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Payment Model Workgroup

March 5, 2024

HSCRC Payment Model Work Group Roster

Ed Beranek
Vice President of Revenue Management and Reimbursement
John Hopkins Health Systems

Barbara Brocato
Founder and President
Barbara Marx Brocato and Associates

Susan Nelson
Executive Vice President & Chief Financial Officer
MedStar Health

Kathy Talbot
Senior Executive Director of Finance
Tidal Health

Vincent DeMarco / Stan Dorn
President
Maryland Citizens Initiative

Lori Golden
Vice President,
Network Management
United HealthCare

Alicia Cunningham
Senior Vice President
Reimbursement & Revenue Advisory Services
University of Maryland Medical System

Stu Guterman
Senior Scholar
Academy Health

Arin Foreman
Director, Health Services Cost and Affordability
CareFirst

J. David Johnson, MBA
Vice President and Senior Health
Consultant Sibson Consulting

Amber Ruble
Chief Financial Officer
UPMC Western Maryland

Michael Myers
Vice President, Regulatory Reporting & Reimbursement
LifeBridge Health

Hannah Jacobs
Senior Vice President & Chief Financial Officer
Frederick Regional Health System

Wynee Hawk, RN, JD
Director, Center for Health Care Facilities Planning & Development
Maryland Health Care Commission

Katie Eckert
Vice President, Reimbursement & Strategic Analytics
Adventist HealthCare

Josh Repac
Chief Financial Officer
Meritus Health

Laura Russell, MPH
Director, Health Care Payment
Maryland Hospital Association

Tricia Roddy
Deputy Medicaid Director
Maryland Department of Health

Ge Bai, PhD, CPA
Professor of Accounting
Johns Hopkins Carey Business School

Policy Calendar Overview

Overview

- Staff developed a policy and activities calendar for January 2024 – June 2025.
- The policy calendar and staff work plan are subject to change based on competing staff demands, policy needs shift, or new policy needs emerge.
- Staff considered current staff capacity and workload, existing contractor resources, state partner support, and future procurement requirements when developing this document.
- Activities do not reflect the workload associated with implementing the AHEAD Model, if Maryland is accepted into Cohort 1.
- New policies and activities may be added to the policy calendar and staff work plan as the year progresses.

Timing

- The policy calendar outlines when Commissioners will receive presentations on policy development plans and draft policy recommendations and take votes on final policy recommendations.
- Staff will bring policy development plans to Commissioners for consideration quarterly or more frequently if need arises.
- The majority of policies will have a two-month gap between a draft and final recommendation.
- Changes to the policy calendar will be reflected in monthly public meeting agendas and staff policy development plans.

Rate Setting & Financial Methodologies

The below policies/priorities relate to the Payment Model Workgroup or a subgroup of Payment Models:

· **Update Factor:** Provides 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. RY 2025 policy will include an update on the high-cost drug policy.

· **Revenue for Reform Policy:** Directs inefficient hospitals, which may be a function of retained revenue, to fund community-based population health investments outside of hospital walls.

Efficiency Subgroup

· **Freestanding Medical Facility (FMF) Conversion Incentive Policy:** Establishes requirements for any major facility conversion (e.g., acute hospital to FMF). Outlines the process that hospitals will need to follow when considering a facility conversation and will establish the expected savings, maintenance of effort for various types of access, and potential funding for population health.

Volume Subgroup

· **Out-of-State (OOS) and Deregulation Volume Policy**: Ensure changes in hospital volumes for out-of-state volume growth and deregulation are appropriately captured in hospital global budgets.

Volume Subgroup

CY24/CY25 Policy Votes	Development Plan	Draft Policy	Final Policy Vote
Update Factor (RY 2025)		May 2024	June 2024
Out-of-State (OOS) and Deregulation Volume Policy	April 2024	June/July 2024	September 2024
Freestanding Medical Facility (FMF) Conversion Policy	July 2024	January 2025	March 2025
Revenue for Reform (RY 2026)	July 2024	December 2024	February 2025
Update Factor (RY 2026)	January 2025	May 2025	June 2025

Relevant Financial Data

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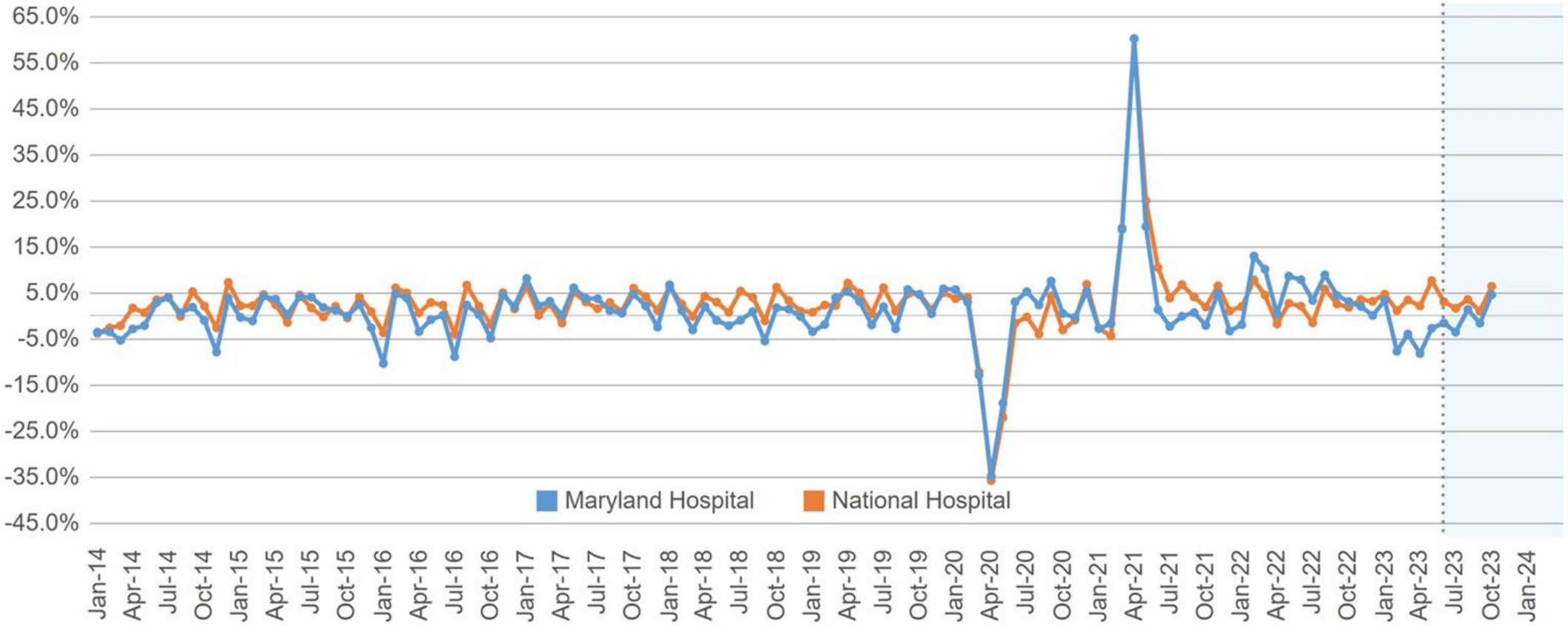
Update on Medicare FFS Data & Analysis

Data contained in this presentation represent analyses prepared by HSCRC staff based on data summaries provided by the Federal Government. The intent is to provide early indications of the spending trends in Maryland for Medicare FFS patients, relative to national trends. HSCRC staff has added some projections to the summaries. This data has not yet been audited or verified. Claims lag times may change, making the comparisons inaccurate. ICD-10 implementation and EMR conversion could have an impact on claims lags. These analyses should be used with caution and do not represent official guidance on performance or spending trends. These analyses may not be quoted until public release.

Data through October 2023, Claims paid through December 2023

Medicare Hospital Spending per Capita

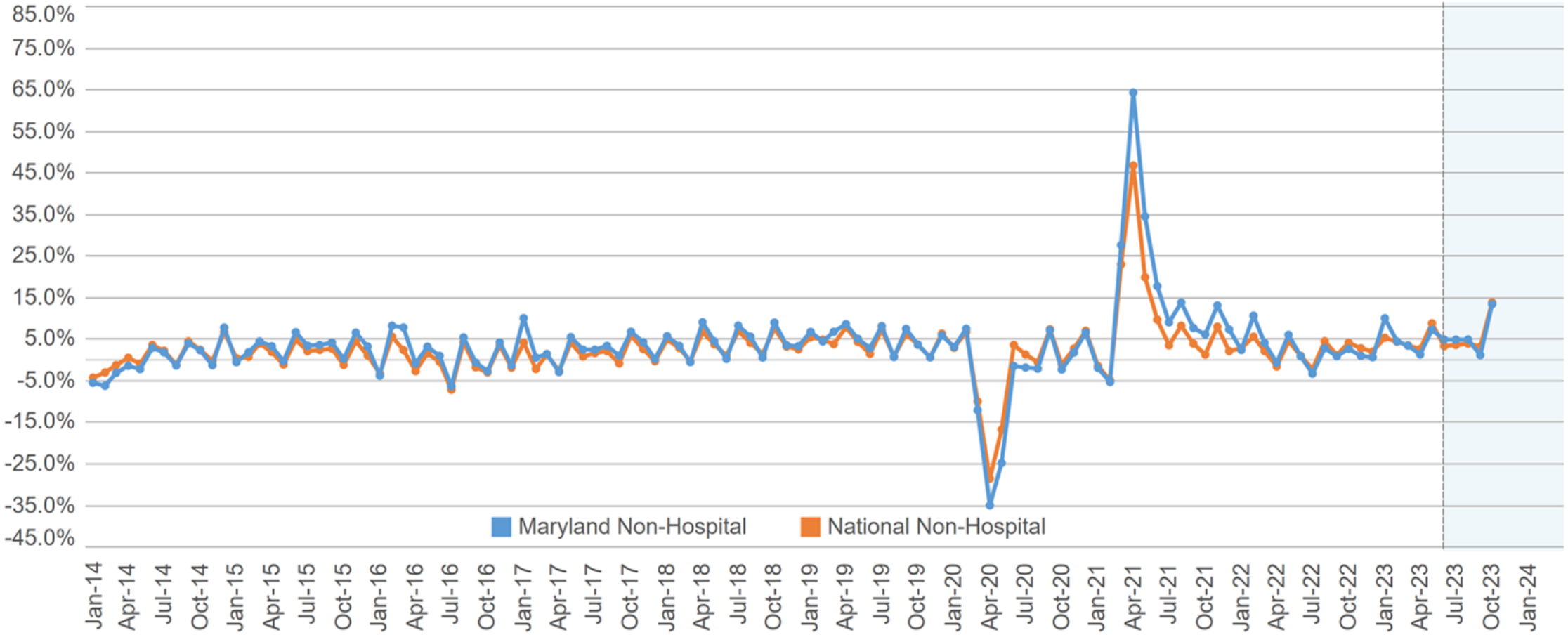
Actual Growth Trend (CY month vs. Prior CY month)



CY16 has been adjusted for the undercharge.

