for these hospitals in future rate years. Hospitals not under Global Budget revenues are provided updates similar to what is proposed nationally. Staff are not recommending providing them with additional inflation support but do recommend withholding the productivity adjustment. These hospitals are volume variable and have the ability to grow volumes to increase revenues.

**Table 1: Base Inflation Inputs**

	Global Revenue	Psych & Mt. Washington
Proposed Base Update (Gross Inflation)	3.24%	3.24%
Productivity Adjustment	N/A	<b>SUSPENDED</b>
Additional Inflation Support	1.00%	1.00%
Proposed Inflation Update	4.24%	4.24%

## Update Factor Recommendation for Global Budget Revenue Hospitals

In considering the system-wide update for the hospitals with global revenue budgets under the Total Cost of Care Model, HSCRC staff sought to achieve balance among the following conditions:

- Meeting the requirements of the Total Cost of Care Model agreement, including achieving \$336 million in annual Medicare savings by the end of CY 2024;

- Providing hospitals with the necessary resources to keep pace with changes in inflation and demographic changes;
- Ensuring that hospitals have adequate resources to invest in care coordination and population health strategies necessary for long-term success under the Total Cost of Care Model as well as framework for doing so;
- Incorporating quality performance programs; and
- Ensuring that healthcare remains affordable for all Marylanders.

As shown in Table 2, after accounting for all known changes to hospital revenues, HSCRC staff estimates revenue growth for the full rate year to be 4.80 percent with a corresponding per capita growth rate of 4.53 percent.

The revenue growth that will impact CY 2024 is expected to be 4.70 percent with a corresponding per capita growth of 4.44 percent. The 4.70 percent revenue growth will be used to measure the proposed update against financial tests, which are performed on Calendar Year results, Staff split the annual Rate Year revenue into six-month targets. Staff intends to apply 49.73 percent of the Total Approved Revenue to determine the mid-year target for the calendar year calculation, with the full amount of RY 2025 estimated revenue used to evaluate the Rate Year year-end target. HSCRC staff will adjust the revenue split to accommodate their normal seasonality for hospitals that do not align with the traditional seasonality described above.

### **Net Impact of Adjustments**

Table 2 summarizes the net impact of the HSCRC Staff's final recommendation for inflation, volume, Potentially Avoidable Utilization (PAU) savings, uncompensated care, and other adjustments to global revenues. Descriptions of each step and the associated policy considerations are explained in the text following the table.

**Table 2: Update Factor Schedule**

Balanced Update Model for RY 2025				
<u>Components of Revenue Change Link to Hospital Cost Drivers /Performance</u>				
		Weighted Allowance	All Payer Revenue Increase (Millions)	Medicare Revenue Increase (Millions)
<b>Adjustment for Inflation (this includes 4.00% for Wages and Salaries)</b>		3.14%	\$664.2	\$219.2
- Additional Inflation Support		1.00%	\$211.6	\$69.8
- Outpatient Oncology Drugs		0.10%	\$21.4	\$7.1
<b>Gross Inflation Allowance</b>	<b>A</b>	<b>4.24%</b>	<b>\$897.1</b>	<b>\$296.1</b>
<b>Care Coordination/Population Health</b>				
- Reversal of One-Time Grants		-0.21%	-\$45.1	-\$14.9
- Grant Funding RY25: RP for Behavioral Health & Maternal and Child Health		0.14%	\$29.7	\$9.8
<b>Total Care Coordination/Population Health</b>	<b>B</b>	<b>-0.07%</b>	<b>-\$15.4</b>	<b>-\$5.1</b>
<b>Adjustment for Volume</b>				
-Demographic /Population		0.25%	\$52.9	\$17.5
-Drug Population/Utilization		0.00%	\$0.0	\$0.0
<b>Total Adjustment for Volume</b>	<b>C</b>	<b>0.25%</b>	<b>\$52.9</b>	<b>\$17.5</b>
<b>Other adjustments (positive and negative)</b>				
- Set Aside for Unknown Adjustments	D	0.15%	\$31.7	\$10.5
- Low Efficiency Outliers/Revenue for Reform	E	0.00%	\$0.0	\$0.0
- Complexity & Innovation	F	-0.01%	-\$3.1	-\$1.0
-Reversal of one-time adjustments for drugs	G	-0.10%	-\$21.9	-\$7.2
-Capital Funding & Estimated Increase for Full Rate Applications	H	0.17%	\$36.5	\$12.0
<b>Net Other Adjustments</b>	<b>I = Sum of D thru H</b>	<b>0.20%</b>	<b>\$43.2</b>	<b>\$14.3</b>
<b>Quality and PAU Savings</b>				
-PAU Redistribution (-.38%)	J	-0.02%	-\$5.05	-\$1.7
-Reversal of prior year quality incentives	K	0.08%	\$17.6	\$5.8
-QBR, MHAC, Readmissions				
-Current Year Quality Incentives	L =	-0.12%	-\$25.2	-\$8.3
<b>Net Quality and PAU Savings</b>	<b>M = Sum of J thru L</b>	<b>-0.06%</b>	<b>-\$12.7</b>	<b>-\$4.2</b>
<b>Total Update First Half of Rate Year</b>				
Net increase attributable to hospitals	<b>N=</b>	Sum of A + B + C + I + M	<b>4.56%</b>	<b>\$965.2</b>
Per Capita	<b>O=</b>	(1+N)/(1+0.25%)	<b>4.30%</b>	
<u>Components of Revenue Offsets with Neutral Impact on Hospital Financial Statements</u>				
-Uncompensated care, net of differential	P	0.14%	\$29.6	\$9.8
-Deficit Assessment	Q	0.00%	\$0.0	\$0.0
Net decreases	<b>R = P + Q</b>	<b>0.14%</b>	<b>\$29.6</b>	<b>\$9.8</b>
<b>Total Update First Half of Rate Year 25</b>				
Revenue growth, net of offsets	<b>S =</b>	N + R	<b>4.70%</b>	<b>\$994.8</b>
Per Capita Revenue Growth	<b>T =</b>	(1+S)/(1+0.25%)	<b>4.44%</b>	
<b>Adjustments in Second Half of Rate Year</b>				
- Transformation Funding		0.09%	\$20.0	\$6.6
<b>Total Adjustments Second Half of Rate Year</b>	<b>U</b>	<b>0.09%</b>	<b>\$20.0</b>	<b>\$6.6</b>
<b>Total Update Full Rate Year</b>				
Revenue growth, net of offsets	<b>V =</b>	S + U	<b>4.80%</b>	<b>\$1,014.8</b>
Per Capita Revenue Growth	<b>W =</b>	(1+V)/(1+0.25%)	<b>4.53%</b>	

## Central Components of Revenue Change Linked to Hospital Cost

### Drivers/Performance

HSCRC Staff accounted for several factors that are central provisions to the update process and are linked to hospital costs and performance. These include:

- **Adjustment for Inflation:** As described above, the inflation factor uses the gross blended statistic of 3.24 percent. The gross inflation allowance is calculated using 91.2 percent of Global Insight's First Quarter 2024 market basket growth of 3.30 percent with 8.80 percent of the capital growth index change of 2.60 percent. The adjustment for inflation includes 4.00 percent for wage and compensation.
- **Additional Inflation Support:** Staff recommend providing an additional 1.00 percent to account for historical underfunding of inflation. Staff are utilizing the RY 2014 to RY 2023 time period for this review. The RY 2024 period has not been included in this review, as it still requires 4 more quarters of data to be deemed complete. Cumulative underfunding from RY 2014 through RY 2023 is 1.17 percent. Utilizing a 2019 baseline, the cumulative underfunding is 2.16 percent, which is largely driven by underfunding of 2.12 percent in RY 2022 and -0.98 percent in RY 2023. By way of comparison, the largest year for overfunding of inflation was RY 2016 when the Commission overfunded by 0.73 percent. Given the significant underfunding that has occurred in the last two fiscal years and because staff is advancing a methodology that in future years would formulaically reconcile inflation if there is a material difference between actual inflation and funded inflation, Staff propose providing 1.00 percent additional for catch up inflation in the RY 2025 recommendation. Staff note, however, that it is imperative that any additional inflation value be considered against required savings, both the Medicare TCOC savings test and the all-payer per capita growth test.

Moving forward, Staff recommend adoption of a catch-up methodology that will be utilized in the RY 2026 Update Factor and beyond. This methodology is outlined in Table 3 below. It allows for a two-sided risk corridor of 1.00 percent on all future evaluations of cumulative over or underfunding by which the Commission would adjust future inflation if the variance between actual inflation and funded inflation was greater than 1.00 percent. Conversely, if the variance between actual inflation and funded inflation is within 1.00 percent, this methodology would not recommend any adjustments, as that level of variance was "tolerated" in prior years. It should be noted that this methodology follows several guiding principles including: considering historical overfunding allowances, allowing for two-sided risk, utilizing multi-year solutions to ensure savings targets are met, and establishing formulaic methods for hospital and payer predictability.

**Table 3: Inflation Risk Corridor Methodology**

Inflation Catch-Up Methodology													
	Max Tolerance = 1.00%					1.00%							
HSCRC Scenario/Table 1 - Inflation Resolved after First Policy Year	Historical										Projected		
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
HSCRC Funded Inflation	1.65%	2.40%	2.40%	1.92%	2.68%	2.32%	2.96%	2.77%	2.57%	4.06%	3.15%	3.24%	3.24%
Actual Inflation	1.75%	1.84%	1.66%	2.29%	2.48%	2.40%	2.31%	2.37%	4.79%	5.09%	3.15%	3.24%	3.24%
Actual Inflation Correction												1.00%	0.00%
(Under)/Over Funding	-0.10%	0.55%	0.73%	-0.36%	0.20%	-0.08%	0.64%	0.39%	-2.12%	-0.98%	0.00%	1.00%	0.00%
Cumulative Difference (2019 Base)						(0.08%)	0.56%	0.95%	(1.19%)	(2.16%)	(2.16%)	-1.18%	-1.18%
Cumulative Difference (2014 Base)	(0.10%)	0.45%	1.18%	0.82%	1.01%	0.93%	1.58%	1.97%	(0.19%)	(1.17%)	(1.17%)	-0.18%	-0.18%
Guardrail/Tolerance (A)										1.00%	1.00%	1.00%	1.00%
Cumulative Difference with Anticipated Inflation Correction (2014 Base) (B)	(0.10%)	0.45%	1.18%	0.82%	1.01%	0.93%	1.58%	1.97%	(0.19%)	(1.17%)	(0.18%)	(0.18%)	(0.18%)
Calculated Inflation Correction (C) = (A+1)/(B+1)-1										1% for stub period	1.00%	0.00%	0.00%
Inflation Adjusted Update											3.15%	4.24%	3.24%

- Outpatient Oncology and Infusion Drugs:** The rising cost of drugs, particularly of new physician-administered oncology and infusion drugs in the outpatient setting led to the creation of separate inflation and volume adjustment for these drugs. Not all hospitals provide these services, and some hospitals have a much larger proportion of costs allocated. To address this situation, in Rate Year 2016, staff began allocating a specific part of the inflation adjustment to funding increases in the cost of drugs, based on the portion of each hospital’s total costs that comprised these types of drugs.

In addition to the drug inflation allowance, the HSCRC provides a utilization adjustment for these drugs. Half of the estimated cost changes due to usage or volume changes are recognized as a one-time adjustment and half are recognized as a permanent adjustment. This process is implemented separately from this Update Factor so only the inflation portion is addressed herein.

Starting in Rate Year 2021, Staff began using a standard list of drugs based on criteria established with the industry in evaluating high-cost drug utilization and inflation. This list was used to calculate the inflation allowance as well as the drug utilization adjustment component of funding for these high-cost drugs. Rate Year 2024 continues this practice. Price inflation on these drugs declined considerably starting in the late-2010s. In response to this trend Staff gradually lowered the drug inflation amount from 10 percent down to 0 percent over the period from RY 2019 to RY 2023 based on data from RY 2018 to RY 2022. Starting in RY 2022 the price inflation began to accelerate again, and this trend accelerated into RY 2023. While staff have previously evaluated providing hospital specific inflation, historically, all hospitals have received an equal drug inflation because analysis has shown the experienced inflation was relatively consistent across hospitals. However, the inflation beginning in 2022 appears to be concentrated in the more

specialized drugs that are primarily delivered by academic institutions. Therefore, staff is recognizing this new round of inflation by recommending a small increase from 0 percent to 2.5 percent for all hospitals but a larger increase for just the academic centers of 7.5 percent. The 5 percent point gap reflects the observed gap between academic and non-academic trends in 2022 and 2023.

- **Care Coordination / Population Health:** There were several grant programs aimed at Care Coordination and Population Health in RY 2024 hospital revenues. These programs include Regional Partnership Catalyst Programs for Diabetes and Behavioral Health, and Maternal and Child Health Improvement Fund Assessment. These funds were provided to hospitals on a one-time basis. For this reason, you will see a line in Table 2 reversing out grant funding in RY 2024 of -0.21 percent. RY 2025 funding is expected to be approximately 0.14 percent and includes continued funding for Behavioral Health and Maternal and Child Health.
- **Adjustments for Volume:** Staff are proposing a population growth estimate of 0.25 percent for RY 2025 (July 1, 2022 to June 30, 2023), which is based on the Maryland Department of Planning's estimate for 2023 over the projected value noted in 2022.<sup>2</sup> For RY 2025 the staff is proposing to use Claritas' projected CY 2024 growth estimate for distributing the Demographic Adjustment at a zip code level, in keeping with the prior year methodologies.
- **Low-Efficiency Outliers:** The Integrated Efficiency policy outlines a methodology for determining inefficient hospitals in the TCOC Model. This policy will utilize the Inter-Hospital cost comparisons to compare relative cost-per-case efficiency. This policy will also use Total Cost of Care measures with a geographic attribution to evaluate per capita cost performance relative to national benchmarks for each service area in the State. The above evaluations are then used to withhold the Medicare and Commercial portion of the Annual Update Factor for relatively inefficient hospitals, which will be available for redistribution to relatively efficient hospitals or potentially for reinvestment through the proposed Revenue for Reform policy. Staff has earmarked 0 percent reduction for this item, because low-efficient hospitals are encouraged to buyout of their reductions through investments in Revenue for Reform and if buyouts do not occur, relatively efficient hospitals can petition the Commission for funding that is withheld from relatively inefficient hospitals.
- **Set-Aside:** The intention of the set-aside is to use these funds for 1) Global Budget Revenue enhancements for relatively efficient hospitals that qualify under the Integrated Efficiency policy and 2) unforeseen events that occur at hospitals with a financial hardship, regardless of efficiency (e.g., cyberattacks). Staff is recommending 0.15 percent for RY 2025. In an effort to create transparency and equity, Staff propose that the following criteria must be met in order for a hospital to be deemed to have a financial hardship:

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<sup>2</sup> [https://planning.maryland.gov/MSDC/Pages/s2\\_estimate.aspx](https://planning.maryland.gov/MSDC/Pages/s2_estimate.aspx)

Below State Average Annual Operating Margin, Annual Regulated Operating Margin decline of more than 3 percent from one year to the next, and Annual Total Operating Margin decline of more than 1 percent from one year to the next; or 125 days cash on hand (actual or projected); or Two Consecutive Years of negative Cash Flow from Operating Activities (on the regulated entity).<sup>3</sup> In addition, Staff propose that the Commission create a process where the set aside is distributed through a competitive exercise that includes: applications from hospitals citing either relative efficiency performance or financial hardship and the details of their request (Hospitals in financial hardship must also submit a corrective action plan approved by their Board), a recommendation from Staff in a subsequent Commission meeting, and a formal vote from Commissioners on the hospital requests that comports with the overall value established in the set-aside.

- **Complexity and Innovation (formerly Categorical Cases):** The prior definition of categorical cases included transplants, burn cases, cancer research cases, as well as Car-T cancer cases, and Spinraza cases. However, the definition, which was based on a preset list, did not keep up with emerging technologies and excluded various types of cases that represent greater complexity and innovation, such as extracorporeal membrane oxygenation cases and ventricular assist device cases. Thus, the HSCRC Staff developed an approach to provide a higher variable cost factor (100 percent for drugs and supplies, 50 percent for all other charges) to in-state, inpatient cases when a hospital exhibits dominance in an ICD-10 procedure codes and the case has a casemix index of 1.5 or higher. Staff used this approach to determine the historical average growth rate of cases deemed eligible for the complexity and innovation policy and evaluated the adequacy of funding of these cases relative to prospective adjustments provided to Johns Hopkins Hospital and University of Maryland Medical Center from RY 2017 to RY 2023. Based on this analysis, staff concluded that the historical average growth rate was 0.35 percent, which equates to a combined state impact of -0.01 percent for the RY 2025 Update Factor.
- **PAU Redistribution:** For RY 2025, Staff is proposing to continue utilizing the PAU Shared Savings program, as the policy 1) has successfully generated a 3:1 investment on the Infrastructure Funding that was put into rates to spur improvements in care management and 2) has recognized that hospitals in a fixed revenue model do not have the same opportunity to improve profitability by reducing avoidable utilization, i.e., the range in hospital revenue attributable to readmissions and avoidable admissions is large. However, Staff are concerned that the current construct of the program, which reduces inflation and population funding for readmissions and avoidable admissions in perpetuity

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<sup>3</sup> Days cash on hand will be evaluated at a system level. As regulated entities do not routinely submit stand alone Statements of Cash Flows, applicants for the set aside will be responsible for providing a Statement of Cash Flows for the two relevant periods to the HSCRC to document negative results on the cash flow measure. Such statements need not be audited but the HSCRC will review to ensure it is consistent with audited financial information.

to generate Model savings, is potentially problematic, because it may cause access issues for hospitals with low levels of potentially avoidable utilization. Thus, Staff are proposing to discontinue the inflation and population reduction through the PAU Shared Saving Program. The PAU value for RY 2025 is -0.38 percent. The proposed refinement to this methodology in the draft recommendation was that it be revenue-neutral to the State; however, given Commissioner concerns that the policy may reward hospitals that have not improved PAU performance under the Model, staff are amending the recommendation so that rewards for individual hospitals are capped at 0.0 percent, and for this reason, the value represented on Table 2 is -0.02 percent.

