

M001
Chronic Hospitals
 Department of Health and Mental Hygiene

Operating Budget Data

(\$ in Thousands)

	<u>FY 15</u> <u>Actual</u>	<u>FY 16</u> <u>Working</u>	<u>FY 17</u> <u>Allowance</u>	<u>FY 16-17</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$44,873	\$44,444	\$45,678	\$1,234	2.8%
Deficiencies and Reductions	0	829	-137	-966	
Adjusted General Fund	\$44,873	\$45,274	\$45,541	\$268	0.6%
Special Fund	3,637	4,122	3,301	-820	-19.9%
Deficiencies and Reductions	0	0	-6	-6	
Adjusted Special Fund	\$3,637	\$4,122	\$3,295	-\$827	-20.1%
Reimbursable Fund	810	895	916	21	2.4%
Adjusted Reimbursable Fund	\$810	\$895	\$916	\$21	2.4%
Adjusted Grand Total	\$49,320	\$50,290	\$49,753	-\$538	-1.1%

- The fiscal 2017 allowance decreases by \$538,000, or 1.1%, below the fiscal 2016 working appropriation.
- There is one proposed deficiency for fiscal 2016 of \$829,114 to provide funds to support the management staffing contract between Meritus and the Western Maryland Hospital Center (WMHC).

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

For further information contact: Lindsey B. Holthaus

Phone: (410) 946-5530

Personnel Data

	<u>FY 15 Actual</u>	<u>FY 16 Working</u>	<u>FY 17 Allowance</u>	<u>FY 16-17 Change</u>
Regular Positions	511.80	510.80	495.30	-15.50
Contractual FTEs	<u>20.09</u>	<u>18.01</u>	<u>18.27</u>	<u>0.26</u>
Total Personnel	531.89	528.81	513.57	-15.24

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	40.47	8.17%
Positions and Percentage Vacant as of 12/31/15	63.50	12.43%

- The fiscal 2017 allowance includes 15.5 fewer regular full-time equivalent (FTE) positions, primarily due to the closing of the renal dialysis unit at WMHC, and 0.26 in additional contractual FTEs from Deer’s Head Hospital Center (DHHC).
- Turnover expectancy is increased in the fiscal 2017 allowance, from 6.0% to 8.17%. However, the agency currently has more than enough vacancies to meet turnover with a vacancy rate of 12.43%.

Analysis in Brief

Major Trends

Average Length of Stay Continues to Decline in State Chronic Disease Hospital Centers: Due to changes in federal reimbursement rates for patient days, the State chronic disease hospital centers are working to efficiently treat patients so that they can be moved to a setting that requires a lower level of care.

Number of Renal Dialysis Patients Declines in Both Hospital Centers: DHHC continues to serve more patients than WMHC, yet the number of patients continues to decline at both centers. Indeed, the renal dialysis unit at WMHC is closing July 1, 2016. Although the number of patients is declining, the number of treatments per patient has increased at both hospital centers.

Issues

Western Maryland Hospital Center Strategic Plan: Due to a review by the Office of Health Care Quality identifying serious deficiencies in 2014, the Department of Health and Mental Hygiene (DHMH) hired a consultant to provide recommendations to address the identified deficiencies. Based on the consultant's assessments that the WMHC executive management was not able to effectively implement the changes necessary to address the deficiencies, DHMH hired a contractor to provide professional personnel to replace 3 executive management positions. The contract was extended to June 30, 2018. The long-term management of the hospital has not yet been decided, however DHMH has many different options.

Recommended Actions

1. Concur with Governor's allowance.

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Department of Health and Mental Hygiene

Operating Budget Analysis

Program Description

The State's two chronic disease hospital centers – Western Maryland Hospital Center (WMHC) and Deer's Head Hospital Center (DHHC) – provide specialized services for those in need of complex medical management, comprehensive rehabilitation, long-term care, or dialysis. Specifically, both centers provide:

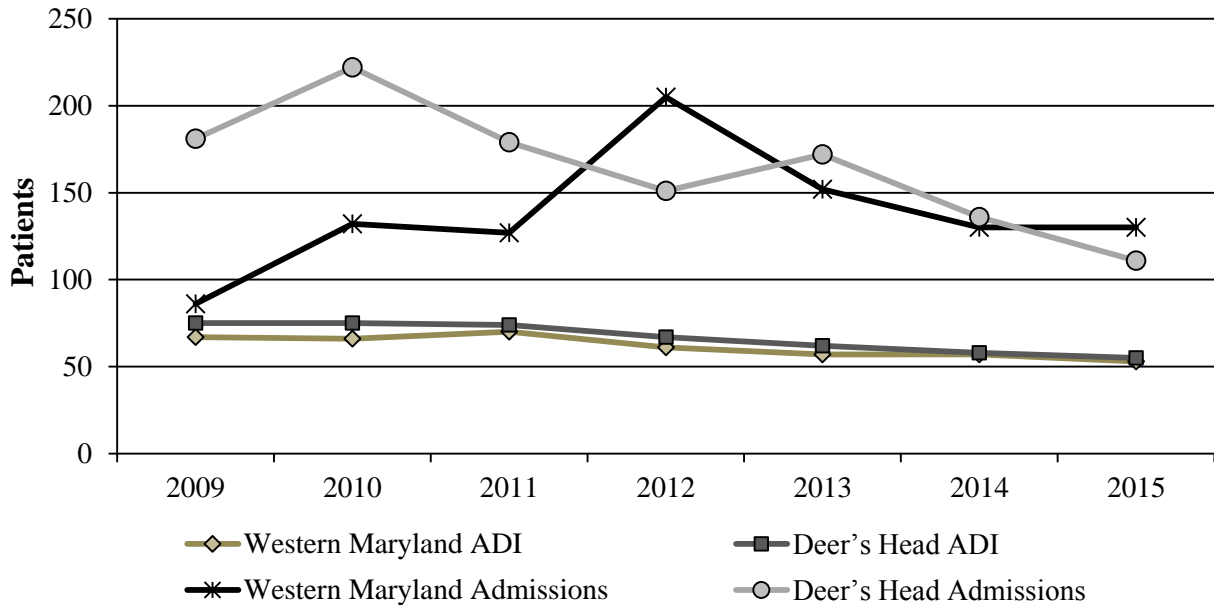
- chronic care and treatment to patients requiring acute rehabilitation (at a level greater than that available at a nursing home) for management of complex medical issues such as respiratory, coma, traumatic brain injury, spinal cord injury, wound management, dementia, cancer care, and quarantined tuberculosis;
- long-term nursing care for patients who do not need hospital-level care but are unable to function in traditional nursing homes; and
- inpatient and outpatient renal dialysis services.

Performance Analysis: Managing for Results

1. Average Length of Stay Continues to Decline in State Chronic Disease Hospital Centers

Due to changes in reimbursement for patient days, the State chronic disease hospitals are working to efficiently treat patients and allow them to move to a lower level of care as soon as is medically possible. **Exhibit 1** shows that while admissions have fluctuated year to year at both State chronic disease hospitals, the average daily number of patients has declined since fiscal 2009 at both facilities. The hospitals attribute this decrease to an increase in costs associated with caring for patients without a corresponding increase in funding, allowing them to care for fewer patients. Specifically, DHHC attributes the increased costs to higher costs for medicine and higher acuity patients.

