FY24 Hospital Budget Deliberations

Sarah A. Lindberg, Outgoing GMCB Director of Health Systems Finance
Alena Berube, Incoming GMCB Director of Health Systems Finance
Russ McCracken, Staff Attorney
Sept. 15, 2023
Overview

• Overview of hospital budget review process

• Hospital budget deliberations:
  • Central Vermont Medical Center
  • Porter Medical Center
  • Copley Hospital
  • Northeastern Vermont Regional Hospital

• Standard Budget Order Conditions
FY24 Hospital Budget Decision Tree

NPR at/below benchmark?

Are assumptions reasonable?

YES

Approve as submitted

NO

Consider modification

YES

Consider modification, evaluating and weighing:

- Evaluate reasonableness of budget assumptions
- How each expense factor compares with reference range
- How expense growth compares with peers
- How request compares to Medicare market basket and wage growth
- Factors and criteria set out in guidance
- Factors, criteria and principles set in statute
FY24 Hospital Budget Decision Tree

NPR at/below benchmark?

- **YES**
  - Are assumptions reasonable?
    - **YES**
      - Approve as submitted
    - **NO**
      - Consider modification

- **NO**
  - Consider modification, evaluating and weighing:
    - Evaluate reasonableness of budget assumptions
    - How each expense factor compares with reference range
    - How expense growth compares with peers
    - How request compares to Medicare market basket and wage growth
    - Factors and criteria set out in guidance
    - Factors, criteria and principles set in statute
Copley Hospital Budget Request

<table>
<thead>
<tr>
<th>NPR+FPP</th>
<th>FY23 Approved</th>
<th>FY24 Submitted</th>
<th>FY22 Actual to FY24 Submitted</th>
<th>One Year FY23P to FY24B</th>
<th>Two Year FY22A to FY24B</th>
<th>One Year FY23P to FY24B</th>
<th>Two Year FY22A to FY24B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$96 M</td>
<td>$111 M</td>
<td>+ $20 M</td>
<td>- $19 M</td>
<td>- $11 M</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5.1%</td>
<td>12.8%</td>
<td>21.3%</td>
<td>-17.7%</td>
<td>-10.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in charge</td>
<td>12.0%</td>
<td>15.0%</td>
<td>27.0%</td>
<td>-5.0%</td>
<td>7.0%</td>
<td>3.1%</td>
<td>15.1%</td>
</tr>
</tbody>
</table>

INFLATIONARY REFERENCE RANGE

- 7.0% over 2 years
- 3.1% over FY23P
## Copley Hospital Performance Summary

<table>
<thead>
<tr>
<th>Measure</th>
<th>Hospital</th>
<th>Relative performance <em>(Lower better)</em></th>
</tr>
</thead>
<tbody>
<tr>
<td>Expense growth (FY22 to FY24)</td>
<td>12.1%</td>
<td>69&lt;sup&gt;th&lt;/sup&gt; percentile among VT hospitals</td>
</tr>
<tr>
<td>Proportion of admin and general salaries to clinical salaries</td>
<td>16.4%</td>
<td>42&lt;sup&gt;nd&lt;/sup&gt; percentile among critical access hospitals</td>
</tr>
<tr>
<td>CMI-adjusted cost per Medicare discharge</td>
<td>$10,672</td>
<td>42&lt;sup&gt;nd&lt;/sup&gt; percentile among critical access hospitals</td>
</tr>
<tr>
<td>Standardized price – Inpatient</td>
<td>$18,305</td>
<td>52&lt;sup&gt;nd&lt;/sup&gt; percentile among critical access hospitals</td>
</tr>
<tr>
<td>Standardized price – Outpatient</td>
<td>$246</td>
<td>22&lt;sup&gt;nd&lt;/sup&gt; percentile among critical access hospitals</td>
</tr>
<tr>
<td>5-year approved change in charge (FY19 to FY23)</td>
<td>36.3%</td>
<td>1&lt;sup&gt;st&lt;/sup&gt; percentile among VT hospitals</td>
</tr>
<tr>
<td>10-year approved change in charge (FY14 to FY23)</td>
<td>31.2%</td>
<td>8&lt;sup&gt;th&lt;/sup&gt; percentile among VT hospitals</td>
</tr>
</tbody>
</table>
CH’s margin performance is underbudget, driven primarily by higher-than-budgeted salary/benefit/contractual expenses.
Copley Hospital
Staff recommendation

• Modify budget from submitted as follows:
  • Approve NPR+FPP growth 21.3% as submitted
  • Adjust 15.0% change in charge to 8.0%

• Rationale:
  • Historical low reliance on rate increases; however larger increases in recent years
  • At or below median in admin-to-clinical salary ratio and costs/standardized price
  • Brings 2-year growth in rate closer to peers
Move to approve Copley Hospital’s budget as modified hereby, with a **21.3% increase** from FY2022 actual to FY2024 budgeted NPR/FPP, a **8.0% charge increase** from FY2023 to FY2024 (reduced from 15.0%); and subject to the standard budget conditions as approved by Board [and any additional conditions].
Northeastern Vermont Regional Hospital
Budget Request

