maryland
health services
cost review commission

Payment Model Work Group

April 27, 2023

Overview of Hospital Financials

Overview of Hospital Financial Conditions

- As demonstrated in the Appendix comparing values to pre-GBR levels as a refence point, Staff believe the analysis shows that hospitals have improved financial conditions under the global budget and remain in a stronger position than in 2013.
- Analysis is at State level, individual hospitals have varying experience
- HSCRC believes cash (and investments), debt and capital spending should be analyzed in conjunction with each other.
  - The HSCRC is working on an evaluation of capital investments. Preliminary results do not show significant erosion through FY22, particularly when considering investments per unit of service. HSCRC would welcome industry analysis of capital investment levels.
- HSCRC intends to work with stakeholders in the future to establish a common evaluation of financial stability.

FY2024 Update Factor Model

Balanced Update Model for RY 2024

Components of Revenue Change Link to Hospital Cost Drivers /Performance

			Weighted Allowance
Adjustment for Inflation (this includes 4.80% for wages and compensation)			3.16%
- Outpatient Oncology Drugs			0.00%
Gross Inflation Allowance	**A**		**3.16%**
Care Coordination/Population Health			
- Reversal of One-Time Grants			-0.22%
- Regional Partnership Grant Funding RY24			0.19%
Total Care Coordination/Population Health	**B**		**-0.03%**
Adjustment for Volume			
-Demographic /Population			0.39%
-Transfers			0.00%
-Drug Population/Utilization			
Total Adjustment for Volume	**C**		**0.39%**
Other adjustments (positive and negative)			
- Set Aside for Unknown Adjustments	D		0.10%
- Low Efficiency Outliers	E		0.00%
- RY 2022 Surge Funding	F		0.20%
- Complexity & Innovation	G		0.10%
-Reversal of one-time adjustments for drugs	H		-0.09%
-Captial Funding	I		0.01%
Net Other Adjustments	**J=**	**Sum of D thru I**	**0.31%**
Quality and PAU Savings			
-PAU Savings	K		-0.36%
-Reversal of prior year quality incentives	L		-0.32%
-QBR, MHAC, Readmissions			
-Current Year Quality Incentives	M =		-0.25%
Net Quality and PAU Savings	**N =**	**Sum of K thru L**	**-0.93%**
Total Update First Half of Rate Year 23			
Net increase attributable to hospitals	**O =**	Sum of A + B + C + J + N	**2.91%**
Per Capita First Half of Rate Year (July - December)	**P=**	(1+O)/(1-0.16%)	**3.07%**
Adjustments in Second Half of Rate Year 24			
-Oncology Drug Adjustment	Q		0.00%
-Current Year Quality Incentives	R		0.00%
Total Adjustments in Second Half of Rate Year 24	**S =**	Q+ R	**0.00%**
Total Update Full Fiscal Year 24			
Net increase attributable to hospital for Rate Year	**T =**	O + S	**2.91%**
Per Capita Fiscal Year	**U =**	(1+T)/(1-0.16%)	**3.07%**
Components of Revenue Offsets with Neutral Impact on Hospital Finanical Statements			
-Uncompensated care, net of differential	V		0.05%
-Deficit Assessment	W		0.00%
Net decreases	**X =**	V + W	**0.05%**
Total Update First Half of Rate Year 24			
Revenue growth, net of offsets	**Y =**	O + X	**2.96%**
Per Capita Revenue Growth First Half of Rate Year	**Z =**	(1+Y)/(1-0.16%)	**3.12%**
Total Update Full Rate Year 24			
Revenue growth, net of offsets	**AA =**	T + X	**2.96%**
Per Capita Fiscal Year	**BB =**	(1+Z)/(1-0.16%)	**3.12%**

RY24 Update Factor Model

Base Year Revenue ($ Millions) - 33% Medicare FFS		$20,293	$6,697
Item	**% Increase**	**All-payer $ Increase (Millions)**	**Medicare $ Increase (Millions)**
Inflation	3.16%	$641	$212
Drug Inflation	0.00%	$0	$0
Care Coorindation/Population Health	-0.03%	-$6	-$2
Volume (DA, Drugs)	0.39%	$80	$26
Set Aside for Unknown Adjustment	0.10%	$20	$7
Low Efficiency Outliers	0.00%	$0	$0
Surge Funding	0.20%	$40	$13
Complexity & Innovation	0.10%	$19	$6
Capital Funding	0.01%	$2	$1
Reversal of one-time adjustments for drugs	-0.09%	-$18	-$6
PAU	-0.36%	-$73	-$24
Quality Adjustments (Net of Reversals)	-0.57%	-$116	-$38
2nd half Oncology Drug Adjustment	0.00%	$0	$0
Total Hospital Update Full Rate Year 24	2.91%	$590	$195
Per Capita Fiscal Year	**3.07%**		
Revenue Offsets with no impact to Hospitals	0.05%	$10	$3
Total Revenue Update Full Rate Year 24	2.96%	$600	$198
Per Capita Fiscal Year	**3.12%**		

RY 2023 & 2024 Demographic Adjustment

- Based on PMWG deliberations and preliminary discussions with Commissioners, staff are going to reflect in the RY 2024 Update Factor recommendation two adjustments related to demographics:
  - Reverse negative adjustments that occurred in RY 2023 ($79.7M or 0.39% of total GBR revenue)
  - Ignore Department of Planning projected population decline of 0.16% April 2021 to June 2022 and instead implement a 0% Demographic Adjustment for **all** hospitals
- Following the approval of the Update Factor, staff will work with stakeholders to resolve any additional "catchup" the Commission should provide for the ten-year forecasting error that occurred in the preceding decade.
- Current preliminary estimates, using staff's assumptions for discounting years not attributable to a population based methodology, indicate there could be an additional 0.97% provided in rates for a census catchup

	Population Count	% of RY 2022 Funded Population
Census Catchup	116,877	1.93%
Less 30% (2011-2014)	(35,063)	-0.58%
Less Pop Growth Provided Since RY 2023	(15,161)	-0.25%
Less RY 2024 DOP Cumulative Reduction Credit	(8,019)	-0.13%
Potential Remaining HSCRC Census Catchup	58,634	0.97%

