

M001
Chronic Hospitals
 Department of Health and Mental Hygiene

Operating Budget Data

(\$ in Thousands)

	<u>FY 16</u> <u>Actual</u>	<u>FY 17</u> <u>Working</u>	<u>FY 18</u> <u>Allowance</u>	<u>FY 17-18</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$45,152	\$45,245	\$44,450	-\$795	-1.8%
Adjustments	0	0	-118	-118	
Adjusted General Fund	\$45,152	\$45,245	\$44,333	-\$913	-2.0%
Special Fund	3,380	3,285	3,102	-183	-5.6%
Adjustments	0	0	-5	-5	
Adjusted Special Fund	\$3,380	\$3,285	\$3,097	-\$188	-5.7%
Reimbursable Fund	903	916	925	8	0.9%
Adjusted Reimbursable Fund	\$903	\$916	\$925	\$8	0.9%
Adjusted Grand Total	\$49,435	\$49,447	\$48,354	-\$1,092	-2.2%

Note: Includes targeted reversions, deficiencies, and contingent reductions.

- The fiscal 2018 allowance adjusted for contingent reductions decreases by \$1.1 million, or 2.2%, below the fiscal 2017 working appropriation. Most of the savings are in personnel costs.

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

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Personnel Data

	<u>FY 16</u> <u>Actual</u>	<u>FY 17</u> <u>Working</u>	<u>FY 18</u> <u>Allowance</u>	<u>FY 17-18</u> <u>Change</u>
Regular Positions	510.80	467.30	467.30	0.00
Contractual FTEs	<u>20.34</u>	<u>19.10</u>	<u>19.15</u>	<u>0.05</u>
Total Personnel	531.14	486.40	486.45	0.05

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	37.25	8.11%
Positions and Percentage Vacant as of 12/31/16	64.00	13.70%

- The fiscal 2018 allowance includes no change in the number of full-time equivalent positions, and a slight .05 increase in contractual full-time positions.
- The agency currently has more than enough vacancies to meet turnover with a vacancy rate of 13.7%. The vacancy rates at Western Maryland Hospital Center (WMHC) and Deer’s Head Hospital Center (DHHC) are 16.0% and 10.2% respectively.

Analysis in Brief

Major Trends

Average Daily Inpatients Decline in Western Maryland Hospital Center, Increase in Deer’s Head Hospital Center: 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. However, admissions and average daily inpatients increase slightly for DHHC.

Hospital Patient Recoveries Decrease: The Chronic Hospitals partially fund operations with recoveries from patient payers, including Medicaid and Medicare. In calendar 2016, hospital patient recoveries declined in both hospitals.

Issues

Western Maryland Hospital Building: Due to a review by the Office of Health Care Quality identifying serious deficiencies in 2014, a contractor currently provides professional personnel for executive management positions at WMHC. The contract will end on June 30, 2018. The long-term management of the hospital has not yet been decided. However, the aging building continues to need repairs and raise health concerns.

Recommended Actions

1. Add budget bill language requesting a plan to expand and fund operating costs for a new or existing program.

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Chronic Hospitals
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:

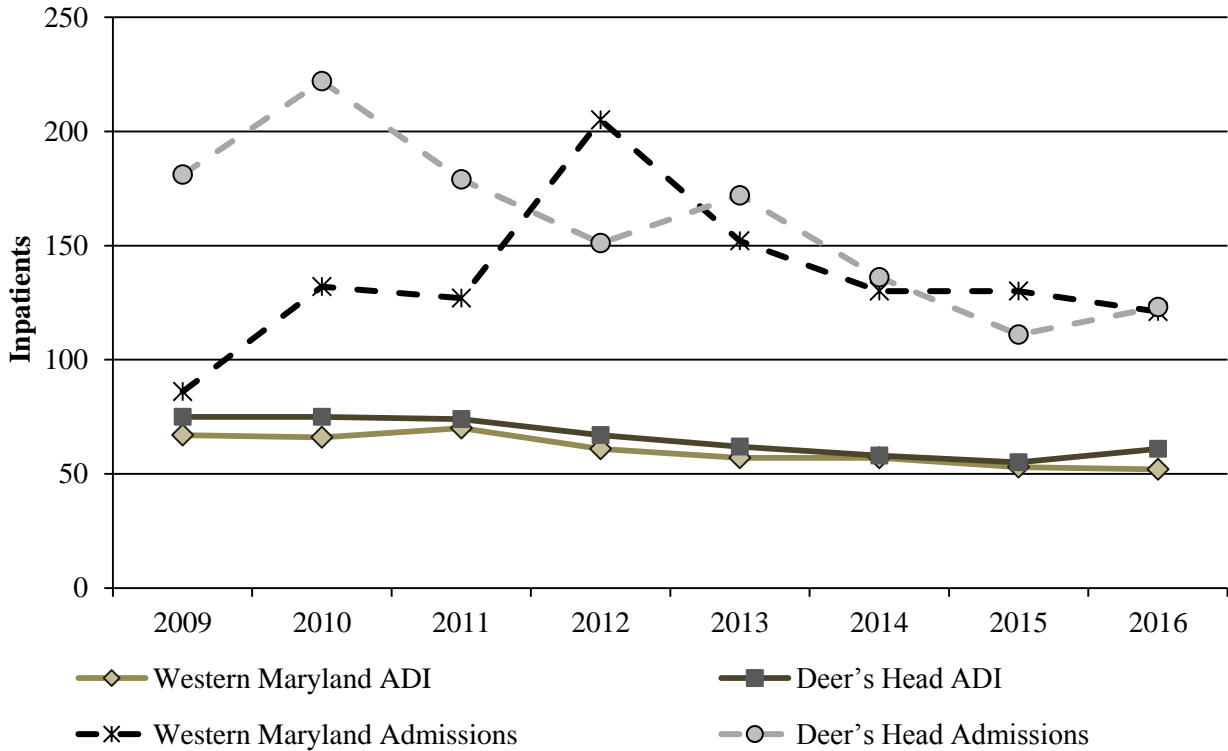
- chronic care and treatment to patients requiring acute rehabilitation (at a level greater than that available at a nursing home) for management of complex medical issues such as respiratory, coma, traumatic brain injury, spinal cord injury, wound management, dementia, cancer care, and quarantined tuberculosis;
- 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 (DHHC only) renal dialysis services.

Performance Analysis: Managing for Results

1. Average Daily Inpatients Decline in Western Maryland Hospital Center, Increase in Deer's Head Hospital Center

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 generally declined since fiscal 2009 at both facilities. However, in fiscal 2016, the average daily inpatients at DHHC increased slightly. DHHC attributes this to an increase in community demand for services, particularly for those who may also require dialysis, both chronic and acute. DHHC began doing acute dialysis in January 2015, and had a full year of acute dialysis for 2016.

