STATE OF MARYLAND

HEALTH SERVICES COST REVIEW COMMISSION
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476th MEETING OF THE HEALTH SERVICES COST REVIEW COMMISSION

March 2, 2011

EXECUTIVE SESSION
10:00

1. **Budgetary Matters *vis-a-vis* Waiver Implications**

PUBLIC SESSION
10:15 a.m.

1. **Review of the Executive Session and Public Meeting Minutes of February 10, 2011**
2. **Executive Director's Report**
3. **Docket Status – Cases Closed**
   2096N – Maryland General Hospital
   2102N – Washington Adventist Hospital
   2103N – Washington Adventist Hospital
   2104N – Adventist Behavioral Health
   2105N – Adventist Behavioral Health
4. **Docket Status – Cases Open**
   2106A – Johns Hopkins Health Care
   2107A – Helix Resource Management
5. **Final Recommendation on Including Osteopathic Residents under Graduate Medical Education Methodology**
6. **Discussion on Maryland State Budget and Update Factor Issues**
   a) MHA Advocacy Priorities paper presented by Dr. Hal Cohen
   b) MHA Payment Update and Medicaid Assessment presentation
7. **Hearing and Meeting Schedule**

IN RE: THE APPLICATION FOR	*	**BEFORE THE MARYLAND HEALTH**	
ALTERNATIVE METHOD OF RATE	*	**SERVICES COST REVIEW**	
DETERMINATION	*	**COMMISSION**	
JOHNS HOPKINS HEALTH	*	**DOCKET:**	**2011**
SYSTEM	*	**FOLIO:**	**1916**
BALTIMORE, MARYLAND	*	**PROCEEDING:**	**2106A**

Amended Staff Recommendation

March 2, 2011

This recommendation was unanimously approved by the Commission on March 2, 2011.

I. INTRODUCTION

Johns Hopkins Health System ("System") filed an application with the HSCRC on January 31, 2011 on behalf of Johns Hopkins Hospital and Johns Hopkins Bayview Medical Center (the "Hospitals") for an alternative method of rate determination, pursuant to COMAR 10.37.10.06. The System requests approval from the HSCRC for participation in a global rate arrangement for certain cardiovascular procedures with Quality Health Management for a period of one year beginning February 1, 2011.

II. OVERVIEW OF APPLICATION

The contract will be held and administered by Johns Hopkins HealthCare, LLC ("JHHC"), which is a subsidiary of the System. JHHC will manage all financial transactions related to the global price contract including payments to the Hospital and bear all risk relating to regulated services associated with the contract.

III. FEE DEVELOPMENT

The hospital portion of the new global rates was developed by calculating mean historical charges for patients receiving live donor kidney transplants at the Hospitals. The remainder of the global rate is comprised of physician service costs. Additional per diem payments were calculated for cases that exceed a specific length of stay outlier threshold.

IV. IDENTIFICATION AND ASSESSMENT OF RISK

The Hospitals will submit bills to JHHC for all contracted and covered services. JHHC is responsible for billing the payer, collecting payments, disbursing payments to the Hospitals at their full HSCRC approved rates, and reimbursing the physicians. The System contends that the arrangement among JHHC, the Hospitals, and the physicians holds the Hospitals harmless from any shortfalls in payment from the global price

contract. JHHC maintains it has been active in similar types of fixed fee contracts for several years, and that JHHC is adequately capitalized to bear the risk of potential losses.

V. STAFF EVALUATION

Since the format utilized to calculate the case rate, i.e., historical data for like cases, has been utilized as the basis for other successful cardiovascular arrangements in which the Hospitals are currently participating, staff believes that the Hospitals can achieve a favorable experience under this arrangement.

VI. STAFF RECOMMENDATION

The staff recommends that: 1) the Commission waive the requirement that an application for an alternative rate application be filed at least 30 days before the proposed effective date of the alternative rate (COMAR 10.37.10.06), and 2) the Commission approve the Hospitals' application for an alternative method of rate determination for certain cardiovascular procedures, for a one year period commencing February 1, 2011. The Hospital will need to file a renewal application for review to be considered for continued participation. Consistent with its policy paper regarding applications for alternative methods of rate determination, the staff recommends that this approval be contingent upon the execution of the standard Memorandum of Understanding ("MOU") with the Hospitals for the approved contract. This document would formalize the understanding between the Commission and the Hospitals, and would include provisions for such things as payments of HSCRC-approved rates, treatment of losses that may be attributed to the contract, quarterly and annual reporting, confidentiality of data submitted, penalties for noncompliance, project termination and/or alteration, on-going monitoring, and other issues specific to the proposed contract. The MOU will also stipulate that operating losses under the contract cannot be used to justify future requests for rate increases.

IN RE: THE APPLICATION FOR	*	**BEFORE THE MARYLAND HEALTH**
ALTERNATIVE METHOD OF RATE	*	**SERVICES COST REVIEW**
DETERMINATION	*	**COMMISSION**
MEDSTAR HEALTH	*	**DOCKET: 2011**
	*	**FOLIO: 1917**
BALTIMORE, MARYLAND	*	**PROCEEDING: 2107A**

Staff Recommendation

March 2, 2011

This recommendation was unanimously approved by the Commission on March 2, 2011.

I. INTRODUCTION

MedStar Health filed an application with the HSCRC on February 3, 2011 on behalf of Union Memorial Hospital (the "Hospital") for an alternative method of rate determination (ARM), pursuant to COMAR 10.37.10.06. MedStar requests approval from the HSCRC to participate in a global rate arrangement for orthopedic services with the NFL Player Joint Replacement Benefit Plan (the "NFL Plan") for a one year period beginning March 1, 2011, with an option to seek renewal based upon favorable performance.

This arrangement was originally approved by the Commission at its December 5, 2007 public meeting for one year and subsequently re-approved in 2008 and 2009 with the approval expiring on December 1, 2010. While there has never been any activity, the NFL Plan and the Hospital wish to maintain the arrangement.

II. OVERVIEW OF APPLICATION

The contract will continue to be held and administered by Helix Resources Management, Inc. (HRMI). HRMI will manage all financial transactions related to the global price contract including payments to the Hospital and bear all risk relating to services associated with the contract.

III. FEE DEVELOPMENT

The hospital portion of the global rates was developed by calculating the mean historical charges for all patients receiving the procedures for which global rates are to be paid. The negotiated rates are comparable to another joint replacement ARM already approved by the HSCRC. The NFL Plan agreement does not include the more costly procedures to replace prior joint replacements. In addition, the agreement does not include the post-acute rehabilitation normally included in joint replacement global pricing. The remainder of the global rate is comprised of physician service costs.

IV. IDENTIFICATION AND ASSESSMENT OF RISK

The Hospital will continue to submit bills to HRMI for all contracted and covered services. HRMI is responsible for billing the payer, collecting payments; disbursing

payments to the Hospital at its full HSCRC approved rates, and reimbursing the physicians. The Hospital contends that the arrangement between HRMI and the Hospital holds the Hospital harmless from any shortfalls in payment from the global price contract.

V. STAFF EVALUATION

The staff believes that the hospital component of the global rate is reasonably related to historical experience. Staff has noted that the NFL Plan agreement has a more narrower definition of the episode of care covered under the global rates than other similar ARM arrangements. In addition, staff found that the Hospital and HRMI have a favorable history of managing joint replacement patients and performing under a global rate arrangement. The physicians' professional components of the proposed rates follow historical fee for service averages and are closely related to the professional components of the Hospital's similar global arrangement involving orthopedic surgery.

