

# FY24 Hospital Budget Guidance

Sarah Lindberg, Director of Health Systems Finance

March 22, 2023

# Agenda

- Modeling expense factors
- Options for FY24

# FY24 Budget Process

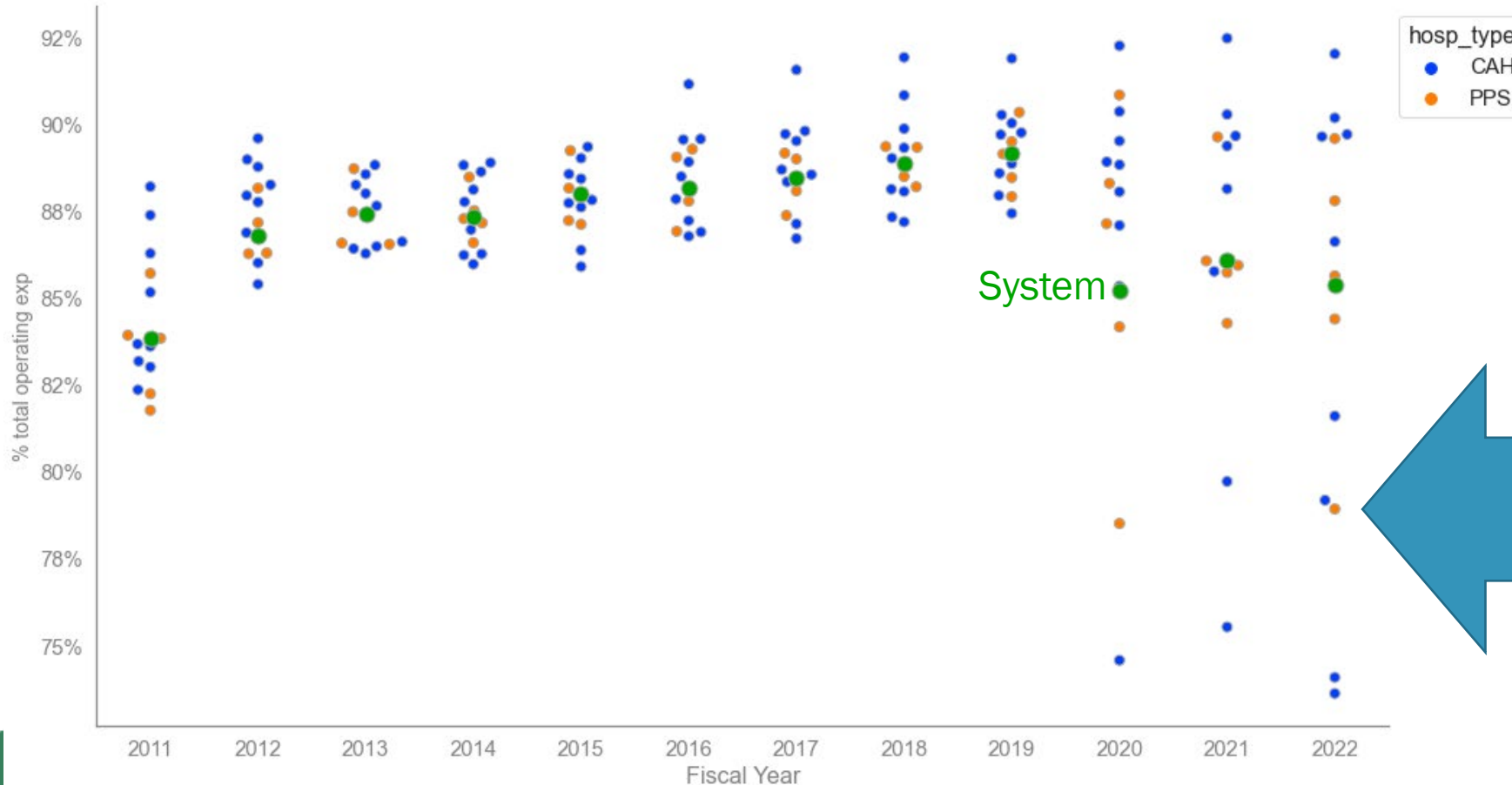
- As the GMCB looks to update and improve its regulatory oversight, staff recommended an approach for FY24, which is a bridge between past and future practices.
- Staff recommended using nationally-benchmarked expense growth from FY22 to FY24.
- The following slides will walk through how that approach might have played out in past budget cycles.

# Modeling Proposed Changes

- The modeling provided has limitations, largely due to changes in how data have been submitted to the GMCB.
- Note that this does not account for adjustments, such as provider transfers
- Also, there is bias as actual budgets will be influenced by approved budgets.

# Expense Drivers

- The expenses associated with labor, pharmaceuticals, and supplies were **over 80%** of total operating expenses until FY2020.
- In FY12 to 19, it was over 85%.