CY23 Revenue Growth Estimate

Estimated Position on Medicare Test		
Actual Revenue CY 2022		19,984,015,293
Step 1:		
Approved GBR RY 2023		20,185,681,779
Actual Revenue 7/1/22-12/31/22		9,932,046,714
Approved Revenue 1/1/23-6/30/23		10,253,635,065
FY23 Undercharge in First Half of CY23		-34,166,781
Anticipated Revenue 1/1/23-6/30/23	**A**	**10,219,468,284**
Step 2:		
Approved GBR RY 2023		20,293,387,021
Reverse One Time Extraordinary Adjustments:		
Adjusted GBR RY 2023		20,293,387,021
Projected Approved GBR RY 2024		20,893,329,475
Permanent Update RY 2024		2.96%
Adjusted Change from GBR RY 2023		2.96%
Step 3:		
Estimated Revenue 7/1/23-12/31/23 (after 49.73% & seasonality)		10,390,252,748
		-
		-
Projected Revenue 7/1/23-12/30/23	**B**	**10,390,252,748**
Step 4:		
Estimated Revenue CY 2023		**20,609,721,032**
Increase over CY 2022 Revenue		3.13%

- The approved GBR RY2023 $20,185,681,779 under Step 1 accounts for the increase in the change in differential that went into effective April 1 ,2023.
  - Necessary to account for anticipated charges in first six months of CY 2023
- The approved GBR RY2023, $293,387,021 under Step 2 accounts for the change in differential for the full rate year (RY2023).
  - Necessary to establish the base GBR to apply the Update Factor to
- The staff modified its Total Cost of Care Savings test to include gross differential savings. In prior presentations, we accounted for the net differential savings
  - Creates no impact to TCOC savings test but better reflects all-payer hospital growth

CY 23 Medicare FFS Guardrail Scenarios – Introduction

- Uses December paid through February with Completion Factors (Will update with additional on additional month of completion before finalizing)
- Jan 1 TCOC mitigation activities are mostly reflected as an add on to each scenario as they are temporary (do not help 2024 target).
  - reflects impact of approved differential change on a gross basis and MPA savings component
  - all-payer reduction and mark up impact of differential is reflected in base approval

Variable	Add on savings to MC TCOC ($M)	Comment
All-Payer Reduction	$0	In base rates
Differential	$50	MC Savings only, mark up in base rates
MPA Savings Component	$64	
Traditional MPA impact Penalty Increase	$11	Not part of improvement plan
Total	**$125**	**Equivalent to 1.13% of MC FFS spending**

MC FFS Guardrail Tests - Proposed Scenarios

- All scenarios uses HSCRC revenue projection for Part A and Part B MD Hospital

- For MD Non-Hospital and US Hospital and Non-Hospital

  Scenario 1: 2022 Trended forward at 2017 - 2019 Trend

  Scenario 2: 2022 Trended forward at 2015 - 2019 Trend

  Scenario 3: 2022 Trended forward at 2021 - 2022 Trend

  Scenario 4: 2019 Trended forward at 2015 - 2019 Trend (bounce back)

- Scenarios 1, 2 and 4 mirror last year.
  - Scenario 2 was added last year as Scenario 1 approach proved too generous in 2021.
  - Scenario 2 was closest projection to 2022 actual. Scenario 4 is similar to OACT approach
- Scenario 3 added this year.
- No variance statistic included at this time

CY 23 Guardrail Scenarios

Scenario 1: 2022 Trended Forward at 2017-2019			
2 Year Growth	Maryland	US	
2022	$13,566	$11,761	
2023	$14,048	$12,228	Variance
YOY Growth	3.55%	3.97%	-0.42%
		Impact of 1/1 Temporary Mitigation	-1.13%
			-1.55%
		Estimated 2023 Savings in Millions	$384

Scenario 2: 2022 Trended Forward at 2015-2019			
2 Year Growth	Maryland	US	
2022	$13,566	$11,761	
2023	$13,978	$12,098	Variance
YOY Growth	3.04%	2.87%	0.17%
		Impact of 1/1 Temporary Mitigation	-1.13%
			-0.96%
		Estimated 2023 Savings in Millions	$315

Scenario 3: 2022 Trended Forward at 2021-2022			
2 Year Growth	Maryland	US	
2022	$13,566	$11,761	
2023	$13,904	$12,066	Variance
YOY Growth	2.49%	2.60%	-0.10%
		Impact of 1/1 Temporary Mitigation	-1.13%
			-1.23%
		Estimated 2023 Savings in Millions	$334

