Maryland
Hospital Association

October 25, 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 to comment on the questions concerning the excess savings currently being generated beyond the contractual target under the Total Cost of Care (TCOC) Model. We share these comments to inform staff recommendations at the November meeting related to releasing additional funding to the hospital industry so they can continue to support their patients, employees, and communities.

Maryland's hospitals and health systems continue to struggle with rising expenses that have significantly increased since the beginning of the pandemic. As we noted in September, market experts say the operating environment for hospitals and health systems since 2020 has been the most difficult in history. Rising staffing, supply, and drug costs, combined with challenges in recruitment and retention, increasing competition from retail and private equity, insurance denials, and emerging expenses like cybersecurity, AI, supply shortages, and workplace violence, have made this downturn more difficult than previous ones. Hospitals also continue to confront issues due to rising costs of essential physician coverage.

Data through the first quarter of calendar year (CY) 2024 show Maryland hospitals continue to fair poorly on key financial metrics.

- **Operating margin.** The average hospital 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.

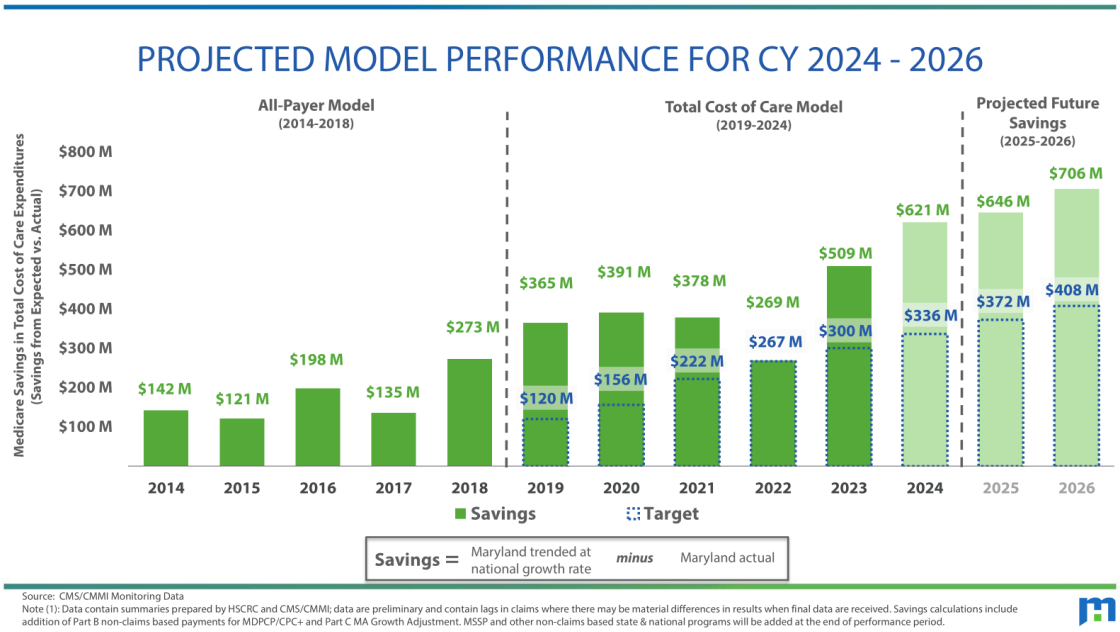
  For the last five quarters (all quarters available), the national sample outperformed Maryland in operating margin by a cumulative 4.7%. Market experts estimate nonprofit health care providers need about a 3% margin at the health care system level to sustain their missions. Since 2013, Maryland's health care systems have only reached a 3% operating margin once—in 2015—and the average over the last 11 years was not even 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 versus 12.3 years nationally.

- **Cash Reserves.** Maryland health care systems' cash reserves 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. The state's 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. Hospitals that struggle financially are unable to reinvest in clinical care, recruit and retain talented staff, and invest in initiatives to improve the patient experience. These financial issues have direct implications on quality and challenge their ability to provide 24/7 access to care across the state.

Based on the latest projections, the TCOC Model is expected to generate over $600 million in savings by the end of CY 2024. This level of savings far exceeds the savings targets of $336 million for CY 2024 and $372 million for CY 2025 under the agreement with the Center for Medicare and Medicaid Innovation (CMMI). Further, this also exceeds the AHEAD Model CY 2023 baseline savings amount of $509 million.