Some hospitals began breaking out the expenses for traveling nurses starting in FY2020. After accounting for those there are only a handful of cases below 80%:

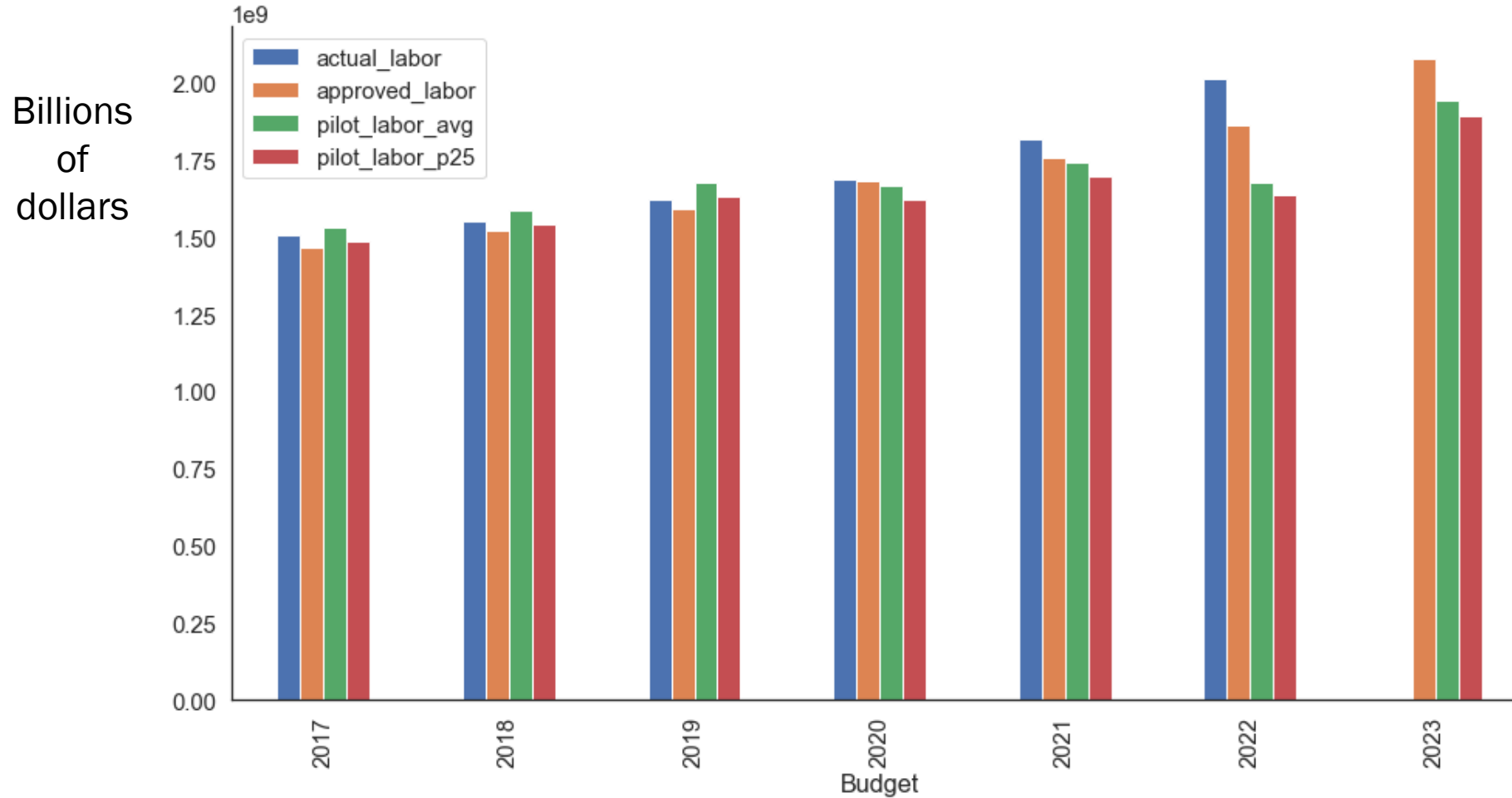
- FY20 – Springfield (76%)
- FY21 – Springfield (79%)
- FY22 – Gifford (79%)  
Porter (79%)

