Maryland
Hospital Association

November 6, 2019

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

Dear Katie:

On behalf of Maryland's 61 member hospitals and health systems, the Maryland Hospital Association appreciates the opportunity to comment on the commission's proposed capital financing policy.

MHA supports a defined, predictable policy for capital funding
MHA appreciates HSCRC's efforts to preserve a cornerstone of the Maryland rate setting model and provide for capital funding in rates. Under the GBR fixed rate environment, the traditional mechanism of volume growth to fund capital costs does not exist. Therefore, it is even more critical in a fixed rate environment to have a policy that provides access to capital through the rate setting system.

The Project Cost Threshold Coupled with the Efficiency Measure is too Restrictive
The application of the efficiency measure and a high project cost threshold concerns Maryland hospitals, as the combination of these policy levers effectively limits capital funding to the replacement of inpatient towers for a handful of providers.

We appreciate the HSCRC staff's recommendation to set a project cost threshold to limit funding to large capital projects. Historically, the commission did not restrict hospitals from seeking rates for any capital project—only requiring them to receive Certificate of Need (CON) approval.

However, the proposal to limit funding to the greater of 35% of annual revenue or $50 million is too high—effectively only providing funds for extraordinary replacement projects. The average annual revenue for a Maryland hospital is $308 million. At 35%, a project cost of $100 million would not be considered. We ask that the commission consider a project cost threshold of 20% of annual GBR.

The application of hospital cost efficiency scaling further restricts funding. HSCRC previously applied an efficiency measure to determine the appropriate level of project funding. As applied, hospitals at the median would receive only 50% the requested funding.

Compounding this result is the underlying calculation of a hospital's capital share of total costs and average of capital costs across the peer group. Developed pre-GBR, this policy tool assumed that

50% of the incremental capital costs would be funded through volume growth; a funding mechanism that does not exist in a fixed rate environment.

The cumulative effect of the proposed project cost threshold and the efficiency calculation produces an extremely narrow path to access capital in rates and does not allow for adequate capital funding in the state.

Capital funding should be considered in the Annual Payment Update, but not automatically subtracted from the inflation portion of the update factor

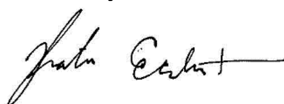
We agree with staff that Maryland's hospitals require certainty in financing. MHA supports the recommendation to account for funding when the assets are placed in use.

Maryland's hospitals understand the concern that a sudden increase in capital projects and therefore funding in rates could unfavorably impact the state's annual total cost of care guardrail test and total cost of care savings rate test. Consistent with HSCRC's approach in the rate year 2020 update and like other policy impacts, capital must be considered as part of the annual statewide revenue growth relative to our guardrails. We concur that capital funding affects revenues available for all other hospitals but it should not be automatically offset against core tenants of the annual update. HSCRC considers hospital savings from the efficiency policy and other revenue reductions in the annual payment update. These policies should be accounted for in the annual update process before any consideration of a capital offset, as these savings may adequately cover the increase in rates. Maryland's collective performance against our targets—evaluated on an annual basis—may allow room for reasonable capital funding, particularly given the restrictive nature of the proposal.

Automatically subtracting the capital rate increase from the inflation portion of the update factor as proposed by staff does not consider total savings generated by hospitals and unnecessarily limits funding.

Thank you again for your careful consideration of these matters. We offer to work with staff to expeditiously address the concerns of our hospitals to preserve access to capital through rates. If you have any questions, please contact me at 410-561-2039.

Sincerely,



Katie Eckert
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