Medicare Non-Hospital Spending per Capita

Actual Growth Trend (CY month vs. Prior CY month)



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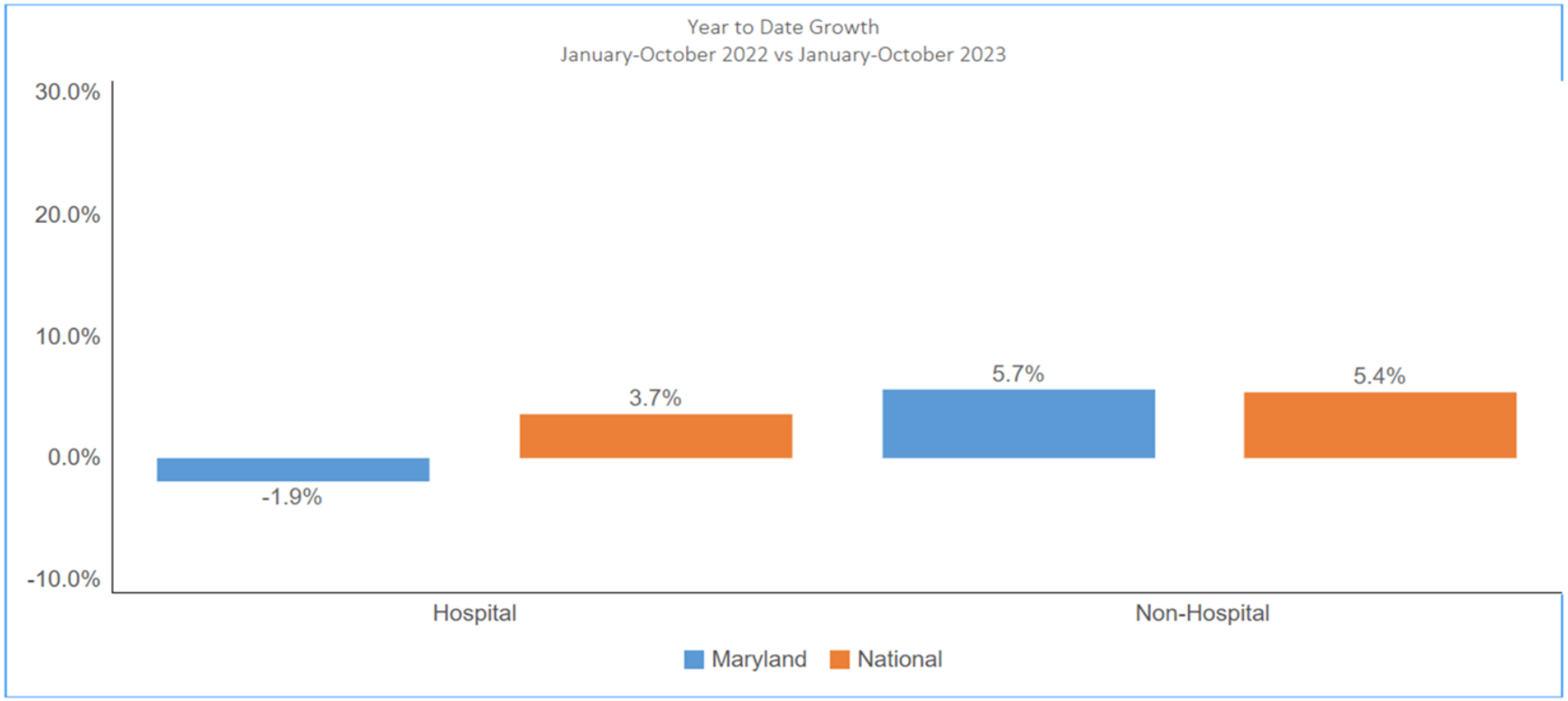
Medicare Hospital and Non-Hospital Payments per Capita



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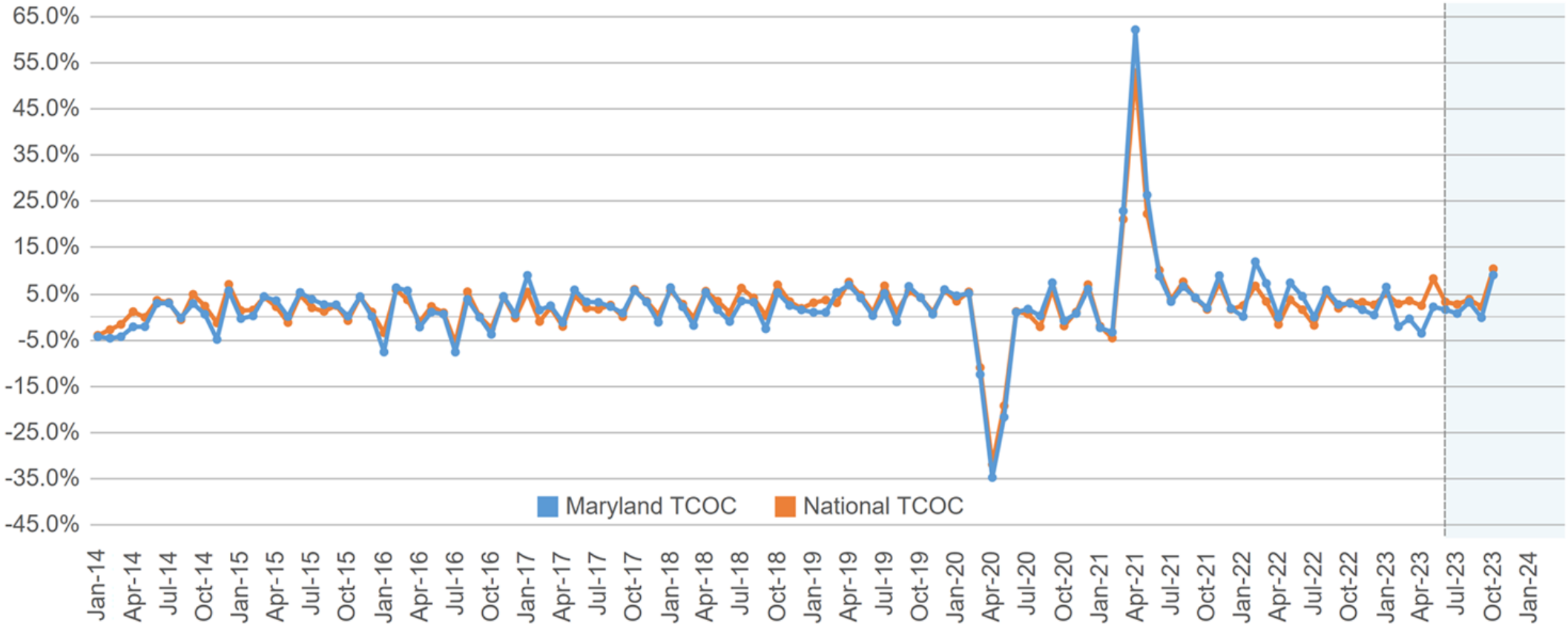
Medicare Total Cost of Care Spending per Capita

Actual Growth Trend (CY month vs. Prior CY month)