- **Quality Scaling Adjustments:** The quality pay-for-performance programs include Maryland Hospital Acquired Conditions (MHAC), Readmission Reduction Incentive Program (RRIP) including the Disparity Gap Incentive, and Quality Based Reimbursement Program (QBR). Preliminary QBR adjustments will be implemented with the July rate orders and adjustments will be made in the January rate orders to reflect the full measurement period. The January QBR adjustments may also include changes to the preset revenue adjustment scale to reflect reduced performance standards in line with lower scores nationally, as approved in the RY 2025 final policy. The current revenue adjustments across the three programs are -0.12 percent (with preliminary QBR). The Update Factor recommendation reflects the reversal of the prior year's Quality adjustments of 0.08 percent.
- **Capital Funding and Estimated Increase for Full Rate Applications:** Preliminary modeling indicates that efficient hospitals may be entitled to approximately \$40 million through the Full Rate Application Policy. This value is subject to change based on updates to commercial TCOC data that will not be available until July, as well as quality assurance reviews of the Inter-hospital Cost Comparison (ICC) methodology. Hospitals eligible for a rate enhancement through the full rate application policy in RY 2025 can access funding through a streamlined process if the hospital agrees to: the value established by the methodology (no additional methodological considerations will be contemplated); and the hospital will not file any subsequent rate request until January 1, 2026.
- **Transformation Funding:** One of the paths to success under global budgets is to find innovative solutions that avert the need for traditional hospitalization. While significant progress has been made in averting these admissions Staff believe there is an opportunity to accelerate these efforts through targeted investment in transformative solutions that may be too expensive or speculative to be funded in the normal course of business. For example, hospital-at-home approaches in rural areas could reduce cost, while also eliminating the travel burden on patients, but can't be tested at scale and therefore require extra investment to develop a proof of concept. The Transformation Fund will provide approximately \$20 M to match investments committed by hospitals or other entities to pursue these transformative ideas. The funding shall be awarded based on a competitive process to be administered by HSCRC staff as an extension of the Care Transformation



Initiative program; both Maryland hospitals and other entities, in partnership with a Maryland hospital, will be eligible. Staff shall select at most 3 proposals based on documented criteria that will include but not be limited to (1) degree of innovation and risk involved (i.e. why the approach is hard to implement in the absence of this funding), (2) speed of implementation, (3) the share of funding provided by the applicant versus requested from the State, (4) likelihood of scalability and (5) estimated long-term impact on lowering total cost of care and/or increasing quality. The impact in RY 2025 is approximately 0.09 percent; however, this funding will not be available for award before January 2025 and will be input into rates at that time. For this reason, staff are not including this line item in the calculation of calendar year 2024 growth or projections of calendar year 2024 savings.

## Central Components of Revenue Offsets with Neutral Impact on Hospital Financial Statements

In addition to the central provisions that are linked to hospital costs and performance, HSCRC staff also considered revenue offsets with a neutral impact on hospital financial statements. These include:

- **Uncompensated Care (UCC):** The proposed uncompensated care adjustment for RY 2025 will be 0.14 percent. The amount in rates was 4.35 percent in RY 2024, and the proposed amount for RY 2025 is 4.49 percent, an increase of 0.12 percent. The final statewide UCC amount is subject to some variability based on updated December annual filing submissions and UCC Fund reserve levels.
- **Deficit Assessment:** This line item is 0 percent, the Legislature approved a funding level of \$294,825,000, which is the same as previous years.

## Additional Revenue Variables

In addition to these central provisions, there are additional variables that the HSCRC considers. These additional variables include one-time adjustments, revenue and rate compliance adjustments and price leveling of revenue adjustments to account for annualization of rate and revenue changes made in the prior year.

## PAU Redistribution - Updated Methodology

The PAU Savings Policy prospectively reduces hospital global budget revenues in anticipation of volume reductions due to care transformation efforts. Starting in RY 2020, the calculation of the statewide value of the PAU Savings was included in the Update Factor Recommendation; however, a PAU measurement report was presented separately to the Commission in March of 2019.

For RY 2025, the incremental amount of statewide PAU Savings reductions is determined formulaically by using inflation and the demographic adjustment applied to the amount of PAU revenue (see Table 4). This will result in a RY 2025 permanent PAU savings reduction of -0.38

percent statewide, or \$77,272,272 Hospital performance on avoidable admissions per capita and 30-day readmissions, the latter of which is attributed to the index hospital, determines each hospital's share of the statewide reduction.

**Table 4: PAU Shared Savings Adjustment**

<b>Statewide PAU Reduction</b>	<b>Formula</b>	<b>Value</b>
RY 2023 Total Estimated Permanent Revenue	A	\$20,539,088,163
RY 2024 Inflation Factor**	B	3.49%
CY 2022 Total Experienced PAU \$	C	\$2,214,105,206
RY 2024 Proposed Revenue Adjustment \$	D = B*C	-\$77,272,272
RY 2024 Proposed Revenue Adjustment %	E = D/A	-0.37622%
RY 2024 Adjusted Proposed Revenue Adjustment %	F = ROUND(E)	<b>-0.38000%</b>
RY 2024 Adjusted Proposed Revenue Adjustment \$ *	G = F*A	<b>-\$78,048,535</b>
Total PAU %	H	10.77%
Total PAU \$	I = A*H	\$2,213,052,684
Required Percent Reduction PAU	J = G/I	-3.53%

\*Does not include revenue from McCready, or freestanding E.Ds.

\*\* Inflation factor is subject to revisions related to updated data and Commission approval

As previously noted, Staff are proposing to continue utilizing the PAU Shared Savings program in order to recognize differential opportunities in a fixed revenue model; however, Staff are recommending that the PAU Shared Savings program should not be used to generate Model savings, as the policy has already generated a 3:1 investment on the Infrastructure Funding that was put into rates to spur improvements in care management and future reductions may cause access issues, especially for hospitals with low levels of readmissions and avoidable admissions.

Staff believe this change to the PAU policy is an important step forward but have concerns that it could potentially reduce focus on avoidable admissions. As a result, staff are recommending the following: 1) An analysis to be funded out of hospital rates of activities of current interventions to reduce PAU; 2) Establishment of a single point of executive accountability for the PAU reduction strategy; and 3) Agreement to engage in future analyses of PAU performance.

### **Change in Differential**

In December 2022 the Commission voted, and CMMI subsequently approved, an increase of 1 percent to the public payer differential, from 7.7 percent to 8.7 percent, effective April 1, 2023, to June 30, 2024. The public payer differential will revert to 7.7 percent, effective July 1, 2024. The overall impact to hospitals will be revenue-neutral, however, hospital markups, rates, and GBRs will be adjusted to account for the updated public payer payment. The adjustments will be hospital specific, as they are based on the percentage of services attributable to public payers.

## Consideration of Total Cost of Care Model Agreement Requirements & National Cost Figures

As described above, the Staff proposal increases the resources available to hospitals to account for rising inflation, population changes, and other factors, while providing adjustments for performance under quality programs. Staff's considerations regarding the TCOC Model agreement requirements are described in detail below.

### Medicare Financial Test

This test requires the Model to generate \$336 million in annual Medicare fee-for-service (FFS) savings in total cost of care expenditures (Parts A and B) by the end of CY 2024. The TCOC Model Medicare Savings Requirement is different from the previous All-Payer Model Medicare Savings requirement in several ways. First, as previously discussed, Maryland's Total Cost of Care Model Agreement progresses to setting savings targets based on total costs of care, which includes non-hospital cost increases, as opposed to the hospital-only requirements of the All-Payer Model. This shift ensures that spending increases outside of the hospital setting do not undermine the Medicare hospital savings resulting from Model implementation. Additionally, the change to the total cost of care focuses hospital efforts and initiatives across the spectrum of care and creates incentives for hospitals to coordinate care and to collaborate outside of their traditional sphere for better patient care.

Secondly, the All-Payer Model Savings Requirement was a *cumulative* savings test, where the savings for each year relative to the base period were summed to determine total *hospital* savings. The TCOC Model requires that the State reach an annual total cost of care savings of \$408 million relative to the national growth rate by 2026, relative to a 2013 base year. Thus, there must be continued improved performance overtime to meet the 2026 TCOC Medicare Savings Requirements. In addition, the State has begun planning for the next phase of the TCOC Model. This will likely occur under CMS's new multi-state model known as AHEAD.<sup>4</sup> The State expects to have further savings targets beyond the \$408 million under the new model and it is important that State enters these negotiations in a strong position versus current savings targets.

### Meeting Medicare Savings Requirements and Total Cost of Care Guardrails

In past years, Staff obtained calendar year growth estimates for Medicare Fee-for-Service growth from the Office of the Actuary. Staff then converted these estimates to an All-Payer value by calculating a difference statistic, to estimate that Model savings and guardrails were being met. Prior to the pandemic staff established an approach, whereby the prior year national trend was used as the stand-in to estimate national trends. However, due to the ongoing COVID-19 pandemic and the related uncertainty and volatility, Staff created an alternative approach to measure projected savings and compliance with the Total Cost of Care guardrails for RY 2023. For RY 2025 Staff are using a combination of these approaches. Scenario 3 represents the prior

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<sup>4</sup> <https://hsrc.maryland.gov/Pages/ahead-model.aspx>

year trend test used prior to the pandemic; the other two scenarios are similar to those used in the more recent Update Factor recommendations.

Actual revenue resulting from RY 2025 updates affects the CY 2024 results. As a result, Staff must convert the recommended RY 2025 update to a calendar year growth estimate. Table 5 below shows the current revenue projections for CY 2024 to assist in estimating the impact of the recommended update factor together with the projected RY 2025 results. The overall increase from the bottom of this table is used in Tables 6a-6c.

**Table 5: CY 2024 Global Budget Revenue Estimate**

<b>Estimated Position on Medicare Test</b>		
Actual Revenue January - June 2023		10,280,594,777
Actual Revenue July-December 2023		10,452,399,742
Actual Revenue CY 2023		20,732,994,519
<b>Step 1:</b>		
Approved GBR RY 2024		21,159,064,172
Actual Revenue 7/1/23-12/31/23		10,452,399,742
Approved Revenue 1/1/24-6/30/24		10,706,664,430
Projected FY24 GBR Compliance		0
Anticipated Revenue 1/1/24-6/30/24	<b>A</b>	<b>10,706,664,430</b>
Expected Revenue Growth 1/1/24-6/30/24		<b>4.14%</b>
<b>Step 2:</b>		
Final Approved GBR RY 2024		21,159,064,172
Reverse All Payer Rate Reduction:		20,000,000
Final Adjusted GBR Base for RY 2025		21,179,064,172
Projected Approved GBR RY 2025		22,174,807,962
Permanent Update RY 2025		4.70%
<b>Step 3:</b>		
Estimated Revenue 7/1/24-12/31/24 (after 49.73% & seasonality)	<b>B</b>	<b>11,027,531,999</b>
Expected Revenue Growth 7/1/24 - 12/31/24		<b>5.50%</b>
<b>Step 4:</b>		
<b>Estimated Revenue CY 2024</b>	<b>A+B</b>	<b>21,734,196,430</b>
Increase over CY 2024 Revenue		<b>4.83%</b>
Per Capita Increase over CY 2024		<b>4.57%</b>

Steps to explain Table 5 are described as below:

The table begins with actual revenue for CY 2023.

**Step 1:** The table uses global revenue for RY 2024 and actual revenue for the last six months for CY 2023 to calculate the projected revenue for the first six months of CY 2024 (i.e., the last six months of RY 2024). Hospitals currently project they will be able to charge all of RY 2024 revenue, for this reason, staff have kept the projected RY 2024 compliance line at zero.

**Step 2:** The final approved GBR for RY 2024 is \$21,159,064,172. This step applies the proposed update of 4.70 percent, as shown in Table 2, to the RY 2024 GBR amount to calculate the projected revenue for RY 2025.

**Step 3:** For this step, to determine the calendar year revenues, staff estimate the revenue for the first half of RY 2025 by applying the recommended mid-year split percentage of 49.73 percent to the estimated approved revenue for RY 2025

**Step 4:** This step shows the resulting estimated revenue for CY 2024 and then calculates the increase over actual CY 2023 Revenue. The CY 2024 increase based on this year's recommended update is 4.83 percent. The 4.83 percent is used to estimate CY 2024 hospital spending per capita for Maryland in our guardrail and savings policy, which is explained in the next section.

Staff modeled three different scenarios to project the CY 2024 guardrail position. Each scenario is described in more detail below. The one data element that is constant in each scenario is Maryland hospital growth. Because global budget revenues are a known data element, Staff applied the estimated CY 2024 growth of 4.83 percent, shown in Table 5 to Maryland hospital spending per capita from 2023. These analyses assume that Medicare growth equals All-Payer growth.

Scenario 1, shown in Table 6a, utilizes Medicare fee-for-service per capita data for Maryland and the nation broken out into four buckets (hospital part A, hospital part B, non-hospital part A, and non-hospital part B) which are then added together to calculate a total per capita estimate. This takes the average trend from 2017 to 2019 and trends the data forward using 2023 as the base.

**Table 6a: TCOC Estimate (Scenario 1)**

Scenario 1 Guardrail Projections			
	Maryland	US	
2023	\$14,058	\$12,526	
2024	\$14,708	\$13,006	Predicted Variance
YOY Growth	4.6%	3.8%	0.8%
Estimated CY2024 Savings Run Rate			\$404.6 M

Scenario 2, shown in Table 6b, utilizes Medicare fee-for-service per capita data for Maryland and the nation broken out into four buckets (hospital part A, hospital part B, non-hospital part A, and non-hospital part B) which are then added together to calculate a total per capita estimate. Scenario 2 takes the average trend from 2015 - 2019 and trends the data forward using 2023 as the base. This is the most conservative estimate of the three scenarios as average national trends for that period were low. Utilizing a longer period to establish the “typical” trend results in a lower trend estimate, as the more recent 2017 to 2019 period utilized in Scenario 1 was a relatively high trend window.

**Table 6b: TCOC Estimate (Scenario 2)**

Scenario 2 Guardrail Projections			
	Maryland	US	
2023	\$14,058	\$12,526	
2024	\$14,633	\$12,875	Predicted Variance
YOY Growth	4.1%	2.8%	1.3%
Estimated CY 2024 Savings Run Rate			\$339.0 M

Scenario 3, shown in Table 6c, utilizes Medicare fee-for-service per capita data for Maryland and the nation broken out into four buckets (hospital part A, hospital part B, non-hospital part A, and non-hospital part B) which are then added together to calculate a total per capita estimate. Scenario 3 takes the trend from the prior period (2022-2023) and trends the data forward using 2023 as the base. This approach is consistent with the pre-pandemic approach of using the prior

year trend to guide current-year savings targets. This approach results in a slightly higher estimate of national trends and slightly larger projected savings than Scenario 2.

**Table 6c: TCOC Estimate (Scenario 3)**

Scenario 3 Guardrail Projections			
	Maryland	US	
2023	\$14,058	\$12,526	
2024	\$14,888	\$13,178	Predicted Variance
YOY Growth	5.9%	5.2%	0.7%
Estimated CY 2024 Savings Run Rate			\$427.5 M

In addition to modeling the CY 2024 guardrail position, Staff also modeled estimated savings under each scenario; these are shown in each table above. The guardrail can not be above the Nation by 1 percent in any year or above the Nation by any percent in two consecutive years. The guardrail position in CY 2023 was below the Nation, so Maryland is not at risk of tripping the guardrail two years in a row. In addition, the estimated savings for CY 2023 is projected to be \$504 million, although this amount won't be final until it is confirmed by CMS. The savings target for CY 2024 is \$336 million.

In all three above scenarios, Maryland is set to achieve the savings target for CY 2024 with varying degrees of cushion. In the most conservative scenario, shown in Table 6b, estimated savings are projected to achieve \$339 million in savings, which is \$3 million more than the target for CY 2024. This scenario also exceeds the guardrail by 0.3 percent, because Maryland is expected to grow faster than the Nation by 1.3 percent. It is important to note that savings are closely monitored during the year and the Commission has time to take action to correct the course should a small shortfall materialize. Staff note that the projections released by OACT also suggest higher trends into 2024 nationally that would yield higher savings.

