

Regulating Hospital Spending in Maryland

Rate Regulation and Certificate of Need

Managing Health System Capacity
NIHCM Foundation
December 1, 2008



Maryland

- 2010 projected population of 5.9 million
- Population growing about 1% per year
- Population aging – 600,000 aged 65+ in 2000
projected 1 million aged 65+ in 2020
- Geographically compact and heavily urbanized – most of population centered in metropolitan Baltimore and D.C. suburbs
- 47 general hospitals

Precedents

Maryland Health Care Commission was created 10 years ago through the merger of

- ❑ **Maryland Health Resources Planning Commission**

Mission: Health systems planning and regulation of health facilities capital investment – 1970s-style government “command and control” – Direct intervention to compensate for market failure

- ❑ **Maryland Health Care Access and Cost Commission**

Mission: Overcome market failure by educating consumers and expanding health insurance coverage in small group market – 1980s-style government market reform – Help the market work better

Health Regulation in Maryland

Key Components

Practitioners –

DHMH
Health Occupation
Licensing Boards: Board
of Physicians, Board of
Nursing, etc.

Payers -

1. Maryland Insurance Administration (MIA)
2. MHCC – small employer health insurance market
3. DHMH – Medicaid

Health Facilities -

1. Office of Health Care Quality, DHMH: hospitals, nursing homes, ambulatory surgical centers, home health, hospice, etc.
2. MHCC - Certificate of Need and State Health Plan
3. HSCRC - hospital rate setting

Consumers -

Appeals and Grievances
law - MIA, Office of the
Attorney General,
Consumer Protection
Division

Maryland Health Care Commission

Information for Policy Development

- State Health Expenditures
- Health Insurance Coverage in Maryland
- Studies of Health Care Utilization and Financing

Quality and Patient Safety

- Public Reporting of Performance
- Patient Safety

Access to Health Care

- Small Group Market and Limited Health Benefit Plan
- Study of the Affordability of Health Insurance in Maryland
- Trauma Fund
- Maryland Health Insurance Plan

Future Health Care Delivery System

- State Health Plan
- Forecasting Future Need for Health Facilities and Services
- Certificate of Need Approval of Major Capital Expenditures and New Health Care Facilities

Technology Enhancement

- Accreditation of Electronic Health Networks
- HIPAA Education
- Electronic Health Records

Maryland Health Care Commission

■ Center for Hospital Services

- Integrates planning, CON, quality and outcomes reporting to improve hospital quality and value
- Includes specialty services, ambulatory surgery, hospital-based ambulatory care

■ Center for Long-term and Community-based Services

- Integrates planning, CON, quality and outcomes reporting to improve quality and value of nursing homes, HHAs, hospices, and other community services as appropriate

■ Center for Financing and Health Policy

- Analysis of health insurance markets, HMO/PPO reporting, and regulation of SGM
- Includes public sector health policy responsibilities as adopted

■ Center for Information Services and Analysis

- Analysis of Maryland health care expenditure data, national survey data
- Price transparency project
- Trauma fund policy
- Analysis of physician reimbursement and the market for physician services

■ Center for Health Information Technology

- Certification of electronic health networks
- Promotion of electronic data interchange
- Governor's Task Force on Electronic Health Records

Scope of CON Regulation Maryland

➤ New health care facilities:

Hospitals, nursing homes, ambulatory surgery centers (2+ ORs), residential treatment centers, home health agencies, hospice programs

➤ Relocation of health care facilities

➤ Change in bed capacity or operating room capacity

➤ Certain changes by an existing health care facility in scope of type of service:

- Introducing cardiac surgery, burn unit, NICU, organ transplantation, medical/surgical, OB, pediatric, psychiatric, medical rehab services;
- Closing a facility;
- Expanding the service area of a home health or hospice agency

➤ Capital expenditure: \$10.5 mill. for hospitals - \$5.05 mill. for everything else

