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Hospital Sustainability Planning

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Agenda

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1. Update on Hospital Financials
2. National & Local Trends in Hospital Sustainability
3. Goals for the Sustainability Planning Framework
4. Sustainability Framework Update
5. Regulatory Integration: Sustainability & APM
6. Next Steps
7. Appendix - Building the Framework

Update on Hospital Financials

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- As of FY20 YTD May reporting Vermont's hospitals are collectively operating at a $77 million loss;
- Total margin losses surpass $107 million through 8 months of the current fiscal year.
- Through YTD May, Vermont's hospitals are collectively realizing a $235 million budget to actual variance.
- Vermont hospitals have received in excess of $115 million in federal stimulus relief funds to subsidize lost revenues from cessation of elective procedures.
    - **YTD losses listed above are partially inclusive of stimulus funding, but we are unable to quantify the amount at this time due to variations in accounting practices. The June YTD submission asks for this information and will allow us to quantify the amount of federal relief funds realized to date.*

National & Local Trends in Hospital Sustainability: *Pre-COVID*

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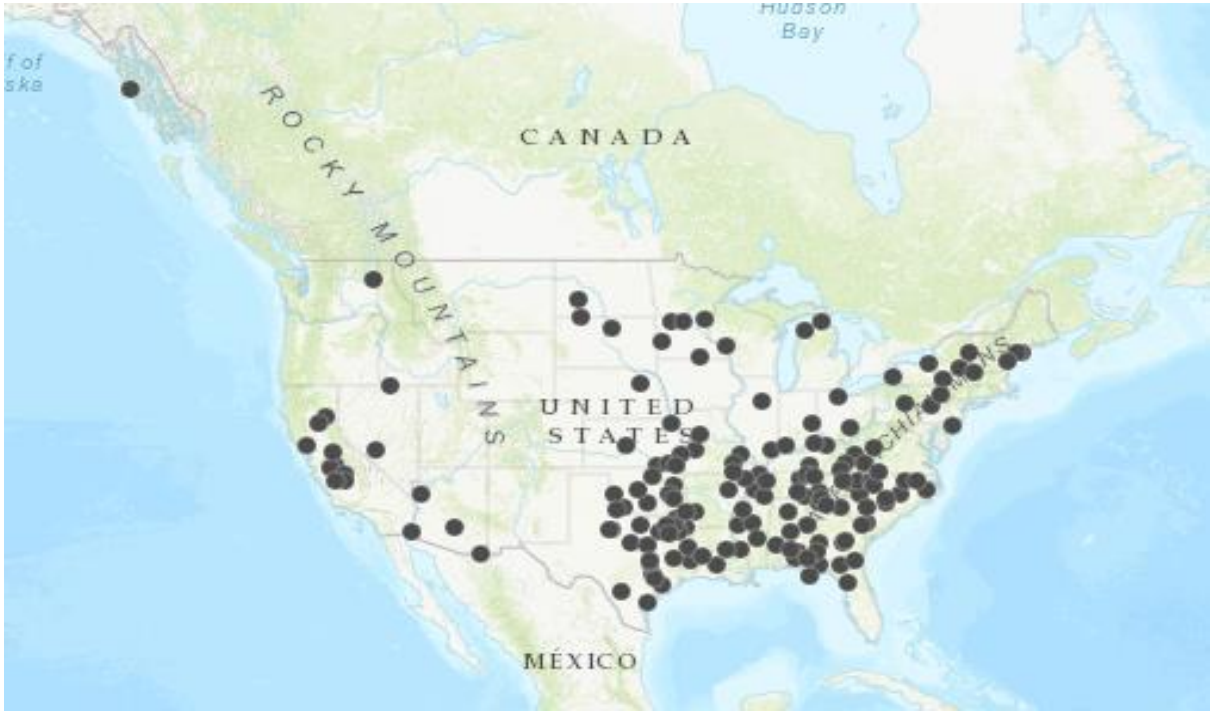

Source: University of North Carolina Rural Health Research Program;

- Since 2005, 170 rural hospitals have closed nationally, with 2019 closure rates higher than any previous year.
- As of 2019, **25%** of rural hospitals were predicted to be at mid-high or **high risk** of financial distress.

National & Local Trends in Hospital Sustainability: *Pre-COVID*

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In a study published last month (June 2020) in Health Affairs looking at the financial viability of US rural hospitals, rural hospitals that closed during the study period had a **median overall profit margin of -3.2% in their final year before closure**.

