IN RE: APPLICATION FOR SERVICES	* BEFORE THE MARYLAND HEALTH
TEMPORARY CHANGES IN RATES	* COST REVIEW COMMISSION
HOLY CROSS GERMANTOWN	* DOCKET: 2023
HOSPITAL	* FOLIO: 2429
GERMANTOWN, MARYLAND	* PROCEEDING: 2619T

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STAFF RECOMMENDATION

Overview

Holy Cross Health (HCH), on behalf of the Holy Cross Germantown Hospital ("HCGH," or "the Hospital"), applied to the Health Services Cost Review Commission ("HSCRC," or "the Commission") for a temporary emergency change in rates pursuant to Section 10.37.10.05 of the Code of Maryland Regulations ("COMAR") to be effective March 7, 2023.

The Hospital requests funding of $9.3 million as of March 7, 2023 to be reconciled in a full rate application to be filed as soon as the full rate review moratorium expires.

Temporary Rate Change Procedures and Guidelines

The procedures for a temporary rate application are outlined in COMAR 10.37.10.05 and specify that a hospital may apply at any time for a temporary change in rates provided that one of the following conditions is satisfied:

(1) A decline in the hospital's experienced or projected net revenues, due to factors beyond the hospital's control, requiring funds beyond those normally available;

(2) An increase in the hospital's experienced or projected expenses, due to factors beyond the hospital's control, requiring funds beyond those normally available; or

(3) A hospital's expenses from regulated services exceed its revenues from regulated services, or the hospital's financial integrity is otherwise jeopardized (for example, for breaching its bond covenants).

Within 12 working days from the filing of the application, the Commission must issue its order either denying the temporary change in rates and stating the grounds therefor or granting a temporary change in rates, stating the amount, the necessity of the change, and that a regular rate review will be conducted as soon as practicable. A temporary change in rates is subject to the Commission's final rate order in the regular rate review proceeding, which may be effective as of the date of the temporary rate order. Under 10.37.10.05F, the Commission shall consider both the hospital's financial condition, as well as its relative efficiency and effectiveness in its performance under the Total Cost of Care Model. Furthermore, the regulation states that a temporary rate approved by the Commission may not result in regulated revenue exceeding regulated expenses in the most recently completed fiscal year.

Background

Holy Cross Germantown Hospital (HCGH), opened in 2014, is a 78 bed hospital providing emergency, medical, surgical, obstetric, and behavioral health services in Montgomery County. HCGH claims that it had experienced significant volume growth since FY2019). The Hospital further claims that in FY2022, HCGH had unfunded volume of $28.3 million based on actual unit rates times actual volumes less the approved GBR. HCGH believes that this trend has continued in FY2023. The Hospital believes that the January 2021 – June 2022 market shift adjustment has addressed part of this underfunding. However, HCGH projects that its volumes remain unfunded by $14 - $15 million in FY2023. They believe this places a burden on HCGH to absorb the costs to treat increased volumes without incremental revenue. They believe this underfunding of volume is accentuated by the underfunding of general inflation in recent update factors and specific spikes in labor costs associated with the COVID-19 pandemic. The Hospital also claims that unlike many other hospitals in the State, HCGH has no retained revenue to serve as a reserve to offset these shortfalls.

The Hospital states that in FY2022, HCGH incurred a regulated loss of approximately $960 thousand (-0.8%). According to the application, HCGH is experiencing a regulated loss of $3.1 million (-4.9%) through December 2022, and HCGH is projecting regulated losses for FY2023 to be $9.2 million for the full fiscal year (-7.6%). HCGH contends that it is in need of additional funding to address the increasing cost pressure and may be forced to constrain successful community-based activities for population health improvement and limit access for volumes in excess of those already funded in order to manage expenses within the currently approved GBR.

Staff Analysis

Since temporary rate applications require a Commission order within 12 working days, HSCRC Staff evaluated the Hospital's request as it relates to meeting the threshold outlined in COMAR 10.37.10.05. That is, the Staff will evaluate the Hospital's contention that it has met one of the conditions enumerated in this regulation for filing a temporary rate application:

(1) a decline in the hospital's experienced or projected net revenues, due to factors beyond the hospital's control, requiring funds beyond those normally available.

