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**HEALTH SERVICES COST REVIEW COMMISSION**

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April 8, 2012

Victoria Bayless, CEO  
Anne Arundel Medical Center  
2001 Medical Parkway  
Annapolis, MD 21401

Dear Ms. Bayless:

As we move towards reaching an agreement with AAMC on its global budget and non-global budget revenue, I want to clarify HSCRC staff's position and expectations on various issues and express our willingness to work with the Hospital in addressing these issues. We understand, for example, that AAMC is seeking to become a comprehensive teaching hospital. HSCRC staff will work with AAMC to evaluate what the impact would be on the approved Global Budget Revenue and the funding sources, given the requirements of Medicare to provide for incremental funding for graduate medical education and reallocation of residencies within the State. Such an adjustment may require a rate application and approval by the Commission.

We know that AAMC is currently in the process of requesting MHCC approval to provide Cardiac Surgery. Pending CON approval, HSCRC staff will work with AAMC to consider adjustments to the approved Global Budget Revenue to reflect additional volumes related to Cardiac Surgery, while considering revenue capacity that will be generated from potentially avoidable utilization and requiring market share adjustments to completely offset any incremental revenues at AAMC. Both statewide and regionally, Cardiac Surgery has shown to have declining volumes, and we will require offsetting volume reductions from facilities that currently serve the cardiac surgery patients targeted in order to fund a new Cardiac Surgery program. Any adjustment for AAMC may require a rate application and approval by the Commission.

AAMC is requesting annual market share adjustments beginning with FY 2015. You recognize that HSCRC staff is working with stakeholder to develop a market share policy. You also recognize that market share adjustments must not undermine the new All-Payer model by rewarding volume growth that is not supported by population increases and evidence-based practices. We will work closely with AAMC to review analysis of use rates and per capita costs for the AAMC primary and secondary service

Victoria Bayless, CEO  
April 8, 2014  
Page 2

areas. We expect that you will work closely with HSCRC staff and the work groups to develop potential approaches to market share consideration.

We further understand that AAMC is currently evaluating a behavioral health program. Pending CON approval, the HSCRC staff will work with AAMC to determine a market share adjustment that could be a source of revenue to adjust the approved Global Budget Revenue to reflect additional volumes related to Behavioral Health. HSCRC staff is not prepared to increase revenues beyond the market share and population adjustment provided for under the GBR contract. Any such adjustment may require a rate application and approval by the Commission.

AAMC is exploring shared savings arrangements with commercial payers, which may result in substantial market share increases. HSCRC staff will work with AAMC to develop possible adjustments to the approved Global Budget Revenue to reflect market share growth as a result of such partnerships, provided that AAMC and the identified payer can document the shift in volumes; that the per capita costs and volumes do not increase as a result of the shift of market share; and that HSCRC is able to reduce revenues at another facility that is losing volumes.

Finally, in another matter, HSCRC staff discovered an error in reversing a one-time adjustment. Rather than opening up the GBR to adjust the budget, we agreed to offset this reduction against any market share adjustment due AAMC.

I trust that the foregoing adequately clarifies staff's position on these various AAMC-specific issues. We will look forward to working with you in achieving a mutually beneficial result.

Sincerely,



Donna Kinzer  
Executive Director