# Different Modeling Approaches Tested

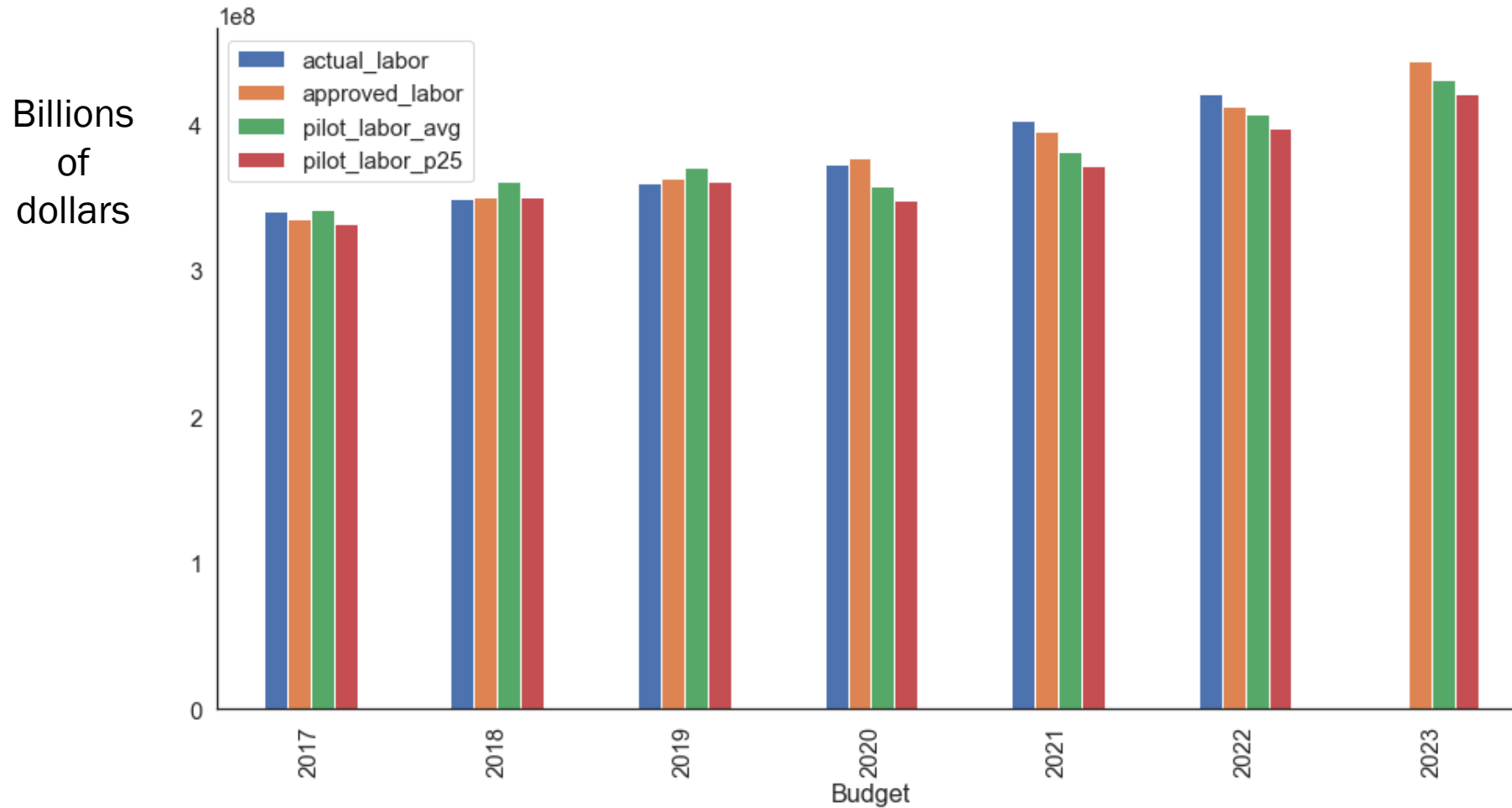


- Benchmarks are shown based on what would have been available for prior years budget decisions based on:
  - Average of 2-year changes
  - 25<sup>th</sup> percentile of 2-year changes
- Benchmark performance is compared with historical comparisons of actual and approved budgets.