VI. STAFF RECOMMENDATION

Although there has been no activity, staff still believes that the Hospital can achieve favorable performance under this arrangement. Therefore, staff recommends that: 1) the Commission waive the requirement for an alternative rate application to be filed at least 30 days before the proposed effective date of the alternative rate, and 2) the Commission approve the Hospital's request for participation in the alternative method of rate determination for orthopedic services for a one year period, commencing March 1, 2011. The Hospital will need to file a renewal application for review to be considered for continued participation.

Consistent with its policy paper regarding applications for alternative methods of rate determination, the staff recommends that this approval be contingent upon the execution of the standard Memorandum of Understanding ("MOU") with the Hospital for the approved contract. This document would formalize the understanding between the Commission and the Hospital, and would include provisions for such things as payments of HSCRC-approved rates, treatment of losses that may be attributed to the contract, quarterly and annual reporting, and confidentiality of data submitted, penalties for noncompliance, project

termination and/or alteration, on-going monitoring, and other issues specific to the proposed contract. The MOU will also stipulate that operating losses under the contract cannot be used to justify future requests for rate increases.

DESCRIPTION OF SERVICES TO BE PROVIDED

Orthopedic Procedures:

- Total Hip Replacement - DRG 544
- Total Knee Replacement – DRG 544
- Total Shoulder Replacement - DRG 491

Staff Recommendation

March 2, 2011

The Commission staff recommends a revision to the Accounting and Budget Manual for the inclusion of Osteopathic residents in the cost of professional medical education in the HSCRC Annual Cost Report. This revision will bring the HSCRC methodology into agreement with Medicare regulations.

This recommendation was unanimously approved by the Commission on March 2, 2011.

8240 POSTGRADUATE MEDICAL EDUCATION - TEACHING PROGRAM
8241 Approved Teaching Program
8242 Non-Approved Teaching Program

Function

A postgraduate Medical Education Teaching Program provides an organized program of postgraduate medical clinical education to interns and residents. To be approved, a medical internship or residency training program must be approved by the Council on Medical Education of the American Medical Association, by the Council on Dental Education of the American Dental Association, by the Council on Podiatry Education of the American Podiatry Association, or by the Committee on Hospitals of the Bureau of Professional Education of the American Osteopathic Association. Additional activities include, but are not limited to the following:

Selecting qualified students; providing education in theory and practice conforming to approved standards; maintaining student personnel records; counseling of students regarding professional, and educational problems; and assigning and supervising students.

Description

This cost center shall be used to record the direct expenses incurred in providing an approved organized program of postgraduate medical clinical education. Included as direct expenses are: salaries and wages, employee benefits, professional fees, supplies, purchased services. Other direct expenses and transfers. All salaries and stipends paid to interns and residents in approved and non-approved teaching programs must be reflected in this cost center, in the "Salaries and Wages" natural expense classification (.07).

Standard Unit of Measure: Number of FTE Students

The number of FTE students in Postgraduate Medical Education Program is defined as the sum of the actual individual contracted residents and interns multiplied by the percentage of the Base Year that the residents and interns worked at the hospital. Residents and interns are to be reported in two categories: eligible, all authorized interns and residents prior to the first year of their first general specialty board eligibility, up to a maximum of five years, and who are not able to practice their specialty and ineligible, residents after the first year of their first general specialty board eligibility, who can practice their specialty or have been out of medical school more than 5 years.

Data Source

The number of FTE students in the educational program shall be the actual count maintained by the program or general accounting.

Reporting Schedule

F3

Background on HSCRC Annual Hospital Rate Update (Update Factor)

Background

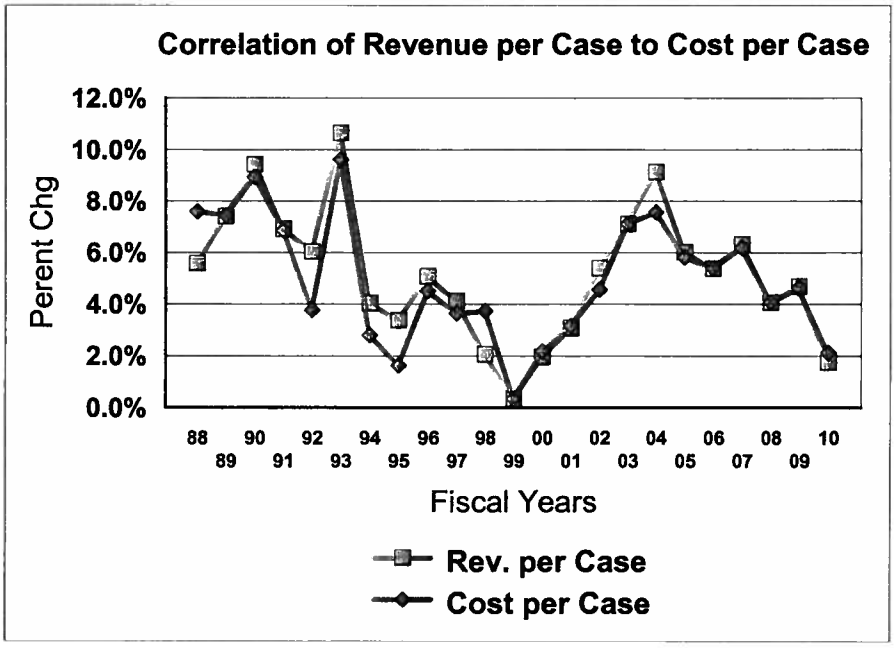
Purpose: HSCRC's primary tool to control the rate of growth of hospital revenues. The trajectory of the Hospital revenue curve also influences hospital decision making relative to their expenditures (hospital costs) in any given year.

HSCRC and Medicare Advisory Commission, experience shows a direct link between year to year revenue increases and year to year cost increases.

Schedule/Timing: HSCRC convenes a work group consisting of payer, hospital and staff representatives to assist staff in proposing a recommendation to the Commission in the spring just prior to the start of the upcoming Fiscal Year (Rate Year).

Change in Revenue per Case vs. resulting Cost per Case Change

	Rev/Case	Cost/Case
88	5.59%	7.60%
89	7.42%	7.44%
90	9.44%	8.94%
91	6.93%	6.86%
92	6.05%	3.77%
93	10.66%	9.61%
94	4.06%	2.81%
95	3.39%	1.63%
96	5.09%	4.52%
97	4.13%	3.65%
98	2.08%	3.74%
99	0.35%	0.34%
00	1.97%	2.18%
01	3.09%	3.17%
02	5.41%	4.56%
03	7.13%	7.11%
04	9.14%	7.57%
05	6.02%	5.82%
06	5.39%	5.39%
07	6.33%	6.18%
08	4.08%	4.08%
09	4.70%	4.62%
10	1.77%	2.12%



Current Update will apply to Fiscal Year 2012 - Year beginning July 1, 2011

Policy Objectives

Balance between these two objectives:

Affordability of Hospital Care
Financial Sustainability for Hospital Industry

In recent years - HSCRC has also applied other adjustments to a hospital's Update Factor (rewards and penalties) adding to or subtracting off each hospital's Update - based on their relative performance both efficiency and quality measures.

Components of the Update Factor

Components Traditionally Used per HSCRC Policy

1 - Market Basket (MB) estimate: A national index forecasting the inflation rate for major categories of hospital factor inputs (wage growth, supples, contractual services, capital, etc.) for the period covered by the update.

2 - Forecast Error: Estimate of average forecasting error of MB index (compares final MB to projected MB) for past 3 years.