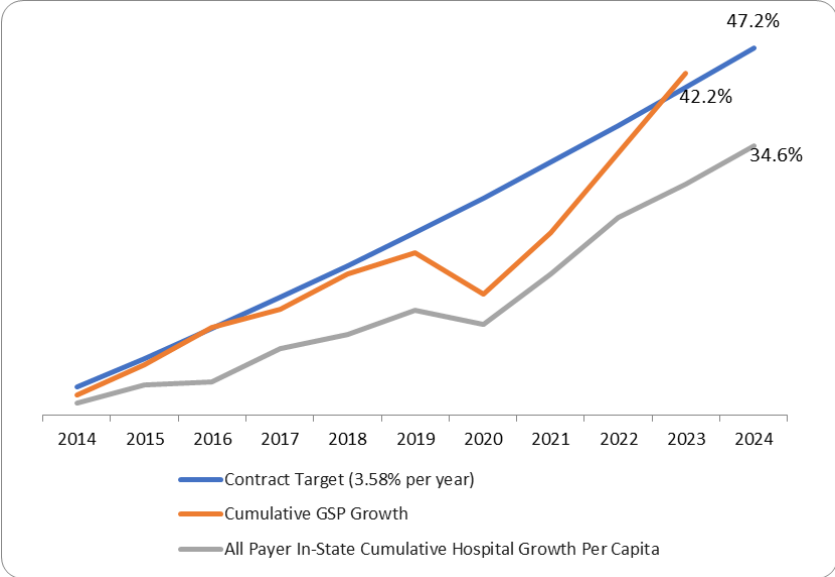
In all three scenarios presented the range in savings varies between \$339.0 million to \$427.5 million which is a \$88.5 million dollar spread. The average of these three scenarios is \$390.3 million.

**All-Payer Affordability**

Under the Total Cost of Care Contract all-payer test, all-payer in-state hospital charge growth cannot grow at above 3.58 percent per annum over the life of the contract (3.58 percent was intended as an approximation of typical per annum Gross State Product (GSP) growth). As shown

in Table 7 the cumulative value of this target through CY 2024 is 47.2 percent. Actual all-payer in-state hospital charge growth through CY 2024 is 29.8 percent, inflating this to 2024 using the recommended update factor on a per capita basis yields 34.6 percent. This means that Maryland is approximately 13 percentage points below this target, as seen in Figure 2. Staff also notes that all-payer in-state hospital charges are not just well below the all-payer target but also below the actual cumulative GSP growth through 2023 of 42.2 percent, which is an indication of the savings generated by the Model that accrue to all payers and consumers.

**Figure 2**  
**Affordability Scorecard – Cumulative GSP Test with CY 2024 Projection**



Staff also compared the all-payer in-state hospital charges to economic growth in Maryland as measured by the GSP for the most recent 5 years. The purpose of this modeling is to ensure that healthcare remains affordable in the State, for this purpose Staff believes it is not sufficient to only look at the cumulative test embedded in the Total Cost of Care Contract. Therefore, Staff calculated the cumulative growth for five years using the most updated State GSP numbers available (CY19-CY23). The 5-year calculation shows a cumulative per capita growth of 21.8 percent. Staff then compared that number to the 5-year cumulative growth in in-state acute hospital charges using (CY20-CY24). Staff was able to estimate CY 2024 charges using the proposed RY 2024 update factor. The cumulative growth for in-state hospital charges also equated to 18.7 percent, meaning the recommended update factor would keep the cumulative in-state hospital charge less than the GSP growth over a 5-year window.



## Medicare's Proposed National Rate Update for FFY 2025

CMS released its proposed rule for the Inpatient Prospective Payment System's (IPPS) payment rate on April 10, 2024. In the proposed rule, CMS would increase rates by approximately 2.60 percent which includes a market basket increase of 3.00 percent, and a productivity reduction of -0.40 percent. This proposed increase will not be finalized until August 2024 and will not go into effect until October 1, 2024. This also does not take into account volume changes, nor does it take into account projected reductions in Medicare disproportionate share hospital (DSH) payments and Medicare uncompensated care payments as well as potential reductions for additional payments for inpatient cases involving new medical technologies and Medicare Dependent Hospitals.

## Stakeholder Comments

Staff worked with the Payment Models Workgroup to review and provide input on the proposed RY 2025 update. Comments generally focused on 7 areas: fund current inflation, catch up methodology, revised PAU policy, clarification of set-aside, outpatient oncology & infusion drugs, retained revenue and support inflation for Specialty Hospitals.

MHA submitted a proposal outlining the increase for its member hospitals, while CareFirst submitted a letter suggesting that an increased portion of the Update Factor should be directed to population health improvement efforts. In addition to MHA and CareFirst's letter, the following hospitals submitted comments: University of Maryland Medical System, John Hopkins Health system, Holy Cross Health, MedStar Health, Tidal Health, Adventist HealthCare, Sheppard Pratt, Mount Washington Pediatric Hospital, LifeBridge Health, Atlantic General, and Ascension St. Agnes. The request and comments outlined by MHA, CareFirst, and echoed by member hospitals are outlined below with staff's response in italics:

### 1. Fund Current Inflation:

- a. All hospitals requested that the commission fund current inflation to 3.24% reflecting data from Global Insight's First Quarter 2024 book.

*HSCRC Staff Response: Staff agree to update current inflation to Global Insight's First Quarter 2024 book to reflect 3.24%. This new value will be reflected in the Final Recommendation. The update will have an effect on TCOC savings and the magnitude of any catch-up inflation value.*

### 2. Inflation Catch-Up Methodology:

- a. Carefirst suggests that:
  - i. There should be no additional funding provided in RY 2025 because the catch-up methodology doesn't account for prior overfunding. Hospitals have been "cumulatively overfunded by more than \$1 billion above actual inflation"

- ii. If any catch up inflation is provided in RY 2025, CareFirst suggests targeting additional funding to invest in reducing statewide maternal mortality rate by 50% over 5 years. In addition, CareFirst suggests providing 0.1% funding in rates paid via an assessment to MHA to create a Maternal Quality Care Collaborative. If improvements are not made over 5 years, the additional funding provided for this effort should be removed from rates.

*HSCRC Staff Response: HSCRC staff agree that the catch-up methodology should account for prior overfunding and thus are amending the staff recommendation to utilize a 2014 baseline. Staff, however, do not agree with CareFirst's assessment of cumulative overfunding, as it takes into account cash reserves and fails the typical regulatory standard of making adjustments in a prospective manner. Moreover, this same approach was not taken into account when resolving the census forecasting error in the Demographic Adjustment, which would have shown significant, negative impacts to cash reserves.*

*Lastly, while staff appreciate CareFirst's novel proposal to address maternal mortality. This type of coordinated policy action could be supported by the proposed population health provision, which will be further vetted with a technical workgroup and other key stakeholders, most notably the Department of Health.*

- b. All Hospitals are in support of a catch-up methodology to address the underfunding of inflation that has occurred in RY 2022 and RY 2023. MHA and its member hospitals request that half of the 2.34% totaling 1.17% be funded in RY 2025 and the remainder be funded in RY 2026. The 2.34% is based on a 5-year cumulative growth calculation which considers RY 2020- RY2024. In addition, any correction for overfunded inflation be limited to 0.5% per year and not be applied if savings exceed the Medicare target. If adjustments exceed 0.5%, they should be spread over multiple years to ensure financial stability and predictability.
  - i. Request for additional funding to address underfunded inflation in FY25. They propose targeting this funding to efficient hospitals and scaling a portion to limit growth for "Low-Efficiency Outliers". (Tidal Health)

*HSCRC Staff Response: HSCRC staff believe there needs to be a catch-up methodology that can be used moving forward but disagree on the approach proposed by the MHA and its member hospitals.*

- a) *Calculation of over/(under)funding should go back to 2014 and calculate cumulative funding through 2023. Staff do not agree that 2024 should be included in the calculation of funding since that period is not considered 'final'.*
- b) *There must be two-sided risk and overfunding should have the same corridor as underfunding. The impact to consumers, as well as hospitals, must be considered in this methodology.*
- c) *Any catch-up inflation will be applied to all hospitals equitably.*

d) *Additional inflation values still need to be considered against required savings.*

### **3. PAU:**

- a) Various Commissioners expressed concern that under the new methodology, select hospitals will receive a reward, i.e., a net increase to their revenue base, and it is unclear if the hospitals have done anything to warrant such a reward.
- b) Almost all hospitals are in support of adjusting the PAU savings methodology to better reflect hospitals' ability to influence their rates while funding full inflation. They also support maintaining incentives for care transformation and seek clarification on certain aspects of the staff recommendation.
  - i) Medstar agrees with Staff's draft recommendation that an analysis be funded out of hospital rates and activities of current interventions to reduce PAU, an establishment of a single point of executive accountability for the PAU reduction strategy, and an agreement to engage in future PAU performance analyses. They further emphasize the need for additional analyses to acknowledge that not all PAU volume is avoidable.

*HSCRC Staff Response: Staff ran several analyses to see if there was a relationship between the rewards in the new PAU methodology and improvement in PAU performance over the course of the Model. While there were occurrences where hospitals have clearly demonstrated improvement and are in a position to get a reward (e.g., Garrett Regional Medical Center, MedStar St. Mary's, Chestertown Hospital), there was not a statistically significant relationship across the entire industry. Similarly, hospitals attainment performance at the start of the Model was not correlated with the current reward structure, suggesting that the proposed methodology captures both hospitals that had excellent performance at the start of the Model but have not necessarily decreased PAU (e.g., Holy Cross) and hospitals that have improved under the Model. In light of this finding, staff recommend amending the PAU Shared Savings policy to cap rewards for hospitals to 0%. In addition to a single point of accountability, hospitals would need to submit a plan for Commission approval to reduce PAU or maintain low rates of PAU.*

*Staff appreciates the hospital's support to amend the PAU policy and to review PAU performance over the course of the Model. If approved by the Commission, staff will utilize a portion of the set aside (\$500k-\$1M) to contract a vendor to support efforts to better understand and reduce PAU in Maryland.*

### **4. Set Aside Funding:**

- a. Several hospitals express concerns about the estimate of set-aside funding, emphasizing the need for transparency and clear criteria for distribution.
  - i. Support the commission's proposal but stress the importance of developing fair criteria for accessing these funds (UMMS & LifeBridge). One hospital specifically cited concerns over using cash-on-hand to determine financial hardship, stating it can be misleading when establishing need. (LifeBridge)

- ii. Suggestion to prioritize funding for “High-Efficiency Outliers” before other requests. (Tidal Health)
- iii. Opposed increasing set aside funding, citing concerns about creating incentives and impacting inflation funding for all hospitals. (MedStar)

*HSCRC Staff Response: Given the relatively strong support to establish criteria for distributing set aside funding, and yet no proposals for what the criteria should be (other than removal of a cash consideration), staff are putting forward the proposal from the draft recommendation with one amendment. Staff also share MedStar’s concerns that increasing the set aside could crowd out potential inflation for all hospitals and could increase the likelihood of a woodwork effect, i.e., hospitals request funding purely because there is available revenue. For these reasons, staff do not believe that the funding for the set aside should be larger and again note the need for sufficient gatekeeper tests to access funding for financial hardship, similar to what is utilized in the Integrated Efficiency policy.*

1) *The below criteria must be met to provide funding to hospitals with a clear financial hardship:*

- *Below State Average Operating Margin, and Regulated Operating Margin decline of more than 3 percent, and Total Operating Margin decline of more than 1 percent*
- *Or 125 days cash on hand*
- *Or two consecutive years of negative Cash Flow from Operations (on the regulated entity)*

2) *The Commission will create a process where the set aside is distributed through a competitive process*

- *Twice per year (depending on funding availability) hospitals submit applications citing either relative efficiency performance or financial hardship and the details of their revenue request*
- *Staff provide recommendations in subsequent meeting*
- *Commissioners vote on requests*
- *Hospital must submit a corrective action plan approved by their Board*

## **5. Outpatient Oncology and Infusion Drugs:**

- a. *Hospitals have seen a significant rise in pharmaceutical costs that exceed core inflation. There is concern about the differing treatment for Academic Medical Centers. Hospitals are requesting that there should be no distinction in inflation rates and that any substantial changes in inflation or cost increases should be thoroughly evaluated before being implemented long-term. The impact of this funding on non-academic hospital rates means that fewer hospitals are able to provide care to the community. Hospitals suggest that high-cost drug cases should be funded outside of the GBR and operated on a fee-for-service basis.*

*HSCRC Staff Response: The distinction in inflation rates between Academic Medical Centers and other hospitals was based on a thorough evaluation of the data. Academic medical centers*

have experienced higher cost growth over recent years and the proposed differential inflation rates reflect that. It is also consistent with the guidelines established in prior years when Staff noted that differential inflation rates could be used if trends diverged between hospitals. Prior to this year the data had not indicated for this adjustment. Staff agrees that a review of the policies related to high-cost drugs would be appropriate and plans to initiate a review during FY 2025.

#### **6. Retained Revenue:**

- a. During the presentation of the Draft Recommendation of the Update Factor, Commissioners raised concerns regarding the funding of inflation on retained revenue. It was suggested that inflation should only be funded on the portion of revenue not related to retained revenue or scaled to accommodate retained revenue at the hospital.

*HSCRC Staff Response: Staff disagree with this idea. The GBR rewards hospitals by allowing them to retain revenue as volumes decline (at 50% VCF). This incentive is fundamental to the Model to ensure that there is funding available in hospitals to invest in population health, physicians and other opportunities that will improve total cost of care in their service areas. The side effect of too much retained revenue is that a hospital may operate inefficiently, which is why the Integrated Efficiency Policy was created and approved by the Commission in April of 2021. This policy is the mechanism by which retained revenue should be addressed and have that revenue removed from the system. Removing retained revenue from all hospitals rather than just outliers, as currently outlined in the policy may disincentivize hospitals to manage total cost of care and invest in their service area.*

#### **7. Non-GBR Hospitals:**

- a. Non-GBR hospitals should receive full inflation and an additional adjustment for underfunded inflation in FY 2025, equivalent to GBR hospitals. As downstream providers with low volumes still below CY 2019 levels, they struggle to maintain positive margins and required staffing.

*HSCRC Staff Response: HSCRC Staff agree to include the catch-up inflation value of 1.00 percent in the Final Recommendation. Volumes remain low compared to 2019 at the specialty hospitals, but demand remains high. Specialty hospitals experience the same inflationary pressures as acute hospitals. The cost pressures, specifically, specialized staffing needs make it difficult for these hospitals to fill vacancies and as a result are these hospitals utilizing agency staffing in higher levels. These hospitals represent an important component of the overall delivery system in Maryland and ensuring continued access to these services is crucial.*

In addition to the 7 general comment areas, concerns were raised pertaining to Population Health Considerations. Commissioners expressed concerns that reducing the system-wide inflation reduction for PAU would reduce the incentive for hospitals to improve or sustain efforts to reduce PAU. CareFirst also indicated that an increased portion of the Update Factor should be directed to population health improvement efforts. As such, staff are considering a withhold of 0.19% of the

Update Factor (equivalent to half of the proposed modification to the PAU reduction), which would be released to each hospital in the January rate orders once the following conditions are met:

1. A plan, subject to Commission approval, for population health improvement aligned with statewide priorities.
2. The withhold will be evaluated in future years if there is not demonstrated improvement in the proposed initiative.

## Recommendations

Based on the currently available data and the Staff's analyses to date, the HSCRC Staff provides the following final recommendations for the RY 2025 update factors.

For Global Revenues:

- (a) Provide all hospitals with gross inflation increase of 3.24 percent, with an additional 1.00 percent for additional revenue support based on historic underfunding of inflation.
- (b) Provide an overall increase of 4.80 percent for revenue (including a net increase to uncompensated care) and 4.53 percent per capita for hospitals under Global Budgets, as shown in Table 2. In addition, the staff is proposing to split the approved revenue into two targets, a mid-year target, and a year-end target. Staff will apply 49.73 percent of the Total Approved Revenue to determine the mid-year target and the remainder of the revenue will be applied to the year-end target. Staff is aware that there are a few hospitals that do not follow this pattern of seasonality and will adjust the split accordingly.
- (c) Adoption of a catch-up inflation methodology to use in RY 26 and beyond. This methodology, outlined in this report, would include: two-sided risk to ensure hospitals and consumers are equally considered, a 1.00 percent risk corridor to ensure that inflation reconciliations are only performed when there are material variances, and recognition that all additional inflation values will be considered against required savings.
- (d) Establishment of criteria for distribution of set-aside funding. Staff propose the following criteria must be met to provide funding to hospitals with a clear financial hardship: Below State Average Annual Operating Margin, Annual Regulated Operating Margin decline of more than 3 percent, and Annual Total Operating Margin decline of more than 1 percent; or 125 days cash on hand (actual or projected); or Two Consecutive Years of negative Cash Flow from Operations (on the regulated entity). The Commission will create a process where the set aside will be distributed through a competitive exercise and require a corrective action plan for improved financial operations.
- (e) Amend the PAU Shared Savings policy so that statewide impact is equal to -0.02 percent and then cap rewards for hospitals to 0.0 percent. To ensure there is no backsliding in statewide performance, an analysis will be funded out of hospital rates to

assess current interventions to reduce PAU, each hospital will have to establish a single point of executive accountability for their PAU reduction strategy, and all hospitals must agree to engage in future PAU performance analyses.

(f) To ensure continued focus on population health within the State and ensure Hospitals are fully engaged in population health efforts, Hospitals will be required to submit a population health improvement plan. The plan should, at a minimum, (1) identify at least 3 conditions driving avoidable utilization, readmissions, and/or cost within their hospital, (2) describe programs, initiatives, and interventions intended to addressing the conditions identified; (3) specify participation in statewide efforts to address core population health goals, such as reducing maternal mortality and overdose; (4) provide performance improvement indicators and outcomes for the identified conditions and programs, including, as appropriate, measures related to equity.

