



Green Mountain Care Board

Vermont Hospital Enforcement Scenarios

For discussion purposes

Prepared May 2016

Enforcement of Hospital Budgets

- Why do we need to establish policy around enforcement; budget vs actual performance?
 - Credibility and accountability
- Should we continue to look at each hospital separately?
 - Should we look at hospitals separately by size, Medicare classification?
 - Should we look at the system as a whole?
- Are any NPR increases over budget acceptable?
- If acceptable, what items are acceptable for exceeding budget? How much should be acceptable?
 - Reimbursement change, utilization change, physician transfers, bad debt/free care
- What are the criteria for examining this question?
 - Relationship to the cap
 - Budget to budget trend
 - Actual to actual trend
 - Financial health – operating surplus, cash on hand, etc
 - Community, patient needs
- If acceptable, when does this require a base budget change?
- What are the impacts of a re-based budget?
 - Year to year increases are changed
 - Builds ongoing NPR/expense commitment

Budget to Actual 2015 Operating Results

- Actual net patient revenues came in 2.2% over the 2015 approved budgets. This explains much of the operating income increase of \$34 million.

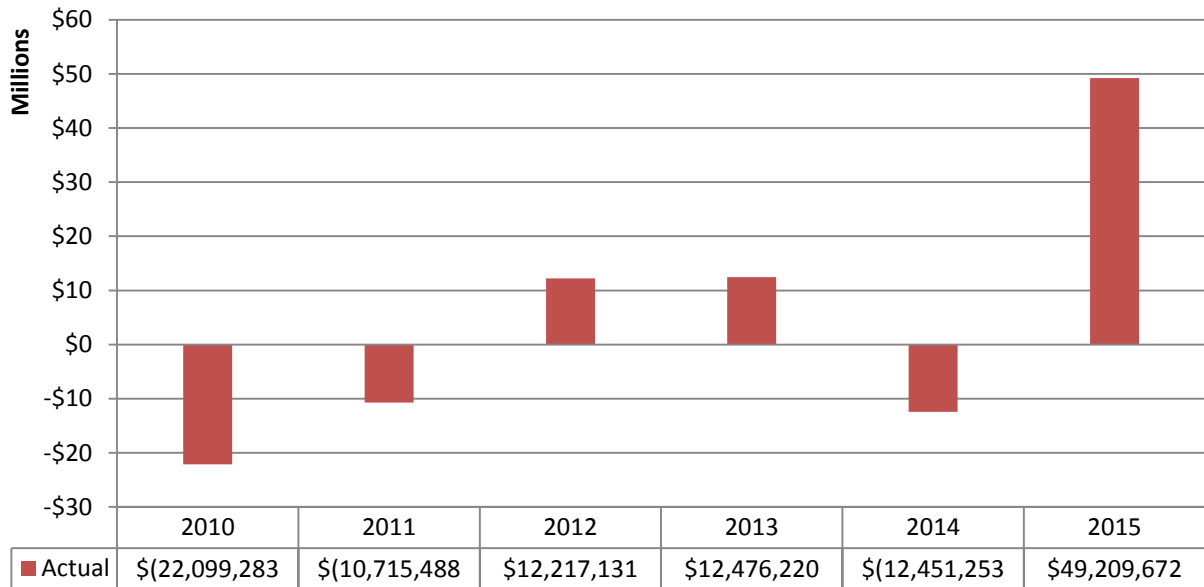
Profit and Loss Statement	2015B	2015A	2015B - 2015A	
			\$ Difference	% Change
Gross Patient Care Revenue	\$4,735,245,480	\$4,823,931,803	\$88,686,323	1.9%
Net Revenue Deductions	(\$2,506,184,843)	(\$2,545,661,498)	(\$39,476,654)	1.6%
Net Patient Care Revenue	\$2,229,060,637	\$2,278,270,306	\$49,209,669	2.2%
Other Operating Revenue	\$127,360,793	\$141,381,096	\$14,020,303	11.0%
Total Operating Revenue	\$2,356,421,429	\$2,419,651,402	\$63,229,972	2.7%
Operating Expense	\$2,280,130,288	\$2,309,283,512	\$29,153,225	1.3%
Net Operating Income (Loss)	\$76,291,142	\$110,367,890	\$34,076,748	44.7%
Non-Operating Revenue	\$30,523,392	(\$20,910,214)	(\$51,433,605)	-168.5%
Excess (Deficit) Rev over Exp	\$106,814,533	\$89,457,676	(\$17,356,857)	-16.2%