3 - System "Slippage" : Accounting for factors that add to or substract from the expected rate of growth. (Examples include: Full Rate Reviews that go into effect in a given year, impact of "spenddowns" on hospital rates, lower than expected volume changes - variations from projected volume adjustment)

4 - Policy Adjustment: Component of update allows HSCRC to implement short-term policy. In past this has meant positive policy adjustments to rates when HSCRC wishes to increase profitability (such as in the period FY 2004 - FY 2006 - and beyond) and negativepolicy adjustments when it wishes to improve the the affordability of hospital care and improve our position vis-a-vis the nation

5 - Case Mix Increase/Allowance: Adjustment (add-on) to the update to account for historical trend in mix patients treated by hospitals year to year. Aging of population, changes in technology, etc. Factors that influence the acuity of patients and the intenity of treatment. Usually ranges from 0.5-1.0% per year.

6 - Volume Adjustment : Adjustment to reflect long term relationship of fixed to variable costs. Current Policy is to reflect costs as 85% variable and 15% fixed over the long-term. Thus, for increases in volumes there is a 15% fixed cost adjustment (hospitals are allowed to keep 85 cents on every dollar associated with volume increases)

These factors are applied to both hospital inpatient revenue (the Charge per Case or CPC) and to hospital outpatient revenue (the Charge per Visit or CPV).

Medicaid Assessments

In recent years (FY 2010 and FY 2011), the Commission has also had to factor in the impact of applying the Medicaid assessment on rates and on hospitals directly.

The impact of applying the Medicaid assessment on rates - will be to decrease hospital affordability and erode our position vs the US (on both the waiver test and an overall cost per case basis)

The impact of applying the Medicaid assessment directly on hospitals - will be to directly place more financial pressure on hospitals and potentially erode profitability.

FY 2012 Magnitude	$370 mill.	about 3.0% of regulated Net pt. Rev.
GME Component	$17.5 mill.	

Impact of the Policy Adjustment and Medicaid Assessment on Hospitals

Note: The "Policy Adjustment" and the Assessment applied directly on hospitals - both place more financial pressure on hospitals to lower costs.

Beyond some magnitude, both the Policy Adjustment and the Direct Assessment will erode profitability however.

Update Factor Example (FY 2011)

		CPC increase	CPV increase	
1	Market Basket Forecast	2.29%	2.29%	From "Global Insights" annual forecast
2	MB forecast error	0.38%	0.38%	MB had been consistently under estimatec
		2.67%	2.67%	
3	Slippage	0.03%	0.03%	
	Subtotal	2.70%	2.70%	
4	Policy Adjustment	-1.29%	-1.29%	
5	Case Mix Limit	0.50%	1.35%	Lessor of actual or limit applied separately to I/P and O/P
6	Volume Adjustment	-0.23%	-0.23%	Calculated based on prior yr change
	Total Update	1.68%	2.53%	
	Resulting blend	2.00%		

Structural Elements

In the past, the payer and hospital industries have agreed on either "formula-driven" updates that cover one or more years (i.e., link the final update to other exogenous standards or targets).

Periods covering FY 01 - 03 HSCRC adopted a "three-year rate arrangement" based on a formula
Periods covering FY 04-06 HSCRC adopted another "three-year rate arrangement" based on a exogenous target

In past years FY 07-11, no consensus on multi-year arrangements have been reached.

Indicators of Performance and Ability of HSCRC to Balance Policy Objectives

Recent Hospital Financial Performance

FY 2009 YTD December		
Operating Profit	$121.6 mill.	2.02%
Total Profit	($508.5) mill.	-8.34%
YE Operating Profit		2.74%

FY 2010 YTD December		
Operating Profit	$127.30 mill.	2.04%
Total Profit	$256.40 mill.	5.92%
YE Operating Profit		2.37%

FY 2011 YTD December		
Operating Profit	$180.0 mill.	2.80%
Total Profit	$432.2 mill.	6.46%

Regulated vs. Unregulated Profits in Past Years

FY 2010 Unregulated Losses June YE hospitals

	Regulated	Unregulated	Total Operating	Physician Part B Losses	Physician Losses as Proportion of Total Unreg. Loss
FY09 Op Profit	$582.3	($316.3)	$266.0	($263.7)	83.37%
Op. Margin	5.86%	-32.88%	**2.44%**	-91.40%	
Note: FY 09 data here reflect only June YE hospitals					
FY08 Op Profit	$561.1	($290.3)	$270.8	($217.3)	74.88%
Op. Margin	5.24%	-30.05%	**2.32%**	-83.67%	
FY07 Op Profit	$536.2	($207.1)	$329.1	($154.0)	74.37%
Op. Margin	5.37%	-22.23%	3.02%	-65.26%	
FY06 Op Profit	$462	($188)	$273	($134)	71.44%
Op. Margin	5.01%	-23.31%	2.73%	-63.68%	
FY05 Op Profit	$415	($146)	$269	($115)	78.38%
Op. Margin	4.91%	-19.75%	2.93%	-62.14%	
FY04 Op Profit	$351	($150)	$202	($94)	62.84%
Op. Margin	4.51%	-21.19%	2.37%	-54.86%	
FY03 Op Profit	$249	($131)	$118	($81)	61.77%
Op. Margin	3.54%	-20.30%	1.54%	-60.46%	

Recent Maryland System Performance vs. US hospital Performance (rev per case & cost case)

HSCRC current Target is to be 6.0% below the US on Cost per Adjusted Admission

MD vs. US on Cost per Case	2003 AHA Actual	2004 AHA Actual	2005 AHA Actual	2006 AHA Actual	2007 AHA Actual	2008 AHA Actual	2009 AHA Actual
US Hospitals	$8,233	$8,665	$9,099	$9,565	$10,029	$10,480	$10,842
MD Hospitals	$7,824	$8,339	$8,767	$9,381	$10,028	$10,494	$10,726
Above/Below US	-4.97%	-3.76%	-3.65%	-1.92%	-0.01%	0.13%	-1.07%

Note: US appears to be growing between 2.7-3.0% per year currently. Also, as HSCRC moves hospitals toward more global/bundled payment structures, charge per case and cost per case in Maryland will be expected to increase.