Exhibit 1
Average Daily Inpatients and Admissions
Fiscal 2009-2015



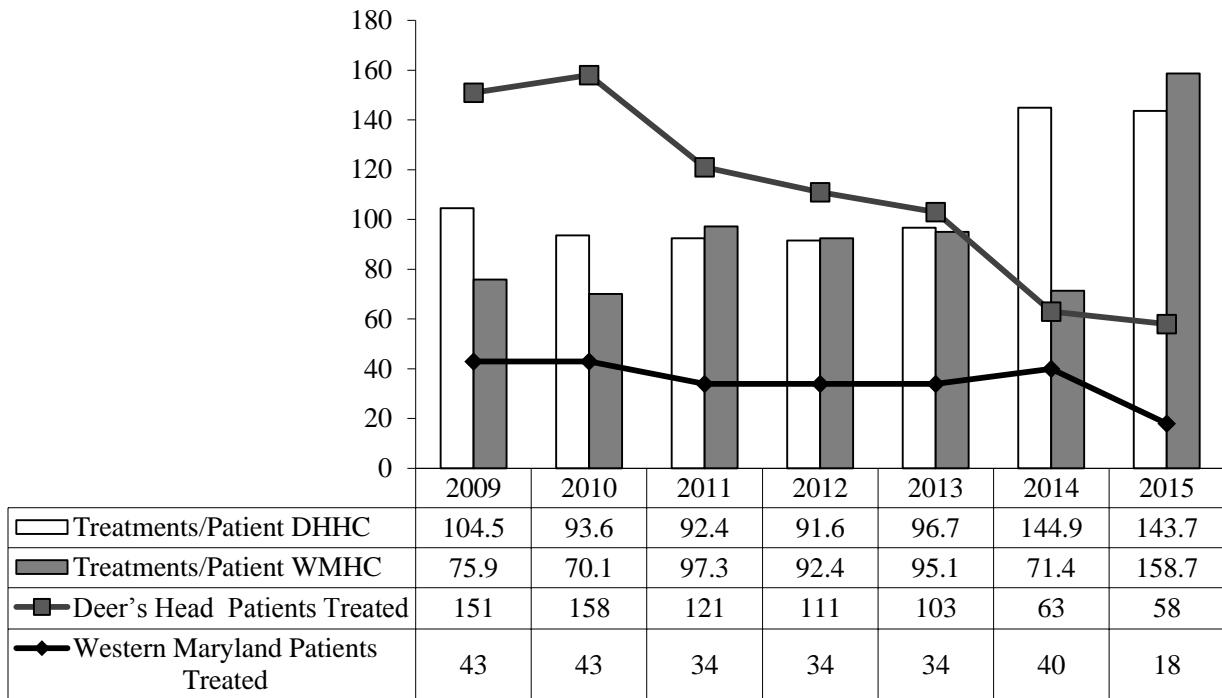
ADI: Average Daily Inpatients

Source: Department of Health and Mental Hygiene

2. Number of Renal Dialysis Patients Declines in Both Hospital Centers

Both hospitals strive to provide quality care to patients. Renal dialysis is offered at WMHC and DHHC; **Exhibit 2** shows the number of patients treated at both hospitals between fiscal 2009 and 2015. DHHC continues to serve a greater number of patients than WMHC, but its numbers have fallen steadily throughout the period. The agency reports that when DHHC first opened, it was the only place for renal dialysis on the Eastern Shore. Since then, a number of new facilities have opened and expanded. While the number of patients receiving renal dialysis declines, the number of treatments per patient increases 50% from fiscal 2013 to 2014 and remains steady in fiscal 2015. The number of renal dialysis patients served at WMHC fell sharply in 2015 due to a declining population and an increase in providers in the area. As a result, the Department of Health and Mental Hygiene (DHMH) has announced the closure of the unit at WMHC for July 1, 2016.

**Exhibit 2
Renal Dialysis Patients
Fiscal 2009-2015**



DHHC: Deer's Head Hospital Center
WMHC: Western Maryland Hospital Center

Source: Department of Health and Mental Hygiene

Fiscal 2016 Actions

Proposed Deficiency

There is one proposed general fund deficiency for fiscal 2016 of \$829,114 to provide funds to support the management staffing contract between Meritus and WMHC.

Cost Containment

The fiscal 2016 budget bill contained a 2.0% across-the-board general fund reduction, which included a 0.6% across-the-board fund reduction to DHMH totaling \$27,215,000. The Chronic

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Hospital’s allocation of the reduction is \$56,735 including \$20,000 in reduced security costs due to staggered coverage by contractual security personnel at WMHC, \$10,000 in reduced transportation costs due to in-house clinics at WMHC, and \$26,735 reduced spending on laundry at DHHC.

Proposed Budget

As shown in **Exhibit 3**, the Governor’s fiscal 2016 allowance decreases by \$538,000 (1.1%) over the fiscal 2015 working appropriation net of contingent and across-the-board reductions, primarily due to the closing of the renal dialysis unit at WMHC.

Exhibit 3
Proposed Budget
DHMH – Chronic Hospitals
(\$ in Thousands)

How Much It Grows:	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
Fiscal 2015 Actual	\$44,873	\$3,637	\$810	\$49,320
Fiscal 2016 Working Appropriation	45,274	4,122	895	50,290
Fiscal 2017 Allowance	<u>45,541</u>	<u>3,295</u>	<u>916</u>	<u>49,753</u>
Fiscal 2016-2017 Amount Change	\$268	-\$827	\$21	-\$538
Fiscal 2016-2017 Percent Change	0.6%	-20.1%	2.4%	-1.1%

Where It Goes:

Personnel Expenses

Employee and retiree health insurance	\$804
Retirement.....	694
Overtime	321
Workers’ compensation premium assessment and unemployment	210
Turnover adjustments	163
Other fringe benefit adjustments.....	-10
Regular Earnings and Miscellaneous Adjustments.....	-280
Abolished positions (15.5 FTE).....	-1,170

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Where It Goes:

Other Changes

Vehicle replacements (WMHC)	\$103
Other	-11
Respiratory Therapy medicine and supplies (WMHC).....	-57
Comprehensive care contractual nurses (WMHC)	-78
Utilities and equipment repair reductions plant maintenance DHHC.....	-123
Patient Care unit (WMHC) (lab services, outpatient care, medical supplies)	-171
Phsyiatry in Brain Trauma Unit (WMHC)	-177
Hemodialysis (medicine and supplies)	-755
Total	-\$538

DHHC: Deer’s Health Hospital Center
DHMH: Department of Health and Mental Hygiene
FTE: full-time equivalent
WMHC: Western Maryland Hospital Center

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

Personnel

Personnel expenditures decrease by \$732,000 for the chronic hospitals. The largest decrease is due to the abolition of 15.5 positons at WMHC, reducing the budget by \$1.2 million. Of the 15.5 abolished positions, 8.5 positions (7.5 filled and 1.0 vacant) were a result of closing the renal dialysis unit at WMHC. This unit was closed due to the declining population and an increase in private providers in the area. Of the 7.5 filled positions in the renal dialysis unit, 5.0 were given the option of transferring to another vacant position within the hospital. Two other filled positions were abolished: (1) 1 position was reduced due to contracting out for x-ray services; and (2) an additional therapeutic recreater filled position was abolished. The remaining abolished positions, 5.0, were all vacant.

This decrease is offset by large increases in health insurance (\$804,000) and retirement (\$693,533). While the fiscal 2017 allowance saw an increase for turnover relief, the vacancy rates at both hospitals are higher than budgeted. WMHC has a vacancy rate of 14.6% before the position reductions and 13.1% after, 7.4% higher than budgeted, while DHHC has a vacancy rate of 10.1%. While vacancy rates remain so high, unsurprisingly overtime has increased in the fiscal 2017 allowance. DHMH attributes high turnover to difficulty filling the highly specialized positions in facilities that are remote.

Renal Dialysis Closure

Operating expenditures decreased by \$755,000 due to the closure of the renal dialysis unit at WMHC and medicine and supplies reductions at DHHC. Both hospitals have had lower utilization of the renal dialysis units than expected.

Other Changes

The fiscal 2017 allowance includes reductions to the brain trauma and patient care unit at WMHC of \$347,000. Other reductions at WMHC included comprehensive care contractual nurses (\$78,000) and medicine and supplies (\$57,000). Vehicle replacements at WMHC increased the budget by \$102,765.

Issues

1. Western Maryland Hospital Center Strategic Plan

In May 2014, the Office of Health Care Quality (OHCQ), on behalf of the federal Centers for Medicare and Medicaid Services (CMS), conducted a review of the WMHC nursing home facilities and operations. This review identified serious deficiencies, resulting in substantial noncompliance with Medicaid and Medicare requirements. For example, deficiencies identified included the failure to report and investigate allegations of abuse and the failure to administer medications as ordered. WMHC paid associated fines totaling \$375,100 and was denied Medicaid and Medicare reimbursement for new nursing home admissions beginning August 7, 2014, until the deficiencies were determined to be satisfactorily corrected.

In response to the review, DHMH hired a consultant, at a cost of \$288,000, to provide recommendations to address the identified deficiencies. DHMH concluded, based on the consultant's assessments, that the WMHC executive management was not able to effectively implement the changes necessary to address the deficiencies. In June 2014, DHMH hired a contractor to provide professional personnel to replace 3 executive management positions to lead WMHC and implement the necessary corrective actions for six months. On September 22, 2014, CMS and OHCQ determined that the deficiencies were satisfactorily corrected and that Medicaid and Medicare reimbursement could resume. During the period from August 7, 2014, through September 21, 2014, there were no new admissions to WMHC. DHMH extended the contract for an additional six months with the contractor, and then extended the contract for an additional three years through June 30, 2018. As of January 28, 2016, WMHC made payments to the contractor totaling approximately \$1.5 million.

WMHC devised a three-year strategic plan with targets for year one and year three. The focus areas consist of workforce, quality, customer, and finance. One goal for the customer focus area is to identify and diversify the service portfolio to meet market demand, measured by the number of admissions. Some of the key initiatives for this goal are to evaluate joint ventures, expand current program capacity, develop business plans for new services, and optimize utilization of current programs. WMHC recently increased patient capacity for the Brain Injury program by two, from seven to nine patients. A strategic objective for the finance focus area is to generate enough financial resources to ensure sustainability.