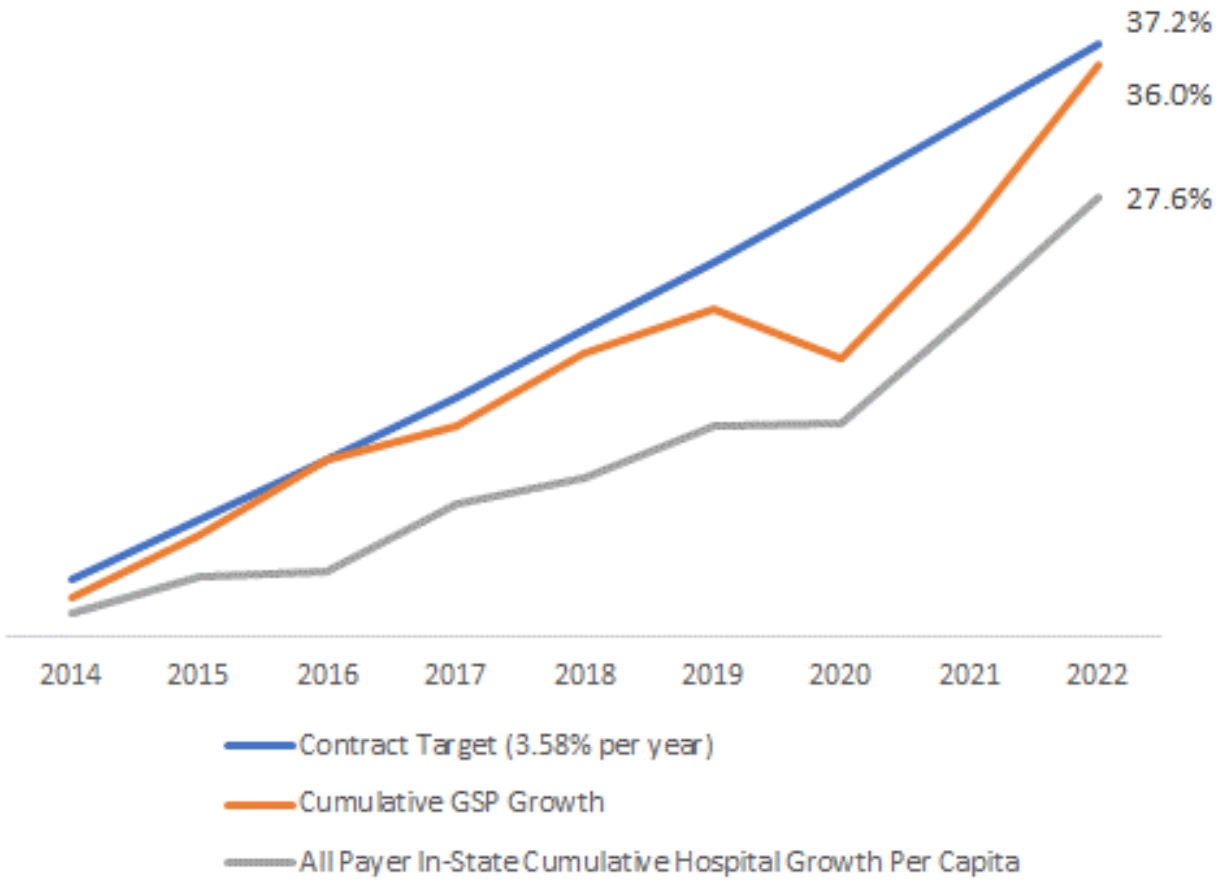
Scenario 4: 2019 Base applied 2015-2019 CAGR			
2 Year Growth	Maryland	US	
2022	$13,566	$11,761	
2023	$14,024	$12,194	Variance
YOY Growth	3.38%	3.69%	-0.31%
		Impact of 1/1 Temporary Mitigation	-1.13%
			-1.43%
		Estimated 2023 Savings in Millions	$382

Updated Affordability Tests

Updated Affordability Tests

- Revisions from prior presentation
  - Updated population and update factor values
  - Converted 5-year test to compare on a CY basis with GSP lagged 1 year (rather than RY Charges vs CY GSP where GSP was 18 months behind)
  - Converted 5-year test to compare GSP to In-State revenue versus total revenue as that comparison seems more appropriate and is consistent with the State's all-payer test.
- Population update considerations - analytics do not include corrected MD population resulting from census revision
  - Consistent with deferral of that revision elsewhere
  - Revision will improve State's position against the fixed 3.58% all-payer target but otherwise the change will revise the absolute amounts but not the relative position as all other amounts are converted to per capita using the same population estimate.

Affordability Scorecard – Cumulative GSP Test

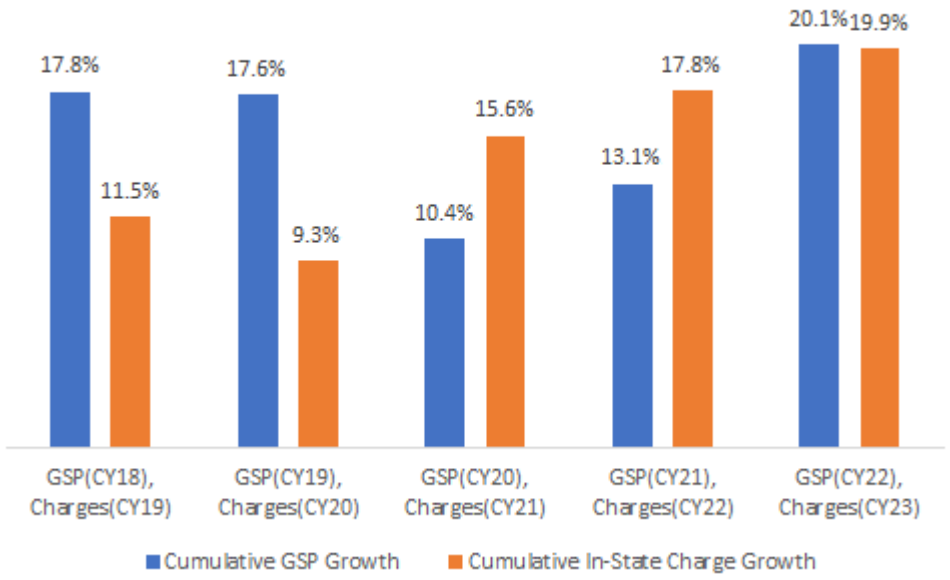


- Under the TCOC Model Contract, all-payer per capita in state revenue is not allowed to exceed annual growth of 3.58%.
- This is a reporting test and is therefore not lagged. The amount used is in-state hospital revenue not total hospital revenue.
- Chart also shows actual GSP growth, as the 3.58% was a historic number and does not represent actual GSP growth, which is cumulatively about 4 points lower.
- Rate increases have been lower than both the contractual target and actual GSP growth over the life of the contract. Most of the gain occurred in the early years of the contract.

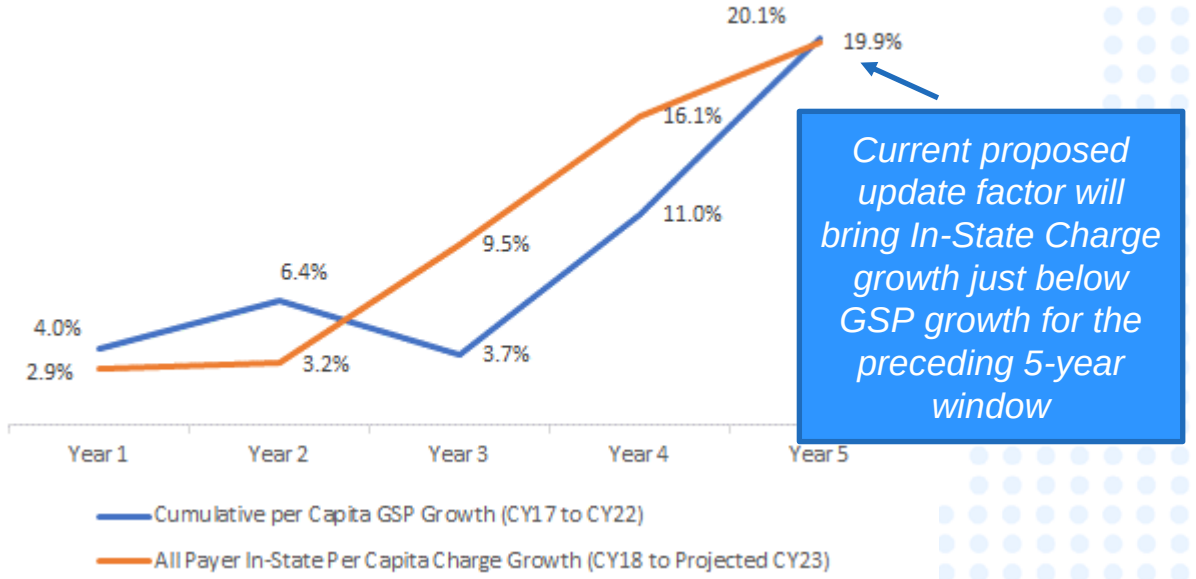
Affordability Scorecard – 5-year GSP Test