Staff Comments:

As a new hospital, it was anticipated in the Certificate of Need (CON) that the Hospital's volumes would increase for three to four years after opening, until a steady state had been achieved. During that time, the Hospital would be provided additional revenue, based on pre-agreed upon variable cost factors. After FY2019, the Hospital was provided an additional $9.0m for expected volume growth of $12.0m (approximately 75%).

Additionally, the Hospital is under a global budget agreement that does not provide additional revenue simply because volumes grow. In FY2021 and FY2022, the Hospital received a onetime adjustment of $4.0m each year for an anticipated increase in obstetric cases transferred from the Washington DC area by Kaiser Permanente. This adjustment was meant to cover 50% of the expected $8.0m volume increase. The adjustment was finalized in FY2023 as part of a $6.0m permanent increase for an actual market shift of $12.0m. This adjustment combined with an inflation increase of 3.78% and a markup decrease of 0.56% resulted in an 8.52% increase in the Hospital’s permanent GBR.

Finally, the Hospital’s overall approved one-time revenue has decreased from $141,903,361 to $140,175,308, from FY2022 to FY2023. However, this decrease was the result of the reversal of two one-time adjustments that provided additional revenue to the Hospital in FY2022: $6.0m to provide surge funding for approximately $12.0m of COVID 19 volumes; and $654,013 for the inflation advance provided at January 1, 2022. The combined amounts represent an overall one-time reduction of -4.9% to the Hospital’s revenue target in FY2023. Absent these two one-time reversals, the year over year increase would have been 3.63% from FY2022 to FY2023. Staff believes that the Hospital has been adequately funded for the volume increases incurred. Actual volume growth over and above those actual provided for are not necessarily a reason to increase revenues under a Global Budget Revenue System.

(2) An increase in the hospital experienced or projected expenses, due to factors beyond the hospital's control, requiring funds beyond those normally available.

Staff Comments:

At the time the annual Update Factor was being calculated last year, overall inflation was estimated to be 3.66% for FY2023. Staff added an additional 0.4% for a prior shortfall, bringing the overall inflation provided for FY2023 to 4.06%. The Hospital is correct that the actual inflation estimated for FY2023 is currently 4.99%. While the cost of various inputs cannot be controlled, other factors that are well within the Hospital’s control could and should be used to manage overall cost changes.

(3) A hospital's expenses from regulated services exceed its revenues from regulated services, or the hospital's financial integrity is otherwise jeopardized (for example, for breaching its bond covenants).

Staff Comments

In determining whether the hospital meets this criterion, Staff reviewed the financial condition of the Hospital, including the Hospital's overall regulated and unregulated revenues and expenses, as well as other factors that might explain or otherwise shed light on the operating margins and financial condition of the Hospital. Importantly, it should be noted that the Hospital is only one organization that is part of Holy Cross Health. As such, HCGH has only so much influence on the overall financial condition of the Holy Cross Health organization. In addition, Holy Cross Health is a member of Trinity Health, a much larger entity with numerous members. A review of only HCGH's operating margins from FY2018 to FY2022 is presented in Figure 1.

Operating Expenses and Revenue - Total Operating Margin Experience

Figure 1
Holy Cross Germantown Operating Margin
($ in thousands)
RY 2018-2022

	RY 2018	RY 2019	RY 2020	RY 2021	RY 2022	RY 20 to 22
Regulated	-$8.600.0 -10.50%	-$2,009.9 -2.09%	$2,437.3 2.39%	$7,044.3 5.83%	-$960.0 -0.77%	**$2,840.5 2.48%**
Unregulated	-$8,072.4 -381.84%	-$9,390.2 -738.60%	-$7,798.0 -624.26%	-$8,468.0 -676.18%	-$7,553.9 -563.18%	**-$7,940.0 -621.21%**
Total	**-$16,672.4 -19.84%**	**-$11,400.1 -11.71%**	**-$5,360.7 -5.19%**	**-$1,423.7 -1.17%**	**-$8,513.8 -6.76%**	**-$5,099.4 -4.37%**

As stated above, the new hospital opened in FY 2015. Once opened, volumes were expected to grow over the next 3 to 4 years until finally reaching a steady level. It was anticipated that FY2020 would be the first year that volumes reached a steady state. However, COVID had an impact on FY2020 and FY2021. Still the Hospital generated an average regulated profit of 2.48% for FYs 2020 through FY2022. For FY2023, it is impossible to determine the regulated and unregulated losses due to the Hospital's allocation of cost between regulated and unregulated entities based on monthly unaudited data. In past years, these costs significantly changed after audit adjustments were made. Consequently, the Commission should only make rate adjustments based on final audited data submissions.

