Maryland
Hospital Association

December 1, 2021

Adam Kane
Chairman, Health Services Cost Review Commission
4160 Patterson Avenue
Baltimore, MD 21215

Dear Chairman Kane:

On behalf of the Maryland Hospital Association's 60 member hospitals and health systems, we write to urge the Health Services Cost Review Commission (HSCRC) to **raise rate year (RY) 2022 hospital rates, for both global budgeted revenue (GBR) and non-GBR hospitals by 65 basis points on January 1, 2022.** Mounting cost pressures are driving unfavorable results, in an alarming fashion. HSCRC action now is well warranted, for three main reasons:

1) 2022 inflation is more than 25% higher than at the time of the update.
2) Hospital margins are deteriorating rapidly.
3) The tight labor market is straining hospital services.

These points are explained below. Also, we know the Commission is concerned about breaching the Medicare guardrail, as are all hospitals. We will speak to that issue later in this letter.

1) 2022 inflation is more than 25% higher than at the time of the update. In our RY2022 letter, Maryland hospitals strongly urged the Commission to adjust the proposed rate update to account for the unprecedented and permanent inflation that is straining hospitals and health systems. We appreciate that HSCRC added 20 basis points on July 1. The most recent IHS Markit inflation projection for the period is now 3.22%, 85 basis points higher than the 2.37% projected at the time of the update and 65 basis points higher than 2.57% provided.

- According to data from MHA surveys, hospitals have given, or plan to give, more than $170 million in RY2022 permanent salary increases. These amounts are required to retain staff in the face of poaching by staffing agencies that are offering pay that can reach 3 to 4 times normal wages. Hospitals also are contending with a wave of attrition due to retirements or staff leaving the hospital workforce.

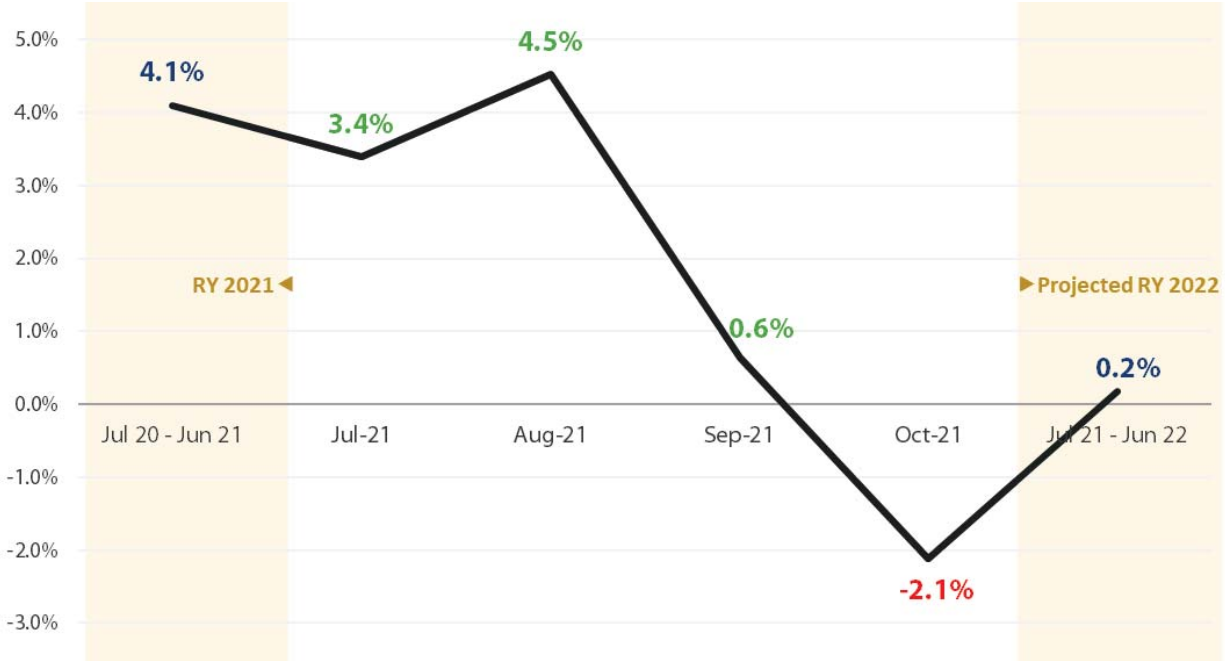
- Year-to-date RY2022 contract labor costs averaged nearly $58 million per month, or a conservative estimate of more than $650 million on an annualized basis.
    - This is 300% higher than $210 million in 2019.
    - The increment alone equates to 2.4% of all patient revenues.

- As reflected in previous public meeting materials, hospital volumes, and patient acuity, have largely rebounded from COVID pandemic lows. Costs will jump further now that COVID cases are spiking yet again. Statewide COVID inpatient census has risen 40% in just the last two weeks. Further reducing expenses is not a viable approach while needing to maintain services in our communities.

Please note as well that calendar year 2021 inflation is 3.12%. We nevertheless are not asking the Commission to fund excess inflation for the July-December period.