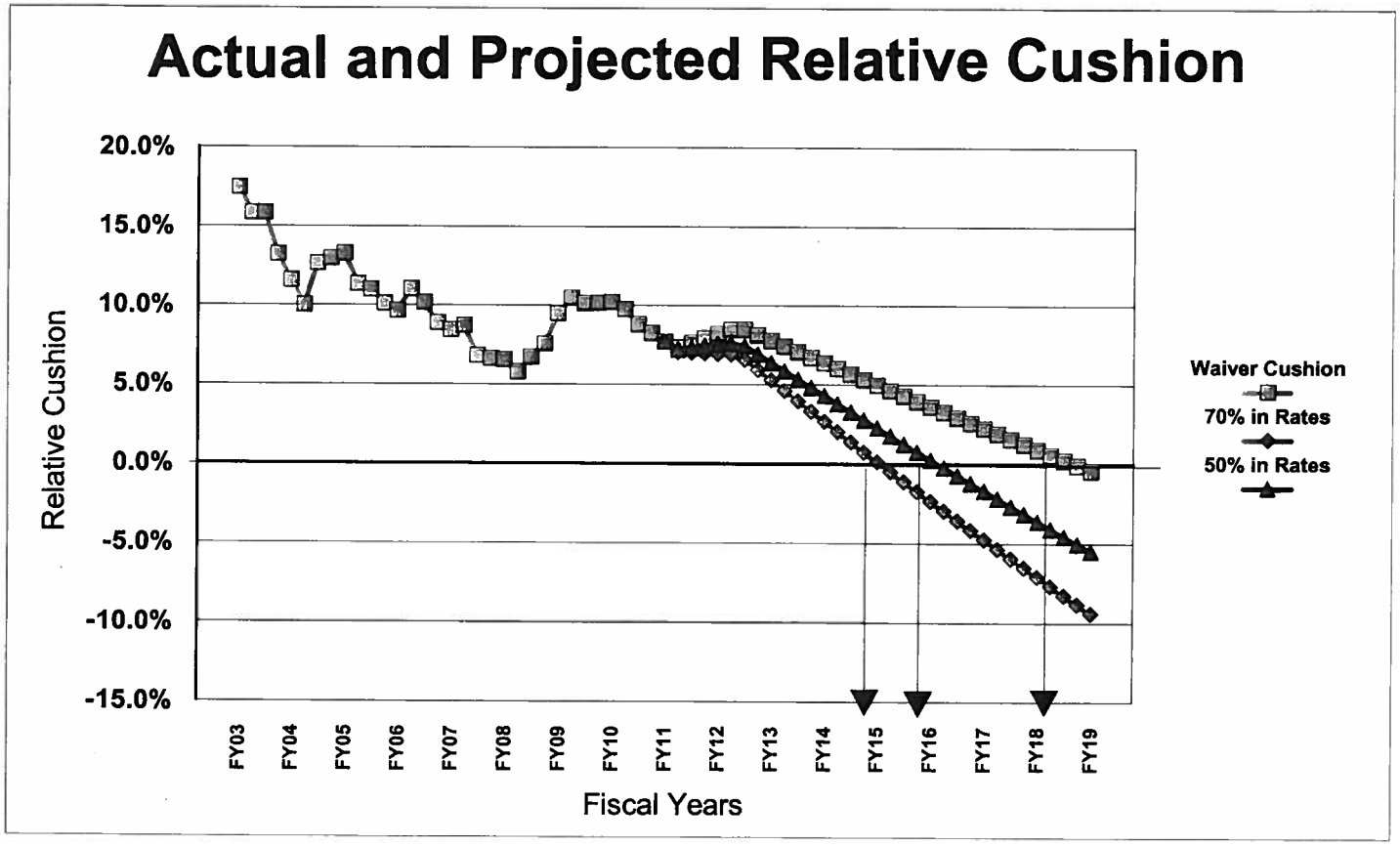
Recent and Projected Waiver Performance

Most Recent Waiver Test as of September 2009 = 10.46%

Cushion is projected to decline gradually in CY 2010, stabilize and then erode Fy 2013-2019

In period FY 2010 and into FY 2011 - Charge per Case growth is outstriping Approved rate update (likely due to reduced case volumes, reduced admissions vs. Observation cases and other)

Forecasts have not attempted to factor in this dynamic or the impact of TPR and ARR rate arrangements. These payment methods will exacerbate waiver erosion