Bai G, Yehia F, Chen W, Anderson GF. Varying Trends in the Financial Viability of US Rural Hospitals, 2011-17. Health Aff (Millwood). 2020;39(6).

National & Local Trends in Hospital Sustainability: *Post-COVID*

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- Between March 1, 2020 and June 30, 2020, the American Hospital Association estimates **$202.6 billion in losses** for America's hospitals and health systems, or an average of **$50.7 billion per month**.
- In April 2020 alone, **hospital operating margins** dropped to **negative 29%**, showing a **282% decline** relative to the same period in 2019.
- Rural hospitals are expected to be among the hardest hit.

  "Our fee-for-service system is consistently showing itself to be insufficient for our most vulnerable Americans" – Director for the Centers for Medicare and Medicaid Seema Verma

National & Local Trends in Hospital Sustainability: *Vermont Hospitals pre-COVID-19*

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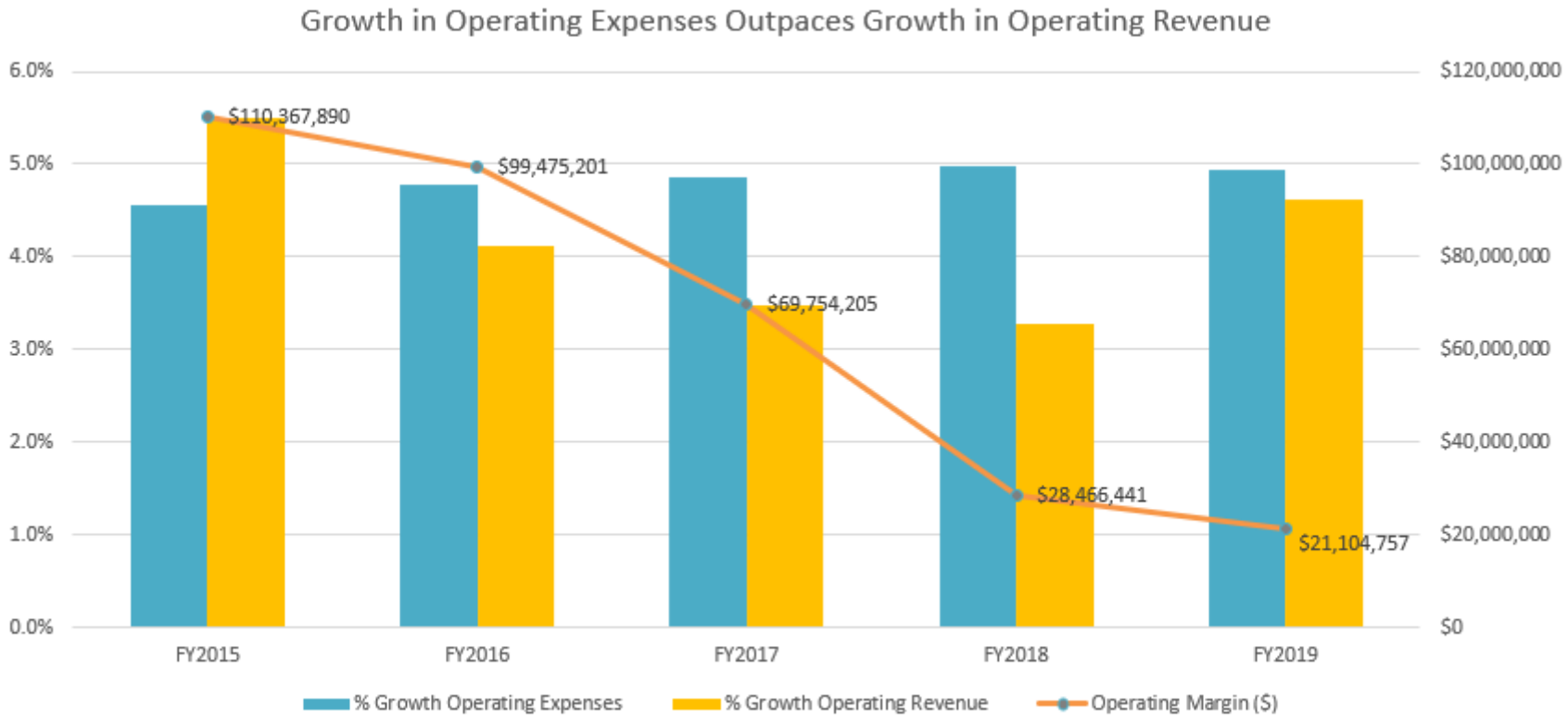