- In prior periods, staff have suggested a rolling 5-year GSP test to ensure hospital costs remain affordable on an ongoing basis.
- The test is lagged to avoid requiring a prediction of GSP. For example compares, GSP for CY17 to CY22 to In-State Charges for CY18 to projected CY23

GSP vs In-State Charge Growth for the 5-year periods ending with the date shown



GSP vs In-State Charge Growth over the course of the current 5-year window



Current proposed update factor will bring In-State Charge growth just below GSP growth for the preceding 5-year window

MHA :Annual Payment Update and 2023 Model Limit

ANNUAL PAYMENT UPDATE COMPARISONS

Category	MHA 3-14	HSCRC 3-29	MHA Full Funding
2024 Base Inflation (IHS Q4 2022 forecast, likely to rise *0.1% to 0.3% in late April / early May release*)	3.16%	3.16%	3.16%
Additional Inflation Allowance	1.07%	-	1.07%
Subtotal	**4.23%**	**3.16%**	**4.23%**
PAU Savings Offset	-0.25%	-0.33%	-0.33%
Quality Policies (Reverse 2023 + new 2024)	-0.32%	-0.38%	-0.38%
COVID Surge Funding (one-time)	-	0.20%	0.20%
Demographic Adjustment (reverse 2023 offsets)	-	-	0.40%
Deregulation Adjustment	-	-	-
Other (net)	-0.06%	-0.09%	-0.09%
Change in UCC	-0.06%	0.05%	0.05%
Total Revenue Growth	**3.54%**	**2.61%**	**4.08%**

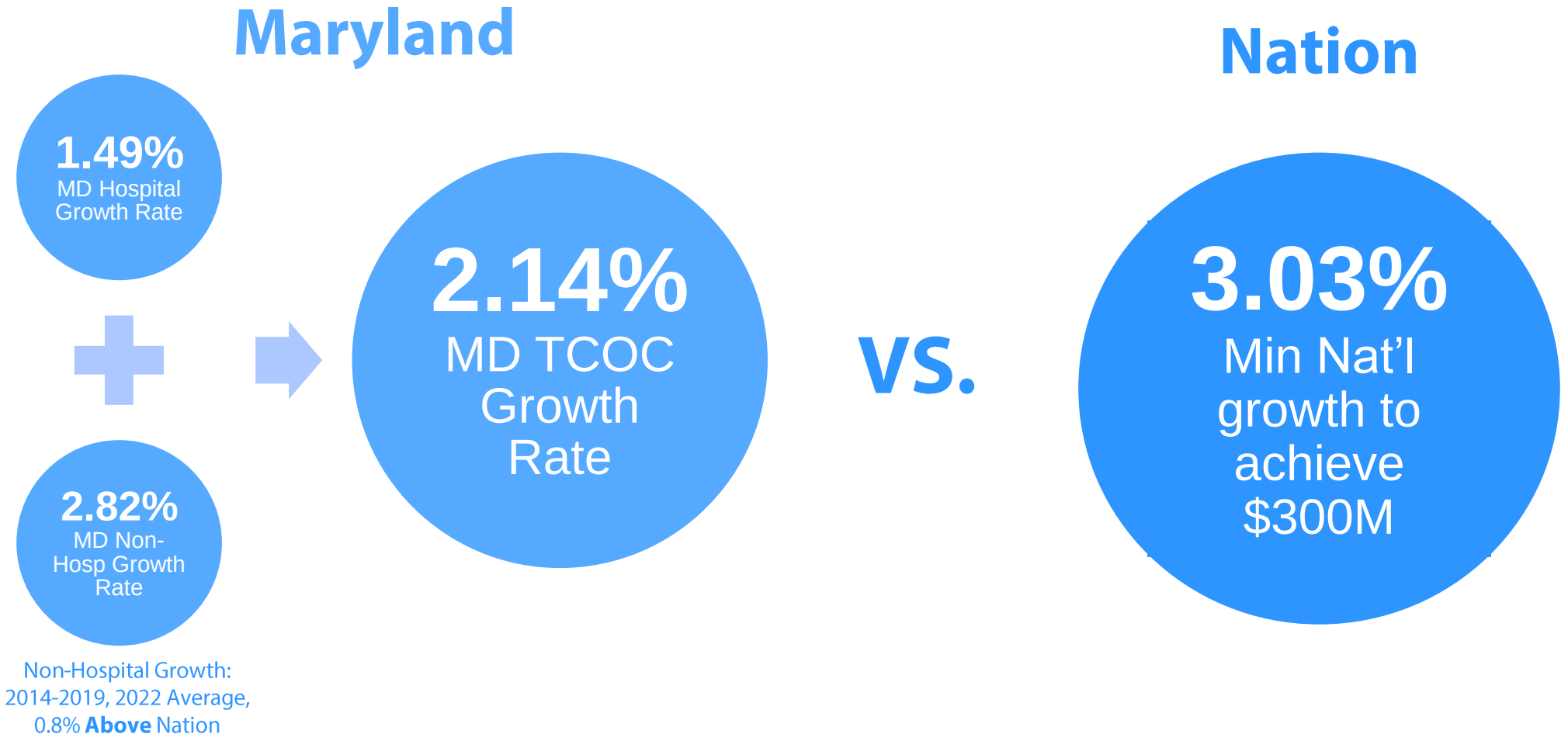
CY2023 hospital Revenue growth

Calendar Year 2023 Hospital Revenue Growth Projections	
Jan-June Growth (RY2023)	1.27%
Jul-Dec Growth (RY2024)	5.01%
CY 2023 over CY 2022 All-Payer Growth	**3.13%**
Less Approved Actions Affecting Medicare:	
MPA-SC Reduction	(1.10%)
Differential Savings	(0.35%)
Subtotal:	(1.45%)
Traditional MPA	(0.19%)
CY 2023 Projected Medicare Hospital Growth	**1.49%**