Estimated Impact of Pooling GME

	Gross Revenue After UCC Re-allocation	Medicaid FY 2009 FFS %	MCO %	Total Percent	Actual GME DME	IME	Total GME	Current Medicaid Impact FFS DME Portion	MCO DME Portion	IME	Total GME	Redistributed GME DME	IME	Total GME	Revised Medicaid Impact FFS DME Portion	MCO DME Portion	IME	Total GME	MCO Portion of DME	Revenue Shift by Hospital
		From PDA Schedules																		
WASHINGTON CO.	223,394,748	2.89%	8.54%	11.43%	0	0	0	0	0	0	0	3,400,164	10,414,626	13,814,791	98,234	290,531	1,190,778	1,289,011	0	13,814,791
UNIVERSITY OF MD.	842,933,462	12.25%	19.07%	31.33%	46,867,800	132,255,573	179,123,373	5,743,641	8,938,861	41,432,341	47,175,981	12,829,810	39,297,419	52,127,229	1,572,291	2,446,965	12,310,892	13,883,183	8,938,861	-126,996,144
PRINCE GEORGES HO	217,180,262	18.96%	13.01%	31.97%	3,330,600	11,522,266	14,852,866	631,491	433,307	3,683,685	4,315,176	3,305,577	10,124,908	13,430,485	626,746	430,051	3,236,948	3,863,694	433,307	-1,422,381
HOLY CROSS	364,539,191	7.80%	7.14%	14.94%	1,651,300	4,759,197	6,410,497	128,826	117,938	711,195	840,022	5,548,443	16,994,757	22,543,200	432,862	396,275	2,539,629	2,972,490	117,938	16,132,704
FREDERICK MEM.	247,191,462	2.56%	7.11%	9.66%	0	0	0	0	0	0	0	3,762,360	11,524,025	15,286,386	96,192	267,366	1,113,567	1,209,759	0	15,286,386
HARFORD MEM.	84,919,156	1.92%	5.25%	7.17%	0	0	0	0	0	0	0	1,292,506	3,958,917	5,251,423	24,847	67,844	283,910	308,757	0	5,251,423
ST. JOSEPH'S	366,629,648	1.74%	4.72%	6.46%	0	0	0	0	0	0	0	5,580,261	17,092,214	22,672,475	97,089	263,240	1,103,680	1,200,769	0	22,672,475
MERCY	342,911,197	5.84%	13.85%	19.69%	4,399,300	15,029,042	19,428,342	256,825	609,234	2,958,661	3,215,487	5,219,256	15,986,464	21,205,719	304,693	722,785	3,147,142	3,451,835	609,234	1,777,377
JOHNS HOPKINS	1,482,912,525	6.34%	12.87%	19.22%	49,123,600	201,138,683	250,262,283	3,116,535	6,323,872	38,654,151	41,770,686	22,570,566	69,133,138	91,703,704	1,431,938	2,905,597	13,285,772	14,717,711	6,323,872	-158,558,579
DORCHESTER GEN.	48,306,308	8.67%	8.72%	17.39%	0	0	0	0	0	0	0	735,243	2,252,032	2,987,275	63,777	64,094	391,665	455,442	0	2,987,275
ST. AGNES	329,899,069	6.38%	13.78%	20.16%	6,096,900	18,034,851	24,131,751	388,825	840,247	3,635,639	4,024,464	5,021,206	15,379,840	20,401,046	320,223	692,000	3,100,416	3,420,639	840,247	-3,730,705
SINAI	565,818,607	5.61%	13.01%	18.62%	12,886,100	33,314,377	46,200,477	722,347	1,676,640	6,202,091	6,924,438	8,612,003	26,378,370	34,990,373	482,757	1,120,527	4,910,824	5,393,581	1,676,640	-11,210,104
BON SECOURS	94,107,486	14.42%	16.52%	30.93%	0	0	0	0	0	0	0	1,432,356	4,387,276	5,819,632	206,506	236,573	1,357,141	1,563,647	0	5,819,632
FRANKLIN SQUARE	374,780,957	7.05%	14.68%	21.74%	7,495,500	19,537,755	27,033,255	528,685	1,100,630	4,246,969	4,775,655	5,704,327	17,472,227	23,176,554	402,347	837,616	3,797,980	4,200,328	1,100,630	-3,856,701
WASHINGTON ADV.	248,275,586	7.18%	7.19%	14.36%	0	0	0	0	0	0	0	3,778,861	11,574,567	15,353,428	271,247	271,567	1,662,628	1,933,875	0	15,353,428
GARRETT CO.	35,418,689	14.52%	9.59%	24.11%	0	0	0	0	0	0	0	539,088	1,651,213	2,190,301	78,278	51,677	398,049	476,328	0	2,190,301
MONTGOMERY GEN.	126,064,410	1.69%	5.14%	6.83%	0	0	0	0	0	0	0	1,918,755	5,877,102	7,795,857	32,436	98,684	401,615	434,050	0	7,795,857
PENINSULA GEN.	349,629,074	1.81%	8.13%	9.94%	0	0	0	0	0	0	0	5,321,505	16,299,650	21,621,155	96,573	432,441	1,620,357	1,716,930	0	21,621,155
SUBURBAN	211,020,694	1.21%	2.20%	3.40%	181,800	751,452	933,252	2,193	3,993	25,568	27,761	3,211,826	9,837,750	13,049,576	38,744	70,536	334,722	373,466	3,993	12,116,324
ANNE ARUNDEL GEN.	361,762,121	2.31%	3.39%	5.70%	0	0	0	0	0	0	0	5,506,175	16,865,291	22,371,466	127,402	186,511	961,507	1,088,909	0	22,371,466
UNION MEM.	376,845,622	6.48%	11.44%	17.92%	9,010,600	22,042,595	31,053,195	583,801	1,030,813	3,949,824	4,533,624	5,735,752	17,568,481	23,304,233	371,622	656,171	3,148,105	3,519,727	1,030,813	-7,748,962
MEM. CUMBERLAND	96,676,468	4.45%	14.68%	19.13%	0	0	0	0	0	0	0	1,471,457	4,507,041	5,978,498	65,550	215,996	862,368	927,918	0	5,978,498
BRADDOCK	154,728,625	8.71%	6.87%	15.58%	0	0	0	0	0	0	0	2,355,036	7,213,423	9,568,459	205,098	161,852	1,123,960	1,329,058	0	9,568,459
ST. MARY'S	112,655,433	10.63%	26.24%	36.87%	0	0	0	0	0	0	0	1,714,664	5,251,978	6,966,642	182,302	449,937	1,936,533	2,118,834	0	6,966,642
BAYVIEW	454,915,285	10.88%	16.45%	27.32%	18,416,400	39,325,994	57,742,394	2,003,442	3,028,636	10,745,393	12,748,835	6,924,006	21,208,076	28,132,082	753,233	1,138,675	5,794,872	6,548,106	3,028,636	-29,610,312
CHESTER RIVER	55,301,452	2.83%	8.74%	11.57%	0	0	0	0	0	0	0	841,712	2,578,145	3,419,856	23,803	73,543	298,167	321,970	0	3,419,856
UNION OF CECIL	117,485,914	3.64%	9.06%	12.70%	0	0	0	0	0	0	0	1,788,186	5,477,174	7,265,360	65,162	161,928	695,571	760,733	0	7,265,360
CARROLL CO. GEN.	177,839,655	6.86%	2.54%	9.40%	0	0	0	0	0	0	0	2,706,796	8,290,855	10,997,652	185,688	68,755	779,353	965,040	0	10,997,652
HARBOR HOSP.	180,598,942	5.85%	21.87%	27.71%	3,904,200	10,019,362	13,923,562	228,348	853,661	2,776,764	3,005,112	2,748,794	8,419,493	11,168,287	160,771	601,029	2,333,377	2,494,148	853,661	-2,755,275
CIVISTA	95,328,469	4.27%	7.73%	12.00%	0	0	0	0	0	0	0	1,450,940	4,444,198	5,895,138	61,912	112,147	533,137	595,049	0	5,895,138
MEM. EASTON	147,787,555	2.48%	11.56%	14.05%	0	0	0	0	0	0	0	2,249,390	6,889,832	9,139,222	55,789	260,140	967,684	1,023,474	0	9,139,222
MARYLAND GEN.	158,423,577	15.02%	27.41%	42.43%	3,119,100	11,522,266	14,641,366	468,409	854,932	4,888,552	5,356,961	2,411,275	7,385,681	9,796,956	362,111	660,920	3,133,523	3,495,635	854,932	-4,844,410
CALVERT MEMORIAL	102,287,960	3.03%	7.50%	10.53%	0	0	0	0	0	0	0	1,556,867	4,768,648	6,325,515	47,180	116,759	502,142	549,322	0	6,325,515
NORTHWEST	190,321,493	5.61%	9.05%	14.66%	0	0	0	0	0	0	0	2,896,775	8,872,757	11,769,532	162,526	262,279	1,301,165	1,463,691	0	11,769,532
BALTIMORE/WASHING	279,072,862	1.12%	4.99%	6.11%	178,000	1,252,420	1,430,420	1,988	8,888	76,525	78,513	4,247,609	13,010,331	17,257,940	47,435	212,102	794,958	842,393	8,888	15,827,520
G.B.M.C.	363,973,127	1.70%	4.62%	6.32%	4,412,622	14,778,558	19,191,180	75,015	203,873	934,037	1,009,052	5,539,828	16,968,367	22,508,195	94,177	255,952	1,072,438	1,166,615	203,873	3,317,015
MCCREADY	14,945,541	12.84%	16.43%	29.27%	0	0	0	0	0	0	0	227,478	696,759	924,236	29,200	37,385	203,950	233,150	0	924,236
HOWARD CO. GEN.	210,812,937	3.02%	7.46%	10.49%	0	0	0	0	0	0	0	3,208,664	9,828,064	13,036,728	97,055	239,411	1,030,588	1,127,643	0	13,036,728
UPPER CHESAPEAKE	192,100,798	0.82%	6.07%	6.89%	0	0	0	0	0	0	0	2,923,857	8,955,708	11,879,564	23,906	177,578	617,142	641,048	0	11,879,564
DR'S COMMUNITY HOS	166,251,864	2.73%	6.30%	9.03%	0	0	0	0	0	0	0	2,530,425	7,750,635	10,281,059	69,012	159,361	699,503	768,516	0	10,281,059
SOUTHERN MD.	200,882,913	4.29%	6.87%	11.16%	0	0	0	0	0	0	0	3,057,524	9,365,128	12,422,653	131,181	209,979	1,044,965	1,176,146	0	12,422,653
LAUREL REGIONAL	80,242,752	5.34%	22.81%	28.15%	0	0	0	0	0	0	0	1,221,329	3,740,904	4,962,233	65,183	278,583	1,052,949	1,118,132	0	4,962,233
FORT WASHINGTON	41,943,992	3.35%	6.78%	10.14%	0	0	0	0	0	0	0	638,406	1,955,422	2,593,828	21,405	43,314	198,235	219,640	0	2,593,828
ATLANTIC GENERAL	70,490,220	0.53%	4.93%	5.46%	0	0	0	0	0	0	0	1,072,891	3,286,242	4,359,134	5,723	52,905	179,576	185,299	0	4,359,134
KERNANS	97,174,889	12.40%	12.27%	24.67%	3,001,900	2,755,324	5,757,224	372,385	368,252	679,801	1,052,186	1,479,044	4,530,277	6,009,321	183,475	181,439	1,117,722	1,301,197	368,252	252,097
GOOD SAMARITAN	259,670,577	5.23%	10.90%	16.13%	5,018,000	10,520,330	15,538,330	262,583	546,898	1,697,092	1,959,675	3,952,298	12,105,800	16,058,097	206,817	430,750	1,952,852	2,159,669	546,898	519,768
SHADY GROVE	285,901,812	4.52%	8.71%	13.23%	0	0	0	0	0	0	0	4,351,549	13,328,695	17,680,244	196,796	379,088	1,763,920	1,960,716	0	17,680,244
SHOCK TRAUMA	116,864,716	21.57%	8.08%	29.66%	0	0	0	0	0	0	0	1,778,731	5,448,214	7,226,945	383,698	143,785	1,615,669	1,999,367	0	7,226,945
CANCER CENTER	47,446,165	11.28%	8.70%	19.98%	0	0	0	0	0	0	0	722,151	2,211,932	2,934,083	81,492	62,812	442,001	523,493	0	2,934,083
- STATEWIDE	11,766,666,266	6.33%	11.06%	17.39%	179,093,722	548,560,046	727,653,767	15,515,338	26,940,674	127,298,289	142,813,626	179,093,722	548,560,046	727,653,767	11,144,485	19,657,454	94,345,648	105,490,134	26,940,674	0
Savings	2,046,610,402				1.52%	4.66%	6.18%								-4,370,852	-7,283,220	-32,952,641	-37,323,493		
Medicaid Payments															94.00%		94.00%	94.00%		
Medicaid Savings															-4,108,601		-30,975,482	-35,084,083		
State Savings (Enhanced match)															-1,643,440		-12,390,193	-14,033,633		
State Savings (Normal match)															-2,054,300		-15,487,741	-17,542,042		