Source: Green Mountain Care Board

National & Local Trends in Hospital Sustainability: *Vermont Hospitals May 2020*

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FY 2020 YTD (May)

- Operating margin is -$77 million.
- Total margins are -$107.2 million

**Margins are partially inclusive of stimulus funding, but we are unable to quantify the amount at this time due to variations in accounting practices. The June YTD submission asks for this information and will allow us to quantify the amount of federal relief funds realized to date.*

OPERATNG MARGIN AND TOTAL MARGIN
FY20 year-to-date May

	Operating Margin ($)	Operating Margin (%)	Total Margin ($)	Total Margin (%)
BRATTLEBORO	-$2,474,748	-4.2%	$4,978,681	7.6%
CENTRAL VERMONT	-$7,042,596	-4.7%	-$5,078,925	-3.3%
COPLEY	-$3,706,178	-8.3%	-$3,398,433	-7.6%
GIFFORD	$1,876,185	5.2%	$3,066,958	8.2%
GRACE COTTAGE	-$389,424	-2.8%	$279,534	1.9%
MOUNT ASCUTNEY	-$882,167	-2.4%	$3,494,163	8.7%
NORTH COUNTRY	-$2	0.0%	$9,241,153	14.2%
NORTHEASTERN	-$2,427,674	-4.3%	-$2,030,885	-3.6%
NORTHWESTERN	-$6,350,837	-8.6%	-$10,875,518	-15.7%
PORTER	$710,381	1.2%	$859,908	1.5%
RUTLAND REGIONAL	-$2,468,405	-1.4%	-$5,313,782	-3.0%
SOUTHWESTERN	-$1,314,398	-1.2%	-$1,298,696	-1.2%
SPRINGFIELD	-$1,346,863	-4.1%	-$1,328,379	-4.1%
UVMMC	-$51,224,342	-5.6%	-$99,862,346	-11.5%
SYSTEM TOTAL	-$77,041,069	-4.2%	-$107,266,568	-6.0%

National & Local Trends in Hospital Sustainability: *The Vermont Conversation*

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Even before the onset of COVID-19, Hospital Sustainability had been a growing concern in Vermont:

1. April 3rd, 2019 GMCB Panel on Rural Health Care
2. Act 26 of 2019 – Rural Health Services Task Force
3. The GMCB memorialized their concern for hospital sustainability in FY 2020 Hospital Budget Orders with the requirement for **6** of **14** hospitals to submit a sustainability plan.

COVID-19 has clearly exacerbated hospitals financial positions, and has drawn further attention to the issue of sustainability:

1. Governor, AHS, and GMCB issue letter on April 27th, 2020 to CMS to request financial relief for providers
2. GMCB issues letter to CMS on May 27th, 2020 to request relief in the Medicare risk corridor for FY 2021 as providers look to regain their financial footing following COVID-19
3. H.965 appropriates funding from the Coronavirus Relief Fund (CRF) for hospitals financial stability

Goals for the Sustainability Planning Framework

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1. Engage in a robust **conversation** on **community access to essential services** and **barriers to the sustainability** of our rural health care system
2. Ensure that **hospital leadership, boards, and communities** are **working together** to address sustainability challenges and formalizing their approach in their strategic plans over time
3. Identify **hospital-led strategies** for sustainability, including efforts to "right-size" hospital operations, particularly in the face of Vermont's demographic challenges and payment reform efforts
4. Identify **"external" barriers** to sustainability that are more aptly addressed by other stakeholders, policy-makers, or regulatory bodies
5. Insights gained through hospital sustainability plans may inform the state's approach to planning for- and designing a proposal for a subsequent **All-Payer Model Agreement (APM 2.0)**

Sustainability Framework Update

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1. Proposed changes in response to COVID-19
2. Review updated framework
   - Stage 1 – Hospital Financial Health
   - Stage 2 – Ensuring Provision of Essential Services
   - Stage 3 – Sustainability of Other Services
   - Stage 4 – Strategic Planning

Sustainability Framework Update

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Changes in response to COVID-19:

1. **Expand to all hospitals** – we must consider the sustainability of all Vermont hospitals, not just those experiencing financial challenges leading up to the pandemic; recommended by VAHHS per their public comment letter dated March 11th, 2020
2. **Phased Approach** – to limit the administrative burden on hospitals, we recommend issuing the sustainability framework in 4 discrete stages
3. **Incorporated specific questions and learnings from COVID-19 to inform sustainability planning**

Sustainability Framework Update

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Stage 1 - Hospital Financial Health

GMCB will provide a summary of each hospital's financial health based on regional and national benchmarks (e.g. S&P)

- Information on a hospital's financial health will come from 2019 data submitted through the hospital budget process, claims data from VHCURES, and Medicare cost reporting data.