# Labor: Model Comparison - System

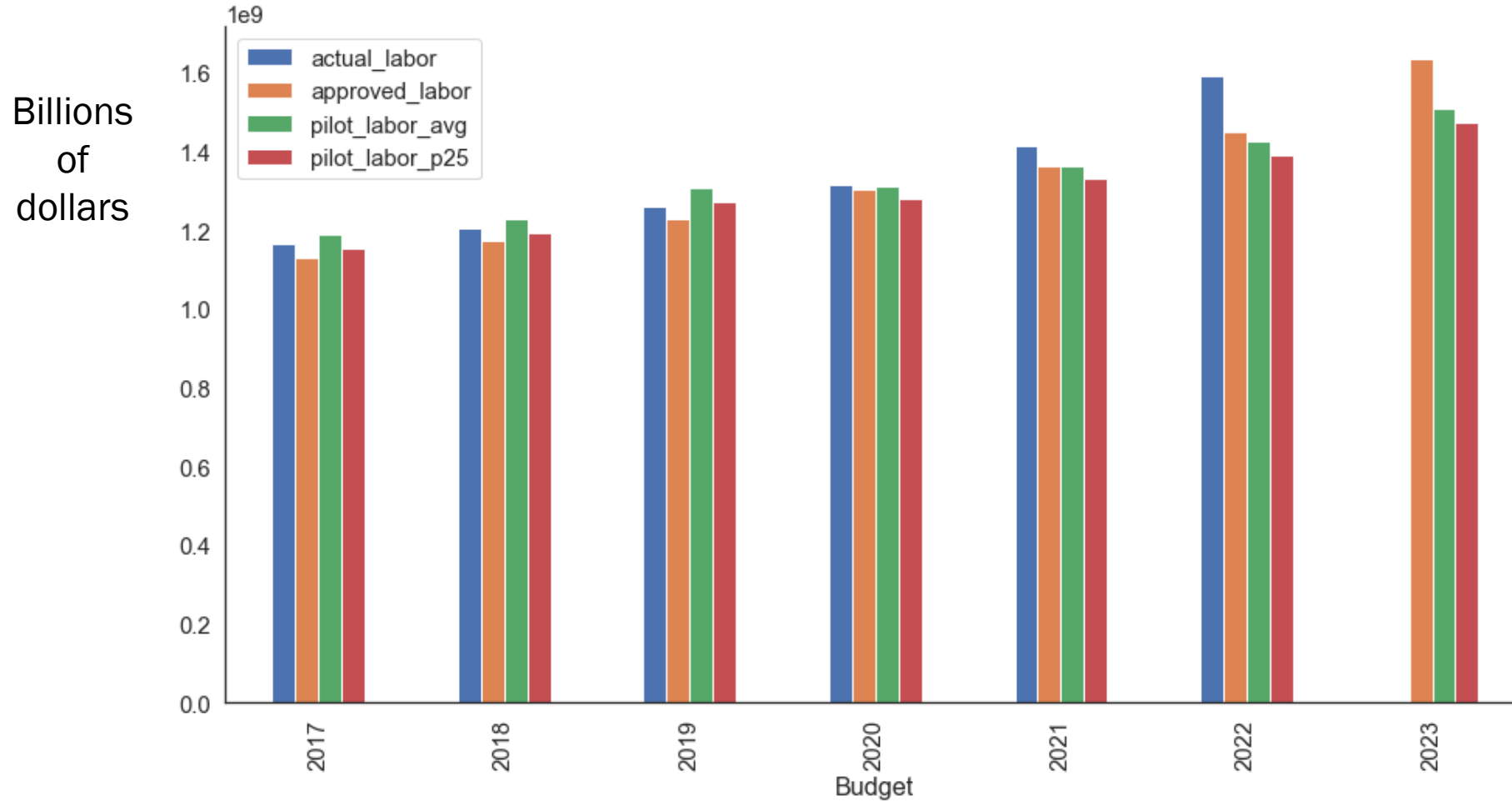


# Labor : Model Comparison - CAH





# Labor : Model Comparison - PPS



# Labor: Budget Year Summary



> 100% means actuals EXCEEDED model (i.e. budget < actual)

< 100% means actuals WERE LESS THAN model (i.e. budget > actual)

