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JOHN ELIAS BALDACCI
GOVERNOR

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President
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A Letter to Maine's Hospital Trustees and CEOs

Dear [REDACTED]

Maine's recently enacted health reform law, P.L. 469, requires all of us to work together to achieve its ambitious and important goals of assuring all Mainers access to health coverage, constrained cost growth and quality that continues to improve.

The legislation, which becomes effective September 13, 2003, establishes a voluntary cap of 3.5% on hospital cost increases. This target was based on recent increases in the national medical consumer price index and was agreed upon by all parties to be a reasonable goal. Cost increases will be measured using the change in expense per case mix adjusted discharge over a 12-month base year period. Hospitals are also asked to hold their consolidated operating margins to no more than 3% in their first fiscal year beginning on or after July 1, 2003. The "base year" benchmarking period will be the fiscal year immediately preceding the first fiscal year beginning on or after the July 1, 2003 date. The specific methodology for measuring performance against these targets will be developed cooperatively by the MHA and my health policy staff.

I want to emphasize the voluntary context of these limits. We know that hospitals are subject to a host of external factors than can impact operational costs. We also recognize that, when comparing the performance of different hospitals, structural differences between institutions need to be considered, as well as differences in patient and payer mix.

We respect the role of hospital Trustees in setting hospital budgets. We know you will analyze your hospital's expenses carefully with the voluntary caps in mind. We need to work together to constrain the rate of health care cost growth and our preliminary review of data suggests to us that hospitals do have some important opportunities to meet this challenge. We are certain you and your staff have and will conduct thorough analyses of these data. Among the information we found informative was the AHA publication, *In Our Hands - New Hospital Leaders Can Build a Thriving Workforce*. Data from the *Dartmouth Atlas* shows that some of Maine's hospitals perform certain services at rates



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substantially above those of peer hospitals in New England, even after adjusting for differences in the patient populations (*see* www.dartmouthatlas.org/custom_reports.php). The federal Hospital Care Utilization Project (HCUP) data show that while Maine's average length of stay tracks closely the national average, our urban hospitals have longer lengths of stay than the national average for urban hospitals. Further, we have a pronounced difference in these rates for children (www.hcup.ahrq.gov/HCUPnet.asp).

We raise these points merely as examples of the kind of analyses that we anticipate hospitals are using as you work to identify opportunities for cost savings while formulating budgets to comply with the voluntary cost control effort.

There may be instances where an institution falls short of meeting the cost control targets. In those cases, a report of the experience of the hospital along with supporting documentation and data will provide us with important information as we advance our State planning and budgeting processes. The information will also be valuable to our efforts to educate ourselves, the Legislature and Maine consumers on the health system challenges we must work to address.

Over the next few months, we will be working closely with the Maine Hospital Association to establish a timetable, format and methodology for reporting on hospital charges, cost efficiency measures and consolidated operating margins. This work will be completed by January 1, 2004, although we recognize that many hospitals need to begin the work of examining budgets relative to the voluntary cost containment goals now, as your new fiscal years approach. While there is some acknowledged uncertainty about the voluntary caps, we are certain that a hospital's demonstrated best faith effort to meet these objectives will comply, if not with the letter of the law, than certainly with its intent.

Finally, by year's end, the Commission to Study Maine's Hospitals and the State health planning processes will be underway. The demonstrated efforts and results of Maine's hospitals in voluntarily managing the increase in health care costs will provide important reference and insights for the work of these groups as they strive to build a better health care system for our state.

I fully appreciate the challenge posed by these voluntary restraints on cost growth, having had to address the challenge of balancing the State budget in light of a significant revenue shortfall. It was a difficult task and one that required some sacrifice, but I believe the outcome was balanced and fair, while protecting vital State services and avoiding tax increases. I am confident your efforts will prove as challenging and appreciate your hard work to meet spending targets.

We look forward to working closely with you in the months ahead. Thank you for your cooperation in this most important effort.

Sincerely,

John E. Baldacci
Governor

cc: Steve Michaud, MHA