Net Patient Revenues Change

The hospital system has been very close to budget the last several years, except for FY 2015. The 2015 actuals were heavily influenced by significant payer shifts.

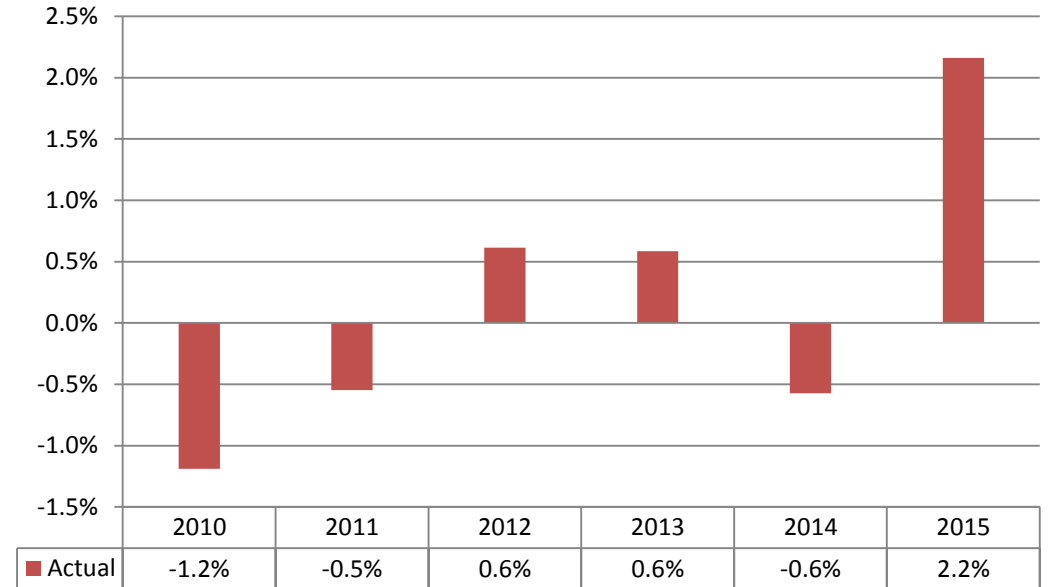
**Budget Performance
Over (under) Budget**