2) Hospital margins are deteriorating rapidly. As shown in the chart below, for the month of October, **the median hospital operating margin was -2.1%.** Contrast this figure with the RY2021 median of 3.4% and a further decline from the September median of 0.6%. This drop-off is a direct result of exploding contract labor costs and permanent salary increases needed to attract and retain employed personnel, as outlined above. Collectively, the RY2022 year-end margin is projected to be 0.2%, well below the HSCRC's targeted operating margin of 2.75% and down 3.2 percentage points, or about half the yield in RY2021.

Hospital Operating Margins: RY2021, July-October 2021, and Projected RY2022



Maryland's rate setting system has long afforded financial stability to hospitals. We are grateful that the HSCRC, combined with significant federal relief funds, allowed Maryland's hospitals to remain financially stable during 2020 and 2021. The bond market recognizes Maryland's rate setting system as pivotal in ensuring that Maryland hospitals meet their financial obligations.

While HSCRC may wish to consider liquidity in determining the financial resources needed by Maryland's hospitals, that is not the only measure. Maryland hospitals typically have lower

margins, lower days cash on hand and higher proportion of cash to debt than other similarly rated hospital peers. As a result, bond markets strongly consider HSCRC's statutory mandate to "*concern itself with solutions if a facility does not have enough resources*" as a key factor when issuing credit ratings that affect hospital borrowing costs. Maryland hospitals strongly assert that it is not prudent to dismiss the degradation of operating margins, as this will hurt hospitals' credit ratings and drive borrowing costs higher, particular as inflation spikes.

Furthermore, hospitals' current cash positions have been pumped up by **$1.4 billion of Medicare payment advances that must be repaid**. Simply put, while Maryland's hospitals continue to treat Medicare patients, they are receiving no cash for services rendered. The amount billed for every Medicare patient is offset against the outstanding loan balance.

Outside of Maryland, hospitals are facing the same cost pressures. However, the data appear to reflect better financial performance. Kaufman Hall's November 2021 operating margin index, including data from more than 900 hospitals and health systems, was 3.2% in October, excluding federal CARES Act funding. They noted that month-over-month labor costs rose 2.7% from September to October, and 12.6% compared to the prior year. At the same time, Full-Time Equivalents per Adjusted Occupied Bed decreased 4.5% from 2020 and were 4.1% lower than 2019, suggesting higher wages prompted by nationwide labor shortages are driving up labor costs, not higher staffing levels.

While hospitals outside of Maryland contract with health insurers for defined periods, those hospitals can attempt to renegotiate higher payment rates – and they can raise charges without limit when serving patients on an out-of-network basis. In Maryland, all hospital rate changes are subject to HSCRC's regulatory authority. Hospitals outside of Maryland also can drive marginal revenue through volume increases, a stratagem that is counter to Maryland's leading approach to reduce avoidable service use. Other states have also shared with hospitals some of the COVID-19 relief dollars they received from the federal government.

There are other adverse consequences hospitals are suffering in elsewhere that we can avoid in Maryland. Other state associations tell us that newly weakened hospitals have begun to curtail services or to seek larger partners to keep from shutting down altogether. The outcome of this trend cannot be known, though consolidation typically reduces access and leads to higher prices.

3) The tight labor market is straining hospital services. The staffing crisis is very real and it threatens hospitals' ability to operate services at normal capacity to serve our patients. Some examples:

- Several hospitals have or will curtail scheduled procedures due to staffing limitations. Vital services that are affected include operating rooms, cardiac catheterization laboratories, labor and delivery inductions, and more.
- Both medical/surgical and intensive care units are persistently running at extended capacity – 85% or higher. That can result in inefficient operations and longer turnover

times. In extreme circumstances, hospitals have been forced to take inpatient beds offline due to staffing shortages.

- Emergency department (ED) wait times are getting longer, for both patients waiting to be diagnosed and patients waiting to be moved from the ED to an inpatient or observation bed. This is a direct result of limited staff both in EDs and on nursing floors.
- Many hospitals cite a sharp increase in ED yellow and red alert hours, well above pre-pandemic levels.

Maryland hospitals are committed to invest to improve the health of the population or transform care. This work is threatened by staffing pressures and the need to protect financial positions. Hospitals' core mission is to provide acute care, emergency and outpatient services to our patients. If resources are limited, Maryland hospitals, like all hospitals, will only be able to meet the core mission; they can resume non-core investments only when new funds become available.

Medicare Guardrail Considerations

We make this request fully knowing that Maryland may breach the Medicare spending guardrail in 2021. We are confident the federal government will understand the cause of any such breach and will not act adversely. CMMI can see that the percentage spending increase in 2021 is an artifact of the relatively low spending growth in 2020. Maryland's COVID waves simply did not match the national pattern.

Should Maryland be on track to exceed the guardrail in 2022, HSCRC can activate its Medicare Performance Adjustment – Savings Component to address our Medicare test.

In any case, effects of the labor market crisis on hospital operations justify the restorative adjustment if Marylanders are to continue to have access to a robust hospital system. We share a common goal with HSCRC – appropriately constraining per capita Medicare spending – yet we must address the extraordinary cost pressures faced by Maryland's hospitals.