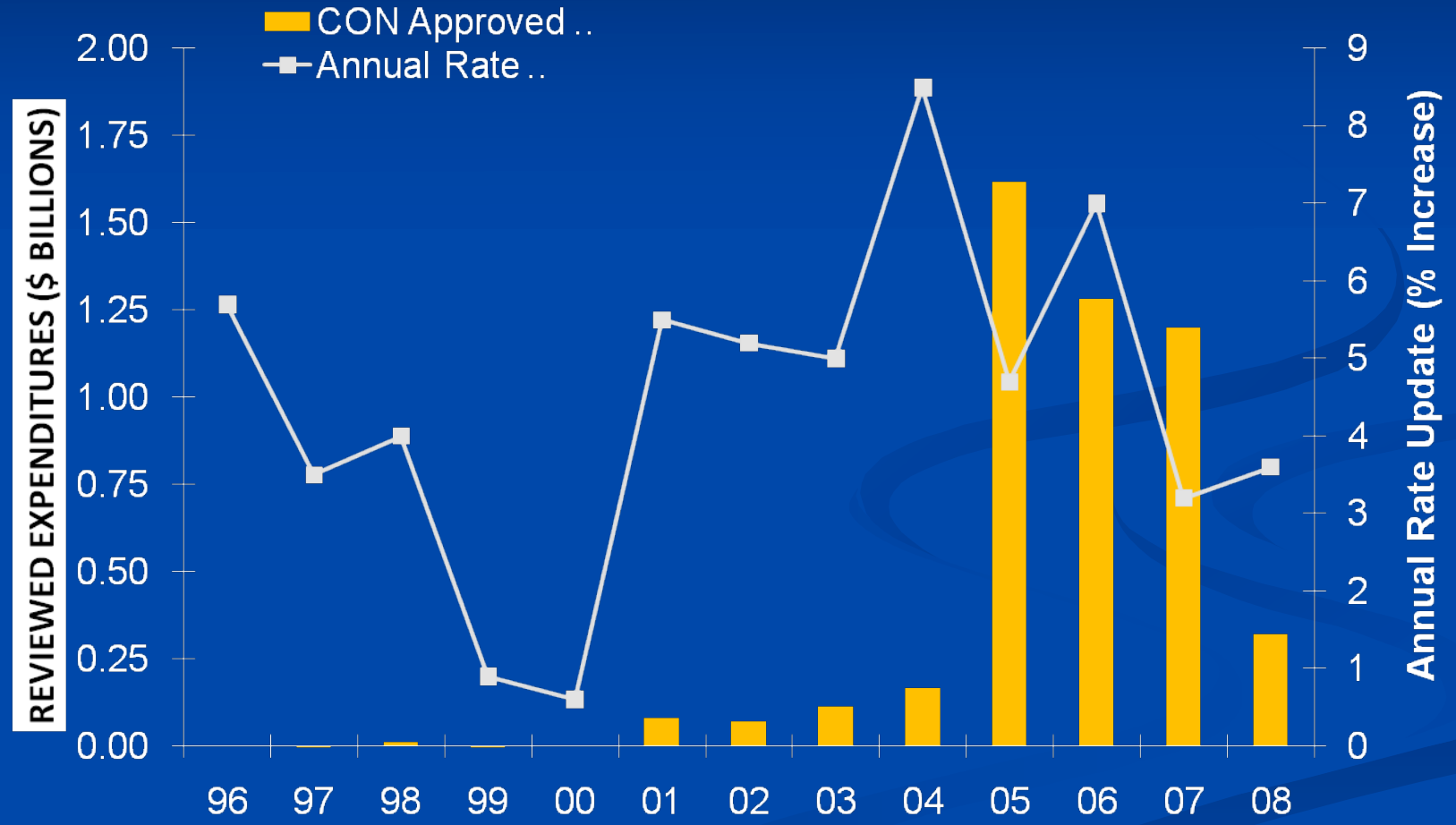
Required Considerations in CON Review

- **Consistency with applicable State Health Plan standards**
- **Need for the project**
- **Cost-effectiveness of the project**
- **Financial viability of the project**
- **Compliance of applicant with terms and conditions of previous CONs**
- **Impact of the project on costs, charges, and other providers**