Vt. Hospital System



**Budget Performance
Over (under) Budget**

Vt. Hospital System

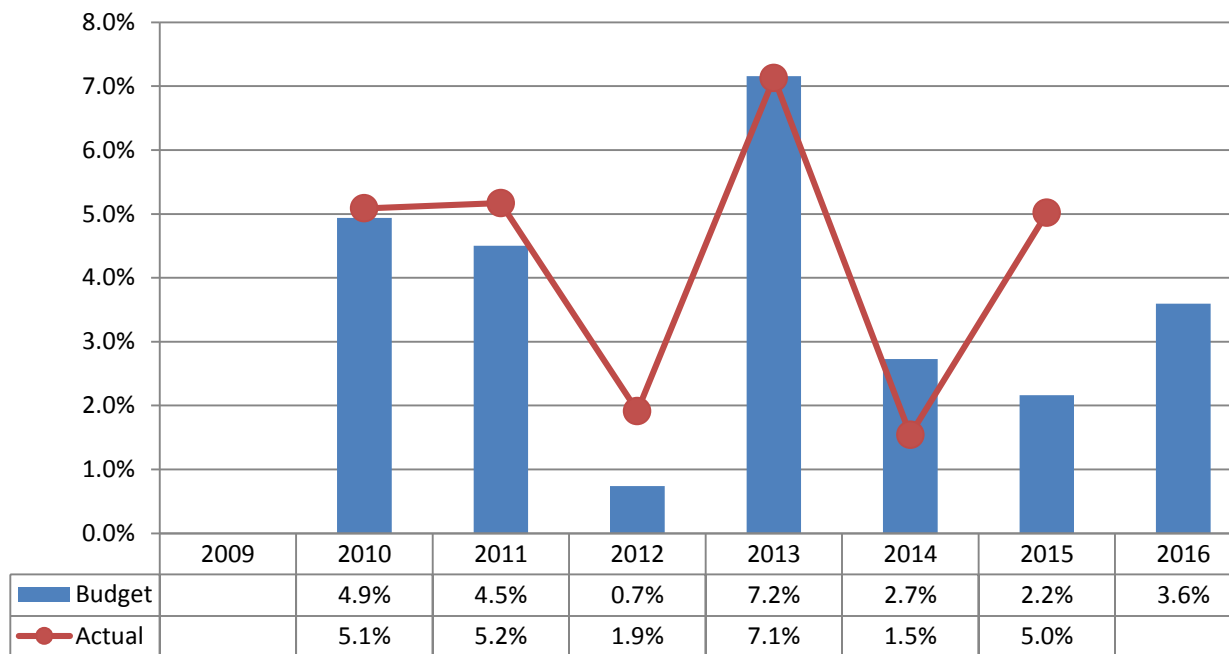


Net Patient Revenues Change

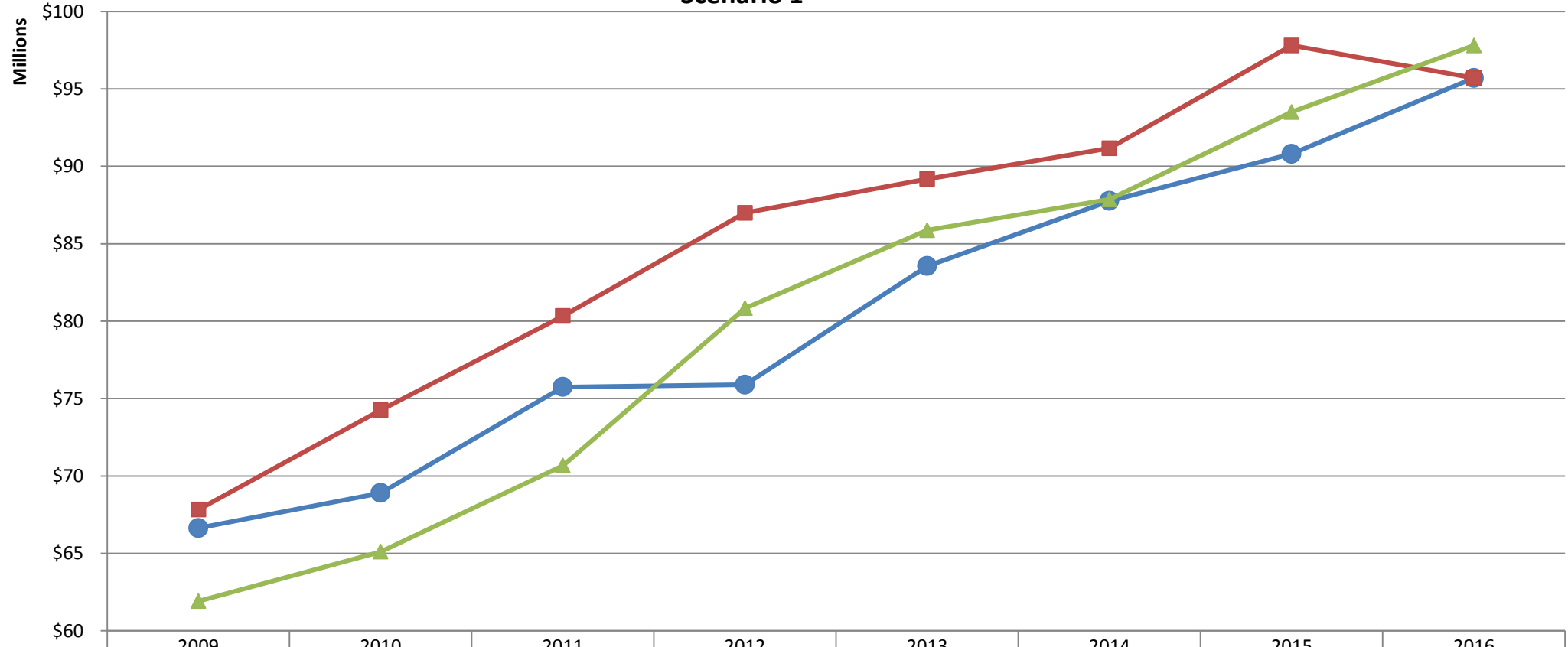
The average annual change from 2010 to 2015 is 3.4% for budget; 4.1% for actual.