Though no one can know for sure, we expect Maryland's 2022 Medicare total cost of care growth to level off and remain below the nation. The 2021 figure reflects a bifurcated increase. Hospital spending per beneficiary continues to grow below the national rate, despite the shock absorbing benefit of the GBR system in 2020 and 2021. Non-hospital spending is rising more than 6% faster than the nation, likely reflecting our deeper trough in 2020 as the state suspended non-hospital health care services to conserve personal protective equipment. The 2022 growth rate ought to fall because the 2021 spending base is above what was contemplated. Consistent with our July 1 comments, in the face of rising inflation under a capped system, Maryland hospitals should not bear the entire risk for non-hospital growth during this unprecedented period.

The year-over-year guardrails govern only Medicare spend per beneficiary. Maryland has consistently delivered all-payer hospital savings per capita. If HSCRC is concerned about the

Medicare guardrail, it should implement the Medicare Performance Adjustment Savings Component and **deliver direct savings to Medicare** in the form of lower payments.

Before closing, we offer comments on HSCRC's treatment of the RY2021 undercharge. Last year, HSCRC guaranteed that the RY2021 undercharge would be included in hospital rates. HSCRC's recent memo stated that only one-third of hospital undercharges will be released January 1. We encourage HSCRC to release as much of the undercharge as possible, as soon as possible, since costs are rising sharply in real time. And to be clear, releasing the full undercharge amount in no way obviates hospitals' need for a mid-year rate adjustment.

We submit this letter on December 1 to give HSCRC at least 30 days to consider our request. MHA staff and hospital leaders are happy to discuss this matter at either or both the December and January HSCRC public meetings.

MHA and all our members sincerely appreciate the HSCRC's partnership as we continue to work together on behalf of the people and communities we serve.

Sincerely,

Bob Atlas
President & CEO

cc: Joseph Antos, Ph.D., Vice Chairman
Victoria W. Bayless
Maulik Joshi
James Elliott, M.D.
Stacia Cohen
Sam Malhotra
Katie Wunderlich, Executive Director
Jerry Schmith, Principal Deputy Director

MedStar Health

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410-772-6954 FAX
MedStarHealth.org

Susan K. Nelson
Executive Vice President and
Chief Financial Officer

December 3, 2021

Adam Kane
Chairman, Health Services Cost Review Commission
4160 Patterson Avenue
Baltimore, MD 21215

Dear Chairman Kane:

On behalf of MedStar Health's Maryland hospitals, I write to support the hospital field's January 1st rate increase request.

Health systems across the country and in our region report nurse staffing shortages in all categories. Due to the extended impact of the COVID-19 pandemic, the accumulation of months of stress is leading to greater levels of burnout. As a result, turnover has quickly increased over the last several months and nurses are reducing their worked hours. This has led to a growing demand for agency nurses across the country which spiked even higher in August and is continuing. This increase in demand has led to substantial increases in agency nursing rates. In addition, the agencies are recruiting nurses with lucrative packages, increasingly closer to home, which is further exacerbating the challenges. These same trends and impacts are being experienced at hospitals across the region including MedStar Health's hospitals. Staffing continues to be one of the greatest areas of concern.

Although the full impact of this staffing crisis is not known yet as the costs are continuing to mount, MHA's request to recognize the increase in the updated published inflation factor of 0.65% in rates January 1, 2022 would provide needed, real-time support to our hospitals as we prepare to manage through the impact of the latest variant as well as continue to meet the other vital health care needs of our communities.

Thank you for your consideration.

Sincerely,

Susan K. Nelson

Susan K. Nelson
Executive Vice President and Chief Financial Officer

cc: Katie Wunderlich, Executive Director
Joseph Antos, PhD
Maulik Joshi, DrPH
Sam Malhotra
Victoria W. Bayless
James Elliott, M.D.
Stacia Cohen, RN, MBA
Bob Atlas, MHA President & CEO

HOLY CROSS HEALTH

1500 Forest Glen Road
Silver Spring, MD 20910-1484
301-754-7000
HolyCrossHealth.org

December 3, 2021

Mr. Adam Kane
Chairman
Health Services Cost Review Commission
4160 Patterson Avenue
Baltimore, MD 21215

Dear Chairman Kane:

On behalf of Holy Cross Health, we urgently request your consideration and support for the proposed January 1, 2022 rate request to help address the unprecedented growth in labor costs faced by all Maryland hospitals and health systems today. The current Global Budget system does not adequately provide sufficient resources to offset these financial pressures.

Over the past two years as we've weathered the surges brought on by COVID-19 hospitalizations in addition to traditional care needs, the labor market and supply chain have become increasingly costly and, in many cases, scarce. Most recently (over the past six months), we have experienced a dramatic and unsustainable increase in labor costs.

As our colleagues weathered the surges, they were exhausted. Our nurses, especially those in specialty areas like critical care, peri-operative and women and infant services sought other options to take a break or step out of the labor market entirely. This initially caused a significant jump in our contract labor utilization to fill vacant positions. With a much smaller labor pool and healthcare employers in our region and around the country facing the same issue competition for the same resources skyrocketed and employment agencies began commanding higher rates for all nurses.

Contract agencies also used these higher rates and other incentives to aggressively recruit nurses which then fueled an increase in colleague turnover rates, particularly in direct patient care roles. To stay competitive, we instituted a variety of market increases and incentive programs to attract and retain our employed colleagues. This economic "perfect storm" of pandemic supply shortages and demand surges has dramatically increased our labor costs, with little to no end in sight.