CY16 has been adjusted for the undercharge

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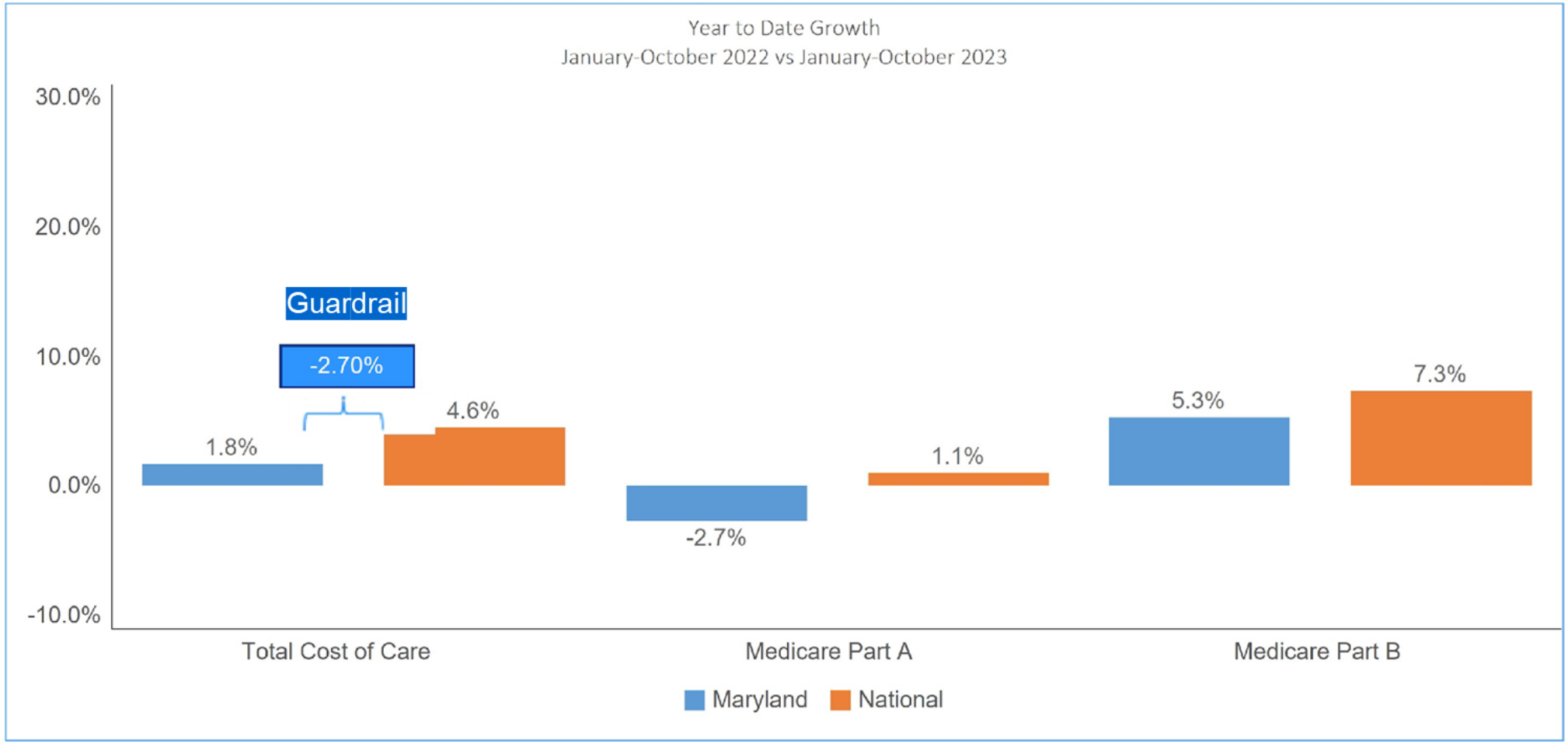
Medicare Total Cost of Care Payments per Capita



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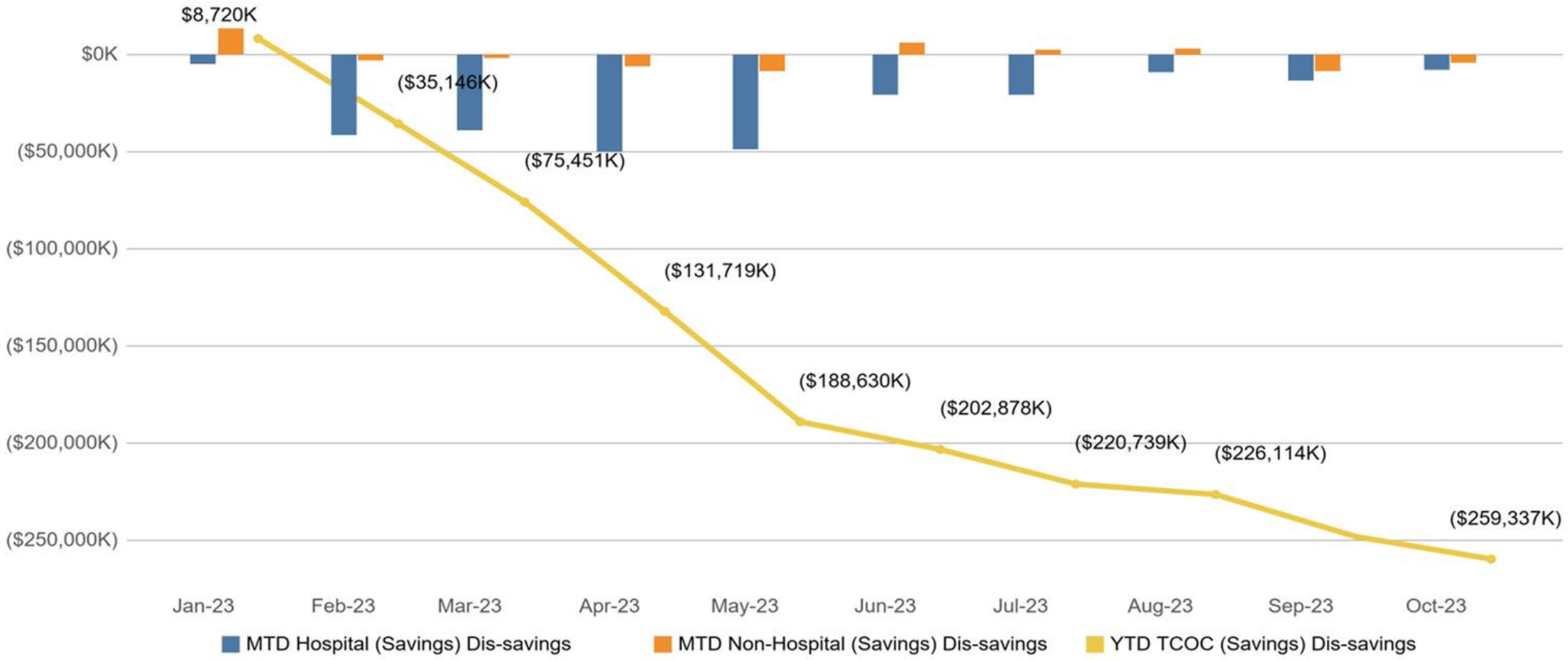
Maryland Medicare Hospital & Non-Hospital Growth

CYTD through October 2023



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Medicare Projections CY24 and CY25

- In future meetings Staff will present updated CY24 numbers and projections for CY25
- YTD CY23 results shown on the prior slide (2.8% < guardrail) reflect the benefit of some one-time adjustments:
  - $64 M MPA saving component reduction that was reversed in December but is still reflected in YTD September data shown
  - 1% increase in differential implemented in April 2023 that expires on June 30, 2024
  - 0.20% All-Payer cut lapses ended on December 31

Review of Hospital Financial Results

Hospital Level
System Level
Introduction to Fixed Assets Metrics

Background

Sources

- Hospital Financial Statements
  - HSCRC receives annual audited system-level financial information
- HSCRC Annual Cost Report
  - HSCRC receives annual hospital level information.
  - This information is reconciled to the system level financials and is subject to certain special audit procedures although it is not itself audited, and there may be some fluidity in terms of how costs are allocated between entities.
- Healthcare Financial Management Association (HFMA) for benchmark references.

Entity Terminology

+ Hospital Regulated Business

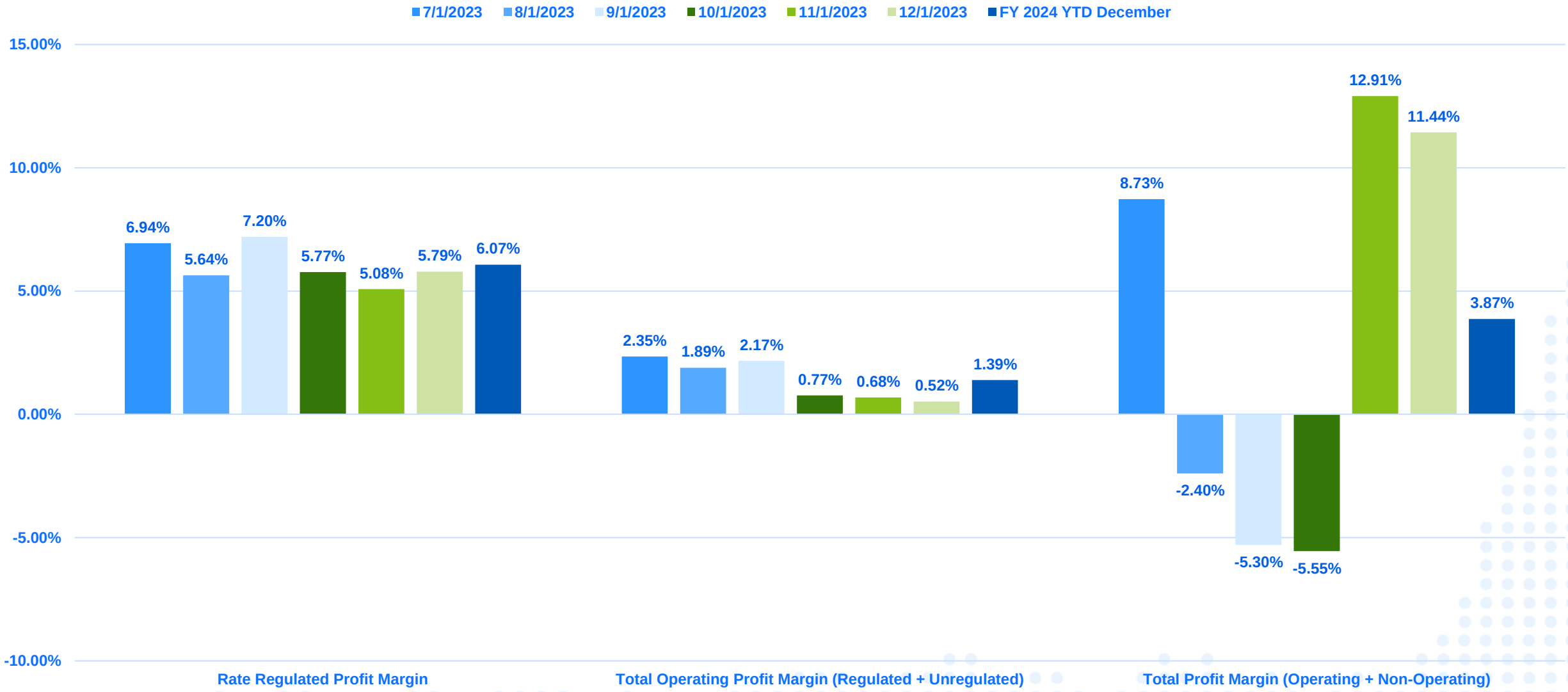
+ Hospital Unregulated Business

= Hospital Regulated Entity Results

+ Non-Regulated Business

= Health System Results

Hospital Margins by Month and FY24 YTD Dec *As of February 6, 2024



Source: HSCRC Monthly Unaudited Financial Reports
Hospitals may revise prior months