In Order of FY23 Approved NPR

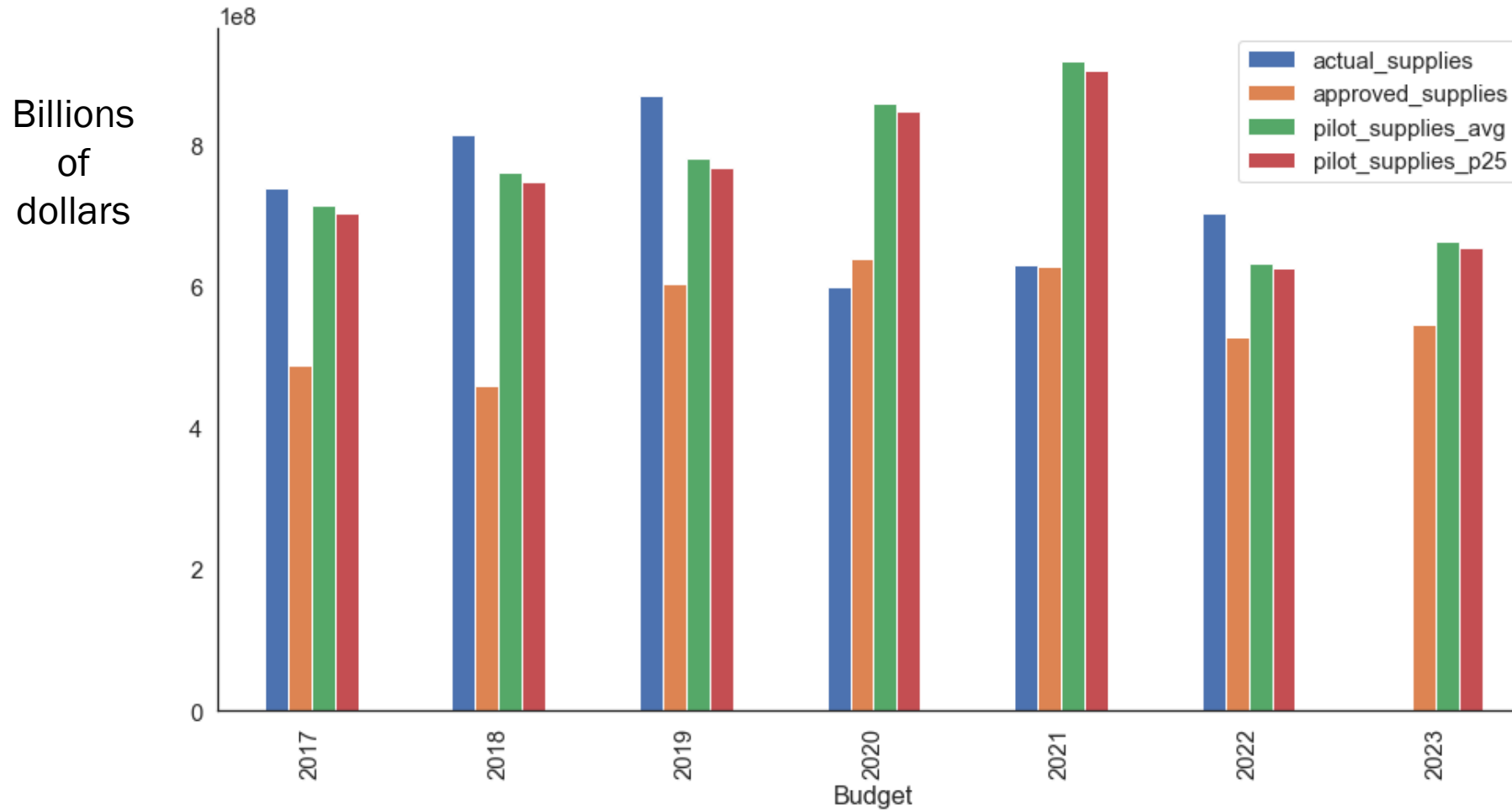
	Proportion of Actual Labor Expenses																	
	FY17			FY18			FY19			FY20			FY21			FY22		
	GMCB	Natl Avg	Natl P25	GMCB	Natl Avg	Natl P25	GMCB	Natl Avg	Natl P25	GMCB	Natl Avg	Natl P25	GMCB	Natl Avg	Natl P25	GMCB	Natl Avg	Natl P25
<b>SYSTEM</b>	<b>103%</b>	<b>98%</b>	<b>101%</b>	<b>102%</b>	<b>98%</b>	<b>101%</b>	<b>102%</b>	<b>97%</b>	<b>99%</b>	<b>100%</b>	<b>101%</b>	<b>104%</b>	<b>103%</b>	<b>104%</b>	<b>107%</b>	<b>108%</b>	<b>120%</b>	<b>123%</b>
<b>PPS Average</b>	<b>102%</b>	<b>97%</b>	<b>100%</b>	<b>102%</b>	<b>98%</b>	<b>100%</b>	<b>102%</b>	<b>97%</b>	<b>100%</b>	<b>101%</b>	<b>101%</b>	<b>104%</b>	<b>105%</b>	<b>102%</b>	<b>105%</b>	<b>106%</b>	<b>106%</b>	<b>109%</b>
University of VT	104%	99%	101%	104%	99%	102%	103%	96%	98%	100%	100%	102%	102%	104%	107%	112%	115%	118%
Rutland	98%	93%	96%	102%	99%	102%	100%	99%	102%	102%	102%	105%	112%	105%	108%	109%	103%	106%
Central VT	105%	101%	104%	101%	95%	97%	101%	97%	100%	104%	99%	101%	106%	104%	106%	111%	116%	119%
Southwestern VT	98%	95%	98%	99%	97%	100%	102%	99%	102%	99%	103%	105%	105%	100%	102%	104%	96%	99%
Northwestern	104%	99%	102%	104%	99%	102%	103%	96%	99%	97%	103%	106%	98%	98%	101%	97%	100%	102%
<b>CAH Average</b>	<b>101%</b>	<b>100%</b>	<b>103%</b>	<b>100%</b>	<b>97%</b>	<b>100%</b>	<b>100%</b>	<b>97%</b>	<b>100%</b>	<b>99%</b>	<b>105%</b>	<b>108%</b>	<b>102%</b>	<b>106%</b>	<b>108%</b>	<b>101%</b>	<b>104%</b>	<b>106%</b>
Northeastern VT	108%	103%	106%	102%	98%	100%	97%	98%	101%	96%	105%	107%	101%	111%	114%	108%	108%	110%
Brattleboro	100%	95%	98%	99%	99%	102%	96%	96%	99%	102%	105%	108%	98%	106%	109%	101%	97%	100%
Porter	104%	104%	108%	102%	99%	102%	102%	101%	104%	96%	101%	104%	99%	100%	103%	112%	114%	116%
North Country	104%	98%	101%	94%	90%	92%	94%	92%	95%	100%	108%	111%	105%	110%	112%	97%	96%	98%
Copley	99%	99%	102%	99%	98%	101%	99%	97%	100%	96%	98%	100%	101%	102%	104%	101%	104%	106%
Mt. Ascutney	99%	96%	99%	107%	102%	105%	104%	101%	104%	101%	97%	100%	103%	99%	101%	98%	102%	104%
Springfield	100%	98%	101%	99%	90%	92%	108%	95%	97%	104%	124%	128%	109%	114%	117%	111%	101%	103%
Gifford	97%	104%	107%	98%	98%	101%	96%	95%	97%	99%	102%	105%	107%	110%	113%	81%	115%	118%
Grace Cottage	96%	99%	102%	98%	99%	102%	102%	101%	104%	99%	105%	108%	100%	101%	103%	101%	98%	100%

GMCB = GMCB Approved Budget (including mid-year adjustments); Natl Avg = Average 2-year growth rate in the Employer Cost Index (ECI); Natl P25 = 25<sup>th</sup> percentile of 2-year growth rates in ECI