ESTIMATION OF TOTAL, MEDICAID (FFS) AND MEDICAID (MCO) GRADUATE MEDICAL EDUCATION REVENUE AT MARYLAND HOSPITALS FOR FISCAL YEAR 2009

		GROSS @ 94% (PAYMENT)		COST (MARKUP REMOVED)		GROSS @ 94% (PAYMENT)	GROSS @ 94% (PAYMENT)	COST (MARKUP REMOVED)	COST (MARKUP REMOVED)
HOSPID	**HOSPITAL**	**TOTAL DME**	**TOTAL IME**	**TOTAL DME**	**TOTAL IME**	**MEDICAID (FFS) GME REVENUE**	**MEDICAID (MCO) GME REVENUE**	**MEDICAID (FFS) GME REVENUE**	**MEDICAID (MCO) GME REVENUE**
210002	University of Maryland Hospital	49,578,118	163,415,750	46,867,800	154,482,199	16,902,007	33,260,196	15,978,014	31,441,940
210003	Prince Georges Hospital Center	3,520,231	11,226,519	3,330,600	10,621,758	2,585,664	1,980,516	2,446,377	1,873,827
210004	Holy Cross Hospital	1,734,422	4,153,375	1,651,300	3,954,326	413,486	356,536	393,670	339,449
210008	Mercy Medical Center	4,636,504	15,966,482	4,399,300	15,149,635	1,081,874	2,702,929	1,026,525	2,564,647
210009	Johns Hopkins Hospital	51,661,915	262,879,313	49,123,600	249,963,214	29,845,893	39,102,321	28,379,469	37,181,100
210011	St. Agnes Hospital	6,457,501	18,296,315	6,096,900	17,274,609	1,194,177	2,158,493	1,127,491	2,037,958
210012	Sinai Hospital	13,612,515	42,388,989	12,886,100	40,126,952	3,493,710	5,636,497	3,307,273	5,335,712
210015	Franklin Square Hospital Center	7,930,014	18,291,254	7,495,500	17,289,010	1,299,547	3,056,593	1,228,340	2,889,112
210022	Suburban Hospital	191,835	944,122	181,800	894,736	24,075	14,376	22,815	13,624
210024	Union Memorial Hospital	9,535,485	30,503,316	9,010,600	28,824,246	1,946,327	2,835,305	1,839,190	2,679,235
210029	Johns Hopkins Bayview Medical Cent	19,503,041	33,278,098	18,416,400	31,423,959	4,825,878	8,124,058	4,556,997	7,671,414
210034	Harbor Hospital Center	4,131,260	9,598,087	3,904,200	9,070,562	955,980	2,155,068	903,438	2,036,622
210038	Maryland General Hospital	3,324,161	11,279,834	3,119,100	10,584,001	1,756,463	4,067,885	1,648,110	3,816,945
210043	Baltimore Washington Medical Center	187,373	1,386,428	178,000	1,317,072	47,547	69,410	45,168	65,938
210044	Greater Baltimore Medical Center	4,633,994	15,882,035	4,412,622	15,123,328	347,600	548,824	330,995	522,606
210056	Good Samaritan Hospital	5,326,818	12,368,637	5,018,000	11,651,575	874,271	1,032,432	823,586	972,577
210058	James Lawrence Kernan Hospital	3,171,349	4,575,598	3,001,900	4,331,119	303,450	829,519	287,236	785,196
	TOTAL	**189,136,538**	**656,434,152**	**179,093,722**	**622,082,300**	**67,897,948**	**107,930,958**	**64,344,695**	**102,227,902**

The Challenges Facing Maryland's Hospitals

- **Maryland's Rate-Setting System Needs to be Modernized --** In Maryland, the state commission charged with setting hospital rates, the Health Services Cost Review Commission (HSCRC), determines how much hospitals can charge for their services and all payors (private insurers, Medicare, Medicaid) pay the same amount for the same service delivered at the same hospital. The price inequality between self-pay patients and insured patients that exists in other states does not occur in Maryland. However, this unique rate-setting system, created more than three decades ago, is badly in need of modernization. While more and more health care is provided on an outpatient basis, or outside the hospital in doctors' offices, for example, Maryland's hospital rate-setting system continues to focus only on the cost of inpatient services to set hospital rates.

- **Hospital Payment Increases Falling Short --** At the same time, HSCRC continues to provide annual payment increases, or "updates," that fall far below inflation. This means hospitals are being paid less, in real terms, than the cost of providing care. Last year, though hospitals and insurance companies agreed on a hospital rate update of 2.44 percent, HSCRC approved just a 2.0 percent update.

- **Physician Costs Need to be Counted --** Historically, most physicians were in private practice, paid by insurance companies, not hospitals. Recently, physicians' incomes have been flat or declining due to government and insurance payment reductions or increased administrative requirements. At the same time, hospitals have had difficulty finding physician care in certain specialties, such as obstetrics and neurosurgery, and have had to employ physicians to continue those services. Hospitals are incurring tens of millions of dollars in costs, which, by law, cannot be included in hospital rates. The situation is most acute for hospitals serving large numbers of uninsured and Medicaid patients.

- **Medicaid's Current Course is Unsustainable --** The number of Marylanders on Medicaid has soared from 547,400 in 2009 to a projected 1 million in fiscal year 2012; meanwhile, hospitals' Medicaid reimbursements have been cut, so far, by $125 million. The expansion of Medicaid to more Marylanders, which hospitals supported and participated in, is essentially being funded on the backs of providers like hospitals. This is an unsustainable course.

- **Physician and Nurse Shortages Must be Addressed --** Meanwhile, acute shortages of qualified physicians and nurses are being felt. It is expected that, by 2016, Maryland will see a shortage of 10,000 registered nurses, for example. Meanwhile, Maryland is 16 percent below the national average when it comes to the number of physicians in clinical practice in this state. With health care reform expected to increase the demand for hospital and other services, and with reform's focus on primary and preventive care, the state's shortage of physicians and nurses must be addressed now.

About Health in Maryland

- Percent of overweight or obese adults: **60.1** (nationally, 60.8; 2009)
- Percent of overweight or obese children: **28.8** (nationallly, 31.6; 2007)
- Cancer incidence per 100,000 population: **424.5** (nationally, 461.8; 2006)
- Heart disease death rate per 100,000 population: **202.4** (nationally, 190.9; 2007)
- Percent of adults who smoke: **14.9** (nationally, 18.3; 2008)
- Deaths due to motor vehicle accident per 100,00 population: **12** (nationally, 14.4; 2007)

FY 2012 Annual Payment Update and Proposed Medicaid Assessment

Maryland Hospital Association

March 2, 2011

Maryland
Hospital Association

The Delicate Balancing Act

- The challenge before the Commission: balancing the Medicaid funding needs, hospital financial requirements, and controlling costs to the public.

- We support linking the assessment and Annual Payment Update decisions, and arriving at these decisions on a timely basis.