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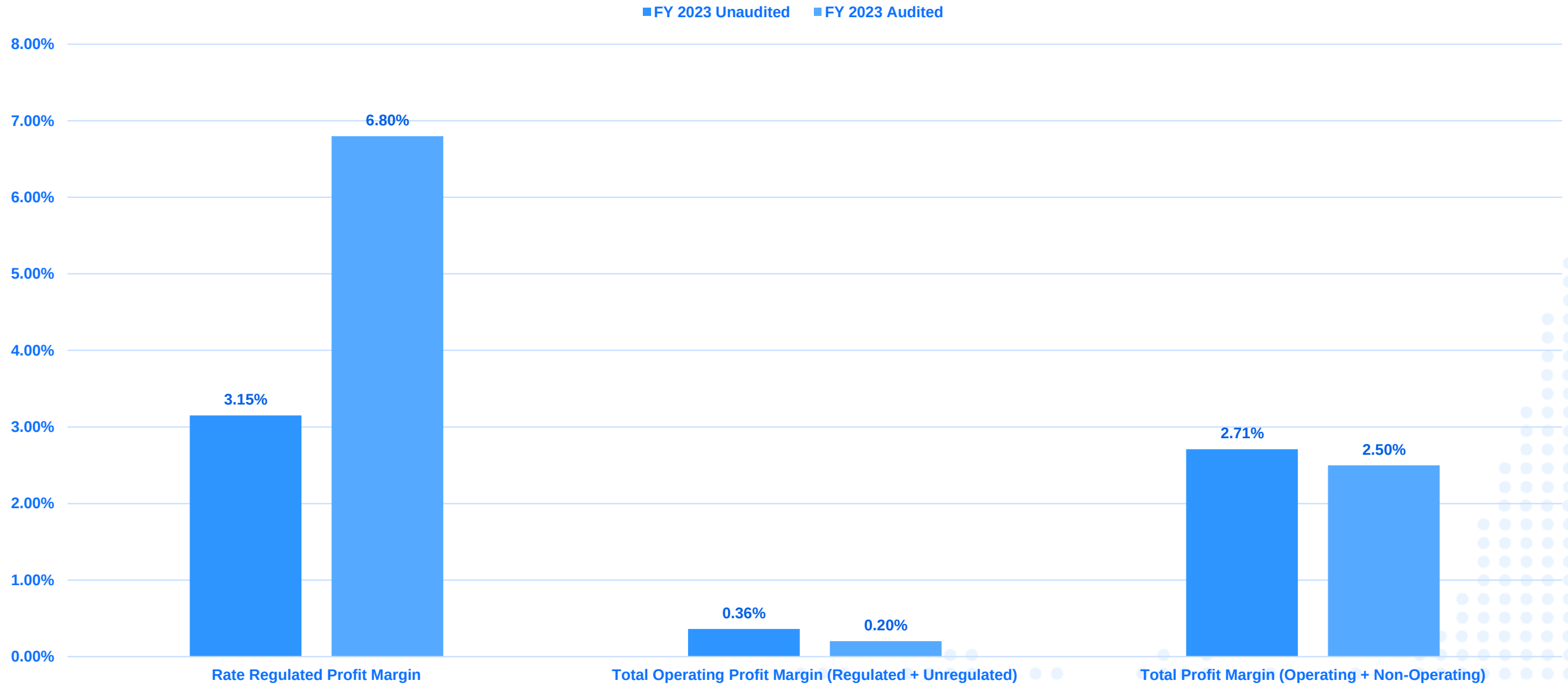
Hospital Margins FY23 Annual Filing vs Unaudited *As of February 6, 2024

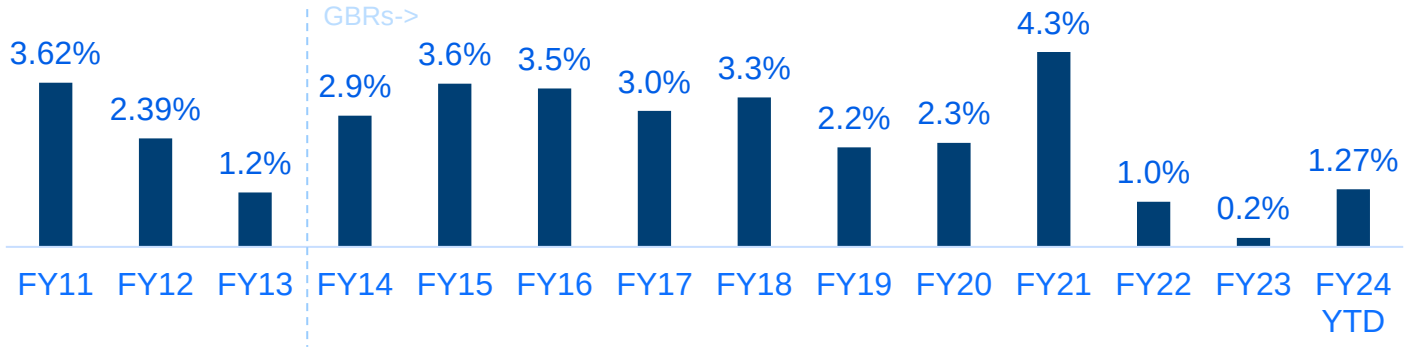


Source: HSCRC Monthly Unaudited Financial Reports; HSCRC Annual Filing
*Adventist, Garrett, & Western MD data is from FY22
Hospitals may revise prior months for unaudited data

Hospital Margins FY2014 to FY2024

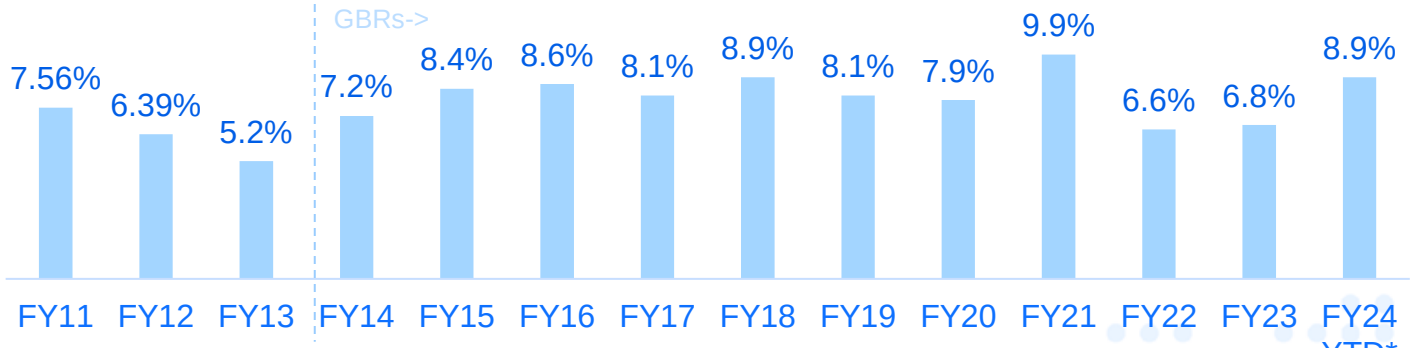
Total Operating Margin

(Represents margin on the entities regulated by HSCRC, also includes unregulated business that is organized as part of the regulated entities)



Regulated Operating Margin

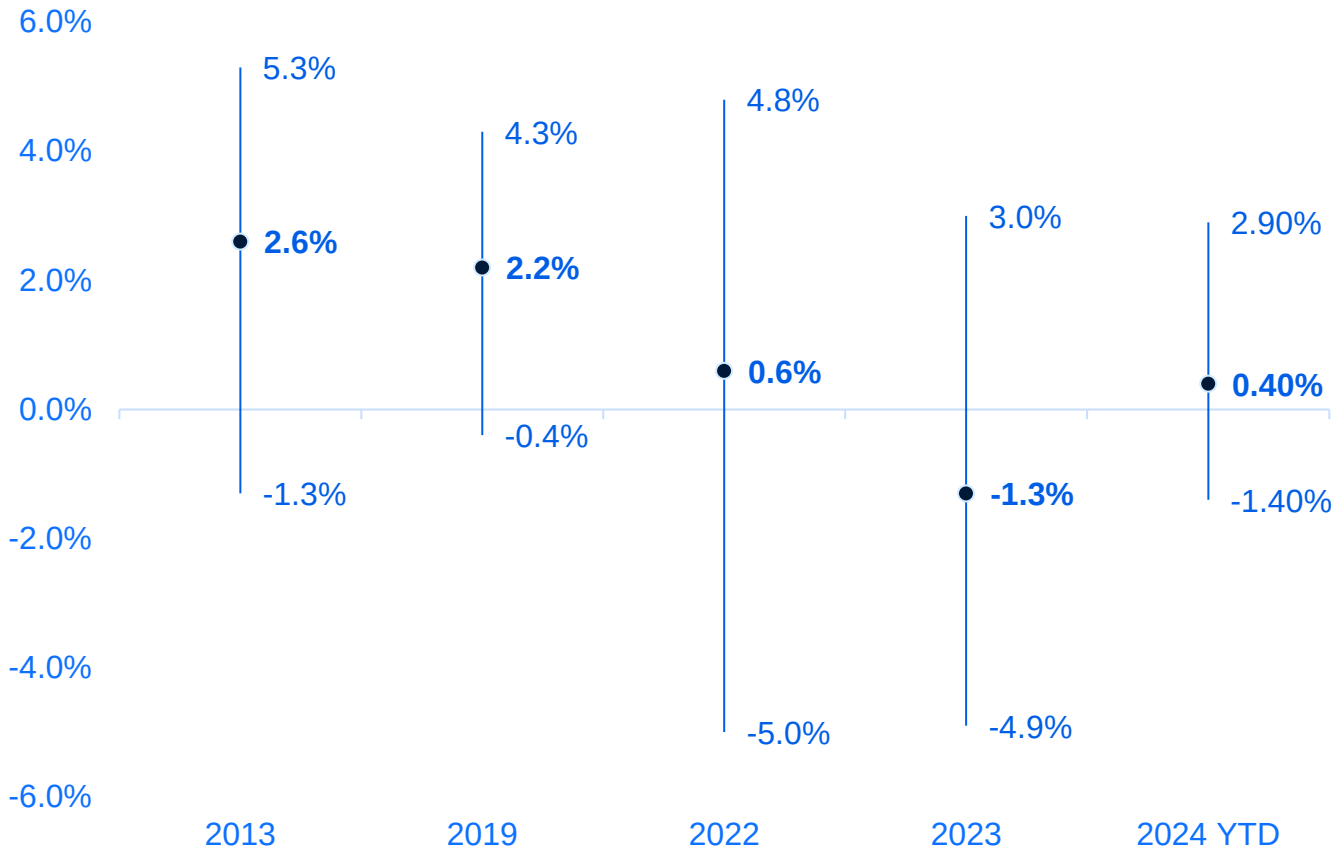
(Represents margin on services regulated by HSCRC)



- FY23 margins are the worst of any year. FY21 was the best year. FY24 margins are stronger compared to the same period in FY23
- Margins for HSCRC regulated business are strong in all periods
- Unregulated costs, particularly physician costs, pull total margins down.
- Even in the weakest years total margins have remained positive.