Staff will convene a workgroup to refine this approach. Failure to submit a population health plan that successfully addresses the conditions outlined above and discussed in the workgroup, will result in a takeback of 0.19 percent of inflation removed in the January rate updates.

For Non-Global Revenues including psychiatric hospitals and Mt. Washington Pediatric Hospital:

(a) Provide an overall update of 3.24 percent for inflation, with an additional 1.0 percent for additional revenue support based on cumulative underfunding of inflation since 2014.

(b) Withhold implementation of productivity adjustment due to the low volumes hospitals are experiencing.

As a result of action taken by the Commission at its public meeting of June 14, 2024, the Commission approved this Staff Final Recommendation.

## Comment Letters

Letters were received from:

- Maryland Hospital Association (MHA)
- University of Maryland Medical Systems
- LifeBridge Health
- Tidal Health
- Ascension Saint Agnes
- Sheppard Pratt
- Mount Washington Pediatrics
- Atlantic General
- MedStar Health
- CareFirst
- Adventist Healthcare
- Holy Cross Health
- Johns Hopkins Health System





May 15, 2024

Jon Kromm  
Executive Director  
Health Services Cost Review Commission  
4160 Patterson Avenue  
Baltimore, MD 21215

Dear Dr. Kromm:

On behalf of the Maryland Hospital Association (MHA) and its member hospitals and health systems, I am writing to comment on the Health Services Cost Review Commission (HSCRC) staff recommendation regarding the annual update factor. MHA welcomes the opportunity to comment on this important issue and is committed to working collaboratively with Commissioners and staff to develop the final recommendation in June.

MHA and its members appreciate the time, effort, and partnership of the HSCRC staff as the draft recommendation was developed and staff's recognition of the significant financial pressures Maryland hospitals face. After reviewing the staff recommendation, MHA proposes the following for the final recommendation in June.

- **Fund current inflation.** MHA respectfully requests the staff recommendation to fund current inflation at 3.15% be updated to 3.24%, reflecting data from Global Insight's First Quarter 2024 book.
- **Provide half of historic underfunded inflation (2.34%) in rate year (RY) 2025 and the other half in RY 2026.** MHA recognizes that it is not possible to include the full amount of underfunded inflation in a single update and remain within the Total Cost of Care (TCOC) Model savings target. Therefore, MHA respectfully requests HSCRC include an additional 1.17% in the update factor for RY 2025 to reflect half of the historic underfunding of inflation over the past several years, with a commitment to restore the remainder in RY 2026.
- **Provide the same rate increase for underfunded inflation to the specialty hospitals.** MHA respectfully requests specialty hospitals also receive a rate increase in recognition of underfunded inflation.
- **Overfunding of inflation correction.** MHA appreciates the HSCRC staff's willingness to consider establishing a policy to correct for years when inflation is overestimated but respectfully requests that any correction in any given year be limited to .5% and that it not be applied if there are savings over the Medicare savings target. If the methodology to correct for overfunded inflation requires an adjustment in excess of .5%, an adjustment

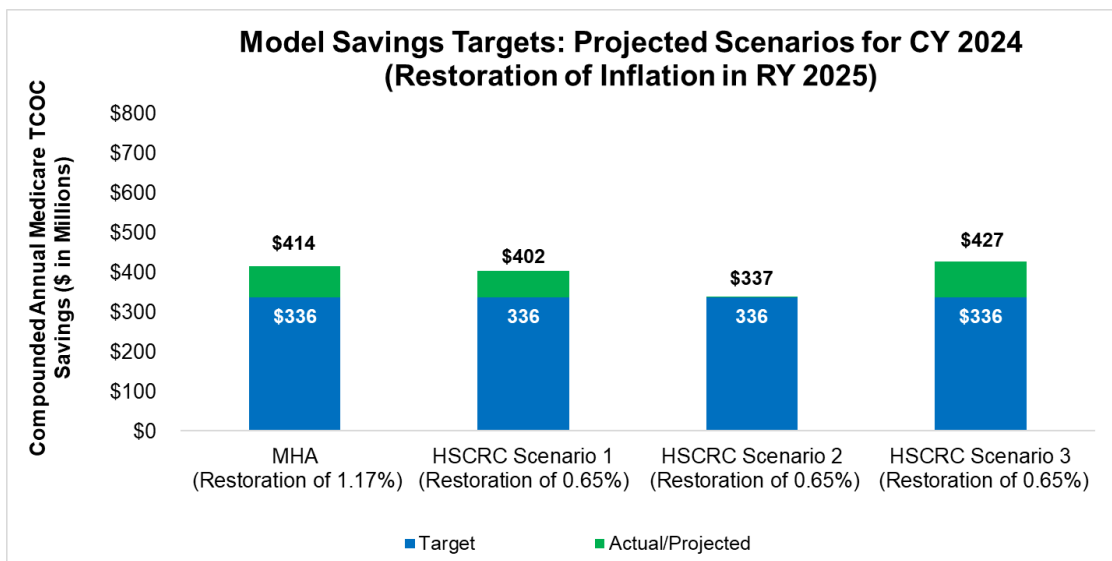
- should be spread out over multiple years to enable stability and predictability for hospital financial operations and planning.
- **Set aside funding for unforeseen adjustments.** MHA respectfully disagrees with the estimate of set-aside funding available for hospital-specific rate adjustments and would encourage HSCRC to provide additional information on the process to determine current and future requests from hospitals.
- **Potentially Avoidable Utilization (PAU) policy change.** MHA concurs with the staff recommendation to modify the current PAU shared savings adjustment but requests additional clarity on key provisions.

### **Additional Update Factor Due to Historic Unfunded Inflation**

In developing estimates for a range of potential update factors, HSCRC staff modeled a series of scenarios based on historic and/or current trends. Although the majority of these scenarios demonstrate HSCRC could provide a more robust update factor, HSCRC staff decided to err on the side of the most conservative estimates to ensure Maryland met its obligations under the TCOC Model to achieve \$336 million in savings by the end of calendar year (CY) 2024.

While MHA understands the desire to be more conservative, MHA believes a .65% increase for historic underfunding of inflation as currently recommended is significantly below what is warranted by the current savings target estimates and does not recognize the historic TCOC Model excess savings. Figure 1 below compares the savings estimates as prepared by HSCRC staff, including the assumptions for each.

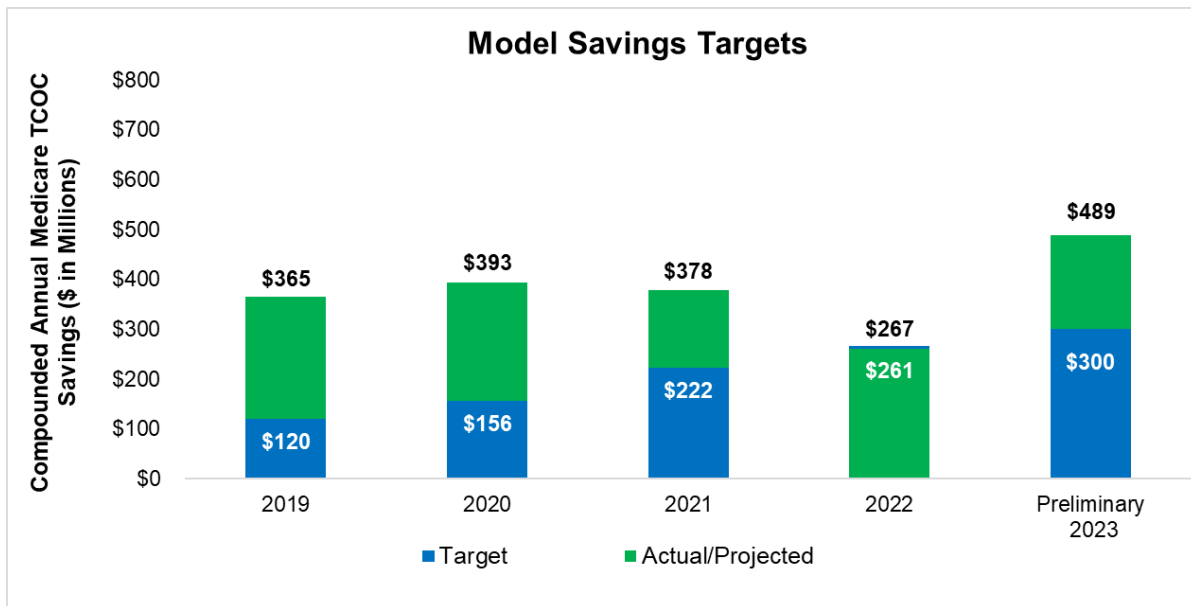
*Figure 1: HSCRC Staff Savings Estimates Scenarios*



**Using Scenario 2 as the recommendation's basis does not reflect the dramatic change that has occurred since the COVID-19 pandemic.** Staff acknowledges this in the recommendation, remarking that using 2015-2019 as the historic trend to determine the current one is “the most conservative estimate of the three scenarios as average national trends for that period were low.” Staff also acknowledges this differs from the “pre-pandemic approach of using the prior year trend to guide current-year savings targets.” Scenario 3 strikes the appropriate balance between using more recent data, consistent with prior practice, while still achieving significant savings.

Relying on overly conservative estimates continues a trend that resulted in significant excess savings year over year. Figure 2 below demonstrates that over the past several years, the TCOC Model generated a cumulative excess savings of over \$500 million.

*Figure 2: Annual Savings Generated by the TCOC Model, 2019-2023*



These excess savings have accrued to the benefit of the governmental and commercial payers, artificially and unnecessarily limiting investments that could have been made by the hospitals in population health programs, innovative clinical treatments, or routine capital improvements.

Unlike the significant benefits that payers realized due to these excess savings, hospitals remained at risk for any projected or actual underperformance in meeting the annual savings target. As recently as 2022, hospitals were subject to a system correction factor due to concerns that Maryland would miss the savings target and trigger a corrective action plan from the Centers for Medicare & Medicaid Services Innovation Center. These concerns later proved to be unfounded, and HSCRC, to its credit, rescinded the rate reductions implemented as part of the system correction factor.

This episode, however, highlights the one-sided nature of the current TCOC Model where hospitals are financially penalized for Model underperformance yet are not financially rewarded for overperformance. This is the opposite dynamic for payers as they are protected on the downside yet receive a financial windfall on the upside. HSCRC's goal should be to provide sufficient funding for hospitals to invest in new services and reinvest in existing ones by hewing as close to the annual savings target as possible and not creating savings well over what is contractually required.

### **Additional Inflation for Specialty Hospitals**

The current staff recommendation provides full inflation, which is currently 3.15% and is expected to be 3.24% based on the data from Global Insight's First Quarter 2024 book, for specialty hospitals, in line with what is being provided to acute care hospitals. The recommendation, however, does not extend the additional underfunding of inflation to the specialty hospitals. MHA firmly supports the restoration of underfunded inflation to both the acute care and specialty hospitals as the specialty hospitals have experienced the same challenges with increased labor expenses, supply chain issues, and other inflationary pressures negatively impacting their financial performance. MHA also believes treating specialty hospitals the same, particularly psychiatric hospitals, is consistent with the spirit and intent of the Mental Health Parity and Addiction Equity Act.

### **Overfunding Inflation Correction Corridor**

MHA agrees in establishing a consistent policy to address over and underfunding of inflation on a go-forward basis. MHA recommends, however, that a correction for overinflation not be applied if the state is meeting the TCOC Model targets. This is consistent with the field's position that HSCRC should endeavor to remain as close to the target as possible each year without over generating savings. It is critical to maintain stable hospital finances and not cause dramatic swings in revenue, particularly based on retrospective data, therefore MHA respectfully recommends the following elements to the proposed policy:

- Any correction for overinflation be limited to .5% in a given year. Any correction for overinflation that is warranted under the methodology proposed by HSCRC staff that would exceed .5% should be spread out over multiple years to provide stability and predictability in hospital financial operations and planning.
- A multi-year trend be utilized to estimate any inflation correction to smooth the potential volatility over time. This is consistent with MHA's position on the RY 2025 update factor in only requesting that half of underfunded inflation be funded this year, with the other half being included in RY 2026.
- Consider adopting a policy for future rate years that avoids annual adjustments for over and underfunding inflation and, instead, adjusts on a two or three-year interval. Hospitals

would benefit from avoiding a whipsaw effect that could result in instability of financial operations and planning.

### **Set-Aside Funding for Unforeseen Adjustments**

Consistent with previous years' recommendations on the update factor, staff included \$30 million as a set aside for unforeseen adjustments to hospital-specific global budgets. It is unclear how this estimate was determined, and MHA believes it underestimates the funding that is potentially available to address individual issues hospitals present for HSCRC's consideration.

At the May meeting, HSCRC staff presented the latest Medicare savings estimates for CY 2023—now estimated to be about \$473 million with some non-claims adjustments still to be made—indicating \$173 million in excess savings beyond the CY 2023 target. While MHA recognizes the savings will be reduced based on CY 2024 activity, including the RY 2025 update factor, it is likely there will still be significant savings beyond the \$336 million CY 2024 requirement based on HSCRC's shared savings model estimates. MHA believes any savings beyond the contractually required savings target should not only be available for correcting historic underfunding of inflation, but also be potentially available for appropriate adjustments to hospital global budgets.

MHA encourages HSCRC to develop a process to review these letters objectively, transparently, and expeditiously, providing a forum for hospitals to engage with the staff and Commissioners and an opportunity for fair consideration of the issues raised.

### **PAU Shared Savings Policy Change**

MHA appreciates HSCRC staff's willingness to reconsider the design of the PAU Shared Savings policy and agrees that ongoing PAU reductions can have the unintended consequence of limiting patient access. Although supportive of the staff recommendation, MHA requests additional information on the following components:

- “An analysis to be funded out of hospital rates of activities of current interventions to reduce PAU
- Establishment of a single point of executive accountability for the PAU reduction strategy
- Agreement to engage in future analyses of PAU performance”

MHA welcomes the opportunity to work together to further define and develop these additional aspects of the recommendation.

### **Conclusion**

MHA is sincerely appreciative of the thoughtful approach the HSCRC staff took to develop the recommendation for the annual update factor and respectfully requests that additional

Jon Kromm  
May 15, 2024  
Page 6

consideration be given to restoring half of the underfunded inflation this year with a commitment to include the remaining amount in the RY 2026 update.

Thank you for the chance to comment on this critical issue. If you have any questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Melony G. Griffith". The signature is fluid and cursive, with a large loop at the end.

Melony G. Griffith  
President & CEO

cc: Joshua Sharfstein, M.D., Chair  
Joseph Antos, Ph.D., Vice Chair  
James Elliott, M.D.  
Ricardo R. Johnson  
Maulik Joshi, DrPH  
Adam Kane  
Nicki McCann, JD



250 W. Pratt Street  
24<sup>th</sup> Floor  
Baltimore, MD 21201-6829  
[www.umms.org](http://www.umms.org)

CORPORATE OFFICE

May 15, 2024

Jon Kromm  
Executive Director  
Health Services Cost Review Commission  
4160 Patterson Avenue  
Baltimore, MD 21215

**RE: UMMS Comment Letter on Draft Staff Recommendation for the FY 2025 Update Factor**

Dear Jon:

On behalf of the University of Maryland Medical System (UMMS), representing 15 acute care hospitals and health care facilities, we are submitting comments in response to the Health Services Cost Review Commission's (HSCRC) Draft Recommendation for the Update Factor for Rate Year 2025.

We appreciate the time spent by Commission Staff in developing and vetting this proposal with the industry. We would like to address specific adjustments proposed in the balanced Update and offer our support of the points outlined in MHA's comment letter.

### Industry Effects of Underfunding Inflation

The continuing pressures of actual inflation, coupled with the underfunding of inflation in hospital revenues, has caused a significant plunge in hospital margins. Regulated margins fell from 9.90% in FY 2021 to 8.9% through YTD December 2024. Total operating margins during that time declined to a loss of

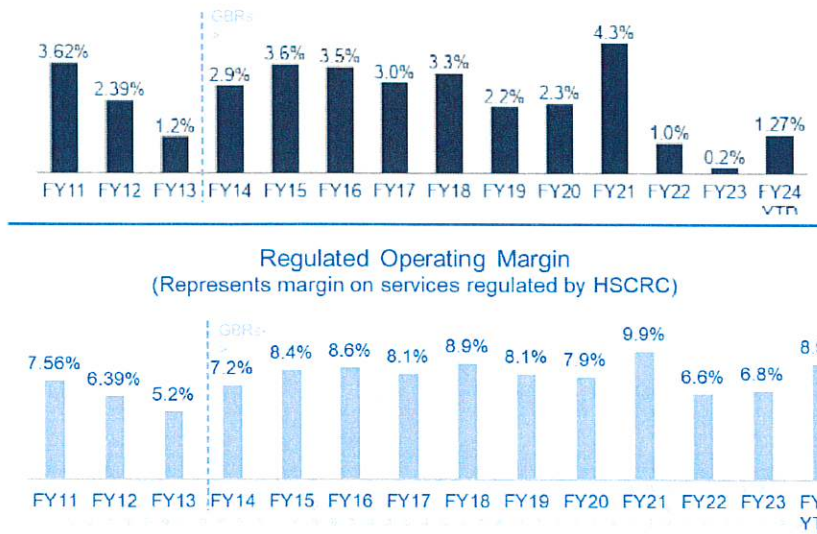
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UNIVERSITY OF MARYLAND MEDICAL SYSTEM

University of Maryland Medical Center • University of Maryland Medical Center Midtown Campus •  
University of Maryland Rehabilitation and Orthopaedic Institute • University of Maryland Baltimore Washington Medical Center •  
University of Maryland Shore Regional Health – University of Maryland Shore Medical Center at Easton -  
University of Maryland Shore Medical Center at Chestertown - University of Maryland Shore Medical Center at Dorchester –  
University of Maryland Shore Emergency Center at Queenstown •  
University of Maryland Charles Regional Medical Center • University of Maryland St. Joseph Medical Center •  
University of Maryland Upper Chesapeake Health System – University of Maryland Upper Chesapeake Medical Center -  
University of Maryland Harford Memorial Hospital •  
University of Maryland Capital Region Health – University of Maryland Bowie Health Center –



1.27%, up slightly from the average of 0.6% over the two years prior as shown in the chart below.