4.08% RY2024 Update, compared to actual Jul-Dec 2022 Revenue

% of Total Medicare Hospital Payments

Projected Growth to meet CY2023 $300m target

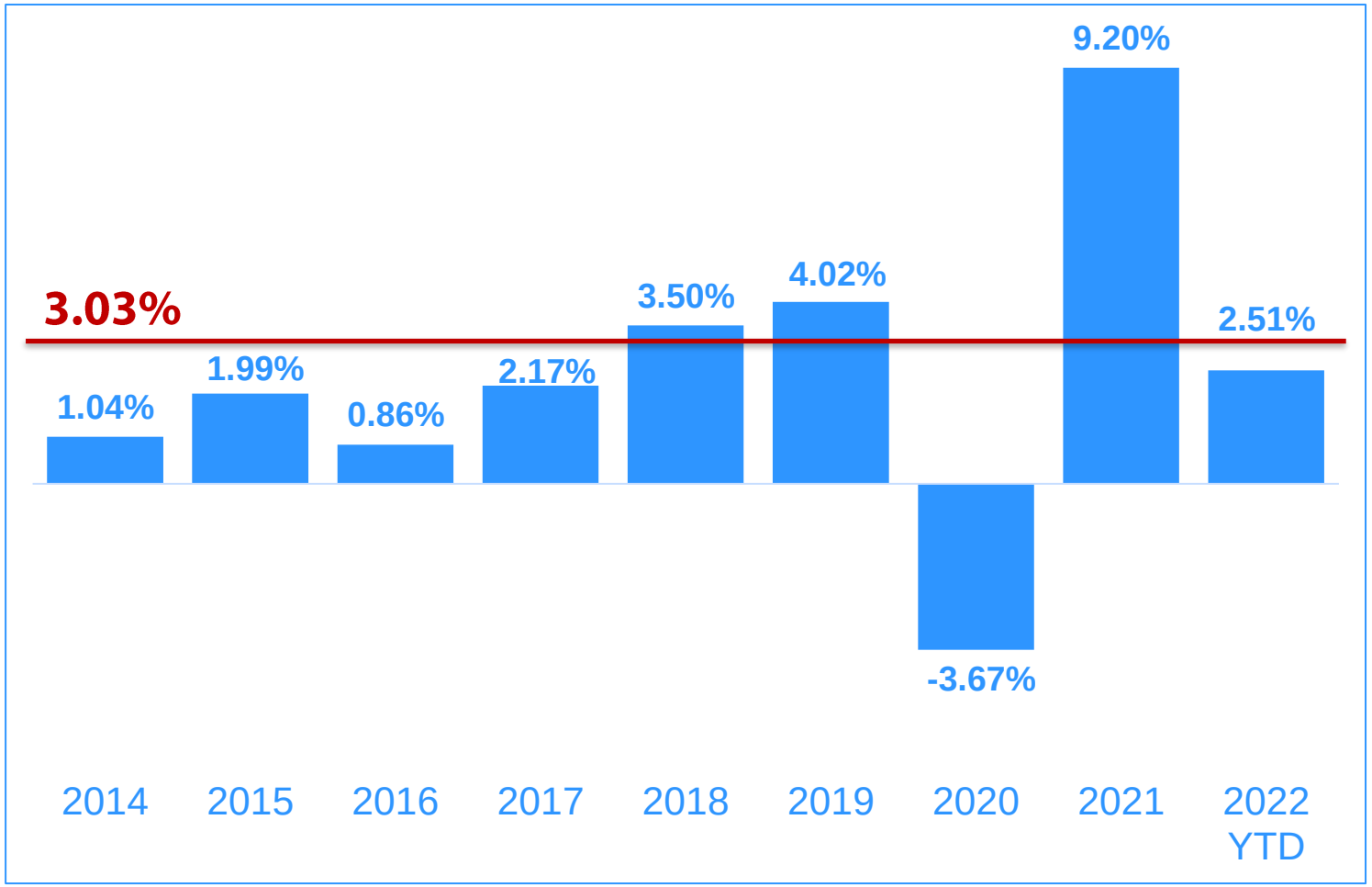


Non-Hospital Growth: 2014-2019, 2022 Average, 0.8% **Above** Nation

Minimum National Growth is Reasonable

National TCOC Growth 2014-2022

Minimum national TCOC growth to achieve $300M in savings with MHA's position



Source: CMS TCOC Monitoring Data

Appendix

Drug Inflation

RY23 High-Cost Drug Inflation Factor

- In RY23 the Commission used a 1% inflation factor for drug prices
  - 6% had been used prior to that
  - Factor covers price trend and mix trend, volume is addressed through the CDS-A adjustments

- Staff believes data from the last four periods would support a lower price and mix trend. Trend has mostly been volume driven.

- As data from RY22 does not show any increase in trends, as indicated last year, Staff is proposing to lower the drug trend to 0% for RY24. Inappropriately high drug trends crowd out inflation in other areas.

Background on Drug Inflation Analysis

- Drug inflation is segregated in the Update Factor. Inflation allocated to high-cost drugs on the CDS-A is backed out of the total inflation.
- Starting in 2019, the HSCRC switched to using a stable drug list in the CDS-A. This allows for a more accurate assessment of trends in high-cost drugs.
  - 2020 saw the addition of the drugs previously covered under the Innovation policy, which is now focused only on IP (Lutathera and Spinraza)
  - There have been no further policy modifications
- The HSCRC now has 4 years of stable, accurate data on drug price trends for the high-cost drugs from the CDS-A survey that allows for the evaluation of price trends in consistent fashion.