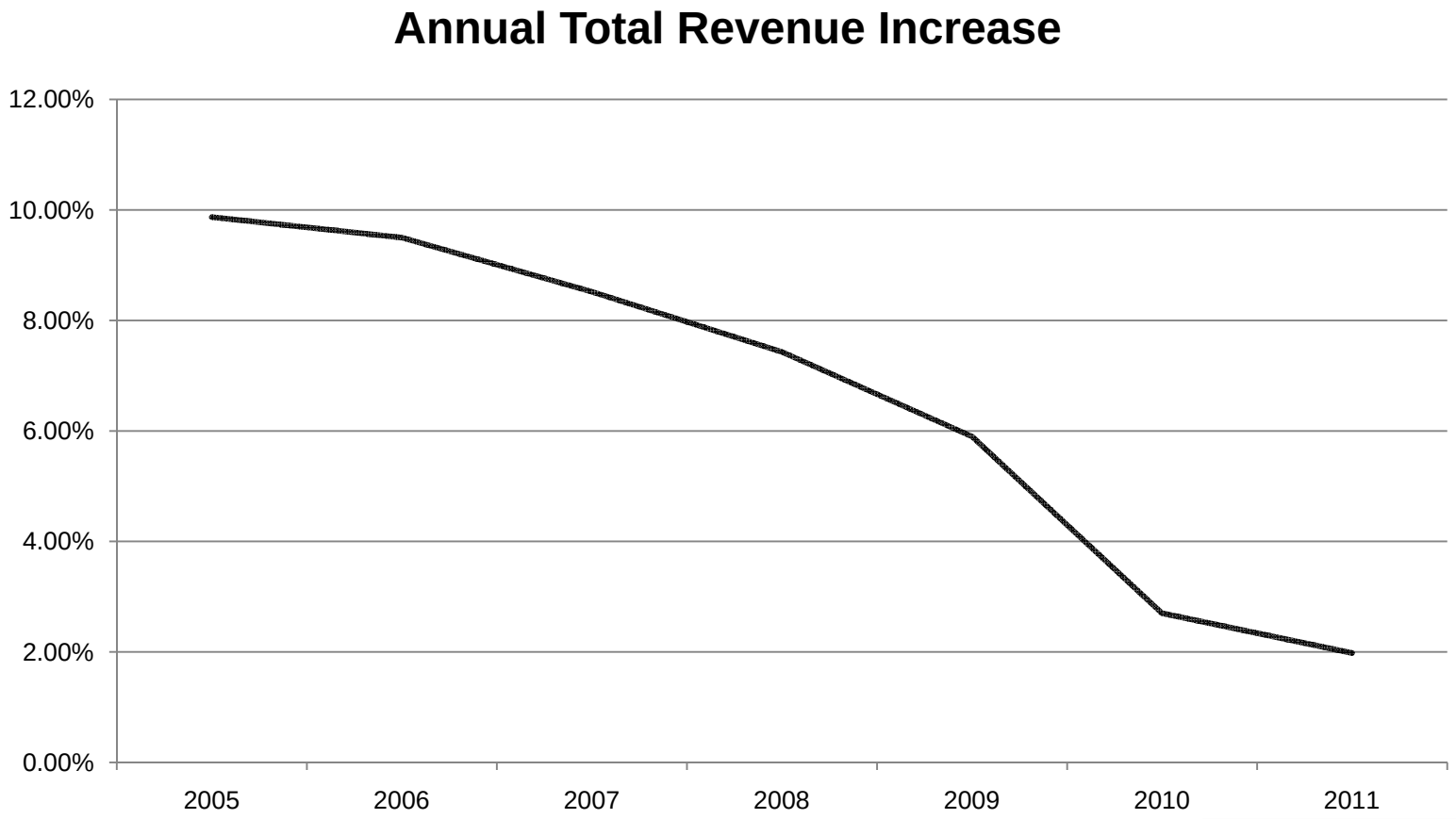
- Our goal: Summarize the hospital field's recommendations on the Medicaid assessment and the FY 2012 Annual Payment Update.

MHA Position: The Assessment

- Hospital costs are not driving the Medicaid deficit: enrollment is.
- Put 100 percent of the funding assessment in hospital rates; hospitals, as employers will pay their fair share.
- Do not make these assessments permanent.
- Undertake immediate effort to provide long-term funding solution for Medicaid.
- Undertake immediate effort to modernize our Medicare waiver and rate-setting system.

Maryland Hospital Association

We Have Bent The Cost Curve



Maryland Hospital Association

MHA Position: Annual Payment Update

- Our goals for this year's Update:
  - Continue to enhance our Quality Improvement Efforts;
  - Achieve an update which allows us to meet HSCRC-defined hospital financial condition targets;
  - Achieve an update which allows hospitals to recruit and retain staff, including Medical Staff; and
  - Address affordability, including the impact of the assessment.

HSCRC Targets

Indicator	2007	2008	2009	2010	HSCRC Target
Operating Margin	3.00	2.40	3.00	2.20	**2.75**
Total Margin	4.8	0.80	-0.20	3.70	**4.00**
Cash on Hand	125.0	130.0	114.0	134.1	**115.0**
Debt to Capitalization	45.0	47.0	46.0	53.0	**40.0**
Average Age of Plant	10.2	10.30	10.30	9.27	**8.5 Years**
Debt Service Coverage	3.0	2.48	1.13	1.90	**3.00**
EBITDA Margin	10.70	7.76	5.99	9.18	**10.75**

MHA Position: Annual Payment Update

- Three sections to the Annual Update template: “Core” update, adjustment for volume, and budget for case-mix
- This year: linking of this Update with the share of the Medicaid assessment that hospitals and payors will contribute

