

R55Q00
Aid to University of Maryland Medical System

Operating Budget Data

(\$ in Thousands)

	FY 04	FY 05	FY 06	FY 05-06	% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$2,714	\$2,714	\$2,935	\$221	8.2%
Special Fund	<u>6,964</u>	<u>6,964</u>	<u>5,117</u>	<u>-1,846</u>	<u>-26.5%</u>
Total Funds	\$9,677	\$9,677	\$8,052	-\$1,625	-16.8%
Contingent & Back of Bill Reductions					
Adjusted Total	\$9,677	\$9,677	\$8,052	-\$1,625	-16.8%

- The allowance includes a \$0.2 million increase in general funds to offset anticipated growth in uncompensated care expenses at the Montebello Rehabilitation Program at Kernan Hospital.
- The allowance reduces by \$1.5 million funds available to the R Adams Cowley Shock Trauma Center from the Maryland Emergency Medical System Operations Fund for facility renewal.

Note: Numbers may not sum to total due to rounding.

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Analysis in Brief

Major Trends

Patient Activity Remains Relatively Static: Increases in admissions to the Shock Trauma Center have been modest in recent years relative to historic growth in rates of admission.

Issues

Shock Trauma Center Capital Subsidy Extended through Fiscal 2006: The Governor’s proposed budget includes a \$2 million capital subsidy for the Shock Trauma Center, despite the expiration of a five-year plan for these improvements.

Recommended Actions

	<u>Funds</u>
1. Delete funds for facility renewal at the R Adams Cowley Shock Trauma Center.	\$2,000,000
2. Reduce funds for the Montebello Rehabilitation Program at Kernan Hospital.	221,422
Total Reductions	\$2,221,422

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Operating Budget Analysis

Program Description

The University of Maryland Medical System (UMMS), a private nonprofit corporation, was created by legislation in 1984 to provide governance and management over the operation of the formerly State-run University of Maryland Hospital. The mission of the medical system is to provide tertiary care to the State and surrounding areas, to provide comprehensive care to the local community, and to serve as the primary site for health care education and research for the University System of Maryland. The system includes the James Lawrence Kernan Hospital, the Marlene and Stewart Greenebaum Cancer Center, University Hospital, R Adams Cowley Shock Trauma Center, and University Specialty Hospital.

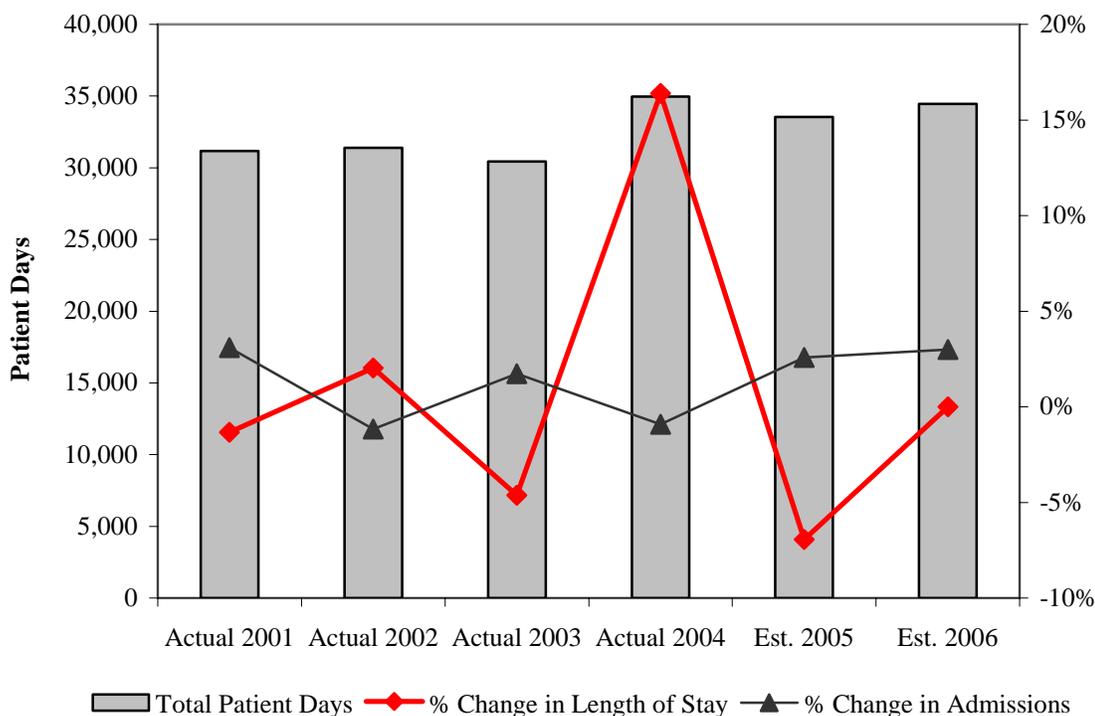
Direct State support is provided to two elements of the university medical system: the Montebello Rehabilitation Program at Kernan Hospital and the R Adams Cowley Shock Trauma Center. The Montebello Program, transferred to the medical system in 1992, receives continuing general fund support for costs associated with treating the uninsured; funds also offset a portion of the program's capital costs. The Shock Trauma Center, the State's Primary Adult Resource Center for the treatment of trauma, receives special funds from the Maryland Emergency Medical System Operations Fund.