Proposed Funding Relief Plan

The excess savings offer an opportunity to ensure hospitals have a strong foundation to support their communities. The savings can alleviate financial pressures stemming from underfunded costs in the TCOC Model. The excess savings can support hospital stability as Maryland prepares for the AHEAD Model.

There is significant room to redirect excess savings to hospitals. As shown below, if the Health Services Cost Review Commission (HSCRC) instituted a 2.7% all-payer rate increase from July 1, 2024 through June 30, 2025, it would generate $410 million in all-payer net revenue to hospitals. **This would bring hospitals an additional 2.15% in funding for RY 2025.** This rate increase should be implemented for both GBR and non-GBR hospitals. Non-GBR hospitals have also experienced cost pressures and need additional funding support.

IMPACT OF PROPOSED RATE INCREASE FOR HOSPITALS (7/1/24 – 6/30/25)

- $515 million in net revenue (after payer discounts & adjustments for UCC)
- $105 million rebated to Medicaid
- **$410 million in net revenue available for hospitals**
- Impact to Medicare TCOC savings: $43 million reduction of savings in CY 2024 and $128 million reduction of savings in CY 2025

MHA seeks to mitigate the potential impact a hospital funding relief plan may have on other parts of the health care system. MHA's funding relief proposal achieves a balance between hospital sustainability, health care access, and health equity with the need to generate savings for payers and promote affordability for patients.

MHA proposes the following elements be incorporated into the funding relief plan:

- Funding should be retroactive to July 1, 2024 rate orders to minimize operational complexity. Further, hospitals should be allowed to generate revenue from November 1, 2024 through June 30, 2025 to spread the rate increase over the remaining eight months of the fiscal year minimizing financial implications for patients and payers.

- Recognizing the challenges facing the state budget, MHA supports rebating Medicaid any portion of the funding that impacts its budget, to hold Medicaid harmless while still providing relief for hospitals.

- This proposed approach would still enable Maryland to meet its savings target requirement for the TCOC Model and stay consistent with the AHEAD CY 2023 baseline target.

Funding Allocation

MHA proposes a hybrid approach that would (1) allocate additional funding for qualifying set-aside requests and (2) provide permanent funding to address broad-based cost drivers that all hospitals are experiencing to varying degrees.

Set Aside Requests

Maryland hospitals have submitted requests that far exceed the available set aside funding. Given the significant need, a portion of funding generated from the rate increase should be added to the existing set aside funding to address unfunded meritorious requests that meet Commission criteria. Time is of the essence. It is important that action be taken as soon as possible on these requests.

Permanent Funding to Address Broad-Based Cost Drivers

MHA supports an allocation of funding to address broad-based cost drivers. The balance of funding generated by the rate increase should be allocated on a permanent basis to address rising labor costs, routine capital investments, and age-adjusted demographic growth.

- **Labor Costs.** According to the American Hospital Association, hospitals' labor costs, which on average account for 60% of a hospital's budget, increased by more than $42.5 billion between 2021 and 2023 nationally. In Maryland, since the COVID-19 pandemic began, hospitals have continued to see sharp increases in the cost of labor and have grappled with persistent workforce shortages. There have been significant financial losses due to the rising costs of physician coverage for both employed and contracted physicians.

- **Routine capital.** Hospitals have deferred needed routine capital investments due to the financial distress over the past several years. As noted above, Maryland hospitals have an older average age of plant than other hospitals nationally. Continued deferral of these expenses due to insufficient funding from HSCRC places Maryland hospitals further behind its peers and poses long-term risks for patients.

- **Age-Adjusted Demographic Growth.** The demographic adjustment insufficiently accounts for age-adjusted growth. Lowering the adjustment to align with unadjusted state projections for annual population change creates a reduction in growth from 4.25% to 0.25%. A rate increase could address the underfunding of age-adjusted demographic growth, a critical need for hospitals as Maryland's population ages.

As with the allocation of funding to address set aside request, it is equally important that a funding solution for these broad-based cost drivers be implemented quickly. Any methodology to allocate funding for these needs should be streamlined and directed to deliver funding to hospitals in a manner that is not administratively burdensome to hospitals or the HSCRC.

Conclusion

Funding exists to address the variety of cost pressures confronting Maryland hospitals, all while staying within the bounds of the agreement with CMMI, protecting Medicaid programming, and minimally impacting patient bills and insurance premiums. By curbing the trajectory of savings, hospitals can obtain much-needed financial relief.

Thank you again for the opportunity to comment on this important issue. 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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