Maryland
Hospital Association

September 26, 2024

Dr. Jon Kromm
Executive Director
Health Services Cost Review Commission
4160 Patterson Avenue
Baltimore, MD 21215

Dear Dr. Kromm,

On behalf of the Maryland Hospital Association (MHA) and its member hospitals and health systems, I am writing today to provide comments on the questions related to the set-aside funding process and to encourage the Health Services Cost Review Commission (HSCRC) to release additional funding for Maryland's hospitals.

While we appreciate the favorable annual payment update that went into effect July 1, there remains a need for the set-aside process to reflect the significant financial pressures hospitals continue to experience. Maryland hospitals are on track to generate upwards of $600 million in Medicare total cost of care savings in Calendar Year 2024, close to twice the contractual target of $336 million.

These excess savings could be used to support hospitals and their communities in an effort to improve health access and health equity, address health-related social needs, population health, and more. Considering the substantial excess savings hospitals are generating under the model, MHA respectfully requests HSCRC consider approving additional revenue for hospitals to address unmet needs and cost pressures.

Additional revenue to address unmet needs and cost pressures could include:

- **Correcting for underfunded inflation in the current fiscal year (FY)**. This year's annual payment update was meant to reflect a true-up to years of underfunded inflation, based in part on Global Insights data, to then set a more appropriate baseline going forward. Updated data from Global Insights now reflects an additional 0.19% of inflation. Additional funding for inflation should be released to include both current (0.19%) and historic underfunded inflation (1.17%), for a total additional inflationary increase of 1.36%; and

- **Increasing funding for set-aside requests**. Maryland's hospitals submitted requests that far exceed the available set aside funding. Given the significant need, additional funding would benefit the hospitals' ability to care for communities.

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A portion of the $260+ million in excess savings expected for 2024 should be used to true-up underfunded inflation and allocate additional funding to address unmet hospital needs. Given the current fiscal challenges confronting Medicaid, any actions to increase revenue to hospitals should be executed in a manner that mitigates impact on the Medicaid budget.

Financial Condition of Maryland's Hospitals

Nutshell Associates, an organization with extensive national expertise and experience assessing the financial health and viability of hospitals, continues to provide regular reporting on how Maryland's hospitals compare to their national peers. Market experts have observed that the operating environment for hospitals and health systems since 2020 has been the most difficult in history. Staffing costs, retention and recruitment challenges, supply and drug costs, the rising cost of capital, increasing competition from retail, private equity, and payers, insurance denials, and growing costs for emerging issues like cyber security, AI, and workplace violence have made this cycle more difficult than previous down cycles.

Based on data through the first quarter of 2024, Maryland hospitals continue to fare poorly on key financial metrics.

- **Operating margin.** The average total operating margin was negative in seven of the last nine quarters, with half or more of Maryland hospitals reporting negative operating margins in most quarters. Maryland lags behind a national sample of nonprofit health care systems tracked by Bank of America.

  For the last five quarters (all quarters available), the national sample outperformed Maryland in operating margin by a cumulative 4.7%. Market experts estimate nonprofit health care providers need about a 3% margin at the health care system level to sustain their missions. Since 2013, Maryland's health care systems only reached a 3% operating margin once—in 2015—and the average over the last 11 years was barely half of that (1.6%), including a negative 1.1% in 2023.

- **Capital Adequacy.** On measures of capital adequacy (cash to debt, debt to capital, capital expenses as a percentage of depreciation, and average age of plant), Maryland hospitals lag behind the nation. In 2023, the average age of plant in Maryland was 13.2 years vs. 12.3 years nationally. The cumulative effect of lower cash flow and higher debt jeopardizes the long-term ability to remain competitive and to invest in capital, clinical programs, and population health.

- **Cash Reserves.** Maryland health care systems' cash reserves are in line with national benchmarks when measured on a days' cash basis. However, we are below benchmarks when comparing cash reserves to debt, an important credit metric. Cash reserves are no substitute for sustainable operations. If health care systems draw down cash reserves to cover operating losses ratings will downgrade leading to lower investment income potential and hospitals could lose access to capital at a time when capital needs are growing.

These financial outcomes are unsustainable in the long term and avoidable in the short term given the significant amount of excess savings. Simultaneously, hospitals have been working on solutions to issues like the impact of payer denials and the increased costs of physician subsidies.

Hospitals require funding to adequately staff beds and deliver patient care. There are signs of some recovery from the pandemic observed nationally as hospitals are making gains through labor management, volume enhancement, rates, and charges, but financial performance remains well below pre-pandemic levels. Maryland hospitals are limited in their ability to increase volumes, rates, and charges under our model. We urge you to use the tools HSCRC has available to support a sufficient and predictable revenue stream to underpin hospital sustainability, health access, and health equity.

Savings Continue to be in Excess of the Target

Maryland's All-Payer Model and successor Total Cost of Care (TCOC) Model have both relied on striking the appropriate balance between generating the required savings for Medicare while ensuring an appropriately funded hospital system. HSCRC policies are meant to allow hospitals to meet baseline patient needs, make needed capital investments, and invest in care transformation and population health initiatives consistent with the aims of the Model.