Budget Performance Net Patient Revenues Annual Increase

Vt. Hospital System



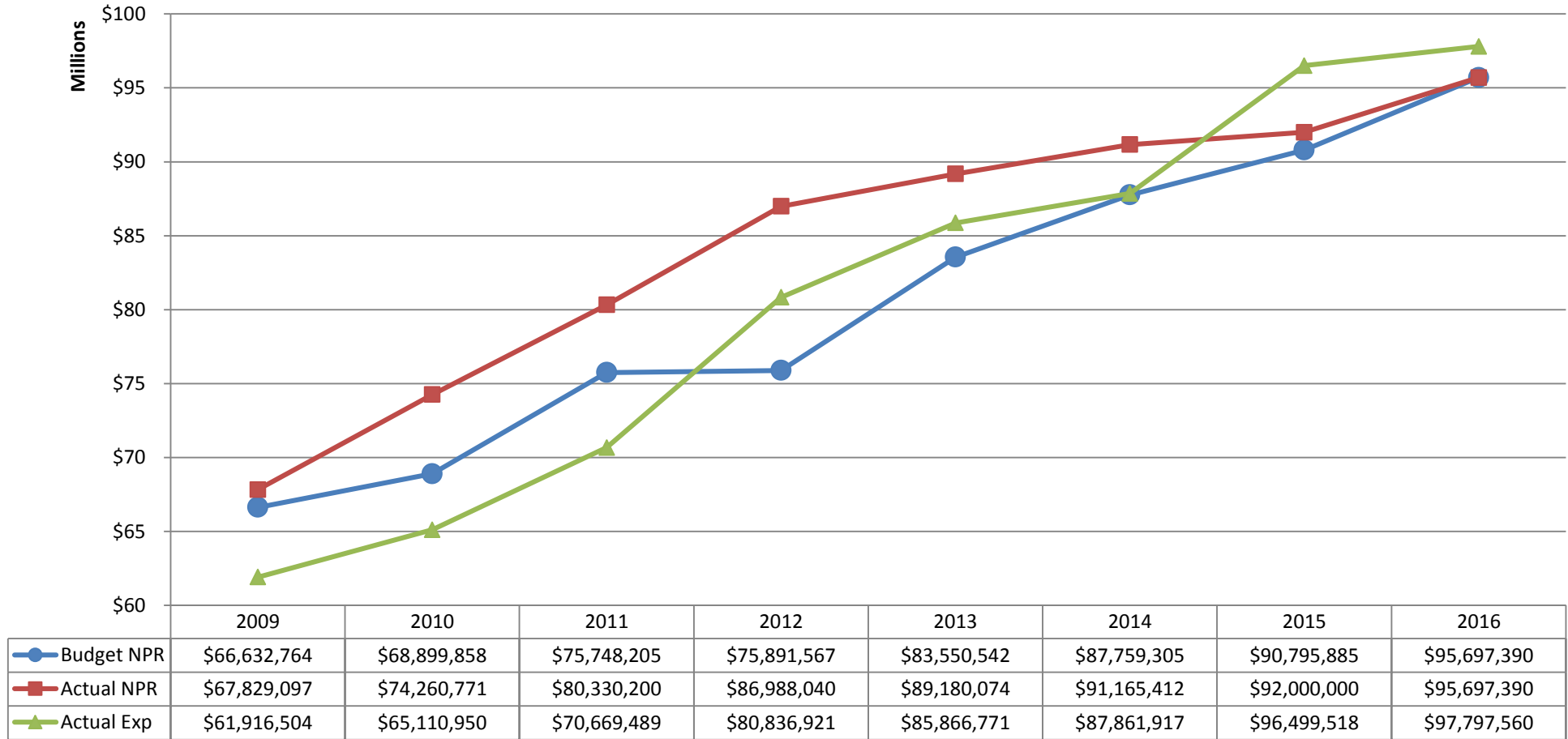
Budget Trends Net Patient Revenues and Expenses Scenario 1