Predictably, this generated a significant decline in our year-to-date financial performance. For the first four months of our fiscal year (through October 2021), our operating margin has declined to 0.3% from 7.4% in the same period last year, a 95.9% decline year over year. As we look ahead, we are projecting our labor costs to continue at this level for the remainder of the year and are projecting an operating loss of ($13.4) million or (2.1%) which is 184.0% below our FY22 budgeted target of 2.5%.

We continue to innovate to lower the overall total cost of care, employing resources across the continuum to minimize relatively higher cost inpatient care. Naturally, inpatient care can't always be avoided and the challenge to recruit and retain human resources to meet the demand for safe clinical care in our community is presenting dilemmas as the continued growth in labor costs is consuming resources needed to support other clinic needs. When we are unable to staff clinical areas, reduced capacity results in increased wait times in the ED, delays in scheduling of surgical cases due to fewer ORs and potential delays in transitions of care as staffed beds become a precious resource. This is taking place today and is expected to escalate if we are unable to bring more resources to bear.

As labor costs continue to consume a larger portion of our expenditures, we anticipate a consolidation of available staffed beds because we don't have sufficient financial resources to cover the increased costs. Ultimately, we are

HOLY CROSS HEALTH

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now reevaluating investments made in population health initiatives and care transition programs as rising cost pressures have

required us to reassess those programs which do not support critical direct patient care. Although this is being done in the name of safe care, it would be an unfortunate step backwards. Our reality is one where scarcity of key clinical care resources, nurses specifically, is forcing us to refine operations to ensure our community has the inpatient care they need when they need us most.

To address our labor shortage and counteract contract labor growth, Holy Cross Health has instituted a variety of initiatives to retain our current colleagues as well as attract new colleagues to fill our current vacancies. In October 2021, we instituted an average 8% permanent pay adjustment for nurses to achieve a market competitive rate (market rate changed dramatically due to high salaries being paid to travel nurses). We deployed enhanced shift bonuses and other premium pay to incentivize colleagues to fill open shifts to meet the needs of our patients. At the same time, we established more flexible employment options which allowed current and potential colleagues to fit their work schedules around their family and other personal commitments. We also offered expanded float pool options which allowed nurses to receive a higher rate of pay in lieu of benefits. This option was offered both locally and at the national level through our parent company, Trinity Health, which gave nurses the opportunity to stay within our Trinity Health System while allowing them to travel and work at other hospitals within our System. We also developed and are finalizing a new retention program to incentivize colleagues filling "difficult to recruit" positions to remain with Holy Cross. In addition, we have focused efforts on recruiting new graduate nurses and investing in additional support for on-the-job training. This has also required the introduction of new graduate hiring incentives and engaging nurse externs in accepting full-time positions prior to graduation.

To date, the costs related to these programs has increased our average nursing rate of pay by 21.3% over our FY 2021 average rate. Overall salaries and wages expense fiscal year to date 2022 through October has increase 19.3% or $15.7 million over the same period in FY21. Despite these retention efforts, we continue to rely on contracted agencies' resources to support our labor needs and spending in this category continues to be a significant portion of our overall labor costs. Our average monthly contract labor spending fiscal year to date 2022 through October has grown 586.7% from March 2020 and is anticipated to continue at this rate for the foreseeable future.

We are clearly facing unprecedented challenges in this very volatile labor market and ask for your support for the proposed rate increase. This essential support will help offset the dramatic costs increases all Maryland hospitals are facing and allow us to provide the quality, safe and efficient care our communities expect of us.

Thank you for your consideration.

Sincerely,

Norvell Coots, M.D., MSS, FAAD
President and CEO

Anne D. Gillis
Chief Financial Officer

cc: Katie Wunderlich, Executive Director
Joseph Antos, PhD
Maulik Joshi, DrPH
Sam Malhotra
Victoria W. Bayless
James Elliott, M.D.
Stacia Cohen, RN, MBA
Bob Atlas, MHA President & CEO

December 3, 2021

Adam Kane
Chairman, Health Services Cost Review Commission
4160 Patterson Avenue
Baltimore, MD 21215

Dear Chairman Kane,

On behalf Adventist HealthCare ("AHC"), I write to support the hospital field's January 1st rate request. The past twenty months have been unprecedented. As a healthcare organization, we have encountered operations previously unseen. We have supported our community and its residents, established vaccination clinics, partnered with the State to reopen the old Washington Adventist Hospital location as an alternative care site with capacity up to 200 Med/surg and ICU beds, and asked more of our staff than ever before. As the pandemic has continued to plague our community, the cost pressures are increasing exponentially. The extreme expenses we are facing, along with staffing shortages and rising inflation and labor costs, threaten a lasting negative financial impact on our organization and our ability to support and expand within our communities.