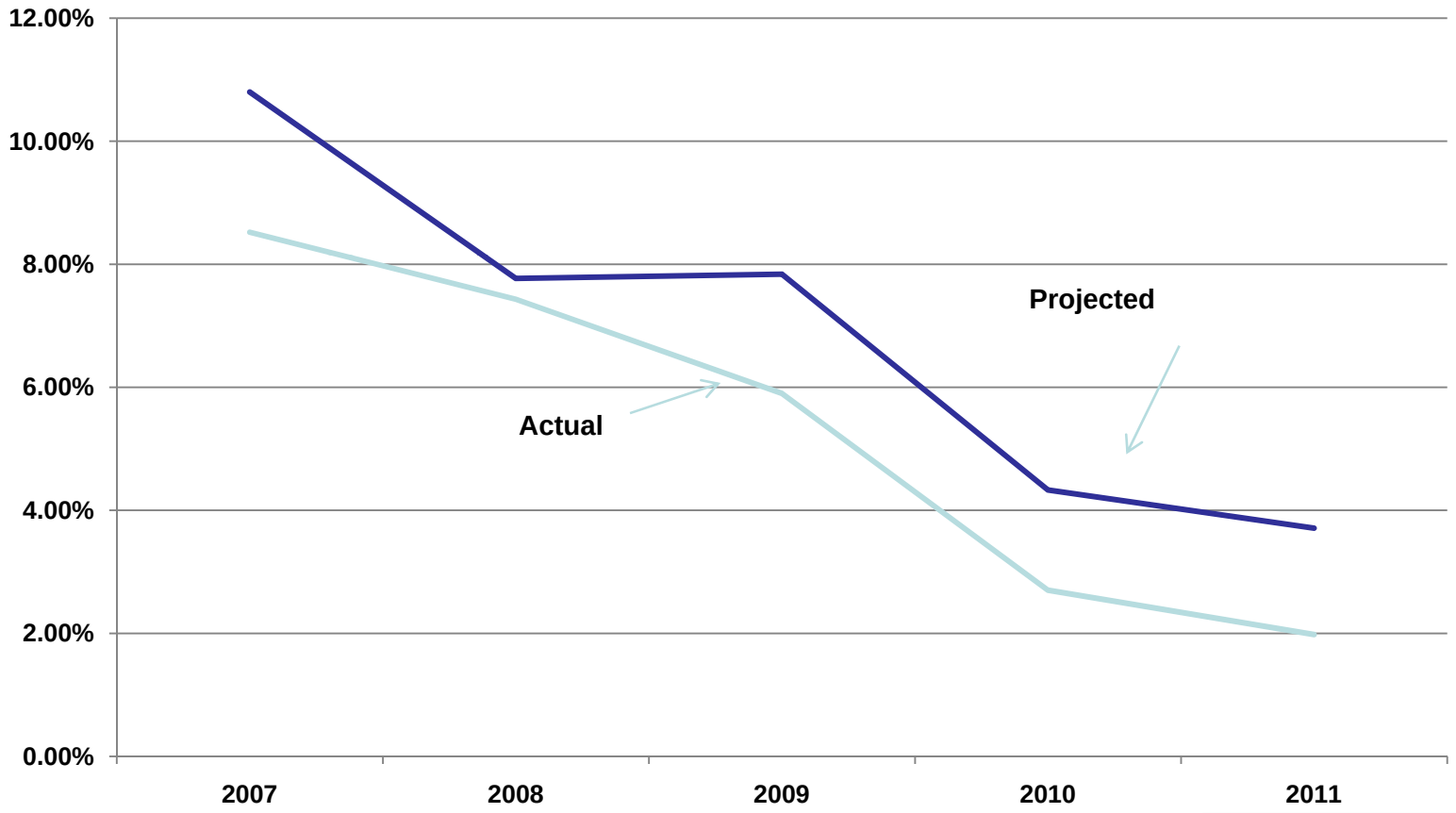
Approved vs. Actual Inflation

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY2010
Projected Inflation	3.06%	3.26%	3.36%	3.12%	3.11%	1.49%
Actual Inflation	4.06%	3.92%	3.47%	3.67%	3.07%	1.91%
Variance	-1.00%	-0.66%	-0.11%	-0.55%	0.04%	-0.42%

MHA Position: Annual Payment Update

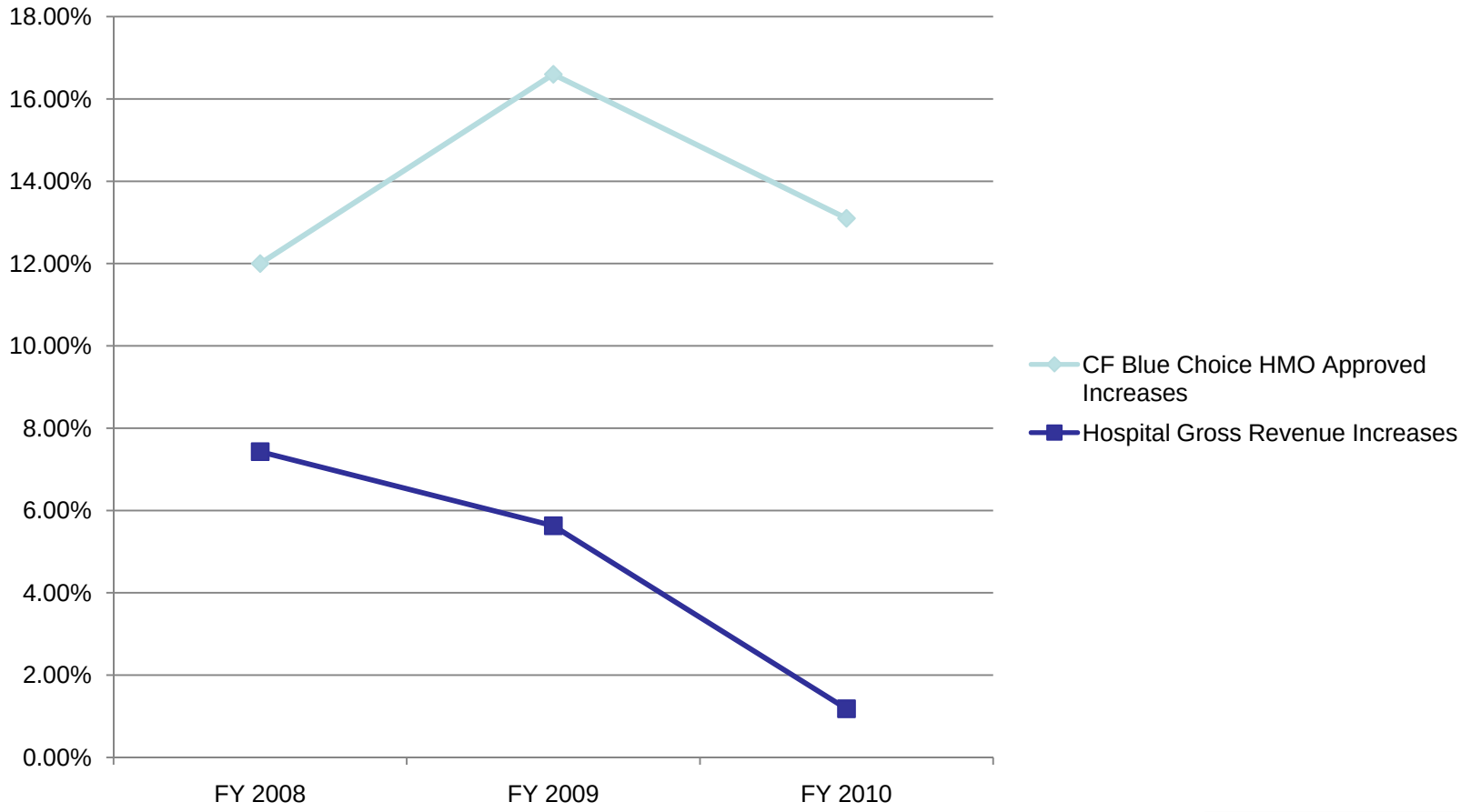
- Our view on affordability: the Commission has already bent the hospital cost curve
- Actual revenues have been trending below what we would project, given the approved updates
- There appears to be no relation between hospital rates of revenue growth, and double-digit rates of premium increases

Declining Hospital Revenue Trend



Maryland Hospital Association

Premiums vs. Hospital Revenue Trends



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Maryland Hospital Association

MHA Position: Summary

- Put 100 percent of Medicaid assessment in hospital rates; do not make the assessments permanent.
- Provide an Annual Payment Update that balances hospital operational challenges with the public's ability to afford this proposed increase.
- Allow us the opportunity to continue the progress that we have made to ensure that the right care is delivered to our patients; let us continue the progress we have achieved in delivering high value service to our communities.

Maryland Hospital Association

STATE OF MARYLAND
DEPARTMENT OF HEALTH AND MENTAL HYGIENE

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Hospital Rate Setting

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TO: Commissioners

FROM: Legal Department

DATE: March 2, 2011

RE: Hearing and Meeting Schedule

Public Session:

April 13, 2011	Time to be determined, 4160 Patterson Avenue, HSCRC Conference Room
May 4, 2011	Time to be determined, 4160 Patterson Avenue, HSCRC Conference Room

The Agenda for the Executive and Public Sessions will be available for your review on the Commission's website on the Thursday before the Commission meeting. To review the Agenda, visit the Commission's website at:
http://www.hscrc.state.md.us/commissionMeetingSchedule.cfm

Post-meeting documents will also be available on the Commission's website, by the close of business, on the Friday following the Commission meeting.