Trends in the CDS-A Drug List 2018 to 2022

- HSCRC calculates specific trends from CDS-A included drugs.
- Prior analysis was showing persistently declining drug trends since peaks in the 2014 to 2016 window.
- Use of 340B discounts is now relatively stable.
- While the Pure Volume trend has slightly increased over the previous year, this is addressed through the CDS-A audit process.
- The price and mix trend is slightly below 0%. Therefore, Staff is proposing 0% for this Update Factor.

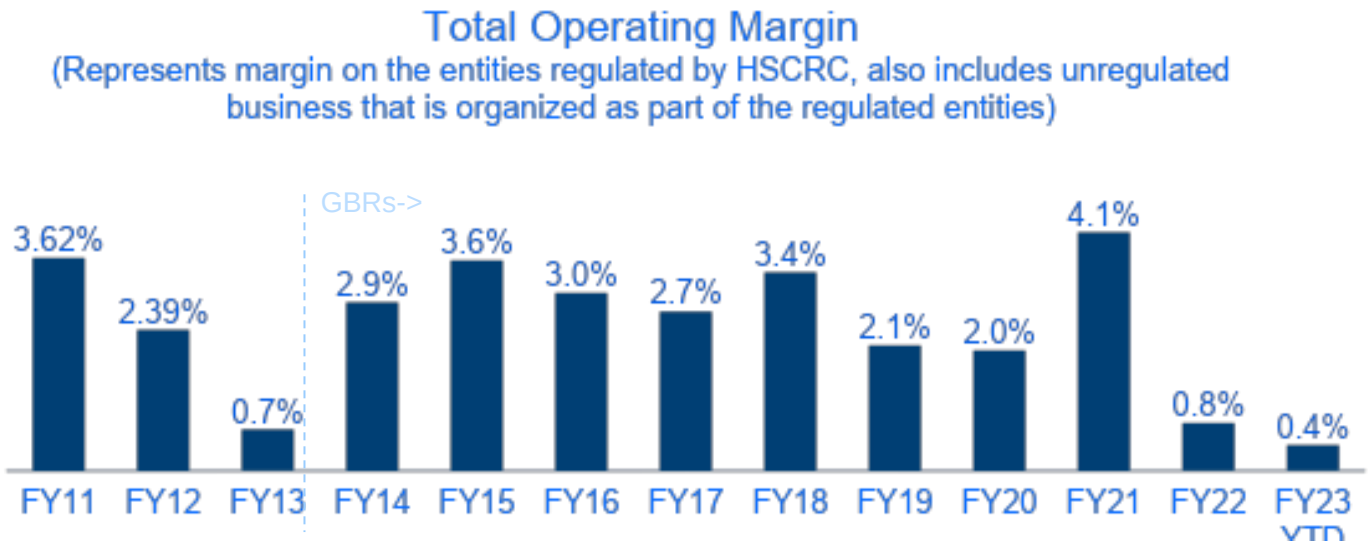
Period (1)	Pure Volume Trend	Price and Mix Trend	Total Trend
FY18 to FY19	8.2%	-4.4%	3.4%
FY19 to FY20	7.2%	-4.3%	2.5%
FY20 to FY21	3.7%	0.4%	4.1%
FY21 to FY22	3.9%	-1.0%	2.9%

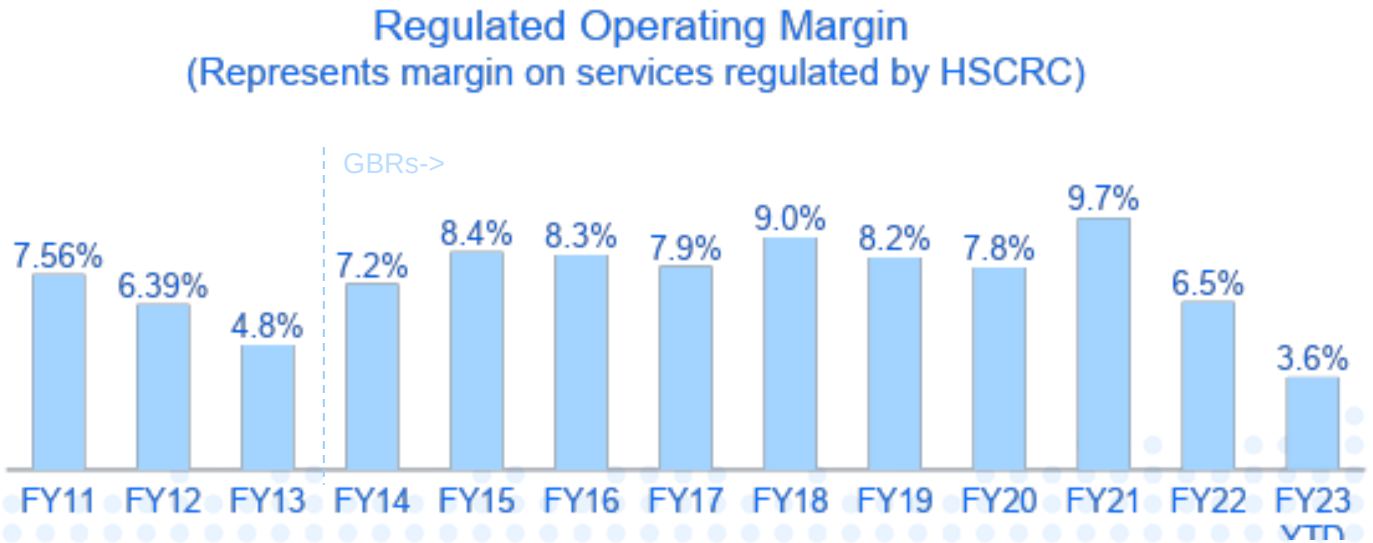
Staff also built a projection model based on the prior year trends that normalizes out outlier trends for young and old drugs. This projection generates 3.3% Price and Mix trend in FY23, but the model over-projected actual trends in past years.

(1) Reflects reported amounts from CDS-A survey in the second period. Therefore 2019 in the 2019 to 2020 trend is different than that used in 2018 to 2019. Although differences are relatively small and primarily reflect the addition, in 2020, of the drugs previously under the Innovation policy.