	2009	2010	2011	2012	2013	2014	2015	2016
Budget NPR	\$66,632,764	\$68,899,858	\$75,748,205	\$75,891,567	\$83,550,542	\$87,759,305	\$90,795,885	\$95,697,390
Actual NPR	\$67,829,097	\$74,260,771	\$80,330,200	\$86,988,040	\$89,180,074	\$91,165,412	\$97,798,763	\$95,697,390
Actual Exp	\$61,916,504	\$65,110,950	\$70,669,489	\$80,836,921	\$85,866,771	\$87,861,917	\$93,499,518	\$97,797,560

"Actual" 2016 values are Budgeted numbers

Budget Trends Net Patient Revenues and Expenses Scenario 2



"Actual" 2016 values are Budgeted

Enforcement of Hospital Budgets Scenario A – a look at one hospital

- Hospital actual exceeds budget in most recent year
- Actuals have exceeded budget in 4 of the last 6 years
- However, average annual increases are 1.9% on a budget basis and 1.6% on a actual basis for the period 2010-15
- Expenses over the same period have increased 2.7%
- The resulting operating surplus was also higher than budget over that period
- Some of the increases have been accepted in prior budgets
 - Physician transfer, utilization, health care reform

Enforcement of Hospital Budgets

Scenario A – a look at one hospital

- Quantify the increase
- Examine the history of NPR
- Examine the financial health and related trends
- Determine the reason for the increases
- Adjust the budget or future budgets to recognize the increases
 - Allow improved operating surplus to strengthen financial health
 - Rate changes
 - Add/reduce the base budget – NPR and/or expenses

Net Patient Revenues Change

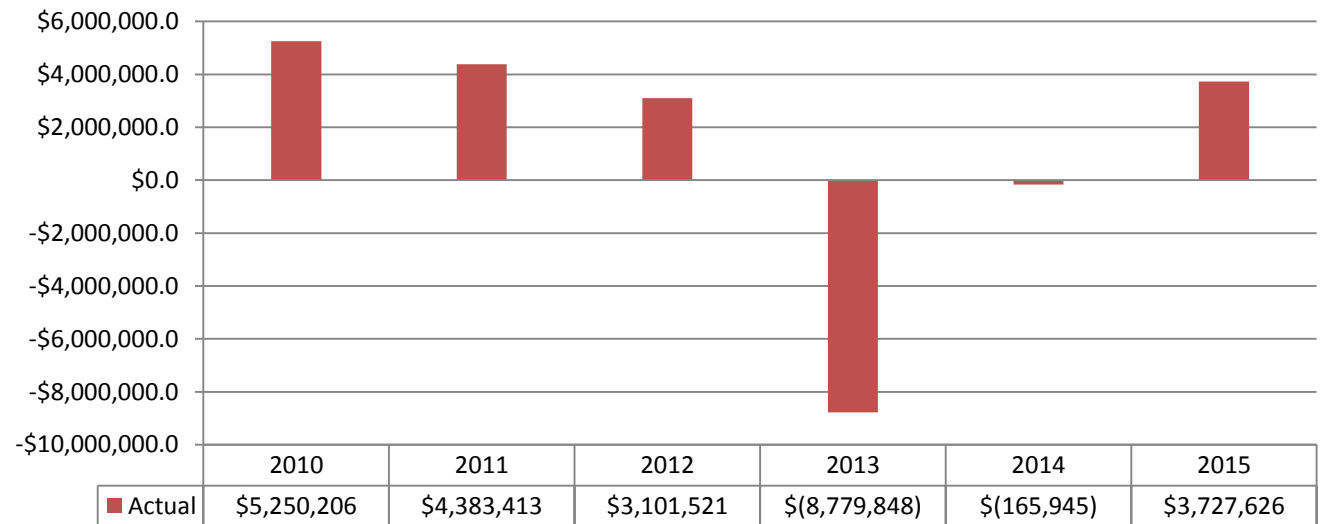
The NPR budget to actual results have varied over the 2010 – 2015 period.