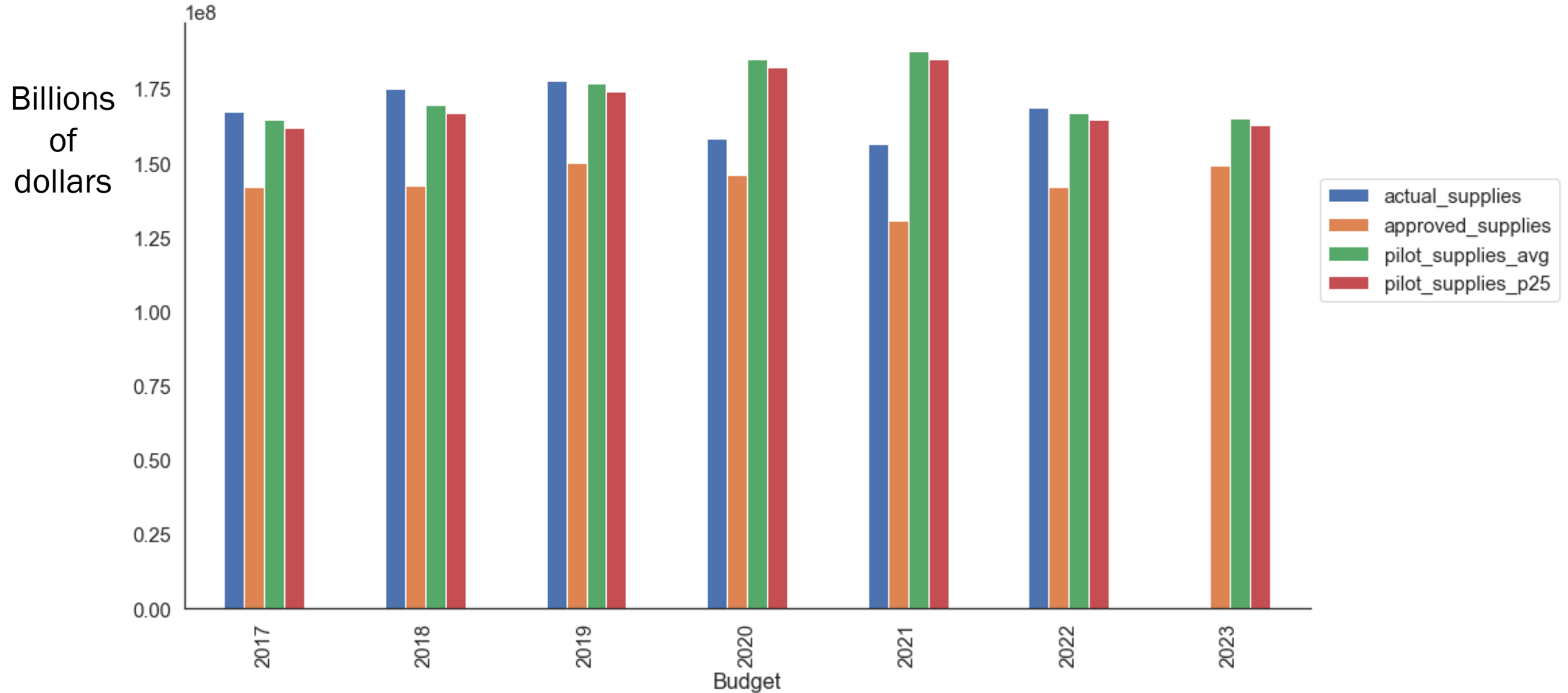
# Supplies and Pharmaceuticals

- Hospitals did not start systematically reporting pharmaceutical expenses as a dedicated line item until FY20. To date, not all hospitals are doing so.
- Caution should be taken in generalizing these values, especially since FY20.