Regulation of Hospital Charges in Maryland

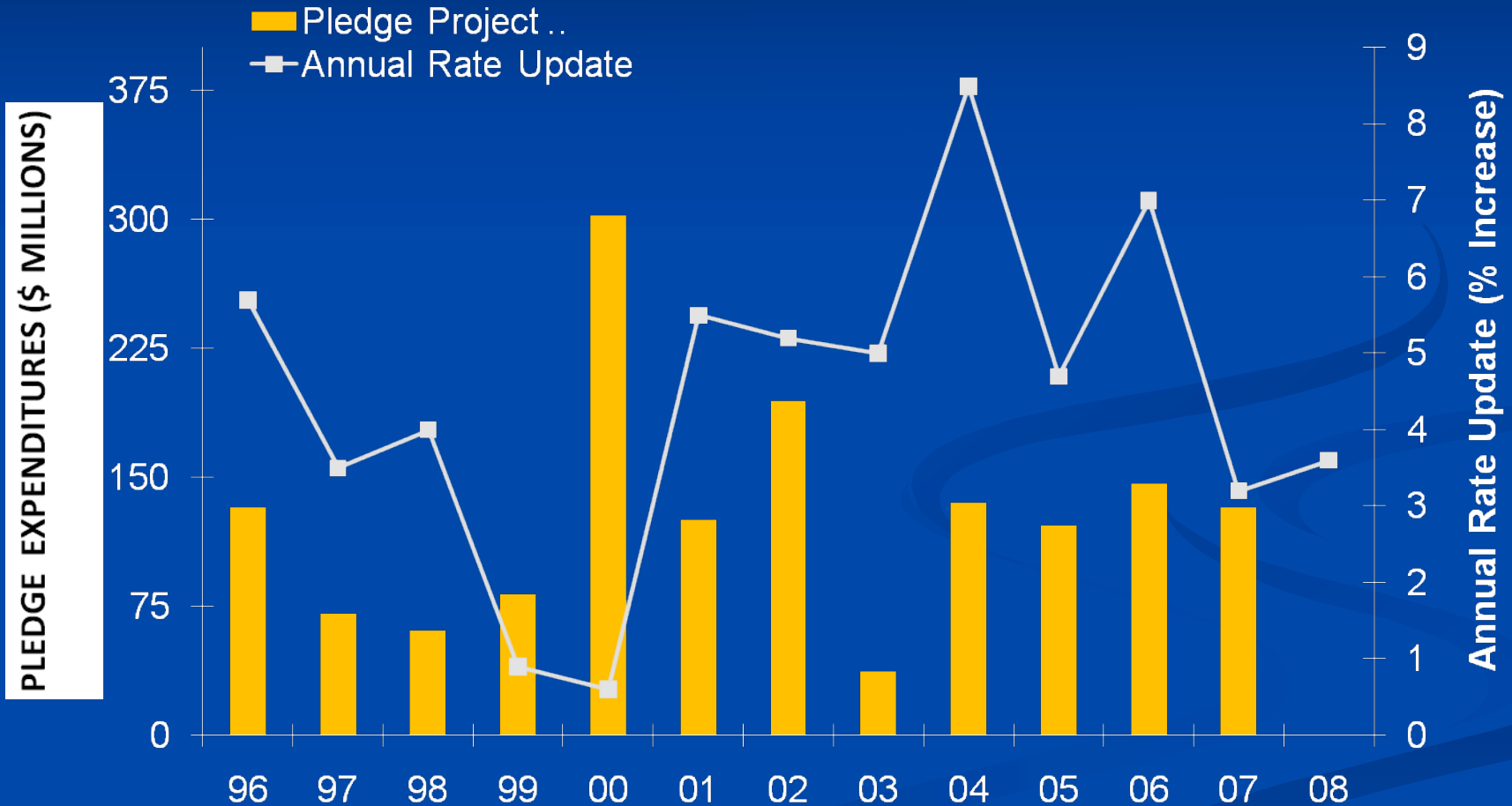
- **Health Services Cost Review Commission**
 - **All payor rate regulation – currently unique among States**
 - **Target: Keep rate of growth in hospital charges below U.S. rate of growth in Medicare hospital payments**
 - **Coordinated with CON regulation – hospitals can avoid CON by taking the “pledge”**

HOSPITAL RATE INCREASES AND HOSPITAL CAPITAL SPENDING REVIEWED UNDER CON



SOURCE: MHCC & HSCRC

HOSPITAL RATE INCREASES AND HOSPITAL CAPITAL SPENDING “PLEDGED”