Items causing the difference include:

- a) unexpected better reimbursement
- b) unanticipated utilization
- c) physician transfers
- d) lower bad debt and free care

Budget Performance Net Patient Revenues Over (under) Budget

Scenario A

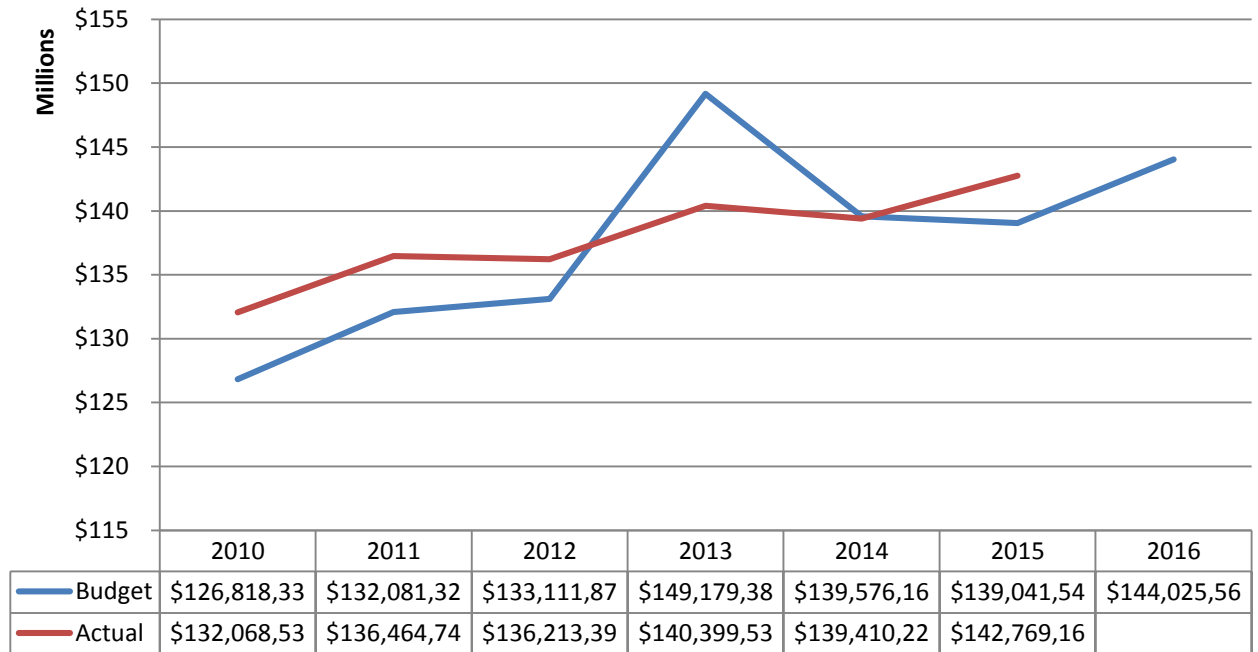


Net Patient Revenues Change

The budget to budget average annual increase from 2010-15 is **1.9%**.

The actual to actual average annual increase from 2010-15 is **1.6%**.