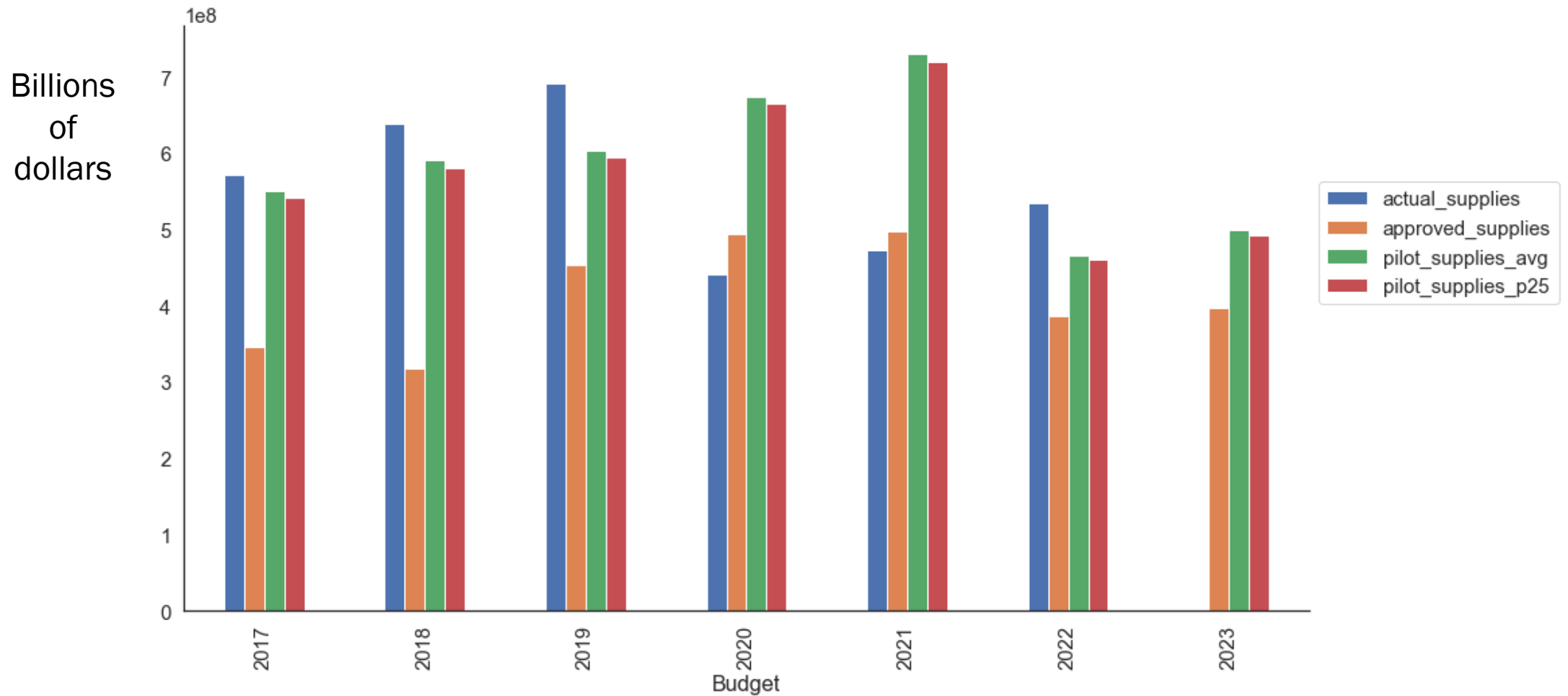
# Supplies : Model Comparison - System



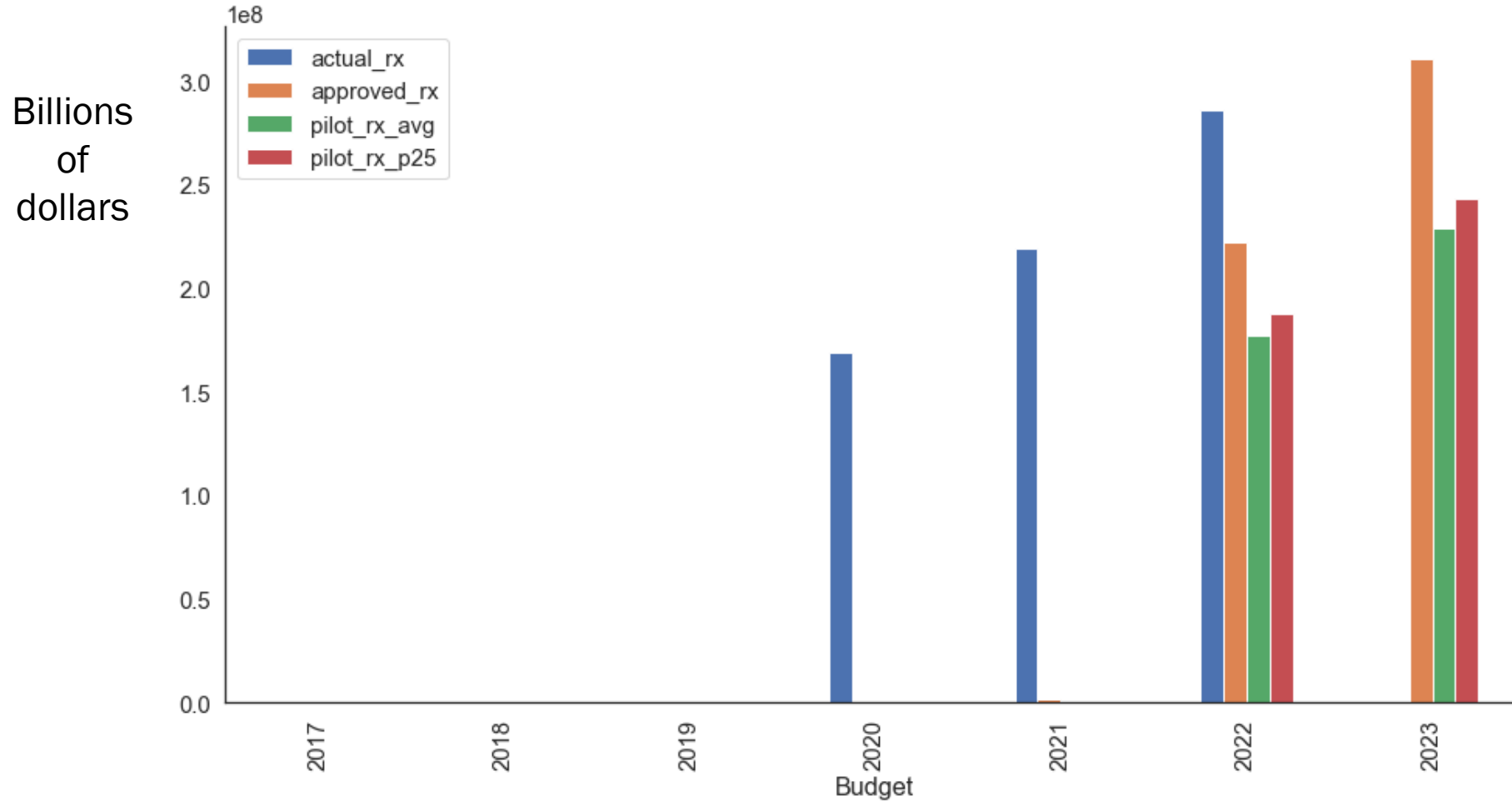
# Supplies : Model