Performance Analysis

The Shock Trauma Center, according to State law, is the core element of the State's Emergency Medical System and serves as the State's primary adult trauma medical resource center. In addition, the center accepts statewide referrals for the treatment of head, spinal, and multiple trauma injuries and serves as the regional trauma center for the greater Baltimore area.

Demand for services at the Shock Trauma Center, as measured by the total number of patient days, is displayed in **Exhibit 1**. The number of patient days generally reflects two variables: the number of admissions and the average length of stay. The total number of patient days increased 15% between 2003 and 2004, mirroring an increase in average length of stay over the same period of time. Growth reflects increases in medical acuity, due in part to collaborative efforts with the Maryland Institute for Emergency Medical Services Systems to develop on-site protocols to identify more patients in need of trauma care. The Shock Trauma Center will attempt to contain growth in this area by adding case managers to the team that daily monitors patients for possible discharge. The center will also continue to identify rehabilitation beds as they become available, allowing for timely patient discharge.

Exhibit 1
Change in Number of Patient Days
2001 – 2006



Source: University of Maryland Medical System

Despite annual fluctuations in activity, the total number of admissions since 2001 has grown modestly at a rate of 1.4%. Admissions increased at an average of 5.5% each year since 1988, owing to the effects of increasing population, improved field protocols, and technological advancements in health care. Many of the factors driving growth in admissions, namely medical technology improvements, have also reduced the average length of stay over the same period of time, moderating the total number of patient days.

Governor’s Proposed Budget

The Governor’s proposed budget includes \$8.1 million for ongoing support of the Montebello Rehabilitation Program at Kernan Hospital and the R Adams Cowley Shock Trauma Center, as shown in **Exhibit 2**. Changes relative to the fiscal 2005 working appropriation appear in **Exhibit 3**.

Exhibit 2
State Aid to UMMS
Fiscal 2004 – 2006

	FY 04	FY 05	FY 06	FY 05-06
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Difference</u>
Montebello Rehabilitation Program				
Debt service	\$750,000	\$750,000	\$750,000	0%
Uncompensated care	1,963,512	1,963,512	2,184,934	11%
General Fund Subtotal	\$2,713,512	\$2,713,512	\$2,934,934	8%
Shock Trauma Center				
Operating subsidy	\$3,463,757	\$3,463,757	\$3,117,381	-10%
Capital subsidy	3,500,000	3,500,000	2,000,000	-43%
Special Fund Subtotal	\$6,963,757	\$6,963,757	\$5,117,381	-27%
Total	\$9,677,269	\$9,677,269	\$8,052,315	-17%

Source: Department of Budget and Management; Department of Legislative Services

Exhibit 3
Governor's Proposed Budget
Aid to University of Maryland Medical System
(\$ in Thousands)