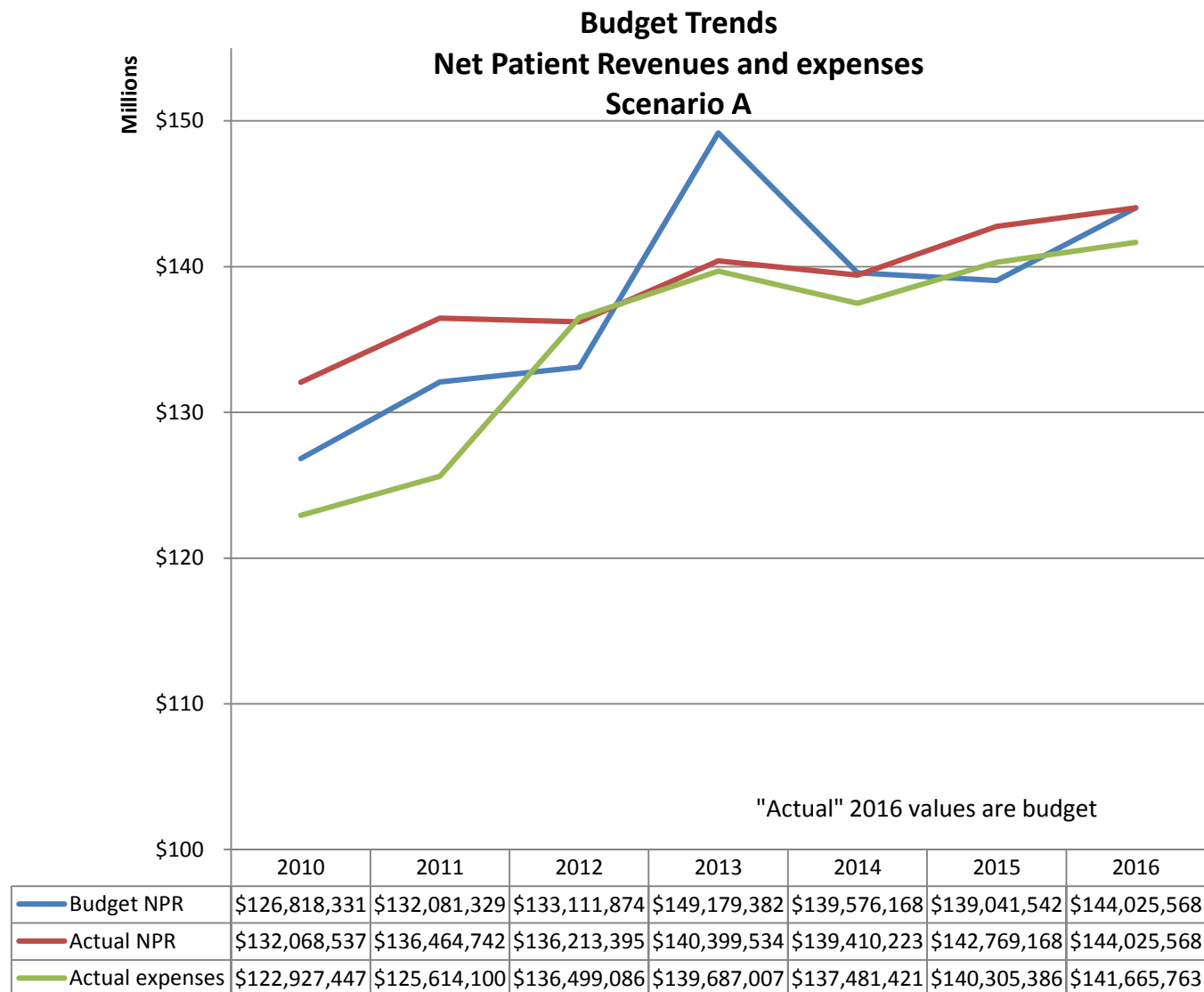
**Budget Performance
Net Patient Revenues
Scenario A**