<table>
<thead>
<tr>
<th></th>
<th>FY23 Approved</th>
<th>FY24 Submitted</th>
<th>FY22 Actual to FY24 Submitted</th>
<th>One Year FY23P to FY24B</th>
<th>Two Year FY22A to FY24B</th>
<th>One Year FY23P to FY24B</th>
<th>Two Year FY22A to FY24B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NPR+FPP</strong></td>
<td>$110 M</td>
<td>$124 M</td>
<td>+ $17 M</td>
<td>- $21 M</td>
<td>- $13 M</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4.2%</td>
<td>11.4%</td>
<td>16.3%</td>
<td>- 16.2%</td>
<td>- 10.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Change in charge</strong></td>
<td>10.8%</td>
<td>15.0%</td>
<td>25.8%</td>
<td>- 3.8%</td>
<td>7.0%</td>
<td>3.1%</td>
<td>13.9%</td>
</tr>
</tbody>
</table>

INFLATIONARY REFERENCE RANGE

- 7.0% over 2 years
- 3.1% over FY23P
## Northeastern Vermont Regional Hospital Performance Summary

<table>
<thead>
<tr>
<th></th>
<th>Hospital</th>
<th>Relative performance <em>(Lower better)</em></th>
</tr>
</thead>
<tbody>
<tr>
<td>Expense growth (FY22 to FY24)</td>
<td>14.6%</td>
<td>85&lt;sup&gt;th&lt;/sup&gt; percentile among VT hospitals</td>
</tr>
<tr>
<td>Proportion of admin and general salaries to clinical salaries</td>
<td>21.0%</td>
<td>46&lt;sup&gt;th&lt;/sup&gt; percentile among critical access hospitals</td>
</tr>
<tr>
<td>CMI-adjusted cost per Medicare discharge</td>
<td>$13,224</td>
<td>71&lt;sup&gt;st&lt;/sup&gt; percentile among critical access hospitals</td>
</tr>
<tr>
<td>Standardized price – Inpatient</td>
<td>$22,634</td>
<td>75&lt;sup&gt;th&lt;/sup&gt; percentile among critical access hospitals</td>
</tr>
<tr>
<td>Standardized price – Outpatient</td>
<td>$418</td>
<td>75&lt;sup&gt;th&lt;/sup&gt; percentile among critical access hospitals</td>
</tr>
<tr>
<td>5-year approved change in charge (FY19 to FY23)</td>
<td>23.7%</td>
<td>38&lt;sup&gt;th&lt;/sup&gt; percentile among VT hospitals</td>
</tr>
<tr>
<td>10-year approved change in charge (FY14 to FY23)</td>
<td>46.5%</td>
<td>54&lt;sup&gt;th&lt;/sup&gt; percentile among VT hospitals</td>
</tr>
</tbody>
</table>
Northeastern Vermont Regional Hospital FY23 Performance vs. Budget

NVRH’s margin performance is outperforming its budget, driven primarily by higher-than-budgeted NPR+FPP.
• Modify budget from submitted as follows:
  • Adjust NPR+FPP growth from 16.3% to 9.0% with adjustment of operating expenses by $7.7 M
  • Adjust 15.0% change in charge to 8.0%
  • Include additional condition for monthly reporting and to submit within 3 months an improvement plan addressing areas of particular concern

• Rationale:
  • Brings 2-year growth in rate closer to peers
  • Costs and standardized prices near 75th percentile
  • Relatively high expense growth
Suggested motion language

Suggested motion language (modify as needed):

Move to approve Northeastern Vermont Regional Hospital’s budget as modified hereby, with a **9.0% increase** from FY2022 actual to FY2024 budgeted NPR/FPP (reduced from 16.3%) and a commensurate reduction in operating expenses from the submitted budget, a **8.0% charge increase** from FY2023 to FY2024 (reduced from 15.0%), and subject to the standard budget conditions as approved by Board and an additional condition:

- NVRH shall submit to the Board within 3 months a plan addressing NVRH’s efforts to reduce costs and control overall expense growth. Further, NVRH is required to meet monthly with Board staff for monitoring purposes.
FY24 Standard Budget Conditions
(correction)

A. [HOSPITAL]’s FY24 NPR/FPP budget is approved at a growth rate of not more than [xx]% over its FY22 actual, with a total NPR/FPP of not more than $[xx] for FY24.

B. [HOSPITAL]’s overall change in charge and commercial rate increases are approved at not more than [xx]% over current approved levels, with no commercial rate increase for any payer at more than [xx]% over current approved levels. The commercial rate increase overall or with respect to any payer may be less than [xx]% as negotiated between the hospital and payer.

C. The commercial rate increase cap in Paragraph B. is a maximum and is subject to negotiation between [HOSPITAL] and commercial insurers. [HOSPITAL] shall not represent the maximum commercial rate increase approved by the GMCB in Paragraph B. or the expected commercial NPR based on that rate increase as the amounts set or guaranteed by the GMCB in the hospital’s negotiations with insurers.

D. [HOSPITAL]’s expected commercial NPR, based on its budget as adjusted in this Order, is $[X]. [HOSPITAL] shall report its actual expected commercial NPR not later than March 15 or such later date as specified by the Board Chair and explain any variations from the expected commercial NPR.

E. [HOSPITAL] shall file with the Board its actual year-to-date FY24 operating results on April 30, 2024 for October 1, 2023 through March 31, 2024. The report shall be in a form and manner as prescribed by GMCB staff.
Standard Budget Conditions: Suggested Motion Language

*Suggested motion language:*

Move to approve the correction to the standard budget conditions as presented to the Board.