Without any additional support, Adventist HealthCare is projected to have a $426K or 0.04% operating margin for RY 2022. This is a significant shortfall from normal operations for our organization, is not sustainable and will have lasting long-term effects on our ability to reinvest in our facilities. This projected margin includes substantial Provider Relief Funds (PRF) and FEMA funds recorded or expected to be recorded in this period. Without this additional federal support, AHC's RY22 projected operating margin would be a negative ($28.1M). The PRF funds for Adventist HealthCare have been fully expended as of November 2021 and there is uncertainty in continued ability to access FEMA funding or other sources of federal funding. In the absence of this funding, there is considerable risk around the future financial stability if wage pressures, and agency costs continue to rise as their current trajectory indicates. The level of short term federal funding present in hospital financial statements to date has masked the true financial hardship we are facing as an organization and as an industry. Therefore, a January 1st rate increase is critical to continue to support hospital operations.

Staffing shortages in nursing and patient care support areas such as patient care technicians, dietary, housekeeping, and transport personnel to name a few, and the excessive cost of contract labor has affected Adventist HealthCare's operations throughout the pandemic. Wage pressures and burnout causing significant increases in staffing turnover and the reliance on short term contract labor to ensure adequate coverage has impacted the ability to provide the most efficient and effective care to our patients. This has led to increased wait times and significant boarding in the ED as patient wait for available beds on the units. Adventist HealthCare has expended significant resources to avoid having to drastically reduce or close critical services, but this is approach will not be sustainable in the future.

As previously indicated, Adventist HealthCare has seen extraordinary wage pressures and agency costs over the past twenty months. As a system, October 2020 through October 2021 represents a 21% increase in total turnover. AHC's current turnover rate is 25.2% against a 50th percentile target of 16.9%. For the same time period, we've seen a 22% increase in RN turnover. The current turnover rate for RNs is 29.1% against a target of 13.1%. For the Adventist HealthCare acute care hospitals, the projected RN Vacancy rate for a rolling 12-months through December 2021 is 45%. For the same time period, the projected

patient care tech / certified nursing assistant vacancy rate is 19%. Due to the unusually high level of vacancies, and inability to find and recruit the necessary staff, AHC's contract labor expense has risen to unprecedented levels, and the excessive rate demanded by the agencies doesn't appear to be decreasing in the near future. As a consolidated system, Adventist HealthCare's contract labor expense as a percentage of total wages, (salaries, benefits, and contract labor) for the 10-months ended October 2021 is 21.6%. Agency staff as a % of total FTEs ranges from 6.5% to 10%. Agencies continue to manage a large share of the workforce and impose compensation expectations that are not sustainable for our hospital system. Employed staff continue to leave our hospitals to work for agencies, citing a much higher hourly rate, and oftentimes, are placed right back at their previous facility.

As a result of the significant labor issues noted above, Adventist HealthCare has taken several measures to help support our workforce who has sacrificed immensely during the past twenty months. AHC implemented extra shift bonuses for staff as well as surge bonuses, which exceeded $5.2m dollars in late 2020 through the first quarter of 2021. In addition to one-time bonus-based incentive payments, Adventist HealthCare also provided much needed market adjustments to nursing staff. The annual impact to the organization for these adjustments was $10.1M above normal cost of living adjustments that are typically planned for. Compared with 2019, AHC's 2021 average nursing salary has grown 9% and there is still additional market pressure for even further increases. Given the significant staff vacancies, AHC has turned to contract labor to fill the gap in staffing, paying excessive rates for staff. In 2019, AHC's annual contract labor spend was around $16m. For calendar year 2021, we are projecting to spend almost $70m. This level of expense is unsustainable for our organization and without the necessary infusion of a January 1st rate increase to support the recruitment and retention of nursing labor at current market levels, we will continue to have reliance on costly contract labor which will handicap our ability to continue to provide the highest level of care for our patients and community.

As outlined above, Adventist HealthCare supports the hospital field's January 1st rate increase request. These dollars would be a necessary infusion of resources to help support our long term hospital operations in the absence of shorter term federal funding during a pandemic that is ravaging our communities.

Thank you for your consideration. Please call me with any questions.

Sincerely,

Terry Forde
Chief Executive Officer
Adventist HealthCare

cc: Katie Wunderlich, Executive Director
Joseph Antos, PhD
Maulik Joshi, DrPH
Sam Malhotra
Victoria W. Bayless
James Elliott, M.D.
Stacia Cohen, RN, MBA
Bob Atlas, MHA President & CEO

GBMC

December 3, 2021

Adam Kane
Chairman, Health Services Cost Review Commission
4160 Patterson Avenue
Baltimore, MD 21215

Dear Chairman Kane:

On behalf Greater Baltimore Medical Center, the Hospital, I write to support the hospital field's Jan. 1. rate request.

GBMC's Net Operating Income for the four months ending October 31, 2021 is $588 thousand and represents a 0.30% operating margin. As compared to the same period last year, Net Operating Income has declined by $1.3 million and operating margin is down by .70%. GBMC expects continued margin pressure and erosion over the remaining eight months of the fiscal year as the labor crisis escalates and brings with it unsustainable contracted salaries.

GBMC has taken many actions to retain our current work force and to recruit clinical and non-clinical team members, all aimed at ensuring that GBMC will be there for our community. Hospital actions have included: permanent pay adjustments, one-time retention bonuses, float pool increases, incursion of substantial and excessive contract labor costs. See attached graph which shows the increase in contract nursing FTEs and rates over the past several months.

Thank you for your consideration. Please call me with any questions.