Beyond the three-year contract, the future of WMHC has not yet been decided. The following is a non-exhaustive list of options for the future management of WMHC:

- **State Executive Management** – choose not to renew the contract with the current contractor and return executive management back to the State for WMHC;
- **Continue Contracting Management** – extend the current contract for executive management of WMHC or enter into a contract with a different contractor; and

- **Transitioning Care to a Private Provider** – shift clinical and support services to a private provider, with the State’s support providing a grant to the contractor.

Status of the Western Maryland Hospital Capital Building

In any of the options, as stated in the three-year strategic plan, the financial impact of a new building versus maintaining the current building should be evaluated. The current facility was built in 1957 and the heating, ventilation, and air-conditioning system needs replacement. The original design of WMHC, with large multiple-occupancy bedrooms and group toilet rooms for the patient units, is outdated and out of compliance with modern hospital design standards and regulations. The facility is also oversized for the population that it currently serves. A new building was part of a prior *Capital Improvement Program* (CIP) and was scheduled to begin receiving funding in fiscal 2009. The estimated cost to demolish and rebuild the hospital was estimated at \$58 million. However, the project was moved out of the CIP to make way for the new public health laboratory and never put back in.

Depending upon how the hospital is run (contract management, State-run, grant to private contractor), different parties may be responsible for any new building. If the facility continues to be State-owned and operated or if management continues to be contracted out, the State would likely need to pay for a new building. If a contractor manages and staffs the hospital, with a grant from the State, either the State would need to build the new facility or a private company could build the new facility or find existing space to move patients into, in which case the current building would likely be sold or demolished.

Considerations for Transitioning Care to a Private Provider

If transitioning care to a private provider or a similar scenario were to occur, certain considerations should be made including:

- the requirements for the contractor to offer employment to current employees, including pay rates, pensions, and benefits;
- options for employees who are unable to secure employment with the contractor; and
- the amount of funding required for the population served by the contractor and accountability measures for ensuring quality of service.

One potential issue is aligning the incentive for the contractor to care for the same population that was cared for by the State-owned hospital. Many of the patients are insured, and the hospital receives payment for services given. Serving this population often costs more than the insurance that reimburses the hospital. These costs can stem from increased staff required and special equipment for obese patients that other nursing homes are not equipped with. Other patients are unable to obtain insurance and, therefore, have their services fully covered by the hospital. Due to increased costs without subsequent increases in funding over the years, the hospital has been unable to service all of the patients who need services. **DHMH should comment on plans for WMHC at the end of the**

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three-year contract. DHMH should also comment on the accountability measures if care is transitioned to a private provider.

Recommended Actions

1. Concur with Governor's allowance.

Current and Prior Year Budgets

Current and Prior Year Budgets DHMH – Chronic Hospitals (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2015					
Legislative Appropriation	\$42,945	\$4,429	\$0	\$779	\$48,153
Deficiency Appropriation	0	0	0	0	0
Cost Containment	-175	0	0	0	-175
Budget Amendments	2,103	13	0	50	2,167
Reversions and Cancellations	0	-806	0	-19	-824
Actual Expenditures	\$44,873	\$3,637	\$0	\$810	\$49,320
Fiscal 2016					
Legislative Appropriation	\$43,048	\$4,098	\$0	\$895	\$48,041
Budget Amendments	1,396	23	0	0	1,420
Working Appropriation	\$44,444	\$4,122	\$0	\$895	\$49,461

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

Actual expenditures for Chronic Hospitals were \$1.2 million above the legislative appropriation. Cost containment and subsequent realignments reduced general funds by \$175,213. WMHC reduced on-call contractual physician coverage by having staff physicians cover weekends for remainder of the year (\$23,927), and the rest of the reduction came from salaries and fringe benefits. In addition, general funds were reduced by \$34,478 through a budget amendment due to higher than budgeted turnover.

These reductions were offset by budget amendments adding \$2.2 million including \$2.1 million in general funds, \$13,287 in special funds, and \$50,091 in reimbursable funds. Increases related to the fiscal 2015 cost-of-living adjustment (\$271,449) and annual salary review (\$360,335) totaled \$618,497 in general funds and \$13,287 in special funds. Health insurance adjustments for the third quarter increased general funds by \$421,680. General funds increased \$1.1 million to cover the cost of management fees and medical supplies. Reimbursable funds increased by \$50,091 to cover increased cost of providing dietary services from WMHC to Potomac Center.

Cancellations totaled \$824,238, including \$805,549 in special funds and \$18,689 in reimbursable funds, due to lower than expected special fund collections, primarily from renal dialysis and nursing home provider fees.