*Actual unaudited YTD value is 5.9% however, an estimate of 3% was added to regulated margin to make it more comparable to the history which reflects audited results where regulated margins are typically restated upwards as additional costs are allocated to unregulated.
Source: All years except FY24 per Hospital Annual Filings. FY24YTD from unaudited monthly reports through December 2023. Except for data for Adventist, Garrett, and Western MD which are pulled from prior CY due to calendar year annual filing periods.

Distribution of Hospital Margins (Total Operating Margin)



- Graph shows median (circle) and 25th to 75th percentile (line) margin % by hospital for selected years.
- Only hospitals at or below the 25th percentile were losing money both in 2013 (pre-GBR) and 2019.
- In the most recent years a significant group of hospitals are losing money although the overall median remains around break even.
- Hospitals have several avenues to pursue with the HSCRC if losses become unsustainable.

Source: All years except FY24 per Hospital Annual Filings. FY24YTD from unaudited monthly reports through December 2023

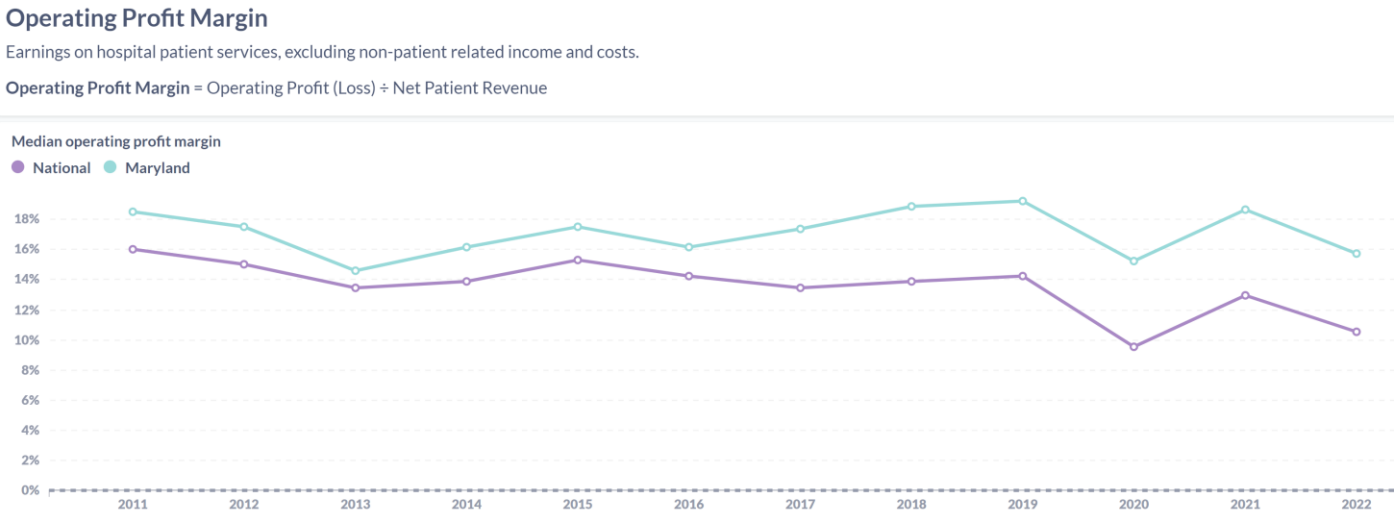
GBRs contribute to stable hospital finances

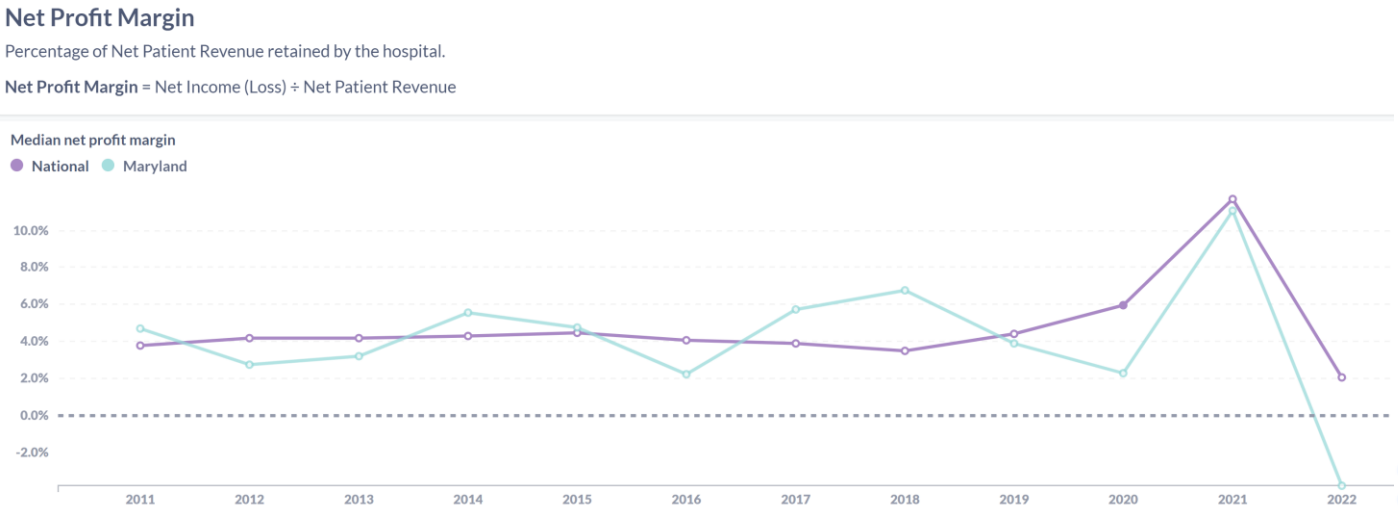
	Total Operating Margin	Regulated Operating Margin*
Last 2.5 Years	0.7%	7.1%
Last 4.5 Years	1.8%	7.9%
Under GBRs	2.5%	8.1%

- In the most recent period, with the weakest regulated and total margins, margins are positive, indicating resources in total are sufficient to meet financial requirements.
- The Model is intended to generate long-term stability.
- Hospital margins have been stable under GBRs.
- FY22 and FY23 margins were weak mainly driven by worse unregulated margins. HSCRC is seeing some recovery in the first half of FY24.

*An estimate of 3% was added to regulated margin for YTD FY2024 to make it more comparable to the history which reflects audited results where regulated margins are typically restated upwards as additional costs are allocated to unregulated.
Source: All years except FY24 per Hospital Annual Filings. FY24YTD from unaudited monthly reports through December 2023

Margin Metrics Compared to National





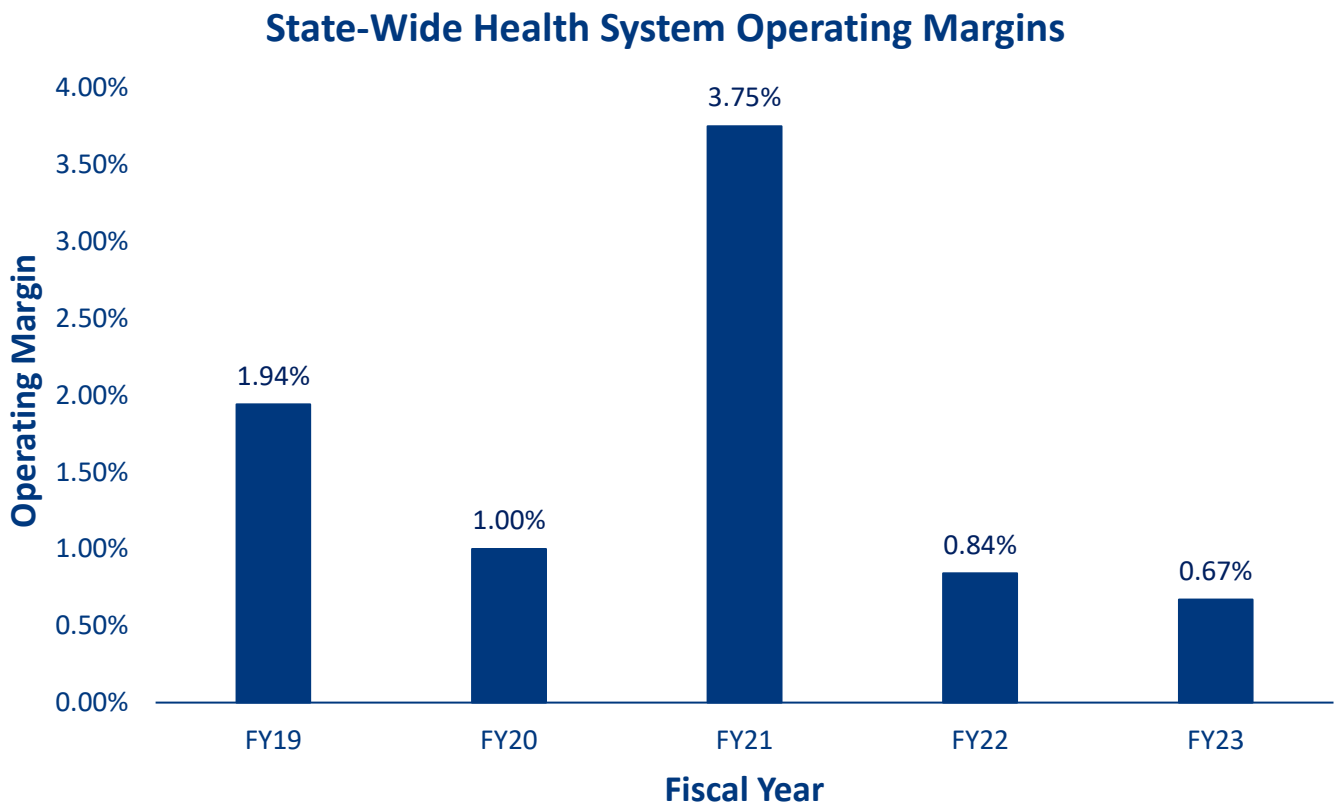
- Data from NASHP's aggregation of CMS Healthcare Cost Report Information System (HCRIS). Available at https://tool.nashp.org/
- Medicare cost reports are imperfect particularly in MD where they haven't been relevant.
- Operating graphic excludes more costs than Maryland does under regulated margins, resulting in high relative values. Maryland appears relatively strong
- Net Profit Margin is more like HSCRC totals, MD values generally track national.

