maryland
health services
cost review commission

March 1, 2023

The Honorable Guy Guzzone
Chair, Budget and Taxation Committee
3 West Miller Senate Office Building
Annapolis, Maryland 21401

RE: Senate Bill 183 – Budget Reconciliation and Financing Act of 2023 – Letter of Support

Dear Chair Guzzone and Committee Members:

The Health Services Cost Review Commission (HSCRC) supports the passage of Senate Bill 183, which reduces the budgeted Medicaid Deficit Assessment by $50 million for fiscal year 2024. This policy is one component of HSCRC's planned approach to improving Maryland's performance under the Total Cost of Care Model (TCOC) Agreement with the federal government.

The TCOC Model benefits Marylanders by controlling the growth of healthcare costs, ensuring equitable funding of uncompensated care (including charity care) in hospitals, funding investments in population health, supporting key health care infrastructure (e.g., the State-Designated Health Information Exchange), and investing in primary care. The HSCRC is committed to being a responsible steward of the State's unique Total Cost of Care Model while ensuring the financial stability of hospitals in Maryland and improving quality and outcomes for Marylanders.

The TCOC Model agreement with the Federal Centers for Medicare and Medicaid Services (CMS) commits the State to achieving statewide financial, health care quality, population health, and care transformation targets. Specifically, Maryland is obligated to generate $267 million in annual Medicare total cost of care savings in 2022. However, HSCRC expects that Maryland will only generate approximately $80 million in savings this year.[1] Maryland's performance on this measure was impacted by numerous factors, including escalating health care workforce costs and other inflationary pressures. In addition, HSCRC relied on a CMS estimate of predicted 2022 national medicare growth when setting Maryland hospital rates. This federal estimate was much higher than actual national Medicare growth in 2022.

On December 15th, the Commission approved a plan to improve the State's performance on the annual savings target under the Total Cost of Care Model in calendar year 2023. This plan is proactive, as the TCOC Model

[1] Final 2022 performance will be determined in the spring of 2023

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contract does not require HSCRC to develop a plan to correct the reduced savings until the middle of 2023. HSCRC's plan is designed to generate approximately $100 million in Medicare savings.

The plan adopted by the Commission spreads the fiscal impact between hospitals, insurers, and the State. The plan has four components:

1. A reduction in all-payer hospital rates by $40 million. This policy reduces hospital revenues and reduces costs for payers (including Medicare, Medicaid, commercial insurers, and uninsured patients). This policy was implemented by HSCRC through hospital rate orders in January 2023.
2. Reductions in Medicare payments by $64 million. This policy reduces hospital revenues and Medicare expenditures, with no cost shifting to other payers. CMS has approved this policy.
3. An increase of the public payer differential by 1% for the remainder of FY 2023 and for FY 2024. This policy reduces Medicare & Medicaid rates. These rate reductions are offset by increases to commercial payer rates. This policy has no fiscal impact on hospitals. This policy requires CMMI approval with possible implementation in April 2023.
4. A reduction in the Medicaid Deficit Assessment of $50 million for FY 2024 only. The Medicaid Deficit Assessment requires hospitals to pay funds to Medicaid each year. This policy will temporarily reduce special funds from hospitals to Medicaid, offsetting reductions to hospital revenues from the other policies described above.

The reduction in the Medicaid Deficit Assessment requires the Committee's approval of the BRFA. HSCRC urges a favorable report of SB 183 as the reduction in the Medicaid Deficit Assessment is crucial to policies adopted by HSCRC in December to correct for the financial performance of the State under the Total Cost of Care Model while ensuring that hospitals have sufficient operating funds to maintain statewide access to high quality health care.

If you have any questions or if we may provide you with any further information, please do not hesitate to contact me at me at katie.wunderlich@maryland.gov or Megan Renfrew, Associate Director of External Affairs, at 410-382-3855 or megan.renfrew1@maryland.gov.

Sincerely,

Katie Wunderlich
Executive Director