These low margins have required all hospitals, including UMMS, to make very difficult decisions and implement significant cost cutting measures to maintain operating solvency. UMMS is also deferring programmatic investments, replacement of capital and equipment, and spending initiatives for innovative patient care delivery. Despite performance improvement initiatives and deferred spending, UMMS is projecting an FY 2024 operating margin significantly lower than targeted margins needed to fund capital. This trend is continuing into our FY 2025 operating budget.

### Model Considerations and Projections

Commission staff have put forward four different projection models, as they have done each year when determining the appropriate update factor. Historically, commission staff have argued that all four models, ranging in their levels of conservatism, must meet the required savings target. This approach has yielded nearly \$200M in excess savings from 2019 through 2021. UMMS contends that this approach is overly conservative and should be adjusted determining the affordability of the update factor. UMMS acknowledges that the need to achieve the agreed upon savings target is of paramount concern, but the industry cannot afford to continue to receive lower than necessary inflation adjustments and operate with razor thin margins due to ongoing forecast errors.



## UMMS Position on the FY2025 Update Factor Proposal

UMMS would propose an update factor that recognizes both realities of Total Cost of Care Model performance and ongoing hospital cost pressures.

1. IHS has recently updated the inflation forecast to 3.24%, up from the prior quarter's estimate of 3.15%. UMMS believes this should be the starting point of any update factor calculations as to avoid adding to the state's unfunded inflation problem.
2. We ask that the Commission consider that not all forecasts for expected fee-for-service Medicare per beneficiary growth need to achieve the targeted savings, only those that are most likely scenarios. Ensuring that the most unlikely scenarios also meet the model test is part of the reason we have underfunded inflation for the past several years.
3. We request that hospitals get some relief from the underestimate of inflation. We agree with MHA's request that the HSCRC provide hospitals with half of the inflation underfunding or 1.17%. Additionally, we feel the remaining 1.17% should be restored in FY 2026 rates.
4. We support MHA's position to change the inflation correction corridor to 0.5% and to consider the model performance in adjusting for over or underfunding of inflation. We also agree that should the model performance be favorable, over-funding should not be required to be repaid.
5. We support and appreciate the commission staff's proposal to adjust the PAU savings methodology. This revised methodology more appropriately adjusts for the variation in a hospital's ability to influence their hospital specific PAU rates while funding full inflation, allowing for hospitals to continue to fund necessary programs that support access for patients with chronic conditions.
6. We support the commission staff's proposal to provide a set aside for hardship fund that is open to all hospitals. UMMS agreed with MHAs position that it is necessary for the commission to work with the industry to develop the criteria for accessing these funds.
7. We fully support both the differential drug cost inflation and establishment of a special drug tier in the CDS-A policy that would provide full cost funding for specific drugs.
8. We ask that specialty hospitals be provided full inflation and the same 1.17% additional unfunded inflation in rates for FY 2025. While it is true these hospitals are volume variable, many facilities are downstream providers for acute hospital volume, which is still below CY 2019 levels. Until acute volume recovers, these hospitals will continue to struggle to achieve positive margins with required staffing levels.

## Summary

This proposal offers a realistic structure to help cover cost pressures and allow hospitals to begin re-investing in their facilities while balancing the State's commitments to expected performance under the Model. Creating excess savings based upon underfunding hospital cost inflation is not a tenable way to continue the model. As we look forward to the AHEAD model, it seems reasonably appropriate to re-evaluate the way in which we are funding hospital inflation to ensure a more balanced approach. We appreciate your consideration of this proposal. Please contact me if you have any questions.

Sincerely,



Mohan Suntha, MD, MBA  
President and Chief Executive Officer  
University of Maryland Medical System

cc: Dr. Joshua Sharfstein, Chairman  
Joseph Antos, PhD, Vice Chairman  
James Elliott, M.D.  
Nicki McCann, JD  
Maulik Joshi, DrPH  
Ricardo R. Johnson  
Adam Kane  
Allan Pack, Principal Deputy Director  
Jerry Schmith, Principal Deputy Director  
Joe Hoffman, UMMS, Interim CFO  
Alicia Cunningham, UMMS, SVP



May 15, 2024

Jon Kromm  
Executive Director, Health Services Cost Review Commission  
4160 Patterson Avenue  
Baltimore, MD 21215

Dear Jon,

The hospitals collectively continue to operate in a challenging environment with respect to volume and labor demands, escalating inflationary pressures on supplies and pharmaceuticals and need to keep-up with required capital investments, resulting in on-going pressure to operating margin performance. While work continues on the Update Factor, we did want to acknowledge our appreciation of the Staff's consideration for both prior year underfunded inflation and the change in the Potentially Avoidable Utilization (PAU) shared Savings adjustment within this year's recommendation.

At the same time, we wanted to also voice our concern regarding requirements being considered of unique hospital requests as part of the "Set Aside", specifically the criteria of financial hardship to include a liquidity measure of less than 125 days cash-on-hand. Cash is not accounted for in a standardized manner throughout Maryland's hospitals. Some Systems record cash within a Parent entity or academic structure as opposed to an individual hospital. In addition, within Systems that maintain comprehensive continuum- of- care providers that include unregulated services, the ability to distinguish a hospital's cash related to regulated services becomes difficult. Lastly, philanthropy efforts could be mitigated if donors are understanding that contributions may influence regulatory outcomes and a hospital's ability to actively work with the HSCRC. We are ultimately understanding of a hospital's burden-of-proof for establishing a one-time rate relief request but believe an overall cash threshold can be misleading in establishing need.

As always, we respect the work of the Commission as it establishes an annual revenue increase while balancing all other elements of Maryland's unique reimbursement model.

Sincerely,

A handwritten signature in blue ink, appearing to read "D. Krajewski", written over a light blue horizontal line.

David Krajewski  
Executive Vice President and Chief Financial Officer, LifeBridge Health  
President, LifeBridge Health Partners

**CARE BRAVELY**



May 14, 2024

Mr. Jon Kromm, Executive Director  
Health Services Cost Review Commission  
4160 Patterson Avenue  
Baltimore, MD 21215

Dear Jon:

TidalHealth appreciates the opportunity to comment on the Health Services Cost Review Commission's ("HSCRC") draft staff recommendation for the Fiscal Year 2025 Update Factor. The HSCRC has the important duty to consider changes to the staff recommendation to fully account for inflation underfunding as well as **to provide additional funding/enhancements for efficient Hospitals**. Both are critically important, and we hope you will strongly consider the following changes to the draft staff recommendation:

**(1) Inflation**

We support MHA's request to provide additional funding to the industry to account for underfunded inflation. We believe, given the substantial impact of the underfunding over the last couple of years, that full underfunding should be provided in fiscal year 2025. **We believe a portion of this additional inflation funding should be targeted to support efficient hospitals.** We continue to strongly support scaling a portion of the update to limit the continued growth for hospitals that HSCRC considers as "Low-Efficiency Outliers."

**(2) Outpatient Oncology and Infusion Drugs**

A significant portion of total expenses relates to pharmaceutical costs. We have seen significant increases that are way above core inflation. We are concerned with this carve out treatment for Academic Medical Centers. We request that there not be a differential in inflation and that additional evaluation of inflation/cost increases be performed before a significant change is made that will carry well into the future. If we are starting to scale inflation, even if just for Oncology and Infusion drugs, we should consider scaling the overall update based on a hospital's efficiency. Carving out a portion of hospital business and not linking it to any type of efficiency is not equitable and redistributes money from community hospitals to Academic Medical Centers.

**(3) Low Efficiency Outliers and Set Aside for Unforeseen Adjustments**

We believe that we need to utilize and enhance current policy to determine who receives additional funding. The Integrated Efficiency Policy should be the basis to determine GBR enhancements and the hospitals that are "High-Efficiency Outliers" should have priority access to funding before other requests are considered.

As we have stated in the past, our recommendations continue to be guided by a strong belief that there is inherent inequity within the Maryland model. While we respect the original guiding principles of the model allowing hospitals to retain revenue in the case of successful population health efforts, on-going cumulative dollars embedded in hospital costs and charges to consumers has caused major inequities and does not provide funding that moves forward access and equity to the communities we serve.

Thank you, again, for the opportunity to comment, and I am available should you have any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Stephanie Gary', with a long horizontal flourish extending to the right.

Stephanie Gary  
Vice President and Chief Financial Officer

cc: Dr. Joshua Sharfstein, Chair, HSCRC  
Dr. Joseph Antos, Vice Chair, HSCRC  
Dr. James Elliott, Commissioner, HSCRC  
Ricardo Johnson, Commissioner, HSCRC  
Dr. Maulik Joshi, Commissioner, HSCRC  
Adam Kane, Commissioner, HSCRC  
Nicki McCann, Commissioner, HSCRC  
Melony G. Griffith, Chief Executive Officer, MHA  
Steven Leonard, Chief Executive Officer, TidalHealth



# Ascension Saint Agnes

May 15, 2024

Dr. Jon Kromm  
Executive Director  
Health Services Cost Review Commission  
4160 Patterson Avenue  
Baltimore, MD 21215

Dear Dr. Kromm,

On behalf of Ascension Saint Agnes (ASA), I am writing today to provide comments on the Health Services Cost Review Commission's (HSCRC) staff recommendation for the Fiscal Year (FY) 2025 annual payment update. I appreciate the time that you and your staff dedicated to the thoughtful analysis and recommendations.

ASA, like our peers around the state, continues to experience the inflationary pressures of the COVID pandemic that fundamentally reset our expense base. Coupled with the underfunding of actual inflation, these twin pressures have resulted in significant challenges as we seek to invest in clinical programs, expand ambulatory access, and implement needed infrastructure upgrades.

While ASA recognizes and appreciates the staff's recommendation to partially restore some of the underfunded inflation, there is still significant savings in excess of the Model savings target that could be available to hospitals to allow for needed investments. Based on information shared at the May Commission meeting, the HSCRC could provide additional inflation beyond the 0.65% and still be well within the range to achieve the savings target for Calendar Year 2024. Given the financial position of Maryland's hospitals, and the recognition that they have been underfunded over the past several years, ASA would encourage the staff to increase the inflation funding available in the final recommendation in June.

Overall, ASA supports the position of the Maryland Hospital Association for the FY 2025 update as outlined below:

- **Fund base inflation of 3.15%**
- **Restore half of underfunded inflation (1.17%)** with a commitment to fund the other half in the FY 2026 annual payment update
- **Limit the inflation correction factor to 0.5%** and only apply it if the state is not meeting the Medicare savings target

- **Revise the Potentially Avoidable Utilization (PAU) policy** in recognition of the significant savings that have been generated since the inception of the Model.

Thank you again for the opportunity to comment.

Sincerely,



Beau Higginbotham  
President & CEO

cc: Dr. Josh Sharfstein, Chairman  
Dr. Joseph Antos, Vice Chairman  
Dr. James Elliott  
Dr. Maulik Joshi  
Ricardo Johnson  
Adam Kane  
Nicki McCann



# Sheppard Pratt

May 2, 2024

Jon Kromm, Executive Director  
Health Services Cost Review Commission  
4160 Patterson Avenue  
Baltimore, MD 21215

Dear Mr. Kromm:

In its draft recommendation for the proposed update factor for RY2025, the HSCRC staff has recommended an update factor for the Global Budget Revenue (GBR) hospitals along with a different, lower update factor for the non-GBR hospitals in the State. For RY 2025, HSCRC staff is proposing an update of 3.15% per capita for non-global revenues without additional inflation support. This letter, written on behalf of Sheppard Pratt, requests that the HSCRC provide an update factor to the non-Global Budget Hospitals of 4.32% to cover underfunded inflation.

Hospitals under Global Budget Revenues are under the HSCRC's full rate-setting authority, and the Commission sets rates for all payers. For specialty hospitals not covered under the waiver, the HSCRC sets the rates paid by non-governmental payers and purchasers. Where CMS has not waived Medicare's rate-setting authority to Maryland, Medicare does not pay based on those rates. Medicaid also does not pay regulated rates. Hospitals falling in this category include freestanding psychiatric hospitals and Mount Washington Pediatric Hospital.

In the staff recommendation for the non-GBR hospital update factor, the HSCRC staff proposes suspending the productivity adjustment to the inflation update but does not include additional inflation support. The proposal is summarized in the table below, from the staff proposal.

	Psych & Mt. Washington
Proposed Base Update (Gross Inflation)	3.15%
Productivity Adjustment	<b>SUSPENDED</b>
Additional Inflation Support	N/A
Proposed Inflation Update	3.15%

The Commission began providing lower update factors to the non-waiver hospitals with the FY2013 update factor. At that time, the Commission decided to reduce the update factor with a productivity adjustment of 0.5 percentage points below the market basket of 2.59%, leaving an update of 2.09%. While there was no stated justification beyond the imposition of a productivity





## Sheppard Pratt

factor, the apparent implication was that the non-waiver hospitals were not constrained by the terms of the waiver and in later years by the incentives of the Global Budget Revenue model.

These negative adjustments continued through FY2020, and the cumulative effect of these diminished updates are substantial. From FY2013 through FY2020, the cumulative effect of these reductions is >6% of the revenue base, based on the quantity of services provided in FY2013 as the base year. The productivity factor is put into place with the presumption that providers will drive volume growth to improve margins. HSCRC has recognized in recent years that this limits providers ability to maintain access to services and has suspended the productivity adjustments which has allowed Sheppard Pratt to not lose additional ground on reimbursement.

In rate year FY25, the exclusion of the specialty hospitals from the underfunded inflation adjustment is especially concerning. Demand for psychiatric services has never been higher and Sheppard Pratt provides services that are unique in the market to an underserved, chronically acute population. Sheppard Pratt has experienced rising cost pressures over the past several years like the other Maryland hospitals and health systems. In many ways, Sheppard Pratt is less equipped than other health systems to manage the same cost pressures due to lower reimbursement for behavioral health services and receiving reduced reimbursement from our largest payers, Medicaid and Medicare. Labor and benefit costs drive the greatest expense increases, and the broader workforce environment leaves Sheppard Pratt with higher position vacancies and dependent on higher levels of agency staffing than ever before. This has limited capacity of services in recent years. Sheppard Pratt remains focused on maintaining services and staffing levels that support the broader community, including the acute care hospital systems in Maryland. Providing rate updates to Sheppard Pratt that are below the GBR hospitals creates a reimbursement parity issue that will be compounded over time, and which is not in alignment with the state's focus on creating access to behavioral health services.

We respectfully request that the Commission provide the non-GBR hospitals an update factor equivalent to the GBR hospitals. We appreciate your consideration of our request. Please contact me if you have any questions.

Sincerely,

Kelly Savoca  
Senior Vice President and Chief Financial Officer



# Mt. Washington Pediatric Hospital

*Where Children Go to Heal and Grow*

Est. 1922

An affiliate of University of Maryland Medical System and Johns Hopkins Medicine

May 15, 2024

Jon Kromm  
Executive Director  
Health Services Cost Review Commission  
4160 Patterson Avenue  
Baltimore, MD 21215

## **RE: UMMS Comment Letter on Draft Staff Recommendation for the FY 2025 Update Factor**

Dear Mr. Kromm,

On behalf of Mt. Washington Pediatric Hospital, I am submitting comments in response to the Health Services Cost Review Commission's (HSCRC) Draft Recommendation for the Update Factor for Rate Year 2025.

The current HSCRC recommendation provides an update factor of 3.15% for Mt. Washington Pediatric and the other specialty hospitals, but none of the additional inflation support that the global revenue hospitals are to receive.

I am writing to ask that Mt. Washington be provided full inflation and the 1.17% additional unfunded inflation in rates for FY 2025. While it is true the hospital is volume variable, it is a downstream provider for acute hospital volume, which is still below CY 2019 levels. Until acute volume recovers, Mt. Washington will continue to struggle to achieve positive margins while maintaining required staffing levels.

At the same time, Mt. Washington is subject to the same inflationary pressures as the global revenue hospitals, for labor and for other resources.

For these reasons, we request that Mt. Washington Pediatric Hospital receive the same additional inflation support as the global revenue hospitals.

Accredited by The Joint Commission  
and by Commission on Accreditation  
of Rehabilitation Facilities

[mwph.org](http://mwph.org)

**Mt. Washington Pediatric Hospital**  
1708 West Rogers Avenue  
Baltimore, Maryland 21209  
410-578-8600

**Mt. Washington Pediatric Hospital  
at UM Capital Region Medical Center**  
901 North Harry S. Truman Drive,  
8th Floor, Largo, Maryland 20774  
240-677-1800 (inpatient)  
240-677-1850 (outpatient)



# Mt. Washington Pediatric Hospital

*Where Children Go to Heal and Grow*

Est. 1922

An affiliate of University of Maryland Medical System and Johns Hopkins Medicine

I appreciate your consideration of this proposal. Please contact me if you have any questions.