Exhibit 1
Average Daily Inpatients and Admissions
Fiscal 2009-2016



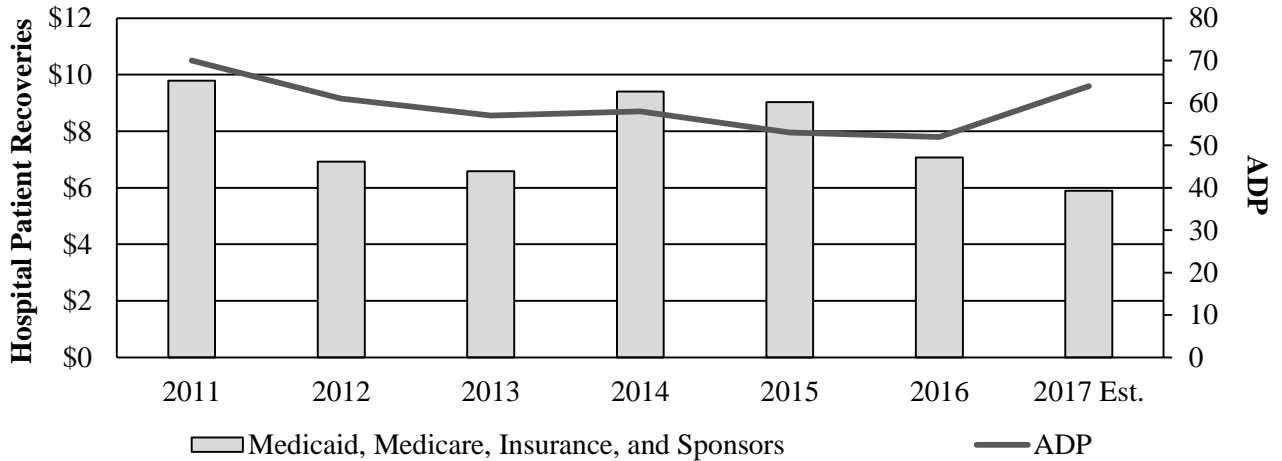
ADI: average daily inpatients

Source: Department of Health and Mental Hygiene

2. Hospital Patient Recoveries Decrease

The State chronic hospitals are the only hospitals in Western Maryland and the Eastern Shore that have licensed chronic hospital beds. Due to the complexity of needs, it is often expensive to provide services to this patient population. Additionally, the hospitals provide free care for individuals who are ineligible for medical assistance due to citizenship status or asset qualifications. To the extent an individual has insurance coverage, the hospitals bill the payer for the services provided to the patient. **Exhibits 2** and **3** show the hospital patient recoveries and corresponding average daily population (ADP) at each hospital.

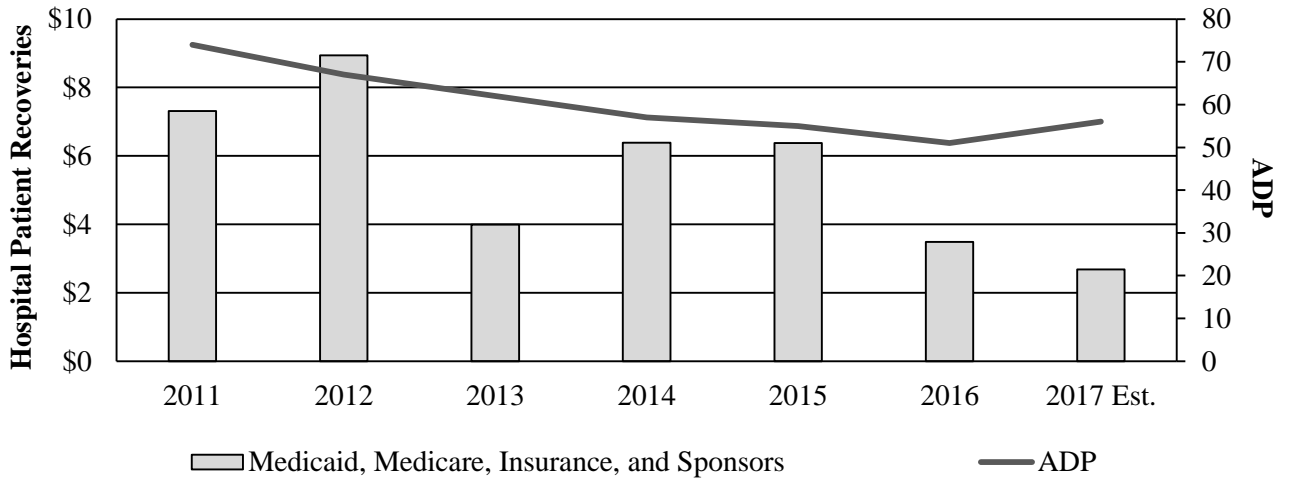
Exhibit 2
Hospital Patient Recoveries – Western Maryland Hospital Center
Fiscal 2011-2017 Est.
(\$ in Millions)



ADP: average daily population

Source: Department of Health and Mental Hygiene

Exhibit 3
Hospital Patient Recoveries – Deer’s Head Hospital Center
Fiscal 2011-2017 Est.
(\$ in Millions)



ADP: average daily population

Source: Department of Health and Mental Hygiene

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Hospital patient recoveries, which are sent to the general fund, fluctuate widely year-to-year. In fiscal 2016, the hospital patient recoveries decrease for both hospitals. Hospital patient recoveries per ADP for WMHC and DHHC in 2015 were \$170,500 and \$113,000, respectively. The estimated recoveries per ADP for fiscal 2017 for WMHC and DHHC are much lower, \$92,042 and \$47,919, respectively.