System Level Results - FY23 System Profits

Health Systems	Total Operating Revenue	Total Operating Expenses	Operating Income	Operating Margin	Non-Operating Revenue	Total Margin
Adventist HealthCare, Inc. and Controlled Entities	$ 1,151,582,000	$ 1,150,316,000	$ 1,266,000	0.11%	$ (14,823,000)	-1.19%
Atlantic General Hospital Corporation	$ 156,736,619	$ 166,422,837	$ (9,686,218)	-6.18%	$ 5,662,150	-2.48%
Calvert Health System, Inc. and Subsidiaries	$ 173,402,861	$ 187,128,272	$ (13,725,411)	-7.92%	$ 9,857,105	-2.11%
Frederick Regional Health System, Inc.	$ 492,539,000	$ 522,902,000	$ (30,363,000)	-6.16%	$ 22,884,000	-1.45%
GMBC Healthcare, Inc. and Subsidiaries	$ 680,178,000	$ 724,236,000	$ (44,058,000)	-6.48%	$ 20,693,000	-3.33%
Johns Hopkins Health System Corporation and Affiliates	$ 8,572,732,000	$ 8,395,905,000	$ 176,827,000	2.06%	$ 307,976,000	5.46%
LifeBridge Health, Inc. and Subsidiaries	$ 1,981,634,000	$ 2,003,717,000	$ (22,083,000)	-1.11%	$ 78,342,000	2.73%
Luminis Health, Inc. and Subsidiaries	$ 1,107,955,000	$ 1,160,963,000	$ (53,008,000)	-4.78%	$ 49,110,000	-0.34%
Medstar Health, Inc.	$ 7,737,000,000	$ 7,590,200,000	$ 146,800,000	1.90%	$ 186,100,000	4.20%
Mercy Health Services, Inc. and Subsidiaries	$ 937,275,000	$ 890,511,000	$ 46,764,000	4.99%	$ 31,918,000	8.12%
Meritus Medical Center, Inc. and Subsidiaries	$ 555,495,000	$ 520,936,000	$ 34,559,000	6.22%	$ 24,914,000	10.25%
TidalHealth, Inc.	$ 795,570,000	$ 848,882,000	$ (53,312,000)	-6.70%	$ 42,062,000	-1.34%
University of Maryland Medical System Corporation and Subsidiaries	$ 5,068,600,000	$ 5,050,786,000	$ 17,814,000	0.35%	$ 143,479,000	3.09%
2023 Totals	**$ 29,410,699,480**	**$ 29,212,905,109**	**$ 197,794,371**	**0.67%**	**$ 908,174,255**	**3.65%**
2022 Totals	**$ 28,208,464,083**	**$ 27,972,248,891**	**$ 236,215,192**	**0.84%**	**$ (711,317,420)**	**-1.73%**

- In all system slides in this presentation Trinity, Ascension, Garrett, Christiana Union, and Western Maryland are excluded as these system level financials are limited to systems where results are primarily reflective of Maryland institutions.
- Adventist data reflects the prior calendar year in all slides as Adventist reports on a calendar year basis (e.g FY23 label reflects CY22 for Adventist).

System Level Operating Margins



FY23 System and Regulated Business Margins

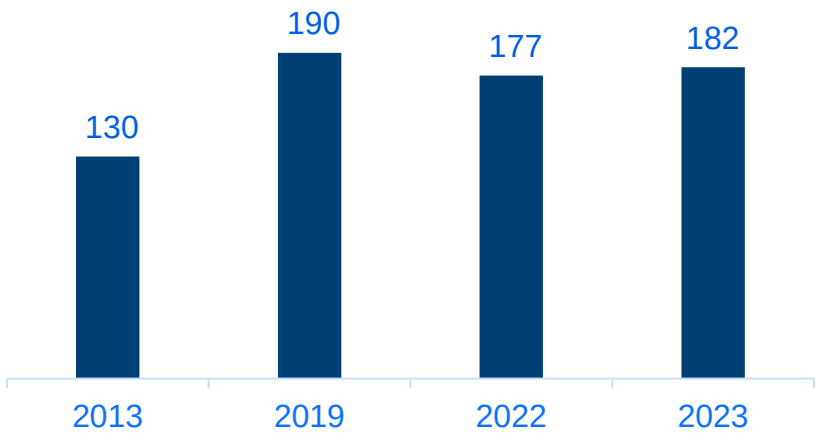
Health Systems	FY23 Health System Margins: Total Operating Revenue	FY23 Health System Margins: Operating Income	FY23 Health System Margins: Operating Margin	FY23 Regulated Entity Margins: Regulated Entity Total Operating Revenue	FY23 Regulated Entity Margins: Regulated Entity Operating Income	FY23 Regulated Entity Margins: Regulated Entity Operating Margin	FY23 Regulated Entity Margins: % of Regulated Business	FY23 Regulated Entity Margins: System Non-Regulated Operating Margin
Adventist HealthCare, Inc. and Controlled Entities	$ 1,151,582,000	$ 1,266,000	0.11%	$ 844,413,000	$ 50,554,000	6.0%	73.33%	-16.05%
Atlantic General Hospital Corporation	$ 156,736,619	$ (9,686,218)	-6.18%	$ 156,736,619	$ (9,686,218)	-6.2%	100.00%	0.00%
Calvert Health System, Inc. and Subsidaries	$ 173,402,861	$ (13,725,411)	-7.92%	$ 153,952,602	$ (7,406,989)	-4.8%	88.78%	-32.49%
Frederick Regional Health System, Inc.	$ 492,539,000	$ (30,363,000)	-6.16%	$ 403,863,000	$ (8,014,000)	-2.0%	82.00%	-25.20%
GBMC Healthcare, Inc. and Subsidiaries	$ 680,178,000	$ (44,058,000)	-6.48%	$ 582,304,000	$ (16,926,000)	-2.9%	85.61%	-27.72%
Johns Hopkins Health System Corporation and Affiliates	$ 8,572,732,000	$ 176,827,000	2.06%	$ 4,603,074,000	$ 53,504,000	1.2%	53.69%	3.11%
Lifebridge Health, Inc. and Subsidiaries	$ 1,981,634,000	$ (22,083,000)	-1.11%	$ 1,660,216,000	$ (431,000)	0.0%	83.78%	-6.74%
Luminis Health System, Inc. and Subsidiaries	$ 1,107,955,000	$ (53,008,000)	-4.78%	$ 863,377,000	$ (20,188,000)	-2.3%	77.93%	-13.42%
Medstar Health, Inc.	$ 7,737,000,000	$ 146,800,000	1.90%	$ 2,147,800,000	$ (60,600,000)	-2.8%	27.76%	3.71%
Mercy Health Services, Inc. and Subsidiaries	$ 937,275,000	$ 46,764,000	4.99%	$ 602,479,000	$ 37,139,000	6.2%	64.28%	2.87%
Meritus Medical Center, Inc. and Subsidiaries	$ 555,495,000	$ 34,559,000	6.22%	$ 449,545,000	$ 59,473,000	13.2%	80.93%	-23.51%
TidalHealth, Inc.	$ 795,570,000	$ (53,312,000)	-6.70%	$ 500,360,000	$ 10,905,000	2.2%	62.89%	-21.75%
University of Maryland Medical System Corporation and Subsidiaries	$ 5,068,600,000	$ 17,814,000	0.35%	$ 4,668,131,000	$ 18,244,000	0.4%	92.10%	-0.11%
2023 Totals	**$ 29,410,699,480**	**$ 197,794,371**	**0.67%**	**$ 17,636,251,221**	**$ 106,566,793**	**0.60%**	**59.97%**	**0.77%**
2022 Totals	**$ 28,208,464,083**	**$ 236,215,192**	**0.84%**	**$ 17,190,427,422**	**$ 184,631,212**	**1.07%**	**60.94%**	**0.47%**

Balance Sheet Ratios

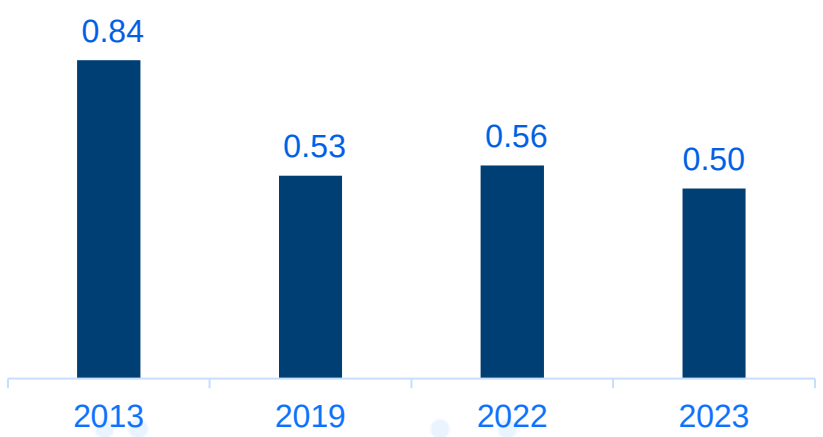
- Days Cash on Hand have increased by 41% under GBRs despite recent challenges. Days cash on hand is, by definition, an inflation adjusted measure.
- Days Cash on Hand are still below their 2019 peak but have begun increasing again. Declines from 2019 were due to cost pressures during 2022. Federal and State funding eliminated any negative effects from the COVID pandemic through June 2021.