Sincerely,

Scott Klein, MD, President and CEO  
Mt. Washington Pediatric Hospital

Cc: cc: Dr. Joshua Sharfstein, Chairman  
Joseph Antos, PhD, Vice Chairman  
James Elliott, M.D.  
Nicki McCann, JD  
Maulik Joshi, DrPH  
Ricardo R. Johnson  
Adam Kane  
Allan Pack, Principal Deputy Director  
Jerry Schmith, Principal Deputy Director  
Joe Hoffman, UMMS, Interim CFO  
Alicia Cunningham, UMMS, SVP

Accredited by The Joint Commission  
and by Commission on Accreditation  
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**Mt. Washington Pediatric Hospital**  
1708 West Rogers Avenue  
Baltimore, Maryland 21209  
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**Mt. Washington Pediatric Hospital  
at UM Capital Region Medical Center**  
901 North Harry S. Truman Drive,  
8th Floor, Largo, Maryland 20774  
240-677-1800 (inpatient)  
240-677-1850 (outpatient)



May 15, 2024

*Sent via email*

Dr. Jon Kromm  
Executive Director  
Health Services Cost Review Commission  
4160 Patterson Avenue  
Baltimore, MD 21215

Dear Dr. Kromm,

On behalf of Atlantic General Hospital (AGH), I am writing to provide comments on the recommendation by the staff of the Health Services Cost Review Commission (HSCRC) for the Fiscal Year (FY) 2025 annual payment update. AGH appreciates the thoughtful approach that the staff have taken in developing the recommendation.

These continue to be challenging times for Maryland's hospitals financially as we recover from the pandemic. Increases in staffing and other expenses have fundamentally changed the financials of operating a hospital, with limited ability to generate additional revenue to compensate for these changes. As an independent community hospital serving the lower Eastern Shore, AGH is disproportionately impacted by these changes unlike some of our larger health system peers. The recognition of these challenges by the HSCRC in providing a sufficient FY 2025 update is critical to maintaining a financially viable organization that is able to reinvest in clinical services for the community.

AGH supports the position of the Maryland Hospital Association for the FY 2025 update as outlined below:

- **Fund base inflation of 3.15%**
- **Restore half of underfunded inflation (1.17%)** with a commitment to fund the other half in the FY 2026 annual payment update
- **Limit the inflation correction factor to .5%** and only apply it if the state is not meeting the Medicare savings target
- **Revise the Potentially Avoidable Utilization (PAU) policy** in recognition of the significant savings that have been generated since the inception of the Model.



In addition to supporting MHA's position, Atlantic General Hospital would also encourage the HSCRC to allow hospitals who qualify for rate relief under a Full Rate Application and who are willing to take the formulaic answer to be permitted to have an expedited review process similar to what occurred last year. The expedited process eliminated the administrative burden associated with a full rate application for both the hospital and HSCRC Staff. The filing requirements for a full rate application serve as a barrier for rate relief for an independent community hospital with already limited resources.

Thank you again for the opportunity to comment.

Sincerely,



Donald R. Owrey, FACHE  
President and CEO  
Atlantic General Hospital

cc: Dr. Josh Sharfstein, Chairman  
Dr. Joseph Antos, Vice Chairman  
Dr. James Elliott  
Dr. Maulik Joshi  
Ricardo Johnson  
Adam Kane  
Nicki McCann  
James Kanuch, VP Finance Atlantic General Hospital



MedStar Health

10980 Grantchester Way  
Columbia, MD 21044  
8<sup>th</sup> Floor  
P 410-772-6927  
[MedStarHealth.org](https://www.MedStarHealth.org)

**Susan K. Nelson**  
Executive Vice President and  
Chief Financial Officer

May 15, 2024

Jon Kromm  
Executive Director  
Health Services Cost Review Commission  
4160 Patterson Avenue  
Baltimore, Maryland 21215

Dear Executive Director Kromm,

On behalf of MedStar Health System (MedStar) and its seven Maryland hospitals, thank you for the opportunity to comment and provide input on the Health Services Cost Review Commission's (HSCRC) July 1, 2024, annual payment update draft staff recommendation. MedStar appreciates the collaborative work undertaken by HSCRC staff to bring this recommendation forward and their recognition of the significant financial challenges Maryland hospitals are currently facing. MedStar is supportive of staff's intent to fully fund hospitals for inflation and population change, two key pillars of the Maryland Global Budget Revenue system. To achieve this goal MedStar proposes the following revisions to the staff recommendation.

**MedStar supports MHA's recommendation to fund current inflation of 3.24% and provide half of historic 2.34% underfunded inflation in rate year (RY) 2025 as well as the other half in RY2026.**

MedStar requests that staff update the recommendation to fund current inflation at 3.24% reflecting data from Global Insight's First Quarter 2024 book. This is consistent with previous annual update recommendations which have been updated to include the most recent published inflation data.

MedStar appreciates staff recognition that hospitals have been underfunded for inflation in recent years and their recommendation to build in an additional 0.65% of inflation support into the RY2025 update factor. However, this additional support does not provide the level of funding required for the cost increases experienced by hospitals since the onset of the pandemic and is based on an overly conservative savings target projection. Since 2019, hospitals have absorbed significant permanent cost pressures including clinical staff salary increases and supply cost increases that have caused an erosion of operating margins and a reduction in cash reserves. MedStar appreciates staff must balance ensuring that Maryland meets its model obligations with providing hospitals a reasonable update for inflation. However, given the current overachievement of model savings performance, we believe there is room to provide hospitals with a greater level of support for inflation. With financial pressures as they are, Maryland hospitals need the commission to consider a less conservative projection of future model savings when evaluating the inflation support for

**It's how we treat people.**

FY25 & beyond. As such, MedStar echoes and supports the request made by the Maryland Hospital Association to provide an additional 1.17% of inflation in RY2025 and 1.17% of inflation in RY2026.

**MedStar supports MHA’s recommendation to limit inflation overfunding correction in any given year to 0.50% and do not apply inflation overfunding correction as calculated if Maryland is meeting or exceeding Medicare savings targets.**

MedStar agrees with staff’s proposed methodology to establish a consistent policy to calculate inflation over/under funding and any potential inflation funding corrections. While we agree that the methodology needs to apply in both underfunding and overfunding scenarios, MedStar has concerns regarding the impact of an inflation reduction in any given year due to the unsustainably thin operating margins of hospitals and health systems in Maryland. To maintain financial stability and predictability for hospitals which enables hospitals and health systems to reinvest in patient care and population health, MedStar recommends that any correction for over funded inflation be limited to 0.5% in any given year and that any correction for over funded inflation greater than 0.5% be spread over multiple years.

Further, MedStar believes that any adjustment for inflation overfunding be guided ultimately by the goals of the Maryland TCOC model in achieving the required annual Medicare savings target. If the state is meeting the TCOC Model targets, MedStar recommends that a correction for over funded inflation not be applied for any given year.

**Consistent with MHA’s recommendation, Medstar supports the idea of improving transparency and the process for distributing set-aside funding. Medstar disagrees with increasing this funding above the \$31.7M proposed by staff in the draft recommendation.**

MedStar supports the creation of a process with increased structure and transparency for distributing the set aside and providing funding to hospitals when unique or unanticipated circumstances arrive. MedStar does have concerns regarding the set aside, namely:

1. Discussion during the May 8, 2024, meeting about a need to increase the set-aside in order to respond to a number of individual hospital requests unrelated to price efficiency, capital expenditure, or unanticipated cost increases (i.e. cyber-attacks)
2. The criteria proposed by staff may create perverse incentives for hospitals to pursue additional funding through the set-aside for unfunded inflation or volume growth rather than utilizing appropriate channels.

Inherently, increasing the amount of funding for the set-aside provision in the update factor reduces the provision intended to fund inflation at all Maryland hospitals. At a time when Maryland hospitals are underfunded for inflation by 2.34% since the onset of the COVID-19 pandemic and under acute financial stress, MedStar does not believe it is prudent to increase the allocation of funding for the set-aside which will financially benefit a select few hospitals to the detriment of all hospitals. Given these concerns, MedStar recommends that no additional funding be allocated for the set-aside provision above the \$31.7M (0.15%) that HSCRC staff has carefully estimated and included in the draft recommendation.

**Redesigning the PAU shared Savings Policy to be revenue neutral is a welcome step and further evaluation of the policy going forward is warranted.**

MedStar is very supportive of the staff recommendation to revise the PAU Shared Savings Policy to eliminate a net revenue reduction from the Maryland healthcare system while maintaining the incentive to reduce PAU patient volume. To date, \$600M of revenue has been taken out of the Maryland hospital system

and further reductions may pose healthcare access challenges. MedStar believes it is important to maintain these incentives that reward hospitals who invest in care transformation and are successful in creating alternative care pathways that keep patients out of the hospital that do not require acute hospital-based care. MedStar seeks clarification regarding the additional components of the staff recommendation including:

1. An analysis to be funded out of hospital rates of activities of current interventions to reduce PAU.
2. Establishment of a single point of executive accountability for the PAU reduction strategy
3. Agreement to engage in future analyses of PAU performance.

While MedStar is likely supportive of these three additional recommendations as it aligns with work already undertaken by the health system, MedStar strongly believes any additional analyses regarding PAU performance needs to acknowledge that not all PAU volume is avoidable.

**Exempting hospital retained revenue from inflation updates is contradictory to the incentives and purpose of the Maryland Total Cost of Care Model.**

Although not included in the staff recommendation, during the public meeting on May 8, 2024, there was significant discussion regarding hospital retained revenues and potentially not updating these revenues for inflation. MedStar strongly opposes this notion. The idea of removing inflation on retained revenue is misaligned with the incentives built into the Maryland TCOC model and the agreements made between the hospitals and the state at the implementation of Global Budget Revenue. A core tenant of the model is that hospitals, in exchange for predictable and stable updates to hospital revenues annually, can keep the revenue associated with reductions in unnecessary utilization and redeploy this ‘retained revenue’ to invest in improved care infrastructure and population health. Hospitals and health systems will not be able to continue to make these investments at scale if inflation funding is cut off while costs in these areas continue to accelerate.

Further, the HSCRC has for years worked collaboratively with stakeholders to develop several policies to address any misallocation of revenue in hospital global budgets and provide both revenue enhancements and revenue reductions to individual hospital global budgets when warranted for price inefficiency or volume shifts (i.e market shift, integrated efficiency, de-regulation, etc.). Any action taken to address what is perceived as a misallocation of retained revenue in the Maryland hospital system should be done through these existing policies by continued engagement with stakeholders and HSCRC staff rather than through the update factor process which is solely intended to provide a reasonable update to hospital rates in line with experienced inflation growth.

**In summary:**

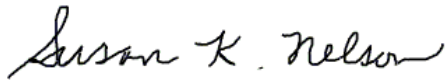
1. MedStar agrees with MHA’s request to fully fund inflation estimated at 3.24%.
2. MedStar requests additional inflation support of 1.17% in FY2025 and 1.17% in FY2026 due to historical underfunding of inflation in alignment with MHA’s request
3. MedStar echoes the recommendation made by MHA that any correction of inflation overfunding be limited to 0.5% in any given year and not be implemented if Maryland is meeting or exceeding the savings test.
4. MedStar echoes the support expressed by MHA of improving transparency and the process used for distributing the funds in the set aside, however, MedStar disagrees and recommends that no further funding be allocated for the set aside above \$31.7M (0.15%).



5. MedStar, in alignment with the industry, strongly supports the proposed revisions to the PAU Shared Savings policy and seeks clarification regarding the additional recommendations proposed by staff.
6. MedStar strongly disagrees with the concept of not applying inflation increases to hospital retained revenue as it contradicts the incentives of the Maryland model.

MedStar and its member hospitals appreciate the HSCRC staff's work on the update factor and the open conversation with the field throughout the process. Thank you for considering this request and please do not hesitate to reach out should you have any questions or a need to discuss this matter further. We look forward to the final staff recommendation at the June 2024 Commission meeting.

Sincerely,



Susan Nelson  
Chief Financial Officer  
MedStar Health

cc: Joshua Sharfstein, M.D., Chair  
Joseph Antos, PhD, Vice Chair  
Adam Kane  
James Elliott, MD  
Maulik Joshi, DrPH  
Ricardo R. Johnson  
Nicki McCann, JD

May 15, 2024

Dear Chairman Sharfstein,

CareFirst BlueCross BlueShield (“CareFirst”) appreciates the opportunity to comment on the Health Services Cost Review Commission’s (HSCRC) draft recommendation for the annual payment update for rate year (RY) 2025. We are grateful for the thoughtful work by the Commissioners and staff. Finding the right balance between Medicare savings required by the Total Cost of Care Model, financial stability for hospitals, and affordability for Maryland consumers is complex and challenging but critically important. Unfortunately, the RY25 Update Factor Recommendation misses the mark.

**Hospitals do not need catch-up inflation because they are already cumulatively overfunded by more than \$1 billion above actual inflation**

Hospitals already have received significant overfunding for inflation, and the proposed update does not account for this overfunding. It is true that actual inflation exceeded the amounts funded in RY 2022 and RY 2023, and there has been some temporary financial strain on the hospital industry. But the long-term trends are exactly the opposite – since the inception of the all-payer model and global budgets, funded inflation exceeded the actual rate of inflation by more than \$1 billion, as shown in the table below. In all prior years, the HSCRC allowed overfunding to accumulate rather than removing funding in excess of inflation. Hospitals used the excess funding to build up financial reserves to cushion against a day when actual inflation exceeds funded inflation. Now that the day has arrived, instead of turning to those reserves, staff is proposing additional relief through rates.

This is deeply unfair to consumers who are being forced to pay for inflation several times over. While the HSCRC focuses on setting hospital rates, the impact of every rate increase on insurance premium payers - hard working Marylanders striving to ensure they can afford the cost of accessing care - should not be dismissed. **For these reasons, CareFirst opposes the proposed catch-up inflation adjustment of 0.65% in the draft recommendation.**

RY2013 Gross Patient Revenue (regulated services)		\$ 15,264,777,897								
	RY2014	RY2015	RY2016	RY2017	RY2018	RY2019	RY2020	RY2021	RY2022	RY2023
Funded Inflation	1.65%	2.40%	2.40%	1.92%	2.68%	2.32%	2.96%	2.77%	2.57%	4.06%
Gross Patient Revenue @ Funded Inflation (\$ in millions)	\$15,516	\$15,889	\$16,270	\$16,583	\$17,027	\$17,422	\$17,938	\$18,435	\$18,909	\$19,676
Actual Inflation	1.75%	1.84%	1.66%	2.29%	2.48%	2.40%	2.31%	2.37%	4.79%	5.09%
Gross Patient Revenue @ Actual Inflation (\$ in millions)	\$15,532	\$15,818	\$16,080	\$16,449	\$16,856	\$17,261	\$17,660	\$18,078	\$18,944	\$19,908
Difference	-0.10%	0.56%	0.74%	-0.37%	0.20%	-0.08%	0.65%	0.40%	-2.22%	-1.03%
(Under) / Over Funding (\$ in millions)	\$ (15)	\$71	\$190	\$134	\$171	\$161	\$278	\$357	\$ (35)	\$ (232)
Difference since 2013	-0.10%	0.45%	1.18%	0.82%	1.01%	0.93%	1.58%	1.97%	-0.19%	-1.17%
Accumulation of (Under) / Over Funding (\$ in millions)	\$ (15)	\$56	\$246	\$380	\$551	\$712	\$991	\$1,347	\$1,312	\$1,079

Commission did not true-up inflation      Staff proposing true-up inflation

**CareFirst’s alternative recommendation**

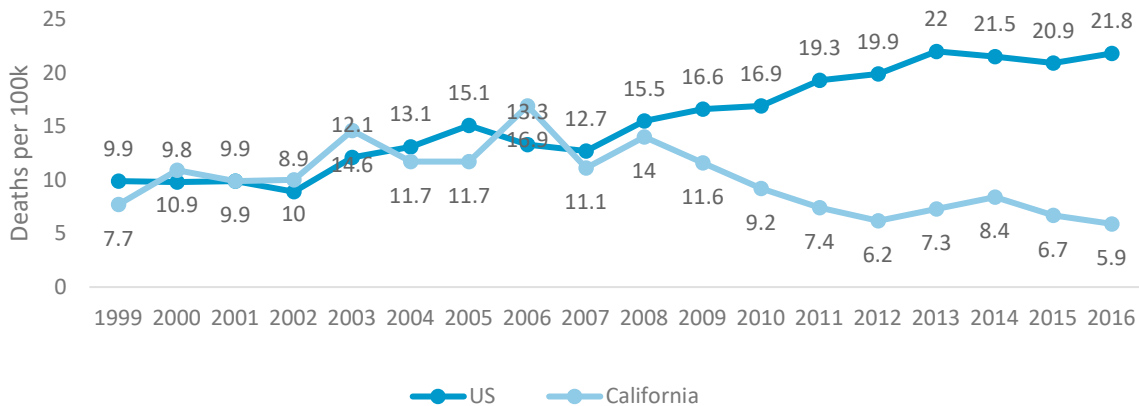
If the HSCRC asks consumers to pay more despite historical overfunding, CareFirst believes any additional funding given to hospitals should provide some benefit to the public. The State and hospital industry began the important work of improving maternal care through the Statewide Integrated Health Improvement Strategy (SIHIS). In 2021, the HSCRC approved \$40 million to be spent on improving maternal care between 2022 and 2025 through a regional partnership program. The State has failed to meet its SIHIS goals, and by a large margin. Instead of a targeted 7.5% reduction in Severe Maternal Morbidity (SMM) events, **the actual rate has increased by 32.8%**.<sup>1</sup> While HSCRC listed a variety of reasons the rate may have increased, they ultimately noted “many SMM events are preventable, and recent analysis of Maryland SMM events found that approximately one third could have been averted by changes to clinician-, system-, and/or patient-level factors”. Marylanders deserve better.