For each financial metric in the summary classified as "vulnerable" or "highly vulnerable" relative to the benchmark, hospitals will be asked to provide:

1. Specific action steps taken or to be taken to bring under-performing metrics into the "adequate" zone;
2. The time needed to achieve that milestone; and
3. Potential obstacles to success as well as strategies to overcome those obstacles.

Sustainability Framework Update

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Stage 2 – Ensuring Provision of Essential Services

We rely on the definition of essential services proposed in the American Hospital Association's *Task Force on Ensuring Access in Vulnerable Communities*:

- Primary Care
  - Including pediatrics, palliative care, and rehabilitation
- Prenatal Care
- Home Care
- Dentistry
- Psychiatric and Substance Abuse Services
  - Including mental health, psychotherapy, social work services, individual and family counseling
- Emergency and Observation Services
- Diagnostic Services
  - Including laboratory and imaging services
- Transportation
  - Including ambulance services as well as bus/car transportation for patients to travel to provider appointments
- Robust referral system/transfer agreements for specialty services

Sustainability Framework Update

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Stage 2 – Ensuring Provision of Essential Services

Hospitals will be asked to respond to the following as it relates to each of the "Essential Service areas":

1. Are community needs for that service *met*, *partially met*, or *fully met?*
2. Which entities deliver these essential services (Hospital, FQHC, Designated Agency, Independent providers, Home Health Agency etc.)?
3. Financial metrics by Hospital-provided Essential Service:
   - *Contribution margin, Total margin* → +/-
   - *Estimate the following:*
     - *Average private price ratio*
     - *Charge markup*
     - *Average Medicaid-to-Medicare reimbursement ratio*
     - *Payer mix*
     - *% contribution to NPR*

Sustainability Framework Update

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Stage 2 – Ensuring Provision of Essential Services

Hospitals will also be asked to answer the following additional questions:

1. For FY19, what percentage of NPR was generated by delivery of the above-defined Essential Services?
2. For each Essential service, please describe any current and future obstacles to sustainably and fully delivering the service to your community.
3. Please offer possible solutions to those obstacles that can be undertaken by the Hospital.
4. Please offer solutions that could be addressed by other stakeholders, regulatory or policy bodies (e.g., GMCB, State legislature, Agency of Human Services, VAHHS, CMS/CMMI, etc.)

Sustainability Framework Update

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Stage 3 – Sustainability of Other Services

As Hospital accountability increases for both cost and quality in our transition to a value-based environment, sustainability and a community's continued access to essential services will require that hospitals evaluate their ability to deliver low cost, high quality care for each service line:

- Can the hospital deliver these services at **high quality** and **low cost**?
- Where **volume** has been correlated with **quality** for **surgical procedures**, is the volume sufficient to consistently deliver high quality care?
- Is the **delivery** of these services **efficient** as we consider **capacity** and **utilization**?

Sustainability Framework Update

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Stage 3 – Sustainability of Other Services

Hospitals will be asked to respond to the following as it relates to each of the "Other Services":

1. Financial metrics by Other Services
   - *Contribution margin, Total margin → +/-*
   - *Estimate the following*
     - *Average private price ratio*
     - *Charge markup*
     - *Medicaid to Medicare reimbursement ratio*
     - *Payer mix*
     - *% contribution to NPR*
2. Other service line information
   - Distance to nearest alternative provider;
   - Service line growth potential;
   - Whether this service line supports an Essential Service (and how);
   - Whether this service line would be included in an optimal service line mix in a Value-Based environment; and
   - Does CMS require this specific service line to maintain the hospital's current designation.

