maryland
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HSCRC Public Session - UM Midtown Temporary Rate Application

August 1, 2022

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UM Midtown Temporary Rate Application

Staff Recommendation

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UM Midtown Temporary Rate Change Request

- Permanent adjustment of $20.3 million to its Global Budget Revenue ("GBR") to account for a reversal of the 2018 Commission-approved spenddown of the Hospital ($15.2 million as inflated to FY 2023 dollars) and $5.1 million to its GBR to fund above average insurance company denials at the Hospital's Emergency Department;

- One-time adjustment of $15 million over two fiscal years (FY 2023 and FY 2024) to fund cost reduction initiatives that are intended to lead to long-term financial sustainability; and

- Additional cost strip in the ICC for the Hospital's Disproportionate Share ("DSH") percentage, on top of the adjustments already made in the ICC that account for the Hospital's concentration of DSH patients.

Criteria for Temporary Rate Change

- Maryland COMAR 10.37.10.05 specifies that a hospital may apply at any time for a temporary change in rates provided that one of the following conditions is met:
  1. A decline in the hospital's experienced or projected net revenues, due to factors beyond the hospital's control, requiring funds beyond those normally available;
  2. An increase in the hospital's experienced or projected expenses, due to factors beyond the hospital's control, requiring funds beyond those normally available; or
  3. A hospital's expenses from regulated services exceed its revenues from regulated services, or the hospital's financial integrity is otherwise jeopardized (for example, for breaching its bond covenants).
- Within 12 working days from the filing of the application, the Commission shall issue its order either denying the temporary change in rates and stating the grounds therefor or granting a temporary change in rates, stating the amount, the necessity of the change, and that a regular rate review will be conducted as soon as practicable.
- UM Midtown submitted a Temporary Rate Application on July 20, 2022.

History of Spenddown Decision for Midtown

Spenddown Background

- HSCRC Commissioners, as part of its strategic sessions, directed staff to review high cost and low cost outlier hospitals based on a number of factors:
  - Interhospital Cost Comparison (ICC) result
  - Total Cost of Care (TCOC) per capita growth rate
  - Potentially Avoidable Utilization (PAU) growth rate and PAU attainment
  - Quality Program Performance - MHAC, RRIP, and QBR performance
- Evaluation of University of Maryland Medical Center Midtown Campus in 2018
  - Worst RY 2018 ICC Performance among Maryland hospitals (32.7% over the standard vs Statewide Avg of 13.17%)
    - **15.6% Regulated Margin vs Statewide ICC Avg of 7.8% (RY17 Statistics)**
    - **29.2% over Statewide Cost Per Case Avg (23% over Urban Peer Group Avg)**
  - Top quintile for TCOC growth rate per capita
  - Favorable PAU growth rate, but significantly high PAU attainment
  - Mixed quality outcomes
- Commission voted in November 2018 to implement a structured spenddown for Midtown between RY 19-23

Spenddown Results

- Due to positive performance during the spenddown (improved ICC performance without worsening TCOC and/or PAU performance), Midtown did not receive reductions in RY 2021
- Midtown's RY 2021 performance narrowly missed the threshold for avoiding the RY 2022 reduction by 17 basis points
  - Staff waived the RY 2022 reduction because staff could not produce an updated ICC analysis due to COVID
  - Staff also exempted the hospital from the .55% or $1.24M reduction the hospital would have incurred under the Integrated Efficiency Policy, which used a prior year of the ICC to evaluate statewide performance
- Staff suspended the spenddown for RY 2023 and the Hospital will now be evaluated with all other hospitals using the Integrated Efficiency Policy

Rate Year	Proposed Revenue Reduction (based on 2018 GBR)	$ Impact (2018 denominator locked)	Potential $ Cumulative Impact	Actual $ Cumulative Impact
2019	3%	-$7,134,794	-$7,134,794	-$7,134,794
2020	3%	-$7,134,794	-$14,269,588	-$14,269,588
2021	2%	-$4,756,529	-$19,026,117	-$14,269,588
2022	2%	-$4,756,529	-$23,782,647	-$14,269,588
2023	2%	-$4,756,529	-$28,539,176	-$14,269,588

Evolution of Efficiency Analysis

- Negotiated Spenddown of Midtown Hospital was time and labor intensive
- Instead of dealing with individual outlier cases, Commission directed further development of a statewide policy to evaluate high-cost hospitals with poor TCOC performance
- Integrated Efficiency Policy was adopted in June 2021
  - Formulaic evaluation of hospital efficiency that takes into account the incentives of the Total Cost of Care Model
  - First brought as a draft in July 2019, but delayed until June 2021 for implementation in RY 2022
  - The integrated efficiency policy is established by the HSCRC to simultaneously evaluate whether hospitals are “technically efficient” on a cost per case basis AND are effective in controlling total cost per capita
  - RY 2023 Integrated Efficiency adjustment has not been determined due to COVID-effects on the ICC