Fiscal 2016

To date, \$1,419,738 has been added to the legislative appropriation, including \$1.4 million in general funds and \$23,260 in special funds. General funds were increased by \$860,030 to realign the 2% cost containment with the agency's cost containment plan. General funds (\$536,448) and special funds (\$23,260) also increased related to the restoration of the 2% pay reduction.

Audit Findings

Western Maryland Hospital Center

Audit Period for Last Audit:	May 7, 2012 – March 29, 2012
Issue Date:	October 2015
Number of Findings:	2
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

Finding 1: WMHC did not perform a sufficient verification of pharmaceutical contractor invoices prior to payment.

Finding 2: WMHC did not adequately review and approve labor hours billed by a contractor providing professional management personnel.

**Object/Fund Difference Report
DHMH – Chronic Hospitals**

<u>Object/Fund</u>	<u>FY 15 Actual</u>	<u>FY 16 Working Appropriation</u>	<u>FY 17 Allowance</u>	<u>FY 16 - FY 17 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	511.80	510.80	495.30	-15.50	-3.0%
02 Contractual	20.09	18.01	18.27	0.26	1.4%
Total Positions	531.89	528.81	513.57	-15.24	-2.9%
Objects					
01 Salaries and Wages	\$ 36,098,999	\$ 37,282,710	\$ 38,157,966	\$ 875,256	2.3%
02 Technical and Spec. Fees	1,482,580	1,235,970	1,068,292	-167,678	-13.6%
03 Communication	97,135	98,652	98,556	-96	-0.1%
04 Travel	28,057	18,049	13,330	-4,719	-26.1%
06 Fuel and Utilities	1,277,307	1,358,267	1,283,216	-75,051	-5.5%
07 Motor Vehicles	28,454	105,076	188,291	83,215	79.2%
08 Contractual Services	5,182,784	3,568,308	4,135,383	567,075	15.9%
09 Supplies and Materials	4,706,197	5,501,322	4,714,356	-786,966	-14.3%
10 Equipment – Replacement	183,588	46,070	44,102	-1,968	-4.3%
11 Equipment – Additional	35,645	75,000	0	-75,000	-100.0%
12 Grants, Subsidies, and Contributions	2,529	25,000	15,000	-10,000	-40.0%
13 Fixed Charges	188,752	146,806	177,542	30,736	20.9%
14 Land and Structures	7,900	0	0	0	0.0%
Total Objects	\$ 49,319,927	\$ 49,461,230	\$ 49,896,034	\$ 434,804	0.9%
Funds					
01 General Fund	\$ 44,872,933	\$ 44,444,453	\$ 45,678,436	\$ 1,233,983	2.8%
03 Special Fund	3,636,764	4,121,610	3,301,146	-820,464	-19.9%
09 Reimbursable Fund	810,230	895,167	916,452	21,285	2.4%
Total Funds	\$ 49,319,927	\$ 49,461,230	\$ 49,896,034	\$ 434,804	0.9%

Note: The fiscal 2016 appropriation does not include deficiencies. The fiscal 2017 allowance does not include contingent reductions.

**Fiscal Summary
DHMH – Chronic Hospitals**

<u>Program/Unit</u>	<u>FY 15 Actual</u>	<u>FY 16 Wrk Approp</u>	<u>FY 17 Allowance</u>	<u>Change</u>	<u>FY 16 - FY 17 % Change</u>
01 Western Maryland Hospital Center	\$ 25,744,326	\$ 25,495,823	\$ 25,443,947	-\$ 51,876	-0.2%
01 Deer's Head Hospital Center	23,575,601	23,965,407	24,452,087	486,680	2.0%
Total Expenditures	\$ 49,319,927	\$ 49,461,230	\$ 49,896,034	\$ 434,804	0.9%
General Fund	\$ 44,872,933	\$ 44,444,453	\$ 45,678,436	\$ 1,233,983	2.8%
Special Fund	3,636,764	4,121,610	3,301,146	-820,464	-19.9%
Total Appropriations	\$ 48,509,697	\$ 48,566,063	\$ 48,979,582	\$ 413,519	0.9%
Reimbursable Fund	\$ 810,230	\$ 895,167	\$ 916,452	\$ 21,285	2.4%
Total Funds	\$ 49,319,927	\$ 49,461,230	\$ 49,896,034	\$ 434,804	0.9%

Note: The fiscal 2016 appropriation does not include deficiencies. The fiscal 2017 allowance does not include contingent reductions.