- While strengthening their cash positions, hospitals have also been able to pay down debt under GBRs resulting in lower debt ratios.
- Debt ratios have dropped below 2019 levels and remain 40% below June 2013 levels.

Days Cash on Hand



Debt to Unrestricted Net Assets



Source: Metrics are shown as of June 2013 (pre-GBR), June 2019 (pre-pandemic), June 2022 (post-pandemic), and June 2023 (most recent period available) and are based on hospital system audited financial statements. Amounts generally reflect cash, and short and long-term investments, excluding Medicare advances and investments with donor or other restrictions but including board-designated funds. Debt includes short- and long-term debt and lines of credit.

Health System Cash and Investment Holdings

	Cash and Investments (in Millions)					Days Cash on Hand					% Change in Days Cash on Hand			
	2013	2019	2021	2022	2023	2013	2019	2021	2022	2023	2023 vs 2013	2019 vs 2013	2023 vs 2019	2023 vs 2022
Adventist HealthCare, Inc.	$176	$253	$306	$292	$312	97	115	123	97	105	8.4%	19.1%	-9.0%	7.5%
Atlantic General Hospital Corporation	$21	$21	$33	$37	$36	90	60	88	92	84	-6.7%	-33.1%	39.5%	-8.9%
Calvert Health System, Inc.	$88	$126	$147	$138	$128	258	314	351	314	265	2.7%	21.5%	-15.5%	-15.5%
Frederick Regional Health System, Inc.	$147	$216	$252	$204	$208	165	197	202	153	148	-10.5%	19.2%	-24.9%	-3.3%
GBMC healthcare, Inc.	$139	$371	$503	$426	$379	143	245	302	236	201	40.2%	71.4%	-18.2%	-15.0%
Johns Hopkins Health System Corporation	$1,353	$4,365	$5,315	$4,761	$5,288	109	247	272	226	238	117.9%	125.9%	-3.5%	5.3%
Lifebridge Health, Inc.	$655	$984	$1,312	$1,202	$1,164	179	245	289	247	223	24.6%	36.7%	-8.9%	-9.8%
Luminis Health System, Inc.	$307	$473	$594	$475	$479	155	182	209	151	156	0.4%	17.1%	-14.2%	3.0%
Medstar Health, Inc.	$1,432	$2,128	$2,976	$2,555	$2,794	128	146	174	134	138	8.2%	13.8%	-4.9%	3.6%
Mercy Health Services, Inc.	$213	$336	$527	$478	$554	137	173	247	215	239	74.4%	26.7%	37.6%	11.2%
Meritus Medical Center, Inc.	$129	$251	$356	$365	$404	138	242	331	294	300	116.8%	75.0%	23.9%	2.1%
Peninsula Regional Health System	$227	$399	$590	$460	$454	226	319	305	217	205	-9.6%	40.7%	-35.8%	-5.8%
University of Maryland Medical System Corporation	$998	$1,387	$1,705	$1,623	$1,796	118	129	143	128	137	16.6%	9.8%	6.2%	7.3%
Total	$5,886	$11,311	$14,617	$13,016	$13,996	130	190	217	177	182	40.6%	46.9%	-4.3%	2.7%
Median	$213	$371	$527	$460	$454	138	197	247	215	201	45.1%	42.2%	2.1%	-6.4%

- Years reflect fiscal year end values except Adventist which is the prior calendar year. Cash and investment values shown in millions of dollars.
- Excludes $2.3 Billion and $800 million in cash held under advanced payment programs as of June 30, 2021 and 2022 respectively.

Source: Metrics are shown as of June 2013 (pre-GBR), June 2019 (pre-pandemic), June 2022 (post-pandemic), and June 2023 (most recent period available) and are based on hospital system audited financial statements. Amounts generally reflect cash, and short and long-term investments, excluding Medicare advances and investments with donor or other restrictions but including board-designated funds.

Health System Debt Position

	Debt (in Millions)					Ratio of Debt to Unrestricted Net Assets					% Change in Ratio of Debt to Unrestricted Net Assets			
	2013	2019	2021	2022	2023	2013	2019	2021	2022	2023	2023 vs 2013	2019 vs 2013	2023 vs 2019	2023 vs 2022
Adventist HealthCare, Inc.	$314	$583	$567	$736	$720	0.85	1.31	1.10	1.37	1.42	67.4%	54.0%	8.7%	4.0%
Atlantic General Hospital Corporation	$30	$36	$37	$37	$36	0.79	0.74	0.67	0.63	0.64	-18.5%	-5.6%	-13.7%	1.9%
Calvert Health System, Inc.	$57	$59	$50	$48	$47	0.52	0.37	0.26	0.27	0.26	-49.6%	-30.4%	-27.7%	-0.8%
Frederick Regional Health System, Inc.	$176	$174	$208	$202	$239	1.01	0.69	0.65	0.69	0.84	-16.9%	-31.5%	21.3%	20.6%
GBMC healthcare, Inc.	$109	$144	$131	$225	$223	0.50	0.29	0.21	0.41	0.42	-15.4%	-41.1%	43.5%	3.2%
Johns Hopkins Health System Corporation	$1,532	$2,036	$1,884	$1,842	$1,687	0.48	0.52	0.37	0.36	0.30	-36.1%	8.2%	-40.9%	-16.5%
Lifebridge Health, Inc.	$480	$553	$647	$743	$702	0.76	0.46	0.42	0.49	0.44	-42.7%	-38.9%	-6.2%	-10.3%
Luminis Health System, Inc.	$574	$371	$471	$456	$438	1.37	0.77	0.72	0.78	0.74	-46.2%	-44.1%	-3.7%	-5.6%
Medstar Health, Inc.	$1,268	$1,638	$1,881	$1,849	$1,813	1.24	0.90	0.67	0.67	0.57	-53.9%	-26.9%	-36.9%	-15.4%
Mercy Health Services, Inc.	$458	$408	$400	$384	$372	1.51	0.89	0.67	0.65	0.55	-63.4%	-40.8%	-38.1%	-14.6%
Meritus Medical Center, Inc.	$261	$258	$246	$300	$294	1.18	0.90	0.62	0.82	0.69	-41.5%	-24.0%	-23.0%	-15.8%
Peninsula Regional Health System	$132	$136	$241	$235	$228	0.38	0.26	0.32	0.37	0.37	-4.9%	-33.0%	41.9%	-2.3%
University of Maryland Medical System Corporation	$1,706	$1,863	$2,085	$2,020	$1,976	1.25	0.94	0.69	0.66	0.61	-50.9%	-24.3%	-35.1%	-7.7%
Statewide	$7,099	$8,257	$8,848	$9,078	$8,778	0.84	0.68	0.53	0.56	0.50	-40.1%	-18.7%	-26.4%	-10.4%
Median	$314	$371	$400	$384	$372	0.85	0.74	0.65	0.65	0.57	-41.5%	-30.4%	-13.7%	-5.6%

- Years reflect fiscal year end values except Adventist which is the prior calendar year. Debt values shown in millions of dollars.

Source: Metrics are shown as of June 2013 (pre-GBR), June 2019 (pre-pandemic), June 2022 (post-pandemic), and June 2023 (most recent period available) and are based on hospital system audited financial statements. Amounts generally reflect short- and long-term debt and lines of credit.

Fixed Asset Analysis

- Fixed assets are the third leg of the “balance sheet health stool”
- Staff are relatively comfortable that measures used for cash and debt are appropriate. Fixed assets are a more challenging area.
- Following presentation is exploratory. Presentation wraps up with a discussion of next steps.
- Staff have not provided national benchmarks for any metrics:
  - Skepticism over relevance of national benchmarks given unique Maryland system and HSCRC statutory mandate.
  - Challenges of getting comparable system level of national benchmarks given lack of consistent, comparable source.
  - Open to approaches to make create relevant, comparable national benchmarks.

System Level Fixed Asset Measures

Values represent statewide average; initial review shows hospital medians move similarly.

	2013	2019 (% Growth vs 13)	2022 (% of Growth vs 19)
Average Age of Plant	8.9	11.0 *(23.4%)*	12.2 *(11.5%)*
Remaining Age of Plant	10.0	10.1 *(1.0%)*	10.1 *(0.1%)*
Depreciation as a % of Total Operating Expenses	5.20%	4.78% *(-8.0%)*	4.21% *(-12.0%)*
Inflation Normalized Fixed Assets per EIPD (1)	$1,992	$2,306 *(15.8%)*	$2,469 *(7.0%)*

While average age has grown, remaining age has not, this is an indicator of shifting asset mix, towards long term assets.

Depreciation is a declining share of operating expenses suggesting a shift away from fixed asset investments (see next slide). 2019 to 2022 change is likely exaggerated by high inflation in non-capital costs.