Comparison - CAH



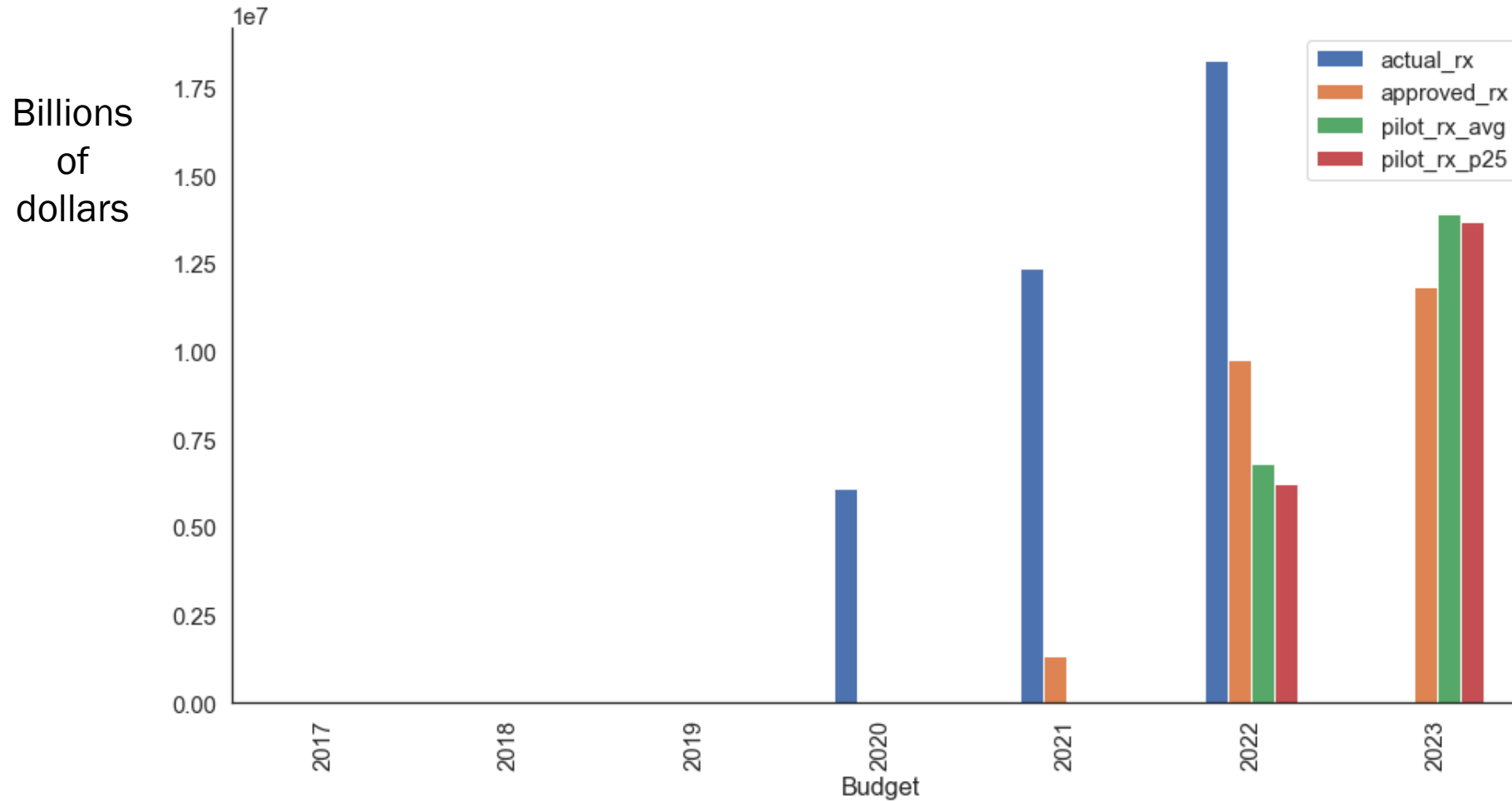
# Supplies : Model Comparison - PPS



# Pharmaceutical Cost: Model Comparison - System

