

## **DRAFT**

### **Notes Regarding HSCRC Role in CON Review Process and Adjustments for Capital**

- I. Law outlines role and coordination with MHCC
- II. Two types of request
  - a. The pledge (no additional revenue)
  - b. Regular CON review
- III. Global budget required to docket CON
- IV. Pre docketing review questions
- V. Staff frequently meets with MHCC staff and applicant evaluates underlying volume projections
  - a. Focus on any growth or shift assumptions, and implications for duplication
  - b. Incremental revenues
  - c. Incremental global budget requirements requested
  - d. Assumptions regarding cost and financing
  - e. Focus on potentially avoidable utilization
- VI. For CONs with a revenue increase
  - a. Applicant needs to file a rate application unless they can prove feasibility without it
  - b. Application review approach needs to be updated--old method of review needs updating
  - c. Once approved, revenue is earmarked for removal from statewide revenue availability under new all payer model

# Preliminary Thoughts Regarding for Major Capital Projects and Rate Adjustments

## Context:

Prior to the expansion of global budget models under the All-Payer Model, major capital projects were funded in part through increased marginal revenue from expected volume increases. Global budget hospitals operate under a fixed annual revenue cap. While the variable cost associated with volume increases due to demographic changes and market shift recognized under the global budget methodology, marginal revenue from expected volume increases is no longer a viable source of funding for major capital projects. Therefore, the HSCRC must create a policy to address major capital projects that does not rely on volume expansion for funding. Hospital rates include provisions for capital costs.

## Guiding Principles

- Promote the advancement of the Triple Aim: enhance patient care, improve health, and lower total costs
- Supports the goals and requirements of the All-Payer Model
- Capital should not be treated as a pass thru, but an integral element of per capita costs. Like any other cost, there are trade offs among investments. The additional funds that should be provided for major capital projects should be limited and considered in the context of overall per capita costs.
- Rate increases should not pay for growth and replacement of excess capacity or capacity for avoidable utilization in the Maryland health care system
- Policies should support hospitals in reducing excess capacity in the Maryland health care system while maintaining or improving quality and access to care
- The approach should provide hospitals and health systems with fair and reasonable financing opportunities for major capital projects, while recognizing the responsibility of hospitals and systems to plan for major replacements,
- Recognize the responsibility of hospitals and systems to attain additional funding sources
- Integrate with State CON approval process

## Matters to Address

- Define “Major Capital Projects”
- Develop process to assess and adjust hospital global budgets to finance major capital projects
  - Establish method to assess efficiency and charge reasonableness within the context of a population-based health payment system
  - Determine the extent of rate variation that should be considered appropriate to finance major replacements
  - Develop process to consider avoidable utilization in the system
  - Consider including hospital quality performance an evaluation criteria
  - Work with MHCC to develop new policies and processes for CONs
- Address already submitted CON applications in a timely manner