Sincerely,

Laurie

Laurie Beyer
EVP & CFO
GBMC HealthCare, Inc.

cc: Katie Wunderlich, Executive Director
Joseph Antos, PhD
Maulik Joshi, DrPH
Sam Malhotra
Victoria W. Bayless
James Elliott, M.D.
Stacia Cohen, RN, MBA
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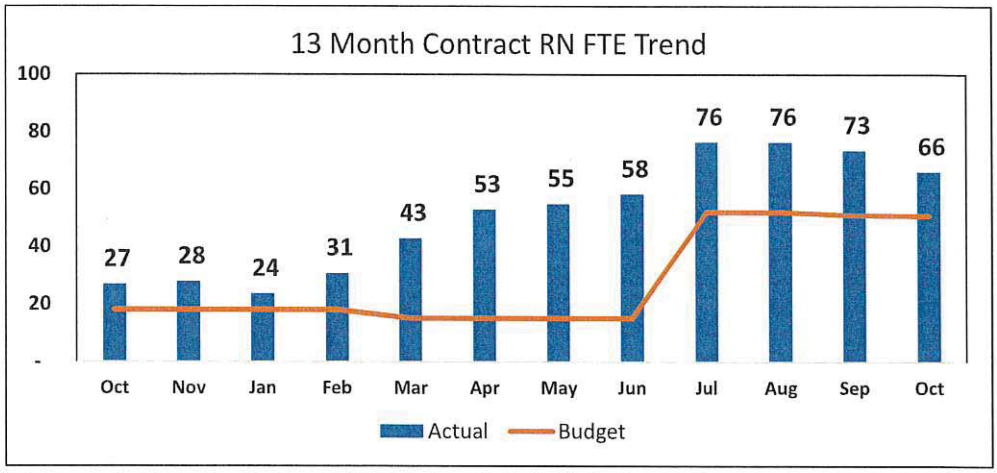
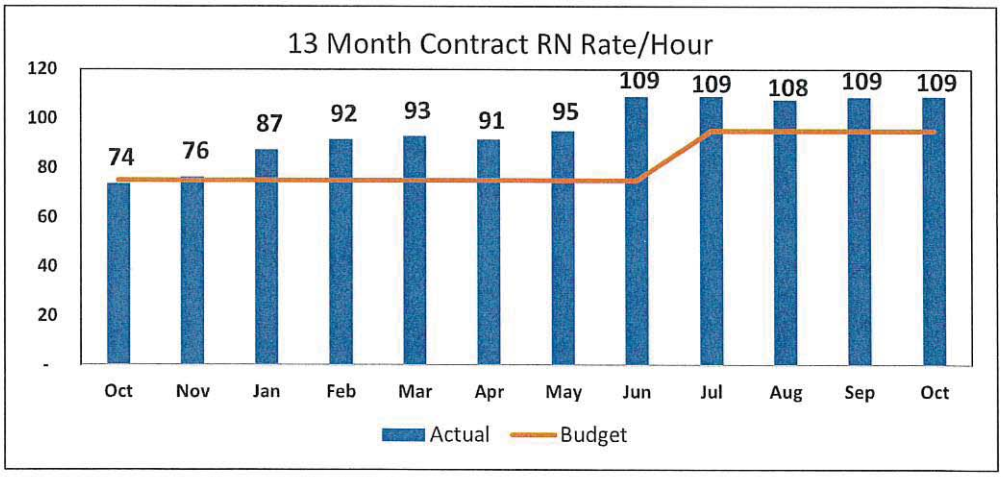
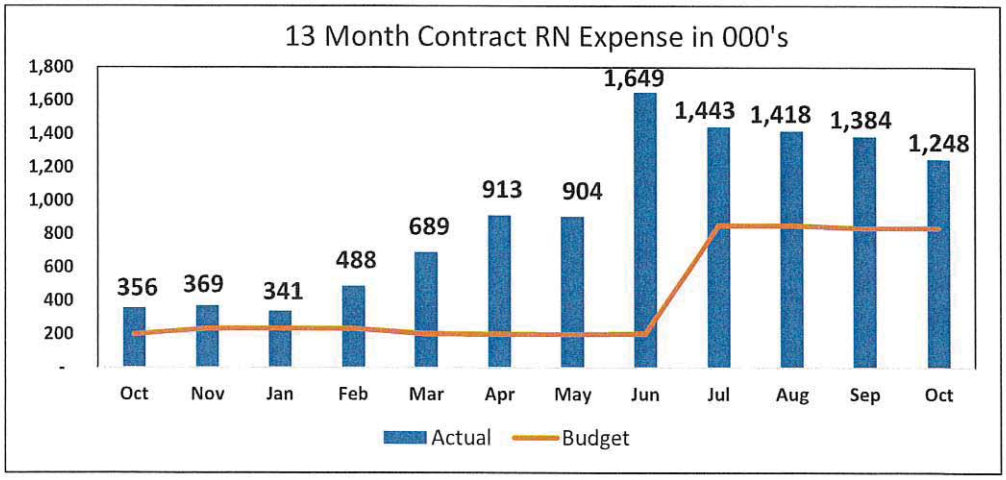
GBMC

Contract RN Usage Trending

FY22 October 13 Month Trended Experience







*YTD Adjustment made in June of $550k

FY22 Budget $850k Q1/Q2, $460k Q3, $275k Q4

Luminis Health℠

2001 Medical Parkway
Annapolis, Md. 21401
443-481-1000 | luminishealth.org

December 3, 2021

Mr. Adam Kane
Chairman, Health Services Cost Review Commission
4160 Patterson Avenue
Baltimore, MD 21215

Dear Chairman Kane:

On behalf of Luminis Health, I write to support the hospital field's January 1 rate request.