The agency attributes low recoveries to the make-up of the patient population. In addition to caring for those ineligible for insurance, some individuals can be more difficult to bill, including individuals with mental disabilities and individuals with chronic conditions that disable their ability to communicate. The agency notes that they take every step to get reimbursement. However, WMHC management has advised that there is some confusion surrounding the patient recovery process. It should be noted that WMHC recently replaced their long-time chief financial officer, which may contribute to the confusion. Additionally, WMHC has noted that there has been at least one instance where patient recoveries could have been obtained and were not.

Fiscal 2017 Actions

Section 20 Position Abolitions

The fiscal 2017 budget bill contained a section that directed the Executive Branch to abolish 657 positions and achieve a savings of \$25 million, including \$20 million in general funds and \$5 million in special funds. This agency's share of the reduction is 26 positions and approximately \$815,000 in general funds and \$11,307 in special funds. Of the 26 positions, 12 were abolished from DHHC and 14 were abolished from WMHC, 10 of which were geriatric nursing assistants.

Proposed Budget

As shown in **Exhibit 4**, the Governor's adjusted fiscal 2018 allowance decreases by \$1.1 million (-2.2%) over the fiscal 2017 working appropriation, primarily due to a decrease in personnel expenses.

Exhibit 4
Proposed Budget
DHMH – Chronic Hospitals
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Reimb. Fund	Total
Fiscal 2016 Actual	\$45,152	\$3,380	\$903	\$49,435
Fiscal 2017 Working Appropriation	45,245	3,285	916	49,447
Fiscal 2018 Allowance	<u>44,333</u>	<u>3,097</u>	<u>925</u>	<u>48,354</u>
Fiscal 2017-2018 Amount Change	-\$913	-\$188	\$8	-\$1,092
Fiscal 2017-2018 Percent Change	-2.0%	-5.7%	0.9%	-2.2%

Where It Goes:

Personnel Expenses

Miscellaneous adjustments and other compensation	\$213
Turnover adjustments.....	142
Other fringe benefit adjustments.....	-18
Retirement.....	-408
Regular earnings (including impact of fiscal 2017 Section 20 reductions)	-443
Employee and retiree health insurance	-475

Western Maryland Hospital Center

Renovate and expand brain injury unit and equipment repairs.....	275
Radiology services ended (fiscal 2017)	-68
Vehicle replacements	-104
Comprehensive Care Medical Administration and medical supplies	-117
Comprehensive Care Ventilator Program ended.....	-280

Deer’s Head Hospital Center

Contract nurses.....	235
Physician services	57
Plant administration and maintenance	18
Medical supplies	10
Hemodialysis medical supplies.....	-130

Total **-\$1,092**

DHMH: Department of Health and Mental Hygiene

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

Personnel

Personnel expenditures decrease by \$1 million for the chronic hospitals. Large decreases include \$475,000 for employee and retiree health insurance and \$408,000 for retirement, including the contingent reduction noted below. Additionally, there was a decrease of \$443,000 in regular earnings, \$218,000 at DHHC and \$225,000 at WMHC. In addition to reductions related to the fiscal 2017 Section 20 reduction, at DHHC, the decrease in regular earnings of \$218,000 is attributed to the reclassification of a medical director position, as the medical director retired in fiscal 2016, and a position transfer from DHHC to the Vital Statistics Administration in fiscal 2016 with no corresponding budget amendment.

Across-the-board Reductions

The fiscal 2018 budget bill includes a \$54.5 million (all funds) across-the-board contingent reduction for a supplemental pension payment. Annual payments are mandated for fiscal 2017 through 2020 if the Unassigned General Fund balance exceeds a certain amount at the close of the fiscal year. This agency's share of these reductions is \$118,000 in general funds and \$5,000 in special funds. This action is tied to a provision in the Budget Reconciliation and Financing Act of 2017.