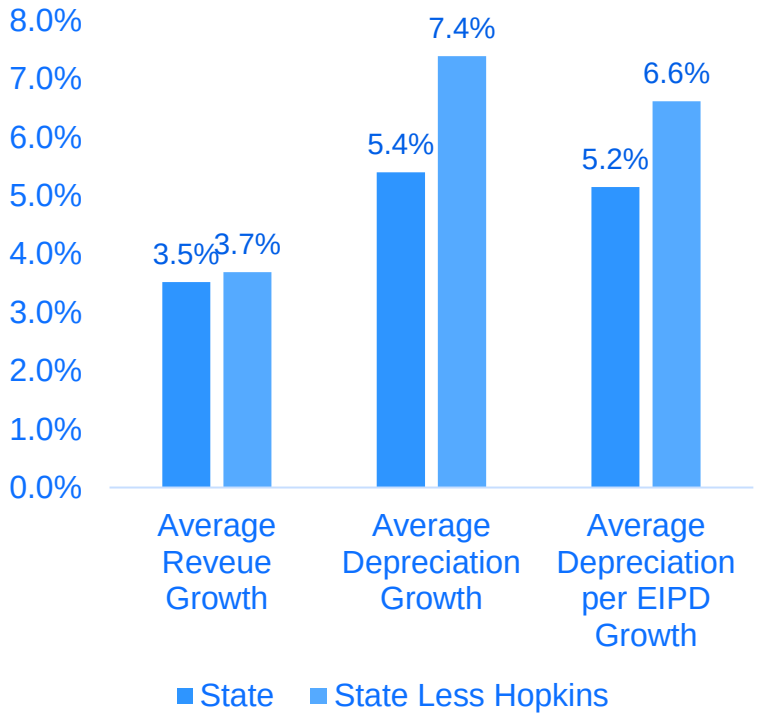
Volume denominated measure show significant growth after controlling for inflation (depreciation per EIPD shows similar growth). Although EIPD do not capture volume growth in non-hospital business.

1. Values are inflation normalized by removing the amount of capital growth provided in the update factor from the growth in the numerator. EIPD are calculated from experience data and do not reflect volume growth in other system entities.

Statewide Hospital Depreciation Costs over Time

Graphics make a similar comparison to the third metric on prior slide but are compared against revenue rather than total operating cost and at a hospital rather than system level.

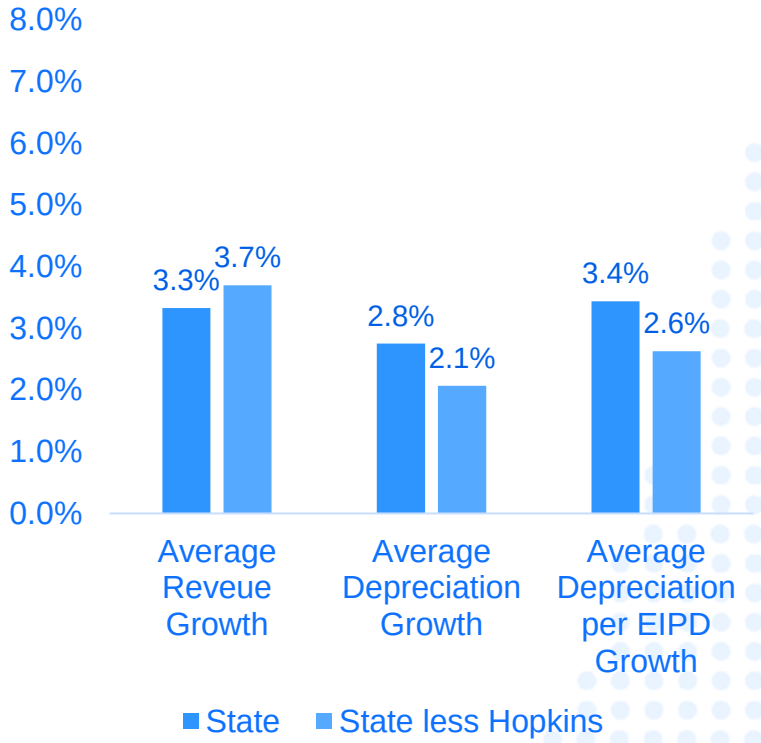
Pre-GBR CAGRs, 2008 to 2013



In the five years pre-GBR the increase in depreciation outstripped revenue growth suggesting a shift to fixed assets from other resources. This is consistent with national fee-for-service patterns where investment in hospitals fixed assets have been shown to persistently outstrip inflation[1].

Under GBRs Maryland's depreciation growth rates have dropped to near revenue growth rates.

Post-GBR CAGRs, 2013 to 2023



1. Qi, K., Jiang, X., & Bai, G. (2022). Land, buildings, and equipment acquisitions in U.S. hospitals: A fifteen-year perspective. PLOS ONE, 17(8), e0272370. https://doi.org/10.1371/journal.pone.0272370.

Fixed Asset Analysis – Next Steps

- Further areas of technical work
  - Updating system metrics for 2023
  - Adding additional metrics
    - Investments in Fixed Assets per the Cash Flow Statement
    - Comparison of revenue- and operating cost-based denominators
  - Considering trade offs between hospital and system level analysis
  - Adding additional pre-GBR history where feasible
  - Other?
- Policy level considerations
  - Potential national comparisons based on cost-report data or other data
  - Refining analysis of “over” or “under” investment in fixed assets
  - Considering analysis of return on investment considering trade-offs between capital costs, labor costs, clinical outcomes
  - Impact of Investment Cycles
  - Regional variation

Update Factor Discussion

Balanced Update Model for RY 2025

Components of Revenue Change Link to Hospital Cost Drivers /Performance

			Weighted Allowance	All Payer Revenue Increase (Millions)	Medicare Revenue Increase (Millions)
Adjustment for Inflation (this includes 4.00% for Wages and Salaries)			3.15%	$666.7	$220.0
- Outpatient Oncology Drugs			0.00%	$0.0	$0.0
Gross Inflation Allowance	**A**		**3.15%**	**$666.7**	**$220.0**
Care Coordination/Population Health					
- Reversal of One-Time Grants			-0.18%	-$38.3	-$12.6
- Regional Partnership Grant Funding RY25: Behavioral Health			0.09%	$18.7	$6.2
Total Care Coordination/Population Health	**B**		**-0.09%**	**-$19.6**	**-$6.5**
Adjustment for Volume					
-Demographic /Population			0.00%	$0.0	$0.0
-Drug Population/Utilization			0.00%	$0.0	$0.0
Total Adjustment for Volume	**C**		**0.00%**	**$0.0**	**$0.0**
Other adjustments (positive and negative)					
- Set Aside for Unknown Adjustments	D		0.00%	$0.0	$0.0
- Low Efficiency Outliers	E		0.00%	$0.0	$0.0
- Complexity & Innovation	F		0.00%	$0.0	$0.0
-Reversal of one-time adjustments for drugs	G		-0.10%	-$21.9	-$7.2
-Capital Funding & Estimated Increase for Full Rate Applications	H		0.00%	$0.0	$0.0
Net Other Adjustments	**I=**	**Sum of D thru H**	**-0.10%**	**-$21.9**	**-$7.2**
Quality and PAU Savings					
-PAU Savings	J		0.00%	$0.0	$0.0
-Reversal of prior year quality incentives	K		0.08%	$17.6	$5.8
-QBR, MHAC, Readmissions					
-Current Year Quality Incentives	L =		0.00%	$0.0	$0.0
Net Quality and PAU Savings	**M =**	**Sum of J thru L**	**0.08%**	**$17.6**	**$5.8**
Net increase attributable to hospitals	**N =**	Sum of A + B + C + I + M	**3.04%**	**$642.9**	**$212.1**
Per Capita	**O=**	(1+N)/(1-0.00%)	**3.04%**		
Components of Revenue Offsets with Neutral Impact on Hospital Finanical Statements					
-Uncompensated care, net of differential	P		0.04%	$8.5	$2.8
-Deficit Assessment	Q		0.00%	$0.0	$0.0
Net decreases	**U=**	U+V	**0.04%**	**$8.5**	**$2.8**
Total Update Rate Year 24					
Revenue growth, net of offsets	**R =**	N +U	**3.08%**	**$651.3**	**$214.9**
Per Capita Revenue Growth First Half of Rate Year	**S =**	(1+R)/(1-0.00%)	**3.08%**		

Revenue Scenario

Estimated Position on Medicare Test		
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
Step 1:		
Approved GBR RY 2024		21,166,424,369
Actual Revenue 7/1/23-12/31/23		10,452,399,742
Approved Revenue 1/1/24-6/30/24		10,714,024,627
Projected FY24 GBR Compliance		0
Anticipated Revenue 1/1/24-6/30/24	**A**	**10,714,024,627**
Expected Revenue Growth 1/1/24-6/30/24		***4.22%***
Step 2:		
Final Approved GBR RY 2024		21,166,424,369
Reverse One Time Extraordinary Adjustments:		-
Final Adjusted GBR RY 2024		21,166,424,369
Projected Approved GBR RY 2025		21,817,767,200
Permanent Update RY 2025		3.08%
Step 3:		
Estimated Revenue 7/1/24-12/31/24 (after 49.73% & seasonality)	**B**	10,849,975,628
Expected Revenue Growth 7/1/24 - 12/31/24		***3.80%***
Step 4:		
Estimated Revenue CY 2024	**A+B**	**21,564,000,256**
Increase over CY 2024 Revenue		**4.01%**
Per Capita Increase over CY 2024		**4.01%**

Guardrail Test & Saving Projections

- Maryland's performance on the Guardrail test and Savings are evaluated on a calendar year. HSCRC set rates on a fiscal year.
- In effort to ensure we are balancing the calendar year and fiscal year relationship, staff must convert the recommended RY25 update (Hospital Part A) to a calendar year (CY24) growth estimate.
- Staff model different scenarios to *project* the calendar year guardrail position for TCOC.
  - Estimates are divided into the following buckets: Hospital Part A, Hospital Part B, Non-Hospital Part A, and Non-Hospital Part B.
    - **The only bucket we have control over is the revenue in Hospital Part A.**
    - All other buckets utilize growth estimates are based on historical Medicare data.

Conclusion

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Topics for Upcoming Meeting - April 3 from 10-12

- Updates to UF Table
- Estimated Position on Medicare Target using FY GBR projections
- Savings Est. based on Medicare TCOC projection methodologies
- GSP Estimated Impact
- High Cost Drug Inflation