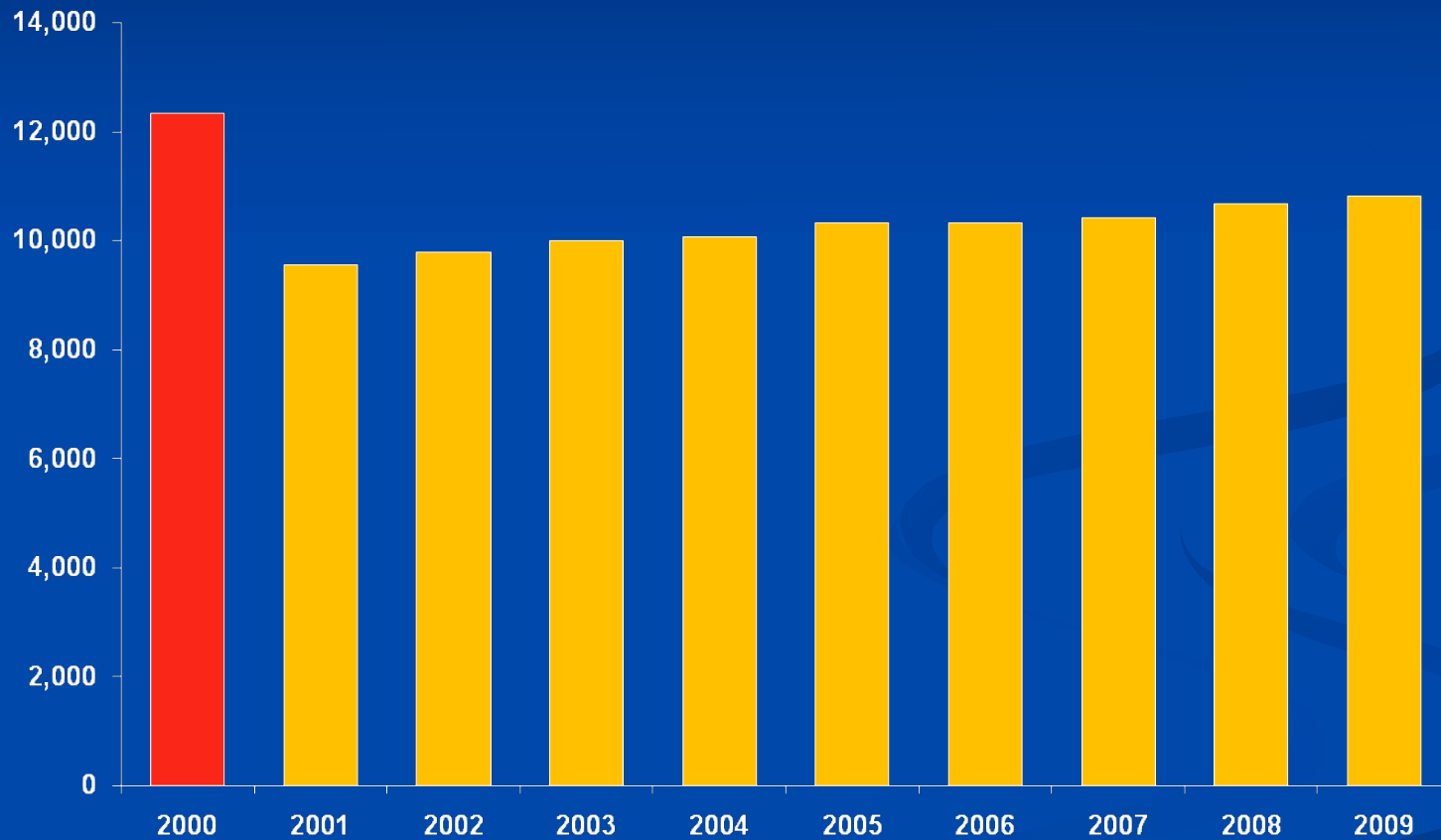
Possible Impact of CON and Hospital Rate Regulation as Practiced in Maryland

- **Compared with U.S.A overall, Maryland has:**
 - **Low ratio of hospital beds to population – higher bed occupancy**
 - **Low average length of hospital stay**
 - **Historically, a low admissions rate but this is changing**
 - **Highest number of outpatient surgery centers per capita in U.S.**
 - **High levels of non-surgical outpatient diagnostic and treatment centers**

Dynamic Acute Care Hospital Bed Licensure

- Recalculation of maximum licensed bed capacity of an acute care hospital each year based on recent average daily census
- Licensed capacity set at 140% of ADC – equating to a one-size-fits-all occupancy rate of 71.4%
- Adding beds to reach current licensed capacity exempt from CON regulation unless it cost more than the capex threshold

Annual Acute Care Hospital Licensure: Maryland, 2001-2008



Source: Maryland Health Care Commission

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Maryland Health Care Commission

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