Hospital Financial Condition Detail

Hospital Margins FY2014 to FY2023





- FY22 and FY23 (YTD Dec.) margins are the lowest for any period under global budgets. FY21 was the best year. FY23 margins were lowest in November and recovered slightly in December.
- Margins for HSCRC regulated business are strong in all periods, and are stronger than pre-GBR periods
- Unregulated costs, particularly physician costs, pull total margins down.
- Even in the weakest years total margins have remained positive.

Source: All years except FY23 per Hospital Annual Filings. FY23YTD from unaudited monthly reports through December 2022.

Cumulative Margins

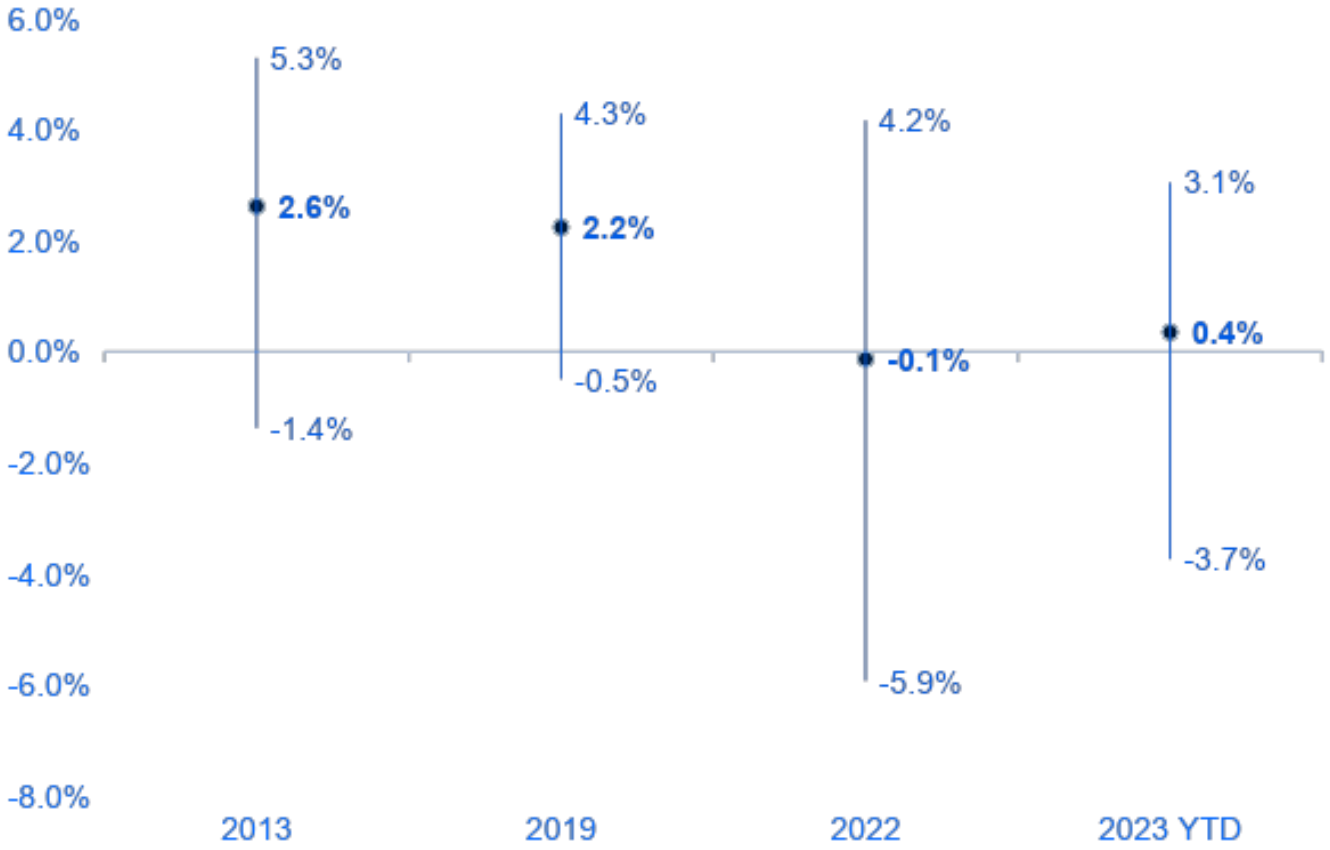
- The Model is intended to generate long-term stability. It is important to look at longer-term margin rates.
- In the most recent period, with the weakest regulated and total margins, margins are positive, indicating resources in total are sufficient to meet financial requirements.

	Total Operating Margin	Regulated Operating Margin
Last 2.5 Years	2.0%	7.2%
Last 4.5 Years	2.0%	7.5%
Under GBRs	2.6%	7.8%

- In addition to margins, hospitals realize non-operating gains, primarily from income from investments. While this income source is unstable, over the life of the model, that income adds an average 1.6% to the margins above.

Source: All years except FY23 per Hospital Annual Filings. FY23YTD from unaudited monthly reports through December 2022.

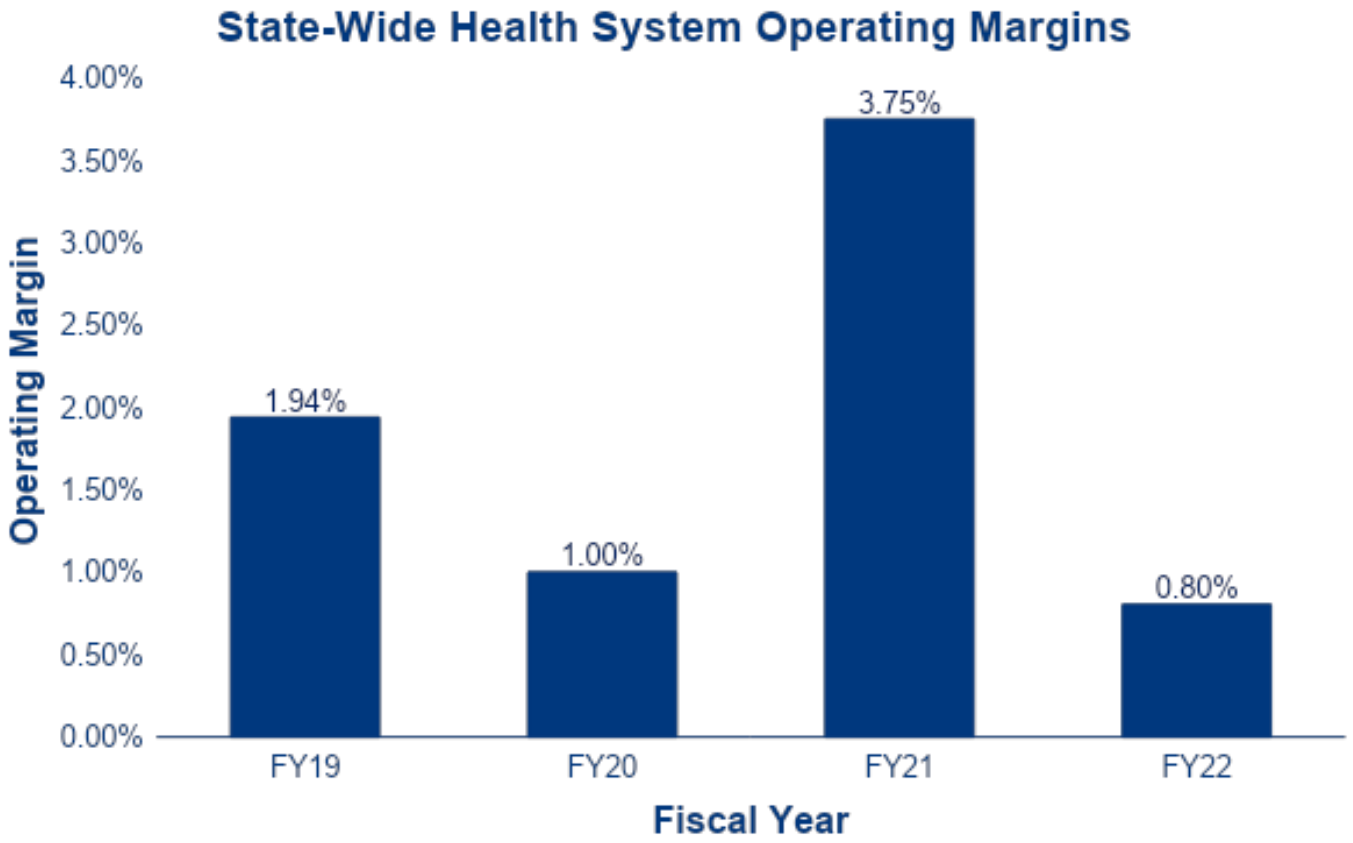
Distribution of Hospital Margins (Total Operating Margin)



- 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 FY23 per Hospital Annual Filings. FY23YTD from unaudited monthly reports through December 2022.

System Level Margins



- HSCRC compiled system level margins for primarily Maryland domiciled systems for the last few years.
- System level margins have been lower but remained positive through FY22.
- FY23 data not available as the system financials are extracted from annual audited financials.

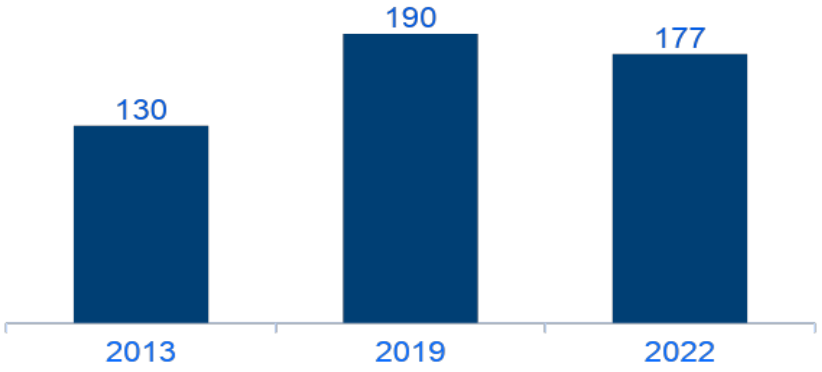
Source: Audited Financial Statements

Balance Sheet Ratios

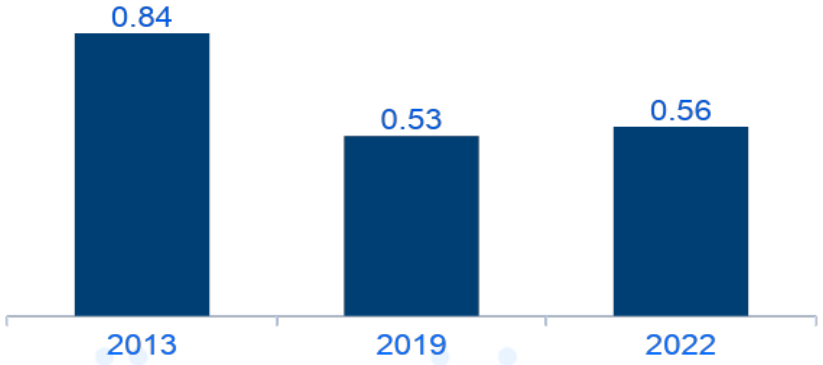
- Days Cash on Hand have increased by 36% under GBRs despite recent challenges (median = 30%).
- Days Cash on Hand trend up through June 2019 but have since dropped down. Decreases were due to cost pressures during 2022. Federal and State funding eliminated any negative effects from the COVID pandemic through June 2021.
- HSCRC data shows days cash on hand statistics around 100 were common in the 2000's, Staff understands bond covenants typically call for 75 days.

- While strengthening their cash positions, hospitals have also been able to pay down debt under GBRs resulting in lower debt ratios (median = 22%).
- Debt ratios were slightly eroded by COVID and subsequent cost pressures but remain 33% below June 2013 levels
- Staff will also be evaluating capital investment levels to evaluate review performance of metrics like average-age-of plant.

Days Cash on Hand



Debt to Unrestricted Net Assets



Source: Metrics are shown as of June 2013 (pre-GBR), June 2019 (pre-pandemic) and June 2022 (most recent period available). Hospital Audited Financial Statements. Amounts are system-level not regulated entity balances, and generally reflect cash, and short and long-term investments, excluding those with donor or other restrictions but including board-designated funds. Excludes primarily non-Maryland domiciled systems: WMHS, ChristianaCare Union, Ascension and Trinity. Adventist data is as of December 31, 2021.