Sustainability Framework Update

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Stage 3 – Sustainability of Other Services

Hospitals will be asked to provide information on the following:

1. Capacity (monthly min/max/average)
   - Staffed Bed Occupancy Rate
   - ED visits/day
   - Number of births (if birthing center present)
2. Procedural Volume *(for surgical procedures only)*
   - List any surgical procedure (CPT code) and its volume if the procedure is done fewer than 25 times/year per physician and/or fewer than 50 times/year by the Hospital

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Stage 3 – Sustainability of Other Services

Hospitals will also be asked to answer the following (1/2):

1) Has the hospital forecasted the demographic changes that are expected in its HSA through FY 2024? (Y/N) What demographic changes does the hospital anticipate and what strategic planning has been done to accommodate those changes?
2) How does the hospital anticipate these demographic changes will impact demand for the following services through FY 2024:
   a. Essential services in Stage 2 above? (+/--)
   b. Other services in Stage 3 above? (+/--)
3) How does the hospital anticipate these demographic changes will impact local health care workforce from the following streams:
   a. Current and future Vermonters who will be available to work through FY 2024?
   b. Travelling nurses or other contracted labor from inside or outside Vermont?
4) For service lines with negative contribution and/or total margin, please explain their inclusion in current service mix, with particular reference to documented community need and closest alternative provider.

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Stage 3 – Sustainability of Other Services

Hospitals will also be asked to answer the following (2/2):

5) For services with charge markups greater than 150%, please describe strategies to bring down the cost of delivering those services to commercial patients.
6) For procedures identified in Table 4 where hospital volumes lie below 50 and surgeon volumes lie below 25, please assess whether these surgical volumes are sufficient to maintain low cost and high-quality outcomes for your patients.
7) Can the hospital deliver each of the services listed in Table 3 in a high-quality, cost-effective, and sustainable manner? (Y/N) If not, what steps will the hospital take to optimize its service line delivery? Which services might be more cost effectively delivered elsewhere?
8) Describe what an optimized service line looks like for the hospital in FY 2024. Assume there is a scaled-up, value-based payment model focused on primary prevention and population health where hospitals are held accountable for cost and quality.
9) What steps will the hospital take to ensure that patients have access to divested services through referral and transportation options; establishment of regional collaboratives, management agreements; clinical affiliations; telemedicine, etc.?
10) Will the optimized service line strategy in response 8 impact the hospital's ability to respond to a public health emergency?

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Stage 4 – Strategic Planning

In this section hospitals are asked to reflect on the information and analysis found in the prior sections and discuss their plans for sustainability as they consider their ability to deliver essential services to their community in a value-based world.

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Stage 4 – Strategic Planning

Hospitals are asked to answer the following (1/3):

1) Given the financial headwinds facing rural hospitals, how will your institution balance the need to deliver care to rural patients who, on average may be older, poorer, and less mobile than other patients, with the need to ensure that services delivered in your community are delivered efficiently at the lowest cost and highest quality?
2) Please describe how the hospital will ensure delivery of high-quality essential services to all members of its community at low price to all payers.
3) Please describe any current and future obstacles to sustainably and fully delivering cost effective, high quality care in your community for your envisioned optimized service line.

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Stage 4 – Strategic Planning

Hospitals are asked to answer the following (2/3):

4) Please offer possible solutions to those obstacles that can be undertaken by the Hospital.
5) Please suggest solutions that could be addressed by other stakeholders, regulatory or policy bodies (e.g., GMCB, State legislature, Agency of Human Services, VAHHS, CMS/CMMI, etc.)
6) How might payment reform (e.g. global budgets, capitation) mitigate your financial sustainability challenges? Please be specific.
7) Please describe your relationship with other care providers in your community as it relates to your work and investment in prevention and population health. What are the challenges and opportunities for improving how you work together to achieve better population health in your community?
8) Has the onset of COVID impacted service line decisions for both the short term and the long-term? Please describe any service investments or divestments related to your COVID experience.

Sustainability Framework Update

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Stage 4 – Strategic Planning

Hospitals are asked to answer the following (2/2):

9) Given the existing financial and economic pressures faced by hospitals and the goal of delivering high-quality low-cost care, which assumes lean operations, how do we simultaneously plan for an impending public health crisis (e.g. not only a second wave of COVID-19 but potential future pandemics); what is the right level of slack in the system?
10) Please provide a summary of your hospital's application for- and receipt of- funding related to the CARES Act, Coronavirus Relief Funding, or other pandemic-related grants or loans. Please explain how your facility used these funds and their impact on your budget going forward.
11) What assumptions and utilization expectations are you building into your budgeting and forecasting? Have these methodologies changed with COVID-19?
12) Please attach any documents pertaining to strategic or sustainability planning you already have in place.