The data exists to justify releasing additional funds beginning in Calendar Year 2024. And the HSCRC has a history of reducing funding for hospitals if the results are unfavorable, as evidenced by the system correction in 2022. At that time, HSCRC took preemptive action to protect the Model given the potential of missing the Medicare target. Going forward, hospitals should be able to receive additional revenue when substantial excess savings are generated.

MHA recognizes that the savings are being driven in part by a higher-than-expected national growth rate. However, this provides an opportunity to stabilize Maryland's hospitals' financial position and reinvest in our communities' long-term sustainability. This reinforces the strengths of the Model to prevent the need for public hospitals, hospital closures, or severe restrictions on access to services.

As we look toward participating in the States Advancing All Payer Health Equity Approaches and Development (AHEAD) Model in 2026, hospitals need to be in a stronger and more sustainable financial position to ensure that they are well positioned to provide the state with the transformative care envisioned under AHEAD.

Set-Aside Funding Process and Criteria

MHA offers the following comments on the specific questions posed by HSCRC staff on the set-aside process and criteria:

1. **What constitutes a minimally viable technical proposal?**
    a. **If hospitals reach the standard (i.e., they make it to step 3 of our process which evaluates need and oversight), should they automatically qualify for a portion of the set aside or should there be a minimum threshold in scoring?**

The HSCRC should consider the unique financial circumstances of the hospitals, regardless of the original criteria as proposed. There are hospitals whose margins are consistently below the state average who may not qualify based on the current criteria, but are still in need of financial relief.

2. **Should some criteria be weighted more favorably in the overall evaluation? For example, should hospital regulated margin be given more weight than total margin?**

Total margin should be weighted more heavily than regulated margin as it reflects the true cost of providing hospital services and non-hospital based investments to maintain access to care and support the model which is focused on *total* cost of care. Focusing solely on the regulated margin does not consider the other expenses necessary to operate a hospital, including physician services.

3. **Are there any suggestions for how to allocate the funding? For example, should funds be allocated based on evaluation score, margin and/or days cash on hand, total GBR, or a combination thereof?**

Funds should be allocated based on need. The volume and scale of the requests demonstrates the significant need that exists within the hospital industry. HSCRC's process to solicit needs and acknowledges the needs, should then provide full funding for the needs.

4. **Should hospitals withhold executive bonuses as a prerequisite for set aside funding?**

Executive bonuses should not be related to set aside funding. Maryland hospital leaders oversee one of the most robust and unique hospital systems in the country. Bonuses are established by the relevant Board of Directors (comprised largely of community members) on an annual basis and are a contractual agreement between the executive and their employer as part of a personnel package. The hospital boards are responsible for ensuring that executive compensation is within the means of the hospital and the community. Further, executive compensation is commensurate with the responsibility and challenges associated with managing a complex organization. This includes regulatory compliance, financial management, and the delivery of high-quality patient care. Hospital leaders are on call every day of the year, and every hour of each day—24/7/365. Compensation packages for hospital leaders reflect the challenges they face—most importantly ensuring the health, safety, and well-being of team members and patients.

5. **Should hospital management be required to outline sustainable reductions in cost to offset funding priorities as a prerequisite for set aside funding?**

Maryland's hospitals are engaged in varying degrees of ongoing performance improvement efforts. These may focus on the emergency department, hospital throughput, supply chain, shared services optimization, or all of the above. Although a 1:1 offset should not be a requirement, requesting additional information on hospitals' efforts to be operationally efficient could be considered.

6. **Should hospitals need to make a pledge to not ask for funding for a specific period of time following fund allocations?**

MHA does not support restricting the ability of hospitals to pursue all avenues to secure additional funding. Circumstances may necessitate follow-up requests. Hospitals must have the ability to request additional funding for appropriate services.

At the Sept. 11 HSCRC meeting, HSCRC staff also presented draft rubric criteria that could be used to assess the set-aside submissions from the hospital. MHA recommends that any criteria that is used be objectively verifiable and applicable, rather than subjective. Measuring the total margin or days cash on hand is an objective standard whereas other criteria are subjective.

In addition to the above specific comments on the set-aside, MHA would appreciate details about the process and the timeline to determine and distribute the awards, including the individuals (HSCRC staff, HSCRC commissioners, appointed reviewers, etc.) who will ultimately make the funding decisions.

Conclusion

Thank you again for the FY 2025 annual payment update and the continued opportunity to provide input on the key financial policies that impact hospitals. We strongly encourage additional funding be released to the hospital industry given the ongoing financial challenges and significant savings hospitals have generated in excess of the TCOC Model contractual savings target.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Melony G. Griffith
President & CEO

cc: Dr. Laura Herrera-Scott, Secretary, Maryland Department of Health
Dr. Joshua Sharfstein, Chairman
Dr. James Elliott
Ricardo Johnson
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