How Much It Grows:	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Total</u>
2005 Working Appropriation	\$2,714	\$6,964	\$9,677
2006 Governor's Allowance	2,935	5,117	8,052
Contingent & Back of Bill Reductions	0	0	0
Adjusted Allowance	\$2,935	\$5,117	\$8,052
Amount Change	\$221	-\$1,846	-\$1,625
Percent Change	8.2%	-26.5%	-16.8%

Where It Goes:

Increase in uncompensated care subsidy for the Montebello Rehabilitation Center.....	\$221
Reduction in Shock Trauma Center operating subsidy.....	-346
Reduction in Shock Trauma Center capital subsidy.....	-1,500
Total	-\$1,625

Note: Numbers may not sum to total due to rounding.

Montebello Rehabilitation Program at Kernan Hospital

Chapter 248, Acts of 1992 authorized the transfer of the Montebello Center, which provides comprehensive rehabilitation services, from the Department of Health and Mental Hygiene (DHMH) to UMMS. The legislation transferring the center to UMMS noted the financial and administrative limitations of continuing to provide comprehensive services within the system of State government. It was the General Assembly's intent that the operational expertise and financial independence of a major teaching and research institution would allow for continued improvements to patient care.

The legislation provided for ongoing State support for operations at Montebello to offset the cost of uncompensated care and assist in facility renewal. It was established that the State would pay specified amounts through fiscal 1997, after which the State would provide an amount jointly established by DHMH and the medical system. Since fiscal 2003, the amount of uncompensated care has been calculated at 4.29% of adjusted gross regulated revenue, a percentage agreed upon by the Department of Budget and Management, the Health Services Cost Review Commission, and the medical system. Funding has also been provided to offset capital costs.

The Governor's proposed budget includes \$2.2 million for uncompensated care costs not otherwise included in hospital rates, an increase of 11% over the fiscal 2005 working appropriation. The allowance also includes \$750,000 for debt service on bonds issued to support construction of the rehabilitation center at Kernan Hospital, the facility at which UMMS has housed the Montebello Rehabilitation Program since 1996.

R Adams Cowley Shock Trauma Center

The State has provided an operating subsidy to the Shock Trauma Center since UMMS was established as a private, nonprofit corporation in 1984. Funds have been provided to offset uncompensated care and standby costs not otherwise recovered in hospital rates; these costs exceed State averages due to the emergency mission of the center and the need to continuously maintain emergency staff. In the past, State funds have also been used to offset expenses incurred in assuming pension costs of State employees who converted to UMMS employment when the medical system became a private corporation.

The Maryland Emergency Medical System Operations Fund was established in 1992 to provide support to State providers of emergency medical services, specifically including the R Adams Cowley Shock Trauma Center. The fund, which generates approximately \$50 million each year from a surcharge on vehicle registrations, has provided an alternate source of State funding for the Shock Trauma Center. Operating support has been provided solely from this source since fiscal 1993. The allowance includes \$3.1 million for the center's operating expenses in fiscal 2006, a 10% reduction from the fiscal 2005 working appropriation.

Since fiscal 2001 the Maryland Emergency Medical System Operations Fund has also provided \$3.5 million to the Shock Trauma Center for facility and equipment renewal. According to the five-year plan, the fund would contribute to the cost of improvements to equipment, technology, and

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infrastructure at the Shock Trauma Center through fiscal 2005. UMMS estimated that State funding would provide \$17.5 million of the estimated \$41.6 million cost of improvements over the five-year period. The Governor's proposed budget includes \$2 million for additional capital improvements in fiscal 2006.

Issues

1. Shock Trauma Center Capital Subsidy Extended through Fiscal 2006

The Shock Trauma Center has received an annual operating subsidy from the State since UMMS was established as a private nonprofit corporation in 1984. Since fiscal 1993 this funding has been provided from the Maryland Emergency Medical System Operations Fund. Beginning in fiscal 2001 the fund has also supported a \$3.5 million capital subsidy for UMMS as part of a five-year plan to provide State support for improvements to equipment, technology, and infrastructure at the Shock Trauma Center.