Sustainability Framework Update

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Proposed Timeline

- GMCB to issue Framework – August 31, 2020
- Stage 1 – October 31, 2020
- Stage 2 – November 30, 2020
- Stage 3 – December 31, 2020
- Stage 4 – January 31, 2021

**We recognize that there are still many uncertainties associated with COVID-19 and that this proposed timeline may need to be adjusted accordingly*

Next Steps for Sustainability Framework

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1. Potential Board vote to expand sustainability planning to all hospitals (Today)
2. Second Public Comment Period on Framework post-COVID (until July 22, 2020)
3. GMCB staff to work with stakeholders to finalize timeline for phased approach
4. Potential Board vote on Framework and timeline (July 22, 2020)
5. GMCB staff to issue framework

Regulatory Integration: Hospital Sustainability & APM

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The Vermont All Payer ACO Model offers an opportunity for providers to receive a stable funding stream in exchange for providing high-quality value-based care to a particular population.

- Under this model the ACO participates in a two-sided risk arrangement with CMS in exchange for an "All Inclusive Population Based Payment" (AIPBP), a fixed payment that is reconciled to the fee for service equivalent at year end.
- This risk, and the potential for shared savings and losses, is then passed on to providers (mainly hospitals) to incentivize care delivery reform.

Regulatory Integration: Hospital Sustainability & APM

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The eruption of the COVID-19 public health emergency has exacerbated challenges to provider sustainability and the ability of certain providers to accept risk and continue their participation in the APM at historic levels, much less join the model for the first time. For this reason, GMCB staff have asked CMS whether they would be willing to contemplate a **reduction to the risk corridor for FY 2021**.

At the same time, providers, stakeholders, and legislators have voiced a desire to **increase the opportunity for truly stable and predictable funding streams** (i.e. true capitation in the Medicare program, global budgets) and continue the state's investment in population health.

Next Steps for Hospital Sustainability & APM

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1. GMCB staff to engage stakeholders and continue information gathering:
    1. Provider ability to accommodate risk in FY 2021 and beyond
    2. Provider goals and needs of a hypothetical capitated Medicare payment
2. Board presentation on Staff Findings and Recommendations

Questions/Public Comment

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Appendix - Building the Framework

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- **Financial Benchmarks and Indicators of Vulnerability**
  - S&P Global Ratings – U.S. Public Finance: U.S. And Canadian Not-For-Profit Acute Care Health Care Organizations
  - Varying Trends In The Financial Viability Of US Rural Hospitals, 2011–17
- **Comparing Prices across hospitals-methodology**
  - RAND Corporation – Relative Prices Paid to Hospitals, Medicare vs. Commercial Payers
- **Addressing Health Care Needs of Rural Communities**
  - Bipartisan Policy Center – Right-sizing Rural Health Care
  - American Hospital Association – Task Force on Ensuring Access in Vulnerable Communities
  - NC Rural Health Research Program – National Context of Rural Hospitals
  - National Organization of State Offices of Rural Health – Toolkit for Working with Vulnerable Hospitals & Communities

Appendix - Building the Framework

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- Exploring Volume-Quality Relationship
  - Meyer et al. 2011 “Impact of department volume on surgical site infections following arthroscopy, knee replacement or hip replacement” *BMJ Quality Safety*. 2011. 20: 1069-1074
  - Bauer H, Honselmann KC. 2017. “Minimum Volume Standards in Surgery - Are We There Yet?” *Visceral Medicine*. 33(2):106-116.
  - Kozhimannil et al. 2016. “Association between Hospital Birth Volume and Maternal Morbidity among Low-Risk Pregnancies in Rural, Urban, and Teaching Hospitals in the United States.” *Am J Perinatol*. 33(6):590-9
  - JAMA Forum: Back to the Future: Volume as a Quality Metric June 6, 2010
  - Three Hospital Volume Pledge: https://khn.org/news/three-hospitals-hope-to-spark-a-reduction-in-surgeries-by-inexperienced-doctors/
  - Ohmann et al 2010 “Two short-term outcomes after instituting a national regulation regarding minimum procedural volumes for total knee replacement.” *J Bone Joint Surg Am* 92(3):629-38.
- VAHHS and input from Hospital C-suite and board chairs