Luminis Health recorded an actual operating margin of ($1.1M) vs. a budgeted margin of $8.0M for the four months ending October 31, 2021. The projected full fiscal year 2022 operating margin is a loss of $30.6M vs. a budgeted loss of $4.9M. The projected operating margin loss of $30.6M represents an operating margin of (2.7%) vs. a budgeted margin of (0.4%), significantly below FY21 and FY20 operating margins of 2.0% and 0.6%, respectively.

As with most health systems across the nation, staffing challenges have impacted the level and quality of services across Luminis Health. Emergency room diversions have increased year over year, resulting from reduced staffing, and has been a driver in poor throughput and the inability to open additional inpatients beds. Additionally, the downstream effect of lower inpatients beds has also negatively impacted Luminis Health's operating room capacity. The nursing staff has also taken on duties in other departments, specifically tasks customarily performed by Respiratory Therapy and Phlebotomy. Medical length of stay has increased year over year, partially due to the increased number of inexperienced and agency staff. There has been a significant increase of inductions on hold in Labor and Delivery because of staffing issues. Maintaining adequate levels of scarce clinical talent has made focusing on and funding population health, community health, and care transformation investments problematic.

In September 2021, driven by the challenges faced by workforce competition, Luminis Health received Board approval to invest $29M in employee wage and benefits optimization programs. The investments included but were not limited to nursing retention bonuses, salary market adjustments, the implementation of a $17/hour living wage across the enterprise, and an R.N. college loan repayment program. Luminis Health has also experienced higher than average contract labor costs. Contract labor hourly rates have risen from $72 in FY19 to $174 in October 2021 (a 142% increase) and are still rising. Moreover, contract labor expense has grown from $23.3M in FY20 to $38.1M in FY21 and is projected to hit $51.2M in FY22.

We hope you consider the wage pressures and the impact on care quality and delivery across the Maryland health systems in the January 1 rate order.

Thank you for your time and consideration.

Sincerely,

Kevin L. Smith
Chief Financial Officer

Luminis Health℠

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443-481-1000 | luminishealth.org

cc: Katie Wunderlich, Executive Director
Joseph Antos, PhD
Maulik Joshi, DrPH
Sam Malhotra
Victoria W. Bayless
James Elliott, M.D.
Stacia Cohen, RN, MBA
Bob Atlas, MHA President & CEO

Ascension
Saint Agnes

Adam Kane
Chairman, Health Services Cost Review Commission
4160 Patterson Avenue
Baltimore, MD 21215

December 3, 2021

Dear Chairman Kane,

On behalf of Ascension Saint Agnes Hospital, I write to support the hospital field's January 1st rate request.

Ascension Saint Agnes is experiencing unprecedented staffing challenges and wage pressures that are attributed to increased voluntary turnover primarily due to lucrative external agency offers and those leaving healthcare. For the period July through the end of October 2021, Ascension Saint Agnes has an operating margin of 0.7%. Anticipating worsening wage pressure for the remainder of the fiscal year, Ascension Saint Agnes projects a fiscal year end operating margin of -1.3%. Commission action to increase the annual update factor for mid-year rate orders will provide much needed financial support to respond to this wage pressure.

Staffing shortages at Ascension Saint Agnes are leading to significant throughput issues in the emergency department, critical care, and med/surg nursing units. Emergency department red and yellow alerts (a good indicator of emergency department crowding) is currently running 551% over target for the four months ending October 2021. Emergency department overcrowding is causing increased wait times, delays in treatment, delays in recognizing serious medical issues, increased ambulance wait times and increased violence towards staff members due to the long wait time.

Ascension Saint Agnes has taken significant action over the past 6 to 8 months to stabilize its workforce. Premium pay which consists of overtime, contract labor and other staffing incentive bonuses has increased on average $1.5m per month (150% increase) since February of 2021. Contract labor expense alone has increased about $900k per month (142% increase) over this same period. An increase in contract labor utilization means loss of permanent staff which

Ascension Saint Agnes
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causes inconsistencies in care teams and inconsistent adherence to policies and procedures including initiatives to improve quality and patient experience. In response to the higher premium pay and contract labor expense, Ascension Saint Agnes has invested $10.5m into permanent wage increases (representing a 7.5% increase in non-physician salary expense) to attract and retain employed personnel.

Thank you for your consideration. Please call me with any questions.

Regards,

Edward Lovern
President & CEO

cc: Katie Wunderlich, Executive Director
Joseph Antos, Ph.D.
Maulik Joshi, Dr.P.H.
Sam Malhotra
Victoria W. Bayless
James Elliott, M.D.
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Bob Atlas, MHA President & CEO

Mt. Washington
Pediatric Hospital
Where Children Go to Heal and Grow

An affiliate of University of Maryland Medical System and Johns Hopkins Medicine

December 3, 2021

Adam Kane
Chairman, Health Services Cost Review Commission
4160 Patterson Avenue
Baltimore, MD 21215

Dear Chairman Kane:

On behalf of Mt. Washington Pediatric Hospital, I write to support the hospital field's January 1, 2022 rate request.

