Maryland
Hospital Association

May 21, 2015

John M. Colmers
Chairman, Health Services Cost Review Commission
3910 Keswick Road
Suite N-2200
Baltimore, Maryland 21211

Dear Chairman Colmers:

On behalf of the Maryland Hospital Association's 65 member hospitals and health systems, I am writing in support of the Health Services Cost Review Commission (HSCRC) staff's fiscal year 2016 revenue update recommendation, with two proposed modifications:

- Reconsideration of the amount of funding to be made available for the competitive grants on January 1, 2016, based upon the comprehensive care coordination plans that all hospitals will be submitting on December 1, 2015
- Revision of the proposed update for psychiatric hospitals and Mt. Washington Pediatric Hospital from 1.9 percent to 2.3 percent

A Tectonic Shift

Eighteen months ago, Maryland's hospitals dove headfirst into our new all-payer model. Prior to January 1, 2014, per capita revenues were growing at an annualized rate of 6.8 percent, with very limited incentives to control utilization. Today, 95 percent of hospitals' revenue is governed by global budgets. Maryland's hospitals no longer rely on unit volume to secure financial stability and have committed to being accountable for controlling their total spending from that historical level of 6.8 percent to no more than 3.58 percent per capita. This new environment no longer regulates just hospital unit rates, but hospital global revenue growth. That seismic change in operating models required a corresponding change in thinking, policy, and regulation on the part of all stakeholders.

While still in its infancy, Maryland's bold experiment with this new all-payer model has already delivered highly encouraging results:

For patients:

- Statewide, there has been nearly a 16 percent reduction in potentially avoidable utilization from calendar years 2013 to 2014 (as a percentage of total hospital charges)
- Medicare readmissions rates, while falling short of our target, are declining faster than the nation as a whole
- Inpatient admissions and use rates are down more than 4 percent

For payers and the public:

- All-payer hospital spending growth per capita grew by an estimated 1.47 percent in calendar year 2014, well below the annual 3.58 percent ceiling

- Medicare hospital spending growth per beneficiary is down by 1.50 percent in 2014, well below national growth projections. This will save Medicare an estimated $100 million in 2014 alone, nearly one-third of the $330 million in savings required over the five-year experiment, and a remarkable achievement in light of the fact that no savings were required in the first year of our agreement with the Center for Medicare & Medicaid Innovation.

Shared Objectives

As we consider the global budget revenue update for fiscal year 2016, Maryland's hospitals remain mindful of the need to find more secure footing in the form of a "safety cushion," or reserve of funds, to ensure our collective ability to succeed over the course of this five-year experiment. Stakeholders are fully aware that the Centers for Medicare & Medicaid Services expects us to achieve the goals of the demonstration agreement, and Maryland's hospitals continue to embrace the opportunity to improve our performance as we meet those expectations.

HSCRC Advisory Council Guidance

As we evaluated the staff recommendation on the global budget revenue update for next year, we remained mindful of several important Advisory Council recommendations:

On meeting model requirements:
"*Global payment methods for Maryland hospitals should be the tool of preference to assure revenue controls."*

On meeting budget targets while making important investments:
"*The Advisory Council urges the HSCRC to strike a balance between near-term cost control, which is paramount, and making the required investments in physical and human infrastructure necessary for success. If we do not meet the near-term targets, there will be no long-term program. But if we fail to make the needed infrastructure investments, we will not have the toolkit of reforms necessary to achieve lasting success."*