On a one-year basis in FY2022, the Hospital's regulated expenses did exceed its regulated revenue, as evidenced by the regulated operating loss reported on the Hospital's audited financial statements. While meeting this threshold provides the opportunity for the Hospital to submit a temporary rate application, it is not an automatic guarantor of temporary rate relief. Once eligible, the Commission must also consider the Hospital's financial condition AND its relative efficiency and effectiveness in its performance under the Total Cost of Care Model before making a final recommendation for temporary rate relief.

Unregulated Physician Losses

As is evident in Figure 1, unregulated losses (the majority due to physician services), are driving both current and past losses. The Hospital's reporting of unregulated entities shows very little revenue being generated, while substantial costs associated with physicians are being incurred.

Hospital Efficiency

The Hospital has demonstrated relative efficiency prior to the pandemic and it would meet the standard in the full rate application methodology in RY 2023 if the policy was not currently in abeyance due to a moratorium on full rate applications.

Due the confounding effects of the COVID-19 pandemic, the Commission has not been able to model its Integrated Efficiency policy, which relatively ranks hospitals on hospital cost per case efficiency and TCOC effectiveness. Prior iterations of this policy that assess RY 2020 hospital cost per case efficiency and CY 2018 Medicare and Commercial TCOC performance, relative to national benchmarks, indicated that Holy Cross Hospitals[1] were the 3rd most efficient institution(s) in the State.

In more recent assessments of Holy Cross Germantown efficiency that have not been used to adjudicate permanent adjustments to global budget revenues due to the confounding effects of the pandemic, the Hospital has further improved its efficiency. The RY 2022 cost per case efficiency assessment indicates that the Hospital is 11.37% better than the standard required to access additional funding from a full rate application. This performance is the best in the State. While staff do not yet have an updated Commercial TCOC assessment, the Hospital has maintained its relatively excellent performance in Medicare TCOC effectiveness: Holy Cross Germantown is 2.2% better than national benchmark, which is the 10th best in the State; the Hospital's performance in the Medicare Performance Adjustment, which measures scaled improvement from a 2019 base line, was 6.59% under targeted TCOC growth, the 2nd best in the State.

[1] Holy Cross Germantown and Holy Cross Hospital were previously considered one facility under prior iterations of Commission efficiency policies because under the approved CON it was anticipated that Holy Cross Germantown's volumes would increase for three to four years, after opening, until a steady state had been achieved. In effect, the revenue for Holy Cross Germantown and Holy Cross Hospital were treated as one consolidated GBR.

In light of the evaluations that indicate the Hospital would meet the full rate application standard in RY 2023 based on a cost per case efficiency assessment and TCOC effectiveness, staff agree with the Hospital's assertion that it is an efficient provider that meets the threshold to obtain additional funding through an emergency rate application.

Summary of Staff Analysis

Based on the analysis contained within this report, Staff finds that while regulated expenses did not exceed regulated revenue at the Hospital over a multiple year period, the Hospital did meet that threshold on a one-year basis in FY2022. Therefore, Staff finds that the Hospital met the threshold to qualify for filing for temporary rate relief as required by COMAR 10.37.10.05. That fact alone, however, is not the determining factor in whether temporary rate relief, if any, is provided. The Commission must also consider the relative efficiency and effectiveness of the Hospital's performance under the Total Cost of Care Model before ruling on a temporary rate application. Based on Staff's findings described above, the Hospital has demonstrated relative efficiency under the TCOC Model.

Staff Recommendation

In response to the Temporary Rate Change request filed by the Hospital on March 7, 2023, Staff makes the following recommendations:

Based on the thresholds outlined in COMAR 10.37.10.05, Staff finds that the Hospital has met the requirements for filing a temporary rate application, while demonstrating relative efficiency under the TCOC Model.

Staff recommends the Commission provide HCGH with a temporary increase of $960,000 effective March 1, 2023, based on the actual audited regulated losses for FY2022, consistent with COMAR 10.37.10.05F, and subject to the results of a full review following the filing of a regular rate application by the Hospital.