WMHC

The fiscal 2018 allowance includes an increase of \$275,000 to renovate and expand the brain injury unit. The funding will allow the unit to expand its capacity from 8 patients to 13. This increase is offset by a decrease of \$400,000 for the consolidation of comprehensive care units. The consolidation reduces the budgeted census from 42 to 36, aligning with actuals.

Although the agency has \$275,000 budgeted to renovate and expand the brain injury unit, they have advised that this funding would not provide the operating support to increase staff. There is regularly a waiting list for the brain injury program that ranges from 8 to 10 patients on any given day. The size of the program is limited to the current size of the unit and the financial resources allocated to staffing. However, hospital management has advised the Department of Legislative Services that they would rather utilize that funding to create an inpatient detox unit or a detox ambulatory unit. Hospital management advises that there is currently a need for the this type of program as overdose deaths have increased, and local acute care hospital emergency departments have seen a sharp increase in visits for addiction treatment. WMHC has one and a half floors not currently being utilized for patient care. To accommodate this project, WMHC would need to complete moderate renovations to several unoccupied hospital units and install additional security equipment to assure the safety of the hospital's current and nursing home patients and residents.

The proposal provides for a total of 10 female and 14 male beds. Additionally, there would be room for a patient community/social room, two classrooms, and several smaller counseling rooms. The inpatient detox unit and/or an ambulatory detox unit could be operational in less than six months from the date of approval. Construction/renovation costs are estimated to be approximately \$360,000 for both units. Similar to the expansion of the brain injury unit, this amount includes only financial resources required to create and establish physical space for the programs, not the funding for

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operations. However, the hospital notes it may be able to utilize funding from current legislation, including HB 515 from the 2017 legislative session.

It should be noted that WMHC devised a three-year strategic plan with various targets. One goal 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. Both the creation of a new detox program and expanding the brain injury unit fall in line with the goals of WMHC, and both include use of the same vacant area.

Hospital management and DHMH are not in agreement on how the \$275,000 for renovation should be utilized. However, DHMH advised it was not aware of the hospital management plan at the time of budget submission. Additionally, investing in substantial changes to a building that needs to be demolished and replaced may not be the best use of resources. **As there is no operational funding for either project in the fiscal 2018 allowance, the Department of Legislative Services (DLS) recommends withholding \$275,000 of the appropriation until DHMH works with hospital management to submit a plan on which project is best suited for the needs of the hospital and the community and how it intends to fund operations of that program.**

DHHC

The fiscal 2018 allowance includes increases for contract nurses and physician services, offset by a decrease of \$130,000 for hemodialysis medical supplies as the hospital is expecting fewer patients in fiscal 2018. The \$235,000 increase for contract nurses aligns funding with actuals. Currently, the hospital has already exceeded the fiscal 2017 appropriation for contract nurses. The \$57,000 increase in physician services includes \$20,000 for special payments payroll for staff starting at the end of fiscal 2016, not included in the fiscal 2017 budget. The remainder (\$37,000) aligns psychiatry services with actuals.

Issues

1. Western Maryland Hospital Building

In May 2014, the Office of Health Care Quality, on behalf of the federal Centers for Medicare and Medicaid Services, 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. Deficiencies identified included, for example, the failure to report and investigate allegations of abuse and the failure to administer medications as ordered. In order to address the deficiencies, the Department of Health and Mental Hygiene (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. 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.

WMHC devised a three-year strategic plan with various targets. 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 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 plan contract, the future of WMHC has not yet been decided. During the 2016 legislative session, DHMH discussed issuing a request for proposal (RFP) to shift clinical and support services to another entity. As of February 2017, no RFP has been issued, and DHMH has advised that there will no longer be an RFP. However, the management of WMHC remains uncertain after June 2018. The current chief executive officer (CEO) plans to hire a chief operating officer who will step into a CEO role by June 2018.

Status of the Western Maryland Hospital Capital Building

Although DHMH is not currently investigating shifting services to another entity, the current hospital building continues to need repairs and poses a health risk to both patients and staff. The current facility was built in 1957 and the heating, ventilation, and air-conditioning system needs replacement. Additionally, WMHC recently expended \$1.2 million for mold remediation. WMHC advised that remediation was only for visible mold. The current boiler system is outdated technologically, and it is estimated that it would cost \$2 million to update to a new system. 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 \$58.0 million. However, the project was removed from the CIP.