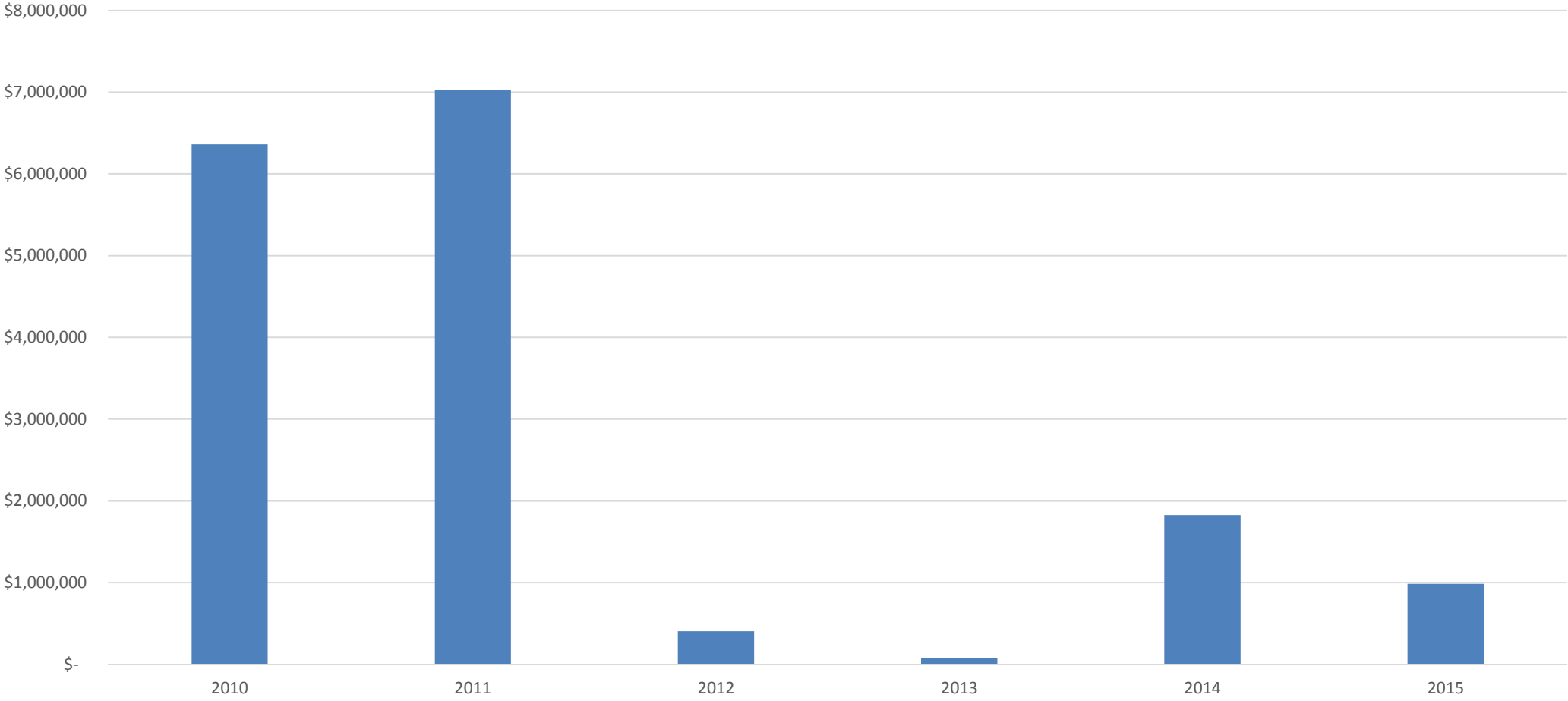
Average Annual Change

The **NPR actual** to actual average annual increase from 2010-15 is **1.6%**.

The **Expense actual** to actual average annual increase from 2010-15 is **2.7%**.



**Net Operating Income - Over (under) Budget
Scenario A**



Enforcement of Hospital Budgets

Other considerations going forward

- Consider examining revenues separately for physician and hospital.
- How do we measure “real” utilization increase?
- Measure revenues change based upon population or “unique patients”.
- Clarify how the 0.5% “allowance” is being used.
- Should budget submission move from projected actual instead of budget?
- Should we look more closely at current year monitoring?
- How will the changes in hospital rates (prices) influence the insurance rate process?
- How should we consider the review of the operating surplus?