To address this important issue, we offer the following as an alternative to Staff’s proposed catch-up inflation adjustment:

1. The HSCRC should provide 0.5% in additional rates (in lieu of catch-up inflation) for hospitals to invest in reducing the statewide maternal mortality rate by 50% over five years while also eliminating the disparities in maternal mortality between White and Black mothers.
2. The HSCRC should provide 0.1% in additional rates to be paid via an assessment to the Maryland Hospital Association (“MHA”) for the purpose of creating a Maternal Quality Care Collaborative that will conduct maternal safety and quality assessments, monitor initiatives, and track progress across the State.
3. If the industry fails to meet these targets within 5 years, or in any given year fails to reduce maternal mortality by at least 10% and disparities by at least 20%, the HSCRC should reclaim the 0.5% additional funding.

This is an audacious goal but not an impossible one. Between 2008 and 2013, California cut its maternal mortality rate in half (as shown in the chart below). This success was not due to expensive new technologies or innovative drugs. Rather, it was driven by four things: 1) using public health data to identify the largest causes of maternal mortality; 2) mobilizing a broad coalition of stakeholders to develop toolkits addressing causes; 3) developing of a rapid-cycle data system to track outcomes; and 4) focusing clinical attention on quality improvement.<sup>2</sup> These measures are well within the capability of Maryland hospitals.

**Figure 1: Maryland Maternal Mortality Ratio in US and California, 1999-2016**



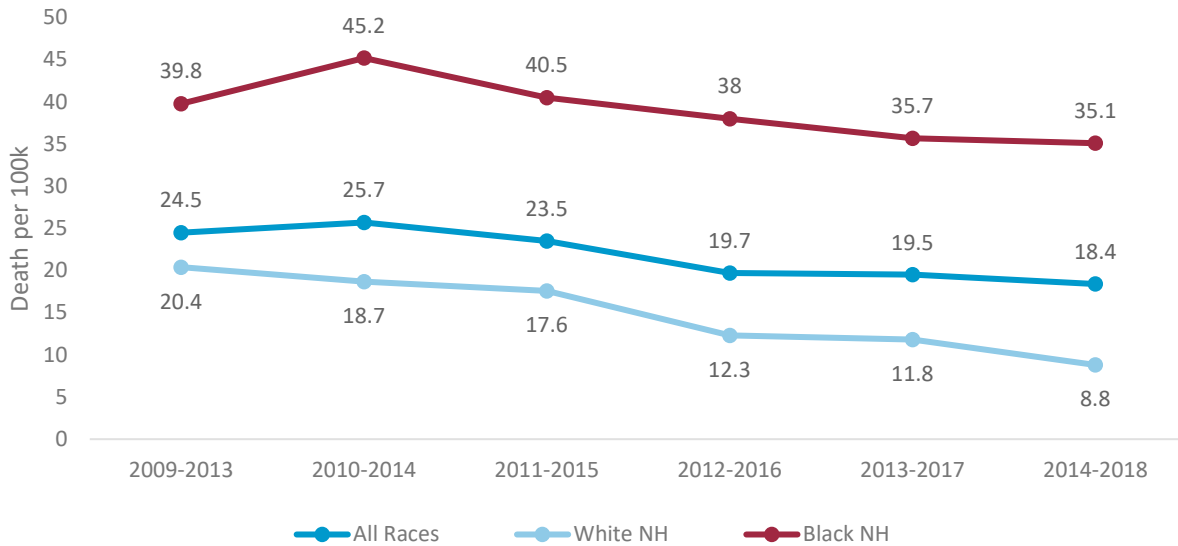
Source: California Pregnancy Mortality Surveillance System. (2021). California Pregnancy-Related Deaths, 2008-2016.

<sup>1</sup> Health Services Cost Review Commission (2024). [Annual Report: Statewide Integrated Health Improvement Strategy](#).

<sup>2</sup> [Addressing Maternal Mortality And Morbidity In California Through Public-Private Partnerships | Health Affairs](#)

The HSCRC should also use this opportunity to draw attention to the serious racial disparities that exist in Maryland's maternal mortality rate. While the State has made some progress reducing the maternal mortality rate over the past decade, the average rate remains far too high and substantial racial disparities remain. Racial disparities grew during this period, as shown in the chart below.

**Figure 2: Maryland Maternal Mortality Ratio, 5-Year Rolling Average**



Source: Maryland Department of Health. 2020 Annual Report Health – General Article §§13-1207–13-1208 and §13-1212.

We appreciate the opportunity to comment on this important proposal. If the HSCRC is committed to charging consumers more to give hospitals additional money, it should be used to drive accountability for fixing this tragic – and preventable – crisis.

Sincerely,

Arin D. Foreman  
Vice President, Deputy Chief of Staff  
CareFirst BlueCross BlueShield  
1501 S. Clinton Street  
Baltimore, MD 21224



May 15, 2023

Jon Kromm, PhD  
Executive Director  
Health Services Cost Review Commission  
4160 Patterson Avenue  
Baltimore, MD 21215

Dear Mr. Kromm

Adventist HealthCare (“AHC”) appreciates the opportunity to provide comments on the draft Update Factor for fiscal year 2025. Like many hospitals in the state, we are at a critical juncture for our health system and need collaboration and support from the Health Services Cost Review Commission (“HSCRC”) to provide stability. We have endured multiple years of suppressed operating margins because we have absorbed significant cost disruptions alongside significant volume pressures since the onset of the COVID-19 pandemic without adequate reimbursement. These pressures have created an untenable situation that may undermine the goals of the Total Cost of Care Model (“the Model”) and exacerbate health disparities that exist in our state.

We hope you will take these recommendations seriously and consider them in the spirit of collaboration with which they are intended, as we all seek to build a stronger and more sustainable healthcare system in Maryland.

## **I. Adequately and Equitably Fund Inflation**

### **A. The historic underfunding of inflation should be fully corrected.**

AHC supports funding current inflation of 3.24% consistent with Global Insight’s first Quarter 2024 book, plus half of historic unfunded inflation of 2.34% at 1.17% in RY25 and the remainder in RY26. While AHC appreciates the multiple savings target scenarios prepared by Staff, they are overly conservative and artificially limit the window to correct historic underfunding.

In the unlikely event that Maryland’s savings performance does not continue to outperform the nation, there are multiple policy levers the HSCRC can use to course correct as evidenced by successful actions taken in CY 2023. Given that the statewide hospital mean for operating margins has been 0% or negative since 2022, this is not the time to risk under funding rates.

For example, AHC’s operating margin had been stable for many years leading into COVID but despite expense reductions on an already efficient operation, margins have eroded beginning in 2022 and continued to erode in 2023 and through the second quarter of 2024. This is due to volume increases driving up expenses and inflation outpacing revenue increases.



- Comparing 2023 to 2019:
  - Salaries and benefits expenses outpaced revenue growth by 3.3%
  - Total labor expenses outpaced revenue growth by 5.34%
  - Total expenses outpaced revenue growth by 2.47%
  - Physician subsidy expenses outpaced revenue growth by 27%

**B. The policy of inflation correction for overfunding should be limited and tied to Savings Test performance.**

AHC appreciates HSCRC staff's maturation of the inflation funding policy. Prior to the global pandemic, stable inflation did not generate the unpredictable growth we've experienced since 2022 and it's appropriate to mature our policies for unforeseen events since the inception of the Model. However, AHC recommends that any correction for overinflation be limited to -.5% in any given year and should not be applied in a year with excess Medicare Savings. In an environment that does not fund real-time volume growth, it's paramount to ensure stable, prospective inflation funding. Should overfunding occur and if the Medicare Savings test is not in jeopardy, then the claw back of overfunded inflation can be administered over multiple years to smooth the volatility of funding for hospitals. Without prospective funding stability, AHC cannot make long-term decisions and is forced into a reactive, one-year planning cycle that undermines long-term sustainability. Since market-shift and other policies provide delayed funding for retrospective volume performance, we should balance this with policies that are prospective and quick to fund on the upswing with a measured reduction on the downswing.

**C. AHC does not support funding high-cost drugs for academic health centers by defunding inflation from community hospitals.**

The proposed high-cost drug policy carves out incremental high-cost drug funding for academic health centers from the statewide inflation update. It means that AHC must give up approx. \$800,000 of the inflation update to divert to academic high-cost drugs. AHC strongly supports access-to-care for all patients and agrees that life-saving therapeutics should be made available to those who need it. However, funding this out of non-academic hospital rates means that Adventist has \$800,000 less to provide hospital care in our community. While the proposed policy appears to solve an access-to-care problem for patients who require high-cost-drugs, it exacerbates an access-to-care crisis in our service area of Montgomery and Prince George's County as it simply squeezes the balloon moving the problem to non-academic hospitals.

As documented in multiple communications to HSCRC staff, White Oak Medical Center ("WOMC") and Fort Washington Medical Center (FWMC) have experienced extreme volume pressures since CY2022. Daily, since 2022, WOMC has operated at 100%+ occupancy. On a typical weekday, 50%-60% of our 32 ED treatment spaces are occupied by a patient who has already been identified for admission but lacks an available bed to accommodate that admission. As a result, in CY2023, WOMC spent 70% of available hours in the year on red alert, 8x the amount of time spent on red alert in CY2019. And nearly 50% of WOMC patients come from Prince George's County due to the radical shortage of high-quality healthcare in that region. Thankfully, WOMC's high volumes earned additional bed capacity under the 140% rule from the MHCC and an expansion project on the 8<sup>th</sup> floor is underway, even without a



commitment from the HSCRC to fund these beds long term. Therefore, AHC may end up building these beds and filling them with patients, and yet not get reimbursed for the care we provide in them despite earning the beds from another state agency based on our volumes.

Due to the shortage of acute care beds in Prince Georges County, the Maryland Department of Health placed 16 trailer beds on the FWMC campus in 2020 to ensure adequate access to care. These beds remain in active use on the campus, as this additional space continues to be critically necessary to meet the demand for care in the community.

This lack of capacity has had a devastating impact on our ED wait times and acute length of stay (“LOS”). While WOMC and FWMC have managed their LOS to better than the state average for patients we can discharge-to-home, patients who require a discharge to another setting (specialized acute care, quaternary care, rehabilitation, SNF and Home Health) have seen severity adjusted LOS double due to the severe lack of access to post-acute care in our service area. This LOS gap on discharge-to-home vs. discharge-to-other-care-setting has worsened by over 30% since pre-pandemic. Not surprisingly, this care pipeline pinch has backed-up into our emergency rooms resulting in some of the longest ED wait times in the State.

To this day, WOMC has not received capital or permanent funding for the 8<sup>th</sup> floor expansion at WOMC and FWMC has not received permanent funding for the 16 additional beds placed on our campus – both critical to ensuring access to care in our community. Removing funding from AHC hospitals when we are seeing a demand for care that already exceeds our capacity in order to fund the high-cost drug policy as proposed will only exacerbate access to care issues within our community. It may solve one problem, but it will definitely create another one in its stead.

**D. We recommend that high-cost drug cases be funded outside of GBR and on a fee-for-service basis.**

As we prepare to move to the AHEAD Model, there are foundational fractures in HSCRC policy that must be corrected to ensure the sustainability of the Model. This is one of those break points. How many of the academic patients receiving the high-cost drugs are Medicare patients? Is the Savings Test materially impacted by carving this out? While the current contract requires 95% of hospital revenues to be under a population methodology, how much room is left to fund these life-saving drugs without defunding community hospital care? These are the questions that should be answered before a policy decision reinforces the precedent of defunding community care that is already in crisis.

**II. Addressing Systemic Inequities within the Model Framework**

*Adventist Healthcare is not overfunded by the volume payment policies.* HSCRC staff have presented that Maryland hospitals are “over funded” by HSCRC volume policies by \$500M+ and specifically that AHC is overfunded by approx. \$50M. This is concerning rhetoric that ignores the fiscal reality of many hospitals in Maryland and assumes that prices were set appropriately at the inception of GBR in 2014. There are several flaws in the volume funding logic, with the two most alarming being 1) inequitable base





GBR prices set at the inception of the model and 2) exclusion of reimbursement for physician subsidies from payment policy.

**A. Base hospital prices and base GBRs were not set equally at the inception of the Model, baking in regional inequities that have compounded over the last ten years.**

At the inception of GBR, historic inequities were baked into the Model's foundation. Communities with less hospital infrastructure received less funding. This was never corrected and has been exacerbated over the last ten years by the impact of year-over-year update factor compound growth, grossly distorting and entrenching historic inequities. Prince George's County is the perfect example. The county faces significant, systemic healthcare disparities, lacking access to healthcare resources across the board from inpatient hospital-based care to outpatient community physicians. Although the model was designed to incentivize hospitals to invest in community-based care, the initial GBR rates never accounted for the historic inequities that existed in Prince George's County and the higher level of investment it would require to address these issues. Rather, the rates were set based on the existing inequitable foundation. This error compounded over time, further entrenching historically disadvantaged populations. Decades of marginalization were baked into the starting GBRs for Prince George's County forcing over 40% of the population to seek care outside the county. This underinvestment has led to higher incidences of chronic disease per capita. Similarly, while Montgomery County is generically assumed to be "wealthy", there are pockets of deep deprivation most notably in our service area at WOMC as evidenced by our uninsured, underinsured, undocumented and governmental patient mix. By locking-in already disadvantaged communities into lower reimbursement rates, current policies make it near impossible to close the gap and improve health outcomes.

- **Reimbursement per ECMAD ranges from \$26,000 to \$8,000 across the State creating an inequity of +44% to -55% range around the Statewide average of \$18,000 (CY23 Jan-Jun Market Shift). (Table 1)**
  - WOMC and FWMC reimbursement per ECMAD is below the State average ( -4% WOMC and -13% FWMC). Incremental annual revenue of moving to the State average would be \$11.6M at WOMC and \$6.4M at FWMC.
  - Looking at University of Maryland Capital Region's (Cap Region) rates that are 23% above the State average the gap is even bigger. The incremental annual revenue at Cap Region's rate would be \$76.1M at WOMC and \$17.7M at FWMC. We recognize that Cap Region's teaching status garners incremental reimbursement, but we would not expect to see this level of inequity. We compare WOMC to Cap Region's rate structure given that approx. 50% of WOMC's volumes come from Prince George's County.

**An independent State commissioned study quantified the hospital price inequity for Baltimore vs. Adventists' service area as a staggering \$400M annually in excess revenue accrued to the Baltimore region simply due to price inequities.** The Abt study compared the Baltimore Region to Montgomery, Prince George's and Anne Arundel County as a cohort to quantify the difference in per-capita costs of care between the two regions. After adjusting for differences in risk and utilization patterns, it concludes that for employer-sponsored health insurance, the Baltimore region spends over \$135M





annually more than the cohort region simply because of higher hospital prices in Baltimore. The report also quantified this for Medicare FSS IP Hospital spend and estimates over \$300M excess in Baltimore. Combined, the isolated excess spend in Baltimore for higher hospital prices is nearly \$400M+ annually compared to our service area. This is a staggering inequity and a direct consequence of neglected price parity in the Maryland Model. (Enclosure 1, Abt Associates 2022 report, Health Care Costs in Baltimore Relative to Other Urban Areas in Maryland)

**B. HSCRC payment policies do not cover the cost for physicians and therefore must be factored in as “unfunded” expenses against HSCRC staff’s “over funded” calculations.**

While it may be true that at the inception of HSCRC regulation in the 1970s professional billing covered the cost of physicians, this is no longer the case. The business model shifted decades ago, and this is not unique to Maryland; it is a national phenomenon. Physician subsidies for hospital-based care are a necessary cost of a hospital- otherwise there would be no physicians to care for the patients. These costs are not included in HSCRC staff’s “overfunding” calculations.

Outside of Maryland, hospital’s address this by 1) cross-subsidization in commercial rates 2) margin generating volume growth 3) payer regulation. In Maryland, we have eliminated the first two options and in effect have eliminated the third as we have the lowest professional reimbursement rates in the country guaranteeing the largest physician subsidies anchored to hospitals in the Nation.

This has left hospitals no-recourse to reimburse physician subsidies that at AHC have grown 27% above funded inflation. This is another foundational breakpoint for the sustainability of the Model. In the past year Staff have initiated looking at physician costs, however the timetable just to study these costs- not necessarily take policy action- is three years. AHC has grave concerns that this will not be timely enough to address this systemic underfunding that threatens the solvency of hospitals in Maryland.

Continued assertions that hospitals are over-funded will undermine the urgency needed to address these systemic issues that are now at a breakpoint for our service area. We recognize that it will take time to resolve concerns within the Model policy framework and that some of these changes may need to be made under the transition to the AHEAD model. However, AHC has significant concerns regarding regional inequities within the Model and that flaws within initial GBR calculations and the drastic increase in the cost of physician subsidies disadvantage community hospitals and threaten the sustainability of the Model.

We see the potential of the Model and want to be collaborative partners in building the future of Maryland healthcare, especially as we serve two of the most populous counties in the state. But, providing healthcare must be sustainable and the Model’s must be equitable, supporting all hospitals and communities.