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If the facility continues to be State-owned and operated, the State would likely need to pay for a new building. However, if DHMH decides to form a public-private partnership with another entity, the other entity 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. The State may benefit from entering into such a public-private partnership by working with the entity on a new building for the patients. In addition to extensive mold remediation, current staff at WMHC have complained of health issues related to asbestos in the building, although no direct correlation has been determined. Hospital management has advised that they are interested in having discussions with new leadership at DHMH about a potential public-private partnership. The discussions should ultimately include employee representatives to ensure their concerns are considered. **DLS recommends the agency discuss the future of WMHC with both the current hospital management and employee representatives and devise a plan for WMHC at the end of the three-year contract.**

Recommended Actions

1. Add the following language to the general fund appropriation:

Provided that \$275,000 of the general fund appropriation in program M00I03.01 Services and Institutional Operations made for the purpose of expanding the brain trauma unit may not be expended until the Department of Health and Mental Hygiene works with hospital management to submit a plan to the budget committees outlining the best use of funds and how it will fund operations of any program. This report shall be submitted by July 1, 2017, and the committees shall have 45 days to review and comment. Funds restricted pending the receipt of the report may not be transferred by budget amendment or otherwise to any other purpose and will revert to the General Fund if the report is not submitted.

Explanation: The budget committees are concerned about the lack of agreement between hospital management and the Department of Health and Mental Hygiene (DHMH) on the best use of the funds and investing in upgrades for a deteriorating building. Additionally, there is no operational funding budgeted for any expanded or new program. The committees request that DHMH consult with hospital management and provide the budget committees with a plan for the use of funds and how it will fund operations of the program.

Information Request	Author	Due Date
Plan for Western Maryland Hospital Center program improvements	DHMH	July 1, 2017

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**Appendix 1
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 2016					
Legislative Appropriation	\$43,048	\$4,098	\$0	\$895	\$48,041
Deficiency Appropriation	829	0	0	0	829
Budget Amendments	1,463	23	0	10	1,496
Reversions and Cancellations	-189	-742	0	-2	-932
Actual Expenditures	\$45,152	\$3,380	\$0	\$903	\$49,435
Fiscal 2017					
Legislative Appropriation	\$45,135	\$3,289	\$0	\$916	\$49,341
Budget Amendments	109	-4	0	0	105
Working Appropriation	\$45,245	\$3,285	\$0	\$916	\$49,446

DHMH: Department of Health and Mental Hygiene

Note: Does not include targeted reversions, deficiencies, and contingent reductions. Numbers may not sum to total due to rounding.

Fiscal 2016

Actual expenditures for chronic hospitals were \$1.4 million above the legislative appropriation. A deficiency appropriation increased the budget by \$829,000 in general funds to cover the cost of the Western Maryland Hospital Center (WMHC) management contract with Meritus.

Additional budget amendments increased general funds by \$1.5 million and special funds by \$23,000. Of this amount, general funds were increased by \$860,030 to realign fiscal 2016 2% cost containment with the agency's cost containment plan. General funds (\$536,448) and special funds (\$23,260) increased related to the restoration of a 2% pay reduction. General funds increased \$423,187 to cover the cost of the Centers for Medicare and Medicaid Services consultant fees for the Office of Health Care Quality audit findings and contractual nursing services at WMHC, but were offset by a reduction of \$356,463 in general funds due to overtime cost savings and higher vacancy rates at Deer's Head Hospital Center.

Reimbursable funds increased by \$9,923 to cover the increased cost of providing dietary services from WMHC to the Potomac Center.

Cancellations totaled \$932,000, including \$742,000 in special funds due to lower than expected special fund collections primarily from renal dialysis and nursing home provider fees. The remaining \$189,000 in general funds were reverted primarily due to an unintentional reversion of funds for management fees.