In fiscal 2006 the Governor's proposed budget includes \$2 million for facility and equipment improvements at the Shock Trauma Center, despite the expiration of the five-year capital plan. Several factors support discontinuing the use of State funds for this purpose:

- Language in the 1993 *Joint Chairmen's Report* indicates the General Assembly's intent that operating support for the Shock Trauma Center would not continue indefinitely and required UMMS to submit a report to the budget committees on a plan to phase out State support. In its response to the budget committees, the medical system argued for the continuation of the operating subsidy, noting that the State's ongoing contribution to the center's bottom line allowed the center to meet its capital replacement needs.
- In fiscal 2006 the Shock Trauma Center is expected to generate a profit independent of State operating or capital subsidies. The center has improved its profitability, in part, with a 1% increase in hospital rates approved by the Health Services Cost Review Commission in 2003 to allow hospitals to make additional capital improvements. With the addition of the \$3.1 million State operating subsidy, UMMS should have funds sufficient to make required improvements to equipment, technology, and infrastructure at the Shock Trauma Center without dedicated capital funding.
- Capital funding was intended to last only through fiscal 2005. References to a five-year plan can be found in the 2001 *Joint Chairmen's Report*, the Governor's budget books, and Department of Legislative Services' analyses, as well as requests from UMMS for State aid. This funding was not intended to continue indefinitely; doing so is inconsistent with the original five-year plan and reduces the amount available to other programs supported by the Maryland Emergency Medical System Operations Fund in the long term.

The Department of Legislative Services recommends that the General Assembly delete \$2 million designated for capital improvements at the Shock Trauma Center in fiscal 2006.

Recommended Actions

	<u>Amount Reduction</u>	
1. Delete funds for facility renewal at the R Adams Cowley Shock Trauma Center, as funding for this purpose was scheduled to end in fiscal 2005. The Shock Trauma Center expects to generate a profit in fiscal 2006, aided by increases in hospital rates and ongoing State support for operating expenses. This expected operating margin will allow the Shock Trauma Center to continue to replace equipment with existing resources.	\$2,000,000	SF
2. Reduce funds for the Montebello Rehabilitation Program at Kernan Hospital to the amount of the fiscal 2005 working appropriation. This action still provides \$2.0 million to offset uncompensated care costs for the program.	221,422	GF
Total Reductions	\$2,221,422	
Total General Fund Reductions	\$ 221,422	
Total Special Fund Reductions	\$2,000,000	

Current and Prior Year Budgets

Current and Prior Year Budgets Aid to University of Maryland Medical System (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2004					
Legislative Appropriation	\$2,714	\$6,964	\$0	\$0	\$9,677
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Cost Containment	0	0	0	0	0
Reversions and Cancellations	0	0	0	0	0
Actual Expenditures	\$2,714	\$6,964	\$0	\$0	\$9,677
Fiscal 2005					
Legislative Appropriation	\$2,714	\$6,964	\$0	\$0	\$9,677
Budget Amendments	0	0	0	0	0
Working Appropriation	\$2,714	\$6,964	\$0	\$0	\$9,677

Note: Numbers may not sum to total due to rounding.

**Object/Fund Difference Report
Aid to University of Maryland Medical System**

<u>Object/Fund</u>	<u>FY04 Actual</u>	<u>FY05 Working Appropriation</u>	<u>FY06 Allowance</u>	<u>FY05 - FY06 Amount Change</u>	<u>Percent Change</u>
Objects					
12 Grants, Subsidies, and Contributions	\$ 9,677,269	\$ 9,677,269	\$ 8,052,315	-\$ 1,624,954	-16.8%
Total Objects	\$ 9,677,269	\$ 9,677,269	\$ 8,052,315	-\$ 1,624,954	-16.8%
Funds					
01 General Fund	\$ 2,713,512	\$ 2,713,512	\$ 2,934,934	\$ 221,422	8.2%
03 Special Fund	6,963,757	6,963,757	5,117,381	-1,846,376	-26.5%
Total Funds	\$ 9,677,269	\$ 9,677,269	\$ 8,052,315	-\$ 1,624,954	-16.8%

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.