**In Conclusion**

Given the extreme excess savings of over \$100M in 2024 and the deteriorating financial conditions of hospitals due to funding gaps, Adventist Healthcare respectfully requests that the Update Factor for FY25 provide:

- Current inflation of 3.24%
- Half of historic unfunded inflation of 2.34% at 1.17% in RY25 and the remainder in RY26
- Elimination of academic high-cost drug funding out of community hospital inflation update

Thank you for the opportunity to provide comment and collaborate on the RY25 Update Factor recommendation.

Sincerely,



Terry Forde  
President and Chief Executive Officer  
Adventist HealthCare



Kristen Pulio  
Senior Vice President and Chief Financial Officer  
Adventist HealthCare

cc: Joshua Sharfstein, MD  
Joseph Antos, PHD  
James N. Elliott, MD  
Ricardo R. Johnson

Maulik Joshi, DrPH  
Adam Kane, Esq  
Nicki McCann, JD

Attachments:

Enclosure 1: Abt Associates 2022 report, Health Care Costs in Baltimore Relative to Other Urban Areas in Maryland



**Table 1**  
**Statewide Charge per ECMAD**  
**CYTD January-June 2023 Market Shift**

	CY22 Discharges	CY23 Discharges	ECMAD CY22	ECMAD CY23	Total Charge CY22	Total Charge CY23	CY22 Chg/ECMAD	CY23 Chg/ECMAD	Rank (CY23 chg/ecmad)	Above (below) statewide avg) - CYTD23 June	Above (below) statewide Avg % - CYTD23 June
UMMS- UMMC	175,373	182,599	32,138	33,124	\$827,519,624	\$859,044,757	\$ 25,749	\$ 25,934	1	7,892	44%
UMMS- Midtown	45,828	47,109	4,406	4,440	\$90,196,804	\$108,262,060	\$ 20,471	\$ 24,386	2	6,344	35%
UMMS- Chestertown	16,546	17,003	966	984	\$24,412,203	\$23,841,565	\$ 25,279	\$ 24,233	3	6,190	34%
UMMS- UMROI	19,535	19,661	2,510	2,609	\$54,276,977	\$60,937,515	\$ 21,623	\$ 23,360	4	5,318	29%
Lifebridge- Grace	11,223	11,523	655	687	\$16,719,189	\$15,884,951	\$ 25,539	\$ 23,124	5	5,081	28%
Lifebridge- Sinai	109,903	107,769	16,747	16,231	\$381,283,919	\$372,580,337	\$ 22,767	\$ 22,954	6	4,912	27%
JHH- Johns Hopkins	349,116	361,675	43,307	44,376	\$954,119,910	\$1,001,991,521	\$ 22,031	\$ 22,580	7	4,537	25%
UMMS- Capital Region	21,043	22,999	6,568	7,441	\$164,173,666	\$164,833,095	\$ 24,995	\$ 22,151	8	4,109	23%
JHH- Bayview	163,605	169,339	14,620	15,286	\$282,395,902	\$299,887,790	\$ 19,316	\$ 19,619	9	1,576	9%
MedStar- Good Sam	47,167	50,272	6,587	6,658	\$122,812,622	\$128,489,877	\$ 18,643	\$ 19,299	10	1,256	7%
MedStar- Harbor	26,944	27,054	4,668	4,590	\$85,056,627	\$87,831,225	\$ 18,221	\$ 19,134	11	1,092	6%
MedStar- Union Mem	42,674	43,300	11,458	11,235	\$206,244,029	\$208,106,376	\$ 17,999	\$ 18,523	12	480	3%
Luminis- Doctors	26,555	28,181	6,101	6,540	\$102,172,988	\$119,539,016	\$ 16,746	\$ 18,279	13	236	1%
Saint Agnes	70,491	76,528	10,547	11,226	\$198,078,125	\$205,111,355	\$ 18,781	\$ 18,271	14	229	1%
Adventist- Shady Grove	57,594	61,755	12,295	12,336	\$211,040,538	\$223,761,732	\$ 17,164	\$ 18,140	15	97	1%
UMMS- Harford	19,081	19,717	2,452	2,579	\$47,391,186	\$46,687,773	\$ 19,324	\$ 18,103	16	61	0%
Lifebridge- Northwest	37,032	36,545	6,442	6,671	\$121,132,628	\$118,557,467	\$ 18,805	\$ 17,773	17	(270)	(1%)
Adventist- White Oak	24,411	26,185	7,894	7,853	\$139,984,601	\$135,894,971	\$ 17,732	\$ 17,305	18	(737)	(4%)
MedStar- Southern MD	28,171	28,137	6,938	7,368	\$127,352,784	\$126,273,949	\$ 18,356	\$ 17,139	19	(904)	(5%)
UMMS- Easton	38,354	42,063	6,421	7,014	\$128,688,258	\$117,183,903	\$ 20,041	\$ 16,707	20	(1,335)	(7%)
GBMC	73,441	72,537	13,855	13,344	\$223,268,462	\$222,263,468	\$ 16,115	\$ 16,657	21	(1,386)	(8%)
UMMS- Laurel	10,904	11,399	888	960	\$15,703,500	\$15,886,740	\$ 17,688	\$ 16,545	22	(1,498)	(8%)
Mercy	142,780	146,685	16,599	17,570	\$277,404,660	\$290,369,576	\$ 16,712	\$ 16,527	23	(1,516)	(8%)
MedStar- Franklin Square	91,942	97,552	15,244	15,530	\$254,975,928	\$252,859,409	\$ 16,726	\$ 16,282	24	(1,761)	(10%)
ChristianaCare, Union	37,102	35,669	4,103	3,900	\$61,877,071	\$63,314,111	\$ 15,081	\$ 16,233	25	(1,810)	(10%)
Lifebridge- Carroll	32,299	34,785	6,471	6,745	\$106,448,281	\$108,160,059	\$ 16,451	\$ 16,035	26	(2,008)	(11%)
Frederick	43,891	51,460	10,118	10,785	\$167,950,163	\$170,537,055	\$ 16,599	\$ 15,812	27	(2,230)	(12%)
Adventist- Ft. Washington	9,325	9,995	1,418	1,380	\$27,778,515	\$21,722,026	\$ 19,590	\$ 15,736	28	(2,306)	(13%)
UMMS- BWMC	65,245	72,372	12,604	13,545	\$218,015,234	\$212,474,830	\$ 17,298	\$ 15,686	29	(2,356)	(13%)
Western Maryland	50,526	51,695	7,329	7,193	\$109,728,623	\$112,493,547	\$ 14,972	\$ 15,639	30	(2,404)	(13%)
Calvert	31,075	32,165	4,243	4,339	\$70,123,903	\$67,526,613	\$ 16,529	\$ 15,562	31	(2,480)	(14%)
UMMS-Bowie ED	9,124	10,413	545	620	\$8,012,228	\$9,551,098	\$ 14,692	\$ 15,409	32	(2,633)	(15%)
UMMS- Charles	31,785	32,566	5,011	4,982	\$74,428,397	\$76,462,792	\$ 14,854	\$ 15,348	33	(2,695)	(15%)
MedStar- Montgomery	29,959	33,207	5,035	5,520	\$78,506,154	\$83,943,626	\$ 15,592	\$ 15,207	34	(2,835)	(16%)
Trinity - Holy Cross	56,854	54,007	14,498	14,777	\$248,085,340	\$223,624,105	\$ 17,112	\$ 15,133	35	(2,909)	(16%)
JHH- Suburban	29,759	33,597	9,910	10,406	\$161,038,301	\$154,410,640	\$ 16,251	\$ 14,838	36	(3,204)	(18%)
UMMS-Upper Chesapeake	63,945	66,697	10,260	10,689	\$160,525,065	\$157,885,628	\$ 15,646	\$ 14,771	37	(3,271)	(18%)
UMMS- St. Joe	44,855	45,191	11,721	13,663	\$188,612,854	\$201,316,087	\$ 16,092	\$ 14,734	38	(3,308)	(18%)
Tidal- Peninsula	72,889	77,000	12,660	13,049	\$184,917,118	\$191,528,385	\$ 14,606	\$ 14,677	39	(3,365)	(19%)
Luminis- Anne Arundel	121,642	105,940	20,764	20,563	\$300,753,213	\$298,067,393	\$ 14,484	\$ 14,495	40	(3,547)	(20%)
JHH- Howard County	46,301	49,280	10,447	10,589	\$156,287,829	\$152,179,713	\$ 14,960	\$ 14,371	41	(3,671)	(20%)
Meritus	53,337	57,392	10,378	10,462	\$138,547,932	\$148,613,131	\$ 13,350	\$ 14,205	42	(3,837)	(21%)
Garrett	23,894	23,086	1,830	1,817	\$21,397,185	\$25,742,670	\$ 11,695	\$ 14,169	43	(3,874)	(21%)
UMMS- Cambridge	7,743	8,596	430	493	\$9,275,618	\$6,950,450	\$ 21,581	\$ 14,099	44	(3,943)	(22%)
MedStar- St. Mary's	44,402	46,202	6,324	6,355	\$89,769,236	\$88,853,221	\$ 14,196	\$ 13,981	45	(4,061)	(23%)
Atlantic General	26,309	26,824	2,747	2,866	\$38,561,014	\$38,226,641	\$ 14,039	\$ 13,336	46	(4,706)	(26%)
Trinity - Holy Cross Germantown	19,057	19,642	4,193	4,614	\$65,483,092	\$57,817,911	\$ 15,616	\$ 12,531	47	(5,511)	(31%)
Adventist- Germantown ED	9,788	10,771	582	649	\$7,986,426	\$8,027,607	\$ 13,720	\$ 12,378	48	(5,664)	(31%)
Tidal- McCreedy	9,158	9,700	272	284	\$2,467,014	\$2,515,255	\$ 9,063	\$ 8,856	49	(9,186)	(51%)
UMMS-Queen Anne's ED	7,819	7,737	470	468	\$3,625,423	\$3,819,960	\$ 7,717	\$ 8,166	50	(9,876)	(55%)
<b>Grand Total</b>	<b>2,627,796</b>	<b>2,713,576</b>	<b>424,670</b>	<b>437,406</b>	<b>\$7,756,606,361</b>	<b>\$7,891,844,980</b>	<b>\$ 18,265</b>	<b>\$ 18,042</b>			



May 15, 2024

Jon Kromm, PhD  
Executive Director  
Health Services Cost Review Commission  
4160 Patterson Avenue  
Baltimore, MD 21215

Dear Dr. Kromm,

Thank you for the opportunity to provide comments on the recommendation by the staff of the Health Services Cost Review Commission (HSCRC) for the Fiscal Year (FY) 2025 annual payment update. We appreciate the time and effort that the staff put into the recommendation, including the recognition that underfunding inflation over the past several years needs to be addressed.

Like our colleagues across the state, Holy Cross Health (HCH) has experienced significant financial challenges over the past several years related to the inflationary impact of the COVID pandemic. The underfunding of actual inflation in previous years' annual payment updates has only compounded these challenges. HCH appreciates the recognition by the HSCRC staff that this underfunding of inflation should begin to be addressed in the FY 2025 update, but we would encourage the staff to provide additional funds consistent with the significant savings that are being generated above and beyond the contractual requirements of the Model.

HCH supports the position of the Maryland Hospital Association for the FY 2025 update as outlined below:

- **Increase base inflation from 3.15% to 3.24%** reflecting recent data from Global Insight's First Quarter 2024.
- **Restore half of underfunded inflation (1.17%)** with a commitment to fund the other half in the FY 2026 annual payment update.
- **Limit the inflation correction factor to 0.5%** and only apply it if the state is not meeting the Medicare savings target.
- **Revise the Potentially Avoidable Utilization (PAU) policy** in recognition of the significant savings that have been generated since the inception of the Model.

In addition to supporting MHA's position, Holy Cross Health would also encourage the HSCRC to allow hospitals who qualify for rate relief under the Full Rate Application policy and who are willing to accept the formulaic answer to be permitted to have an expedited review and administrative pathway to accessing the funding at the beginning of FY 2025, as occurred last year. This reduced the administrative burden on both sides while allowing for additional GBR funding for efficient hospitals that met the stringent criteria for rate relief.

Thank you again for the opportunity to comment.

Sincerely,



Julie D. Keese

Vice President and Chief Financial Officer

cc: Dr. Joshua Sharfstein, Chairman  
Dr. Joseph Antos, Vice Chairman  
Dr. James Elliott  
Dr. Maulik Joshi  
Ricardo Johnson  
Adam Kane  
Nicki McCann  
Douglas Strong, Interim CEO, Holy Cross Health, Inc.





May 15, 2024

Joshua Sharfstein, M.D.  
Chairman  
Health Services Cost Review Commission  
4160 Patterson Avenue  
Baltimore, Maryland 21215

Dear Chairman Sharfstein,

On behalf of the Johns Hopkins Health System (JHHS) and its four Maryland hospitals, thank you for the opportunity to provide input on the staff recommendation for the Fiscal Year (FY) 2025 payment update. JHHS appreciates the challenges the Health Services Cost Review Commission (HSCRC) faces in balancing the financial strains of hospitals with ensuring the model savings targets are met.

JHHS's comments and recommendations are outlined below.

***Inflation Update***

JHHS is appreciative of the inclusion of the 3.15% inflation increase in FY 2025 but believe the number should be updated to reflect the current inflation of 3.24% found in the recently released Global Insight's First Quarter 2024 book. This is consistent with prior years update factor. We are also appreciative of the recommendation by the staff to include an additional .65% in recognition of past years' underfunding of inflation. JHHS would encourage the HSCRC, however, to provide additional funding beyond the staff recommendation.

Based on the latest estimates shared at the May Commission meeting, the state is currently achieving savings in excess of \$173m beyond the \$300m Calendar Year (CY) 2023 target. These savings are accruing to the benefit of the payers without any accountability for how this financial windfall benefits consumers. These are funds that could alternatively be used to recapitalize aging facilities, invest in population health programs, or address significant labor pressures in the hospitals. Although the staff is naturally conservative in their savings estimates, each of the scenarios shared except one demonstrated significant savings for CY 2024 beyond the contractual target.

JHHS would propose three specific changes to the staff recommendation:

1. **Provide an additional 1.17% for inflation.** The cumulative underfunding of inflation over the past several years is 2.34%. Although JHHS believes that this funding should be fully restored,

we recognize the need to balance providing additional funding to hospitals while meeting the Medicare savings target. Half of underfunded inflation should be included in the FY 2025 update with a commitment to include the other half in FY 2026.

2. **Eliminate a pre-defined and limited set-aside.** The set-aside in the draft recommendation is an arbitrary estimate that doesn't reflect the needs of the hospitals or the significant savings that the state is currently generating. Rather than a specific set-aside that artificially limits the funding available to hospitals, any savings in excess of the target should be viewed as potentially available to address appropriate hospital funding requests.
3. **Eliminate inflation on retained revenues.** Consistent with past positions of JHHS, we continue to encourage the HSCRC to eliminate inflation on retained revenues. The update factor should be used to provide inflation on actual expenses incurred by the hospital to care for patients, not to inflate expenses that no longer exist because patient volumes aren't present. The current methodology continues to lock revenue into increasingly price inefficient facilities for care that no longer exists, rather than providing funding to recognize changes in patient movement.

### ***Potentially Avoidable Utilization (PAU) Shared Savings***

JHHS supports the staff recommendation on changes to the PAU Shared Savings policy given the significant savings that the policy has generated since the inception of Global Budget Revenue (GBR).

### ***Transformation Funding***

JHHS supports the creation of a \$20m pool of funds to be used for innovative initiatives. For years, JHHS has engaged the HSCRC in an attempt to fund a hospital-at-home program, consistent with trends nationally. The hospital at home program has the potential to reduce low-intensity care currently provided within JHHS and provide a better patient experience. JHHS encourages the HSCRC to include hospital at home as the type of program that could be funded out of the new Transformation Funding pool.

### ***High-Cost Drugs***

JHHS supports the staff recommendation to differentially fund high-cost drugs that are utilized at the Academic Medical Centers (AMC). JHHS would encourage the staff to continue working with the AMCs to ensure that high-cost drugs are being adequately funded and not continue a system whereby the AMCs are faced with the choice of either providing life-saving care at a significant financial loss or reducing access.

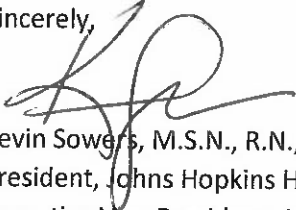
### ***Recommendations***

Given the economic climate and the challenges currently faced by the healthcare industry, JHHS believes a more nuanced and balanced approach to the update factor is required. For the reasons outlined above, hospitals should not receive inflation on retained revenue, as this is funding volumes that do not exist. Additionally, given the significant savings that the state is generating in excess of the contractual target, there are ample funds available to restore half of the unfunded inflation from the past several years.



Thank you for the opportunity to share comments and feedback. JHHS greatly appreciates the HSCRC's transparent process in the development and approval of the payment update and looks forward to continued collaboration in pursuit of the goals of the Maryland Model.

Sincerely,

A handwritten signature in black ink, appearing to read 'KS', is written over the word 'Sincerely,'.

Kevin Sowers, M.S.N., R.N., F.A.A.N.  
President, Johns Hopkins Health System  
Executive Vice President, Johns Hopkins Medicine

cc: Joseph Antos, Vice Chairman  
Dr. James Elliott  
Ricardo Johnson  
Dr. Maulik Joshi  
Adam Kane  
Nicki McCann  
Jon Kromm