Fiscal 2017

To date, about \$105,000 has been added to the legislative appropriation. General (\$515,057) and special (\$2,445) funds increased relating to centrally budgeted fiscal 2017 salary increments. There was an additional increase of \$3,931 in general funds for the annual salary review. This increase was offset by a reduction of \$415,830 (\$6,732 in special funds and \$409,098 in general funds) to realign funding reductions to implement Section 20 of the fiscal 2017 budget bill.

**Appendix 2
Object/Fund Difference Report
DHMH – Chronic Hospitals**

<u>Object/Fund</u>	<u>FY 16 Actual</u>	<u>FY 17 Working Appropriation</u>	<u>FY 18 Allowance</u>	<u>FY 17 - FY 18 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	510.80	467.30	467.30	0.00	0%
02 Contractual	20.34	19.10	19.15	0.05	0.3%
Total Positions	531.14	486.40	486.45	0.05	0%
Objects					
01 Salaries and Wages	\$ 36,468,035	\$ 37,708,558	\$ 36,843,693	-\$ 864,865	-2.3%
02 Technical and Spec. Fees	1,311,777	1,068,292	1,034,307	-33,985	-3.2%
03 Communication	91,439	98,556	94,587	-3,969	-4.0%
04 Travel	16,160	13,330	6,743	-6,587	-49.4%
06 Fuel and Utilities	1,234,662	1,283,216	1,281,455	-1,761	-0.1%
07 Motor Vehicles	87,247	188,291	84,419	-103,872	-55.2%
08 Contractual Services	4,808,943	4,135,383	4,385,241	249,858	6.0%
09 Supplies and Materials	4,748,577	4,714,356	4,168,913	-545,443	-11.6%
10 Equipment – Replacement	304,672	44,102	132,137	88,035	199.6%
11 Equipment – Additional	128,863	0	30,092	30,092	N/A
12 Grants, Subsidies, and Contributions	6,660	15,000	15,000	0	0%
13 Fixed Charges	180,638	177,542	150,167	-27,375	-15.4%
14 Land and Structures	46,897	0	250,000	250,000	N/A
Total Objects	\$ 49,434,570	\$ 49,446,626	\$ 48,476,754	-\$ 969,872	-2.0%
Funds					
01 General Fund	\$ 45,151,756	\$ 45,245,361	\$ 44,450,276	-\$ 795,085	-1.8%
03 Special Fund	3,379,660	3,284,813	3,101,533	-183,280	-5.6%
09 Reimbursable Fund	903,154	916,452	924,945	8,493	0.9%
Total Funds	\$ 49,434,570	\$ 49,446,626	\$ 48,476,754	-\$ 969,872	-2.0%

DHMH: Department of Health and Mental Hygiene

Note: Does not include targeted reversions, deficiencies, and contingent reductions.

**Appendix 3
Fiscal Summary
DHMH – Chronic Hospitals**

<u>Program/Unit</u>	<u>FY 16 Actual</u>	<u>FY 17 Wrk Approp</u>	<u>FY 18 Allowance</u>	<u>Change</u>	<u>FY 17 - FY 18 % Change</u>
01 Services and Institutional Operations – WMHC	\$ 25,533,473	\$ 25,163,683	\$ 24,637,545	-\$ 526,138	-2.1%
01 Services and Institutional Operations – DHHC	23,901,097	24,282,943	23,839,209	-443,734	-1.8%
Total Expenditures	\$ 49,434,570	\$ 49,446,626	\$ 48,476,754	-\$ 969,872	-2.0%
General Fund	\$ 45,151,756	\$ 45,245,361	\$ 44,450,276	-\$ 795,085	-1.8%
Special Fund	3,379,660	3,284,813	3,101,533	-183,280	-5.6%
Total Appropriations	\$ 48,531,416	\$ 48,530,174	\$ 47,551,809	-\$ 978,365	-2.0%
Reimbursable Fund	\$ 903,154	\$ 916,452	\$ 924,945	\$ 8,493	0.9%
Total Funds	\$ 49,434,570	\$ 49,446,626	\$ 48,476,754	-\$ 969,872	-2.0%

DHHC: Deer’s Head Hospital Center
DHMH: Department of Health and Mental Hygiene
WMHC: Western Maryland Hospital Center

Note: Does not include targeted reversions, deficiencies, and contingent reductions.