MWPH is struggling financially in FY 2022. The hospital lost $800 thousand on operations through October, and expects to lose over $2 million on operations for the full fiscal year. In the five years prior to Covid, the hospital averaged annual operating income of approximately $3 million.

The negative financial performance is largely due to the lack of nursing staff. The hospital has had to limit admissions to keep the census at a safe nurse-to-patient ratio. This forces back-ups at acute care NICUs and PICUs because medically-ready patients can't progress to this lower-cost setting.

MWPH has taken actions to increase its workforce in nursing and other critical areas. The hospital increased pay rates and paid retention bonuses, and is offering sign-on bonuses for critical positions. Costs for RNs are up 10% per hour over the same period in FY21; costs for LPNs are up by 9.5%. Despite these efforts, staff continue to leave for higher pay through agencies or in other states.

Thank you for your consideration. Please call me with any questions.

Sincerely,

Mary Miller
CFO

Sheldon Stein
CEO

cc: Katie Wunderlich, Executive Director
Joseph Antos, PhD
Maulik Joshi, DrPH
Sam Malhotra
Victoria W. Bayless
James Elliott, M.D.
Stacia Cohen, RN, MBA
Bob Atlas, MHA President & CEO

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CORPORATE OFFICE

December 7, 2021

RE: Fiscal Year 2022 Labor Cost Rate Funding

Katie Wunderlich
Executive Director, Health Services Cost Review Commission
4160 Patterson Avenue
Baltimore, MD 21215

Dear Katie:

On behalf of the University of Maryland Medical System (UMMS), representing 15 acute care hospitals and health care facilities, we are writing to express our concerns over the significant labor cost increases UMMS is experiencing in Fiscal Year 2022 and to officially request additional rate funding be provided to help mitigate the financial impact of these cost increases.

January 1, 2022 Funding Request

The unprecedented staffing shortage and labor cost increase necessitates the need for mid-year HSCRC funding support. UMMS supports the need for a permanent January 1, 2022 rate increase as requested by MHA, and in addition, UMMS is requesting the HSCRC also be open to evaluating and supporting individual hospital needs. UMMS is experiencing dramatic and distinct financial challenges directly related to staffing costs, creating the need for an HSCRC funding approach that recognizes unique hospital circumstances.

Unprecedented Labor Cost Increases

Similar to other Maryland Hospitals, UMMS is experiencing significant cost increases which began to materialize in our financial results in September and October and will continue throughout the fiscal year and beyond. Cost increases are occurring in both agency cost and permanent wage increases.

1. Agency cost increases are due to both number of agency hours needed and agency cost per hour. High turnover rates and shortages in clinical labor, most notably in nursing, are requiring us to utilize agency nurses far in excess of pre-COVID levels and agency rates per hour have doubled. The combined impact to UMMS is an increase of almost 300% over fiscal year 2020 agency cost.
2. In response to the clinical labor shortage, UMMS began implementing new recruitment and retention strategies in September and is rolling out another phase in January. The vast majority of our strategy is driven by permanent wage restructuring which is adding substantial cost to our labor cost base.

Impact on Hospital Operations

UMMS's nursing turnover rate is double previous levels and our vacancy rate is 24%. The lack of staffing is impacting our clinical operations. UMMS facilities are experiencing the staffing shortage in different ways. Examples of the impact on some of our hospitals are as follows:

- Inability to staff beds
- Reduced number of Operating Rooms
- ED bed closures creating long wait times
- Reduced number of accepted transfers (UMMC)

These issues are having an impact on our ability to provide access to care for our communities as we have no choice but to reduce capacity to ensure the safety of our patients.

Impact on Financial Performance

The cost increase of agency was reflected in our financials beginning in September, however a full month of agency cost growth and the first phase of wage increases is reflected in October's income statement. Our internal financial projections for fiscal year 2022 including the second

phase of wage increases to be implemented in January, indicate an operating margin of negative 0.30%. After adjusting for the Commission's decision to release one third of the fiscal year 2021 undercharges effective January 1, 2022, and a small amount of CARES Act funding recently received, the adjusted projected operating margin increases to a positive 0.16%. UMMS is appreciative of this measure taken by the HSCRC, but unfortunately it is not nearly enough to cover the significant cost increases we are experiencing and is significantly below the level needed to maintain a reasonable operating margin.

We appreciate the opportunity to share our experience and the impact the unprecedented labor shortage is having on our System.

Sincerely,

Alicia Cunningham
Senior Vice President, Corporate Finance & Revenue Advisory Services

Cc:
Adam Kane, Chairman
Joseph Antos, PhD, Vice Chairman
Victoria W. Bayless
Stacia Cohen, RN
Maulik Joshi, DrPH
James N. Elliott, MD
Sam Malhotra
Katie Wunderlich, Executive Director
Jerry Schmith, Principal Deputy Director
Mohan Suntha, MD, MBA, UMMS Chief Executive Officer
Michelle Lee, UMMS Chief Financial Officer