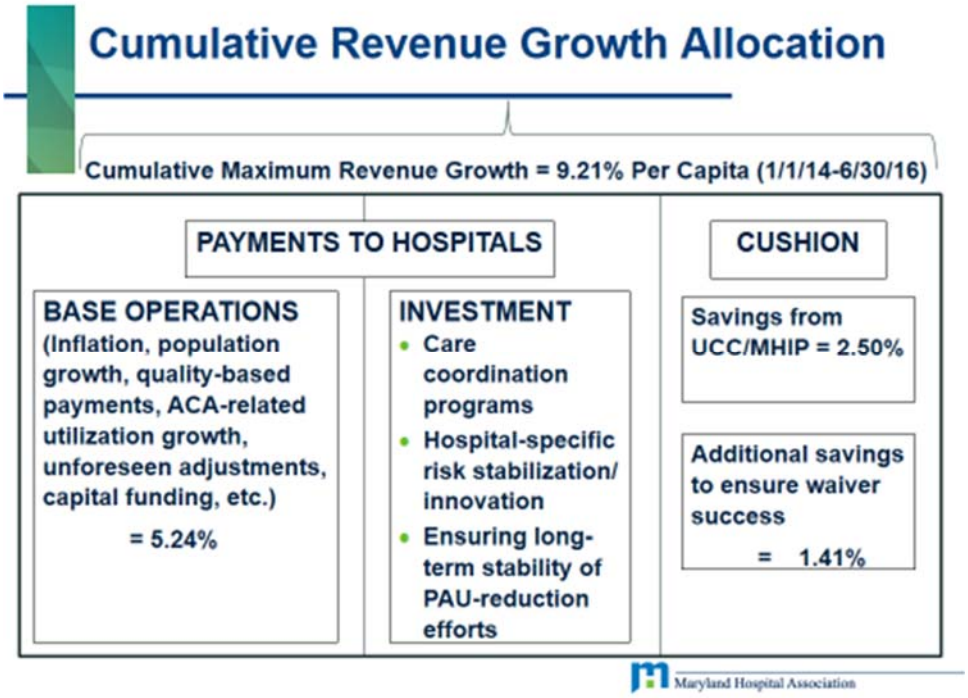
"*Given the challenging targets in this initiative, goals should be set in the aggregate as close to the targets as practicable…hospitals should be able to retain and reinvest a high percentage of their savings."*

On regulatory flexibility:
"*Within the context of per capita growth ceilings on hospital spending, HSCRC should allow considerable flexibility for the health care sector to implement its own strategies for achieving the desired results while recognizing the importance of following evidence-based best practices and the potential value of some standardization."*

"*The consensus of the hospital industry should have a significant weight in policy development…the Council recommends that the HSCRC give significant consideration and preference to policy recommendations that reflect a consensus among hospitals."*

These recommendations underline the delicate balance that commissioners must maintain between regulatory oversight and operational flexibility, and between investing for success and meeting the financial goals of the waiver – all while ensuring the financial stability of the field that has taken on

such significant risk under this new model. Because hospitals are now fully accountable for managing this risk under a global budget, the resources needed to mitigate the risk should reside with hospitals. This balancing act is reflected in the graphic below:



Hospitals readily and rapidly accepted this risk by shifting more than 95 percent of revenues to global budgets because they expected to be provided the tools and resources to get the job done.

For example:

- Based on preliminary infrastructure reports we have received from Maryland's hospitals, we estimate that the average global budget revenue hospital to date has invested about 1.1 percent of its total revenues in activities designed to make care better and more efficient, improve the health of their communities, and invest in novel, forward-thinking care programs. When compared with the infrastructure funding already provided, this suggests that an additional 0.50 percent in funding is needed to cover the programs that have already been implemented, slightly higher than the amount staff have recommended.
- As pictured above, based on the staff recommendation before you, the commission will have set aside more than 42 percent of the total potential cumulative hospital spending (3.91 percent of the total 9.21 percent) as a cushion to achieve the challenging financial targets of the all-payer model.

In the early years of system transformation, the work of reducing potentially avoidable utilization is both challenging and experimental. Based on the experience of Maryland's Total Patient Revenue (TPR) hospitals, it is unlikely that savings from reducing utilization will be sufficient to offset the

risk incurred under global budgets in these initial years. Only hospitals that have invested in and developed the foundation for sustained savings over time can count on using those savings for investment purposes. We believe that the additional resources recommended for fiscal year 2016 will help us build that foundation for long-term success.

We make two requests of commissioners as you consider this recommendation:

- As we work with staff to define the parameters of the comprehensive care coordination reports to be submitted by December 1, we ask that the commission reconsider whether the funding to be provided on January 1 will be sufficient to support those plans. As commissioners discussed at the May meeting, providing additional funding in competitive grants of up to 0.25 percent is to accelerate the implementation of the programs needed to ensure long-term waiver success. After commissioners have had the opportunity to review the plans that hospitals submit, they could determine the appropriate level of funding needed to ensure the timely implementation of the full range of acceptable plans, without limiting either the scope or number of programs implemented at that time.
- We also ask that the proposed update for psychiatric hospitals and Mt. Washington Pediatric Hospital be increased from the proposed 1.9 percent to 2.3 percent. Staff has used the proposed rule for the Medicare Inpatient Psychiatric Facility Prospective Payment System as the basis for its recommendation; based on MHA's reading of the proposed rule, we believe that the federal per diem is being increased by 2.3 percent.

Thank you for your consideration, and we look forward to your final action on the staff recommendation at the June meeting.

Sincerely,

Michael B. Robbins
Senior Vice President

cc: Herbert Wong, PhD, Vice Chairman
George H. Bone, MD
Stephen F. Jencks, MD, MPH
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