Staff Analyses

Margins at UM Midtown

Midtown margins have eroded since the spenddown began in RY

	RY 2017	RY 2018	RY 2019	RY 2020	RY 2021
Regulated	15.6%	15.1%	9.4%	9.0%	3.5%
Unregulated	-151.8%	-101.4%	-93.6%	-89.0%	-107.9%
Total	**5.2%**	**2.6%**	**-2.3%**	**-2.8%**	**-10.3%**
Pro forma Regulated without Spenddown	15.6%	15.1%	12.0%	13.9%	8.7%
Pro forma Total without Spenddown	**5.2%**	**2.6%**	**0.4%**	**2.3%**	**-5.3%**

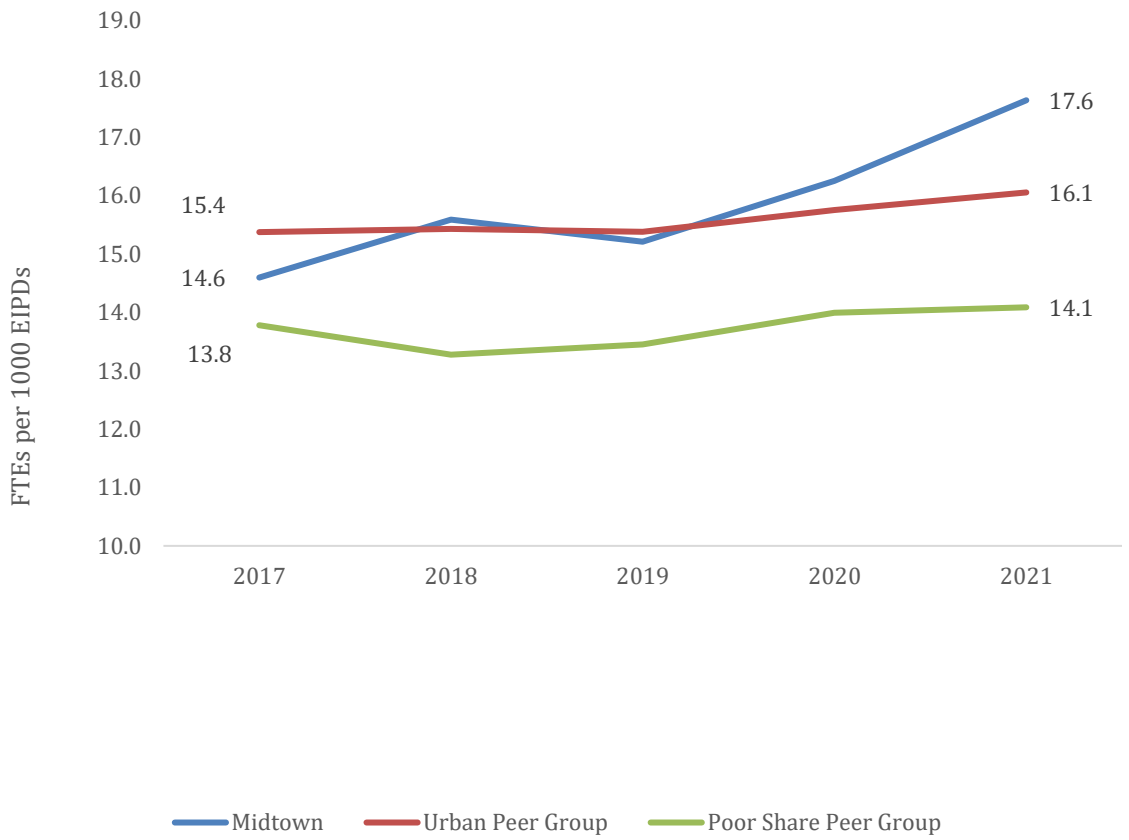
- Hospital year-to-date monthly unaudited financial submission shows a negative regulated operating margin in RY 2022; Staff will confirm the RY 2022 total margin once the Hospital submits audited year-end financial reports.
- While the Spenddown decreased regulated revenue in RY 19 and 20, revenue transfers associated with volume growth was not maximized in RY 21 or 22 that could have improved the operating margin.
- Also, the Hospital increased both regulated and unregulated expenses in the midst of the Spenddown; from 2017 to 2019, the Hospital increased its regulated operating expense by 5.3% and its unregulated operating expenses by 44%.
- In order to fully examine the reasons for the diminishing regulated margin and total operating margins, Staff believes that an examination of the practice for accounting for physician expenses and revenue is warranted.

Volume and Revenue Changes

- In part response to the Spenddown, the Hospital moved certain service lines from UMMC to Midtown including inpatient psych, post-acute, and certain surgical outpatient services. While this improved the hospital ICC efficiency, it appears as if an insufficient revenue transfer was associated with this volume growth.
- Relying only on market shift analysis is insufficient to pick up the full revenue associated with a purposeful movement of service lines; especially as market shift analysis was suspended during the pandemic due to volume instability
- HSCRC Staff and the Hospital should work together to properly account for service lines that were moved from UMMC to Midtown and effectuate a revenue transfer.
- Market shift adjustments are also likely warranted for volume that the Hospital has gained from other area hospitals. HSCRC Staff should examine this adjustment as well.
- Contractual adjustments appear to have increased by $8 million from RY 2018 to RY 2021, counting as a deduction to revenue and would explain a third of the deterioration in total operating margin. Additional information on this point would help to clarify the Hospital's revenue picture.

Example of Expense Growth at Midtown: FTE growth

- Despite the spenddown Midtown has continued to invest in regulated staff at a greater rate than their peers.
- From 2017 to 2019 Midtown's FTEs per 1000 EIPDs* grew by 4% while their peers were flat or down. The trend has accelerated since 2019.
- From 2017 to 2019 Midtown increased from 980.7 to 1,094.4 regulated FTEs. A jump of 11.6%



*EIPDS = Equivalent Inpatient Days is a measure of total hospital volume.

Additional Physician Expense Analysis

- According to Physician's Practices Loss data in the Annual Filing Schedules (UR-6, UR-8), the physician investment loss per employed physician at Midtown Hospital was 5 times greater than the historical peer group of Prince George's, Mercy, Sinai, Union Memorial, Bayview, and Harbor hospitals and 6 times greater than comparable poor share peer group hospitals (defined as having a poor share payer mix greater than 35 percent).
- In 2019, UM Midtown lost $852,127 per employed physician FTE compared to the urban peer group average of $166,958 per FTE and a poor share peer group average of $141,763 per FTE.
- Staff is concerned that a portion of this excess loss per FTE may be due to the Hospital's reporting of physician FTEs in its annual filings, as Midtown shifted from employed physicians to contracted members from the UMSOM and as a result reported 65.5 FTEs in RY 2018 and only 29 in RY 2019 despite a relatively flat unregulated operating loss.
- Nevertheless, Midtown prior to the spenddown (RY 2017 & RY 2018) maintained a loss per FTE roughly 2.5 times higher than the urban peer group and poor share peer group, and since the spenddown the unregulated physician losses have increased 30 percent from RY 2018 to RY 2021.

Staff Evaluation of Temporary Rate Change Request based on Hospital Revenue and Expenses

- Based on the analyses conducted, Staff does not find that the Hospital has met any of the three conditions in COMAR 10.37.10.05:
  1. **Revenue decreases beyond the hospital's control -** The Spenddown was negotiated with the Hospital and approved by the Commission in public session; the revenue reduction was only half of the potential amount; finally, revenue transfers from UMMC to Midtown should be identified and implemented.
  2. **Expense growth beyond the hospital's control –** While the Spenddown was in place, the Hospital did not reduce expenditures, but rather increased both regulated and unregulated spending.
  3. **Expenses from regulated services exceeds revenues –** With the exception of RY2022, the hospital had sufficient regulated revenue to cover regulated expenses. Furthermore, market shift adjustments and GBR revenue transfers should be reviewed to ensure that the revenue has followed the volume growth at the hospital.

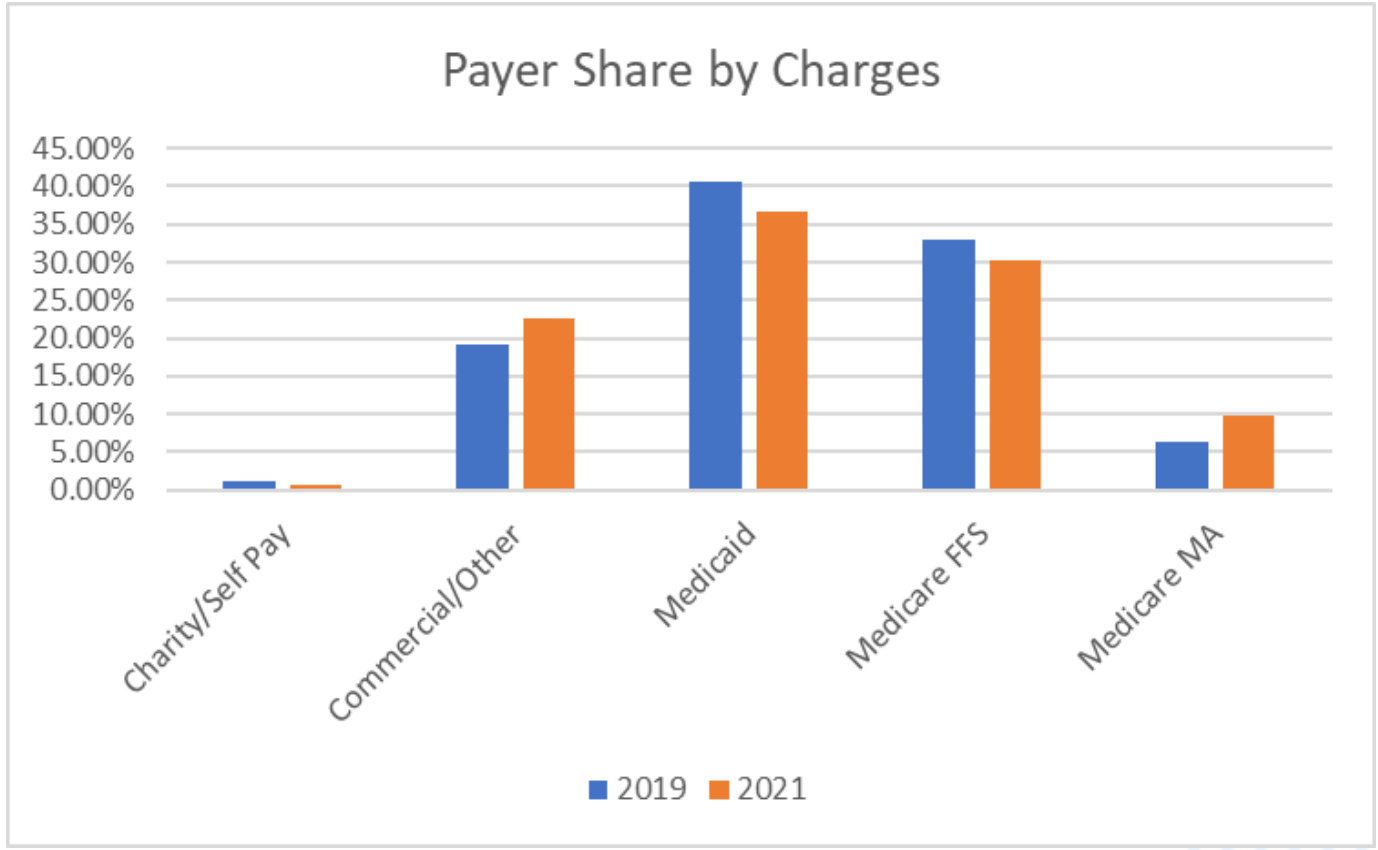
ICC Cost Strip for DSH

DSH Adjustments in ICC and Efficiency Policies

- During the Spenddown, the analysis of Midtown's cost structure used an urban peer group calculation to measure relative inefficiency against other urban hospitals (Baltimore City and Prince George's Hospital). This ensured that the analysis took into account the higher costs associated with serving patients from a urban community
- Staff did acknowledge at the time, however, that an additional credit should be provided to Midtown because of the higher than average indigent care statistics relative to the urban peer group
  - Staff provided a 7% credit in addition to the urban peer grouping, which improved Midtown's ICC standing by 11.4%
- In 2019, staff and stakeholders reviewed the peer group adjustments and determined that a direct risk adjustment based on cost increases attributable to serving a higher than average share of Medicaid, dual eligible and charity care patients (DSH Adjustment) was preferable to an urban peer grouping
- Using this newer direct risk adjustment methodology, Midtown's ICC standing would have improved by 10.8% (relative to an ICC with peer groups and no DSH Adj)
  - The congruence of these "credits" essentially confirmed the assumption used during the spenddown
  - The latest version of the ICC also determined that there was no statistically significant relationship between ICC performance and % of charges attributable to Medicaid, dual eligibles, and charity care

Payer Share by Charges at UM Midtown

- UM Midtown primarily serves Medicaid, Medicare patients
- From 2019 to 2021, the payer make up of the Hospital has changed and shows growth in Commercial and MA and decrease in Medicaid, Medicare, and Charity Care
- This is likely due to a number of factors including the transfer of services from UMMC to Midtown as well as effects of pandemic-related ED volume changes.



Staff Recommendation

Staff Recommendation

1. Based on the thresholds outlined in COMAR 10.37.10.05, Staff does not find that the Hospital has met the requirements for a temporary change in rates. Staff recommends that the Commission deny the temporary rate change.
2. Considering the questions that were raised in this temporary rate change analysis, Staff recommends the Commission initiate a full rate review as soon as practicable.
3. In addition to, and separate from, an efficiency review of Midtown, Staff recommends that the Commission authorize Staff to re-examine the negotiated spenddown and the conditions under which it was agreed upon, and whether the statewide Integrated Efficiency Policy should be applied as requested by the Hospital. Following the re-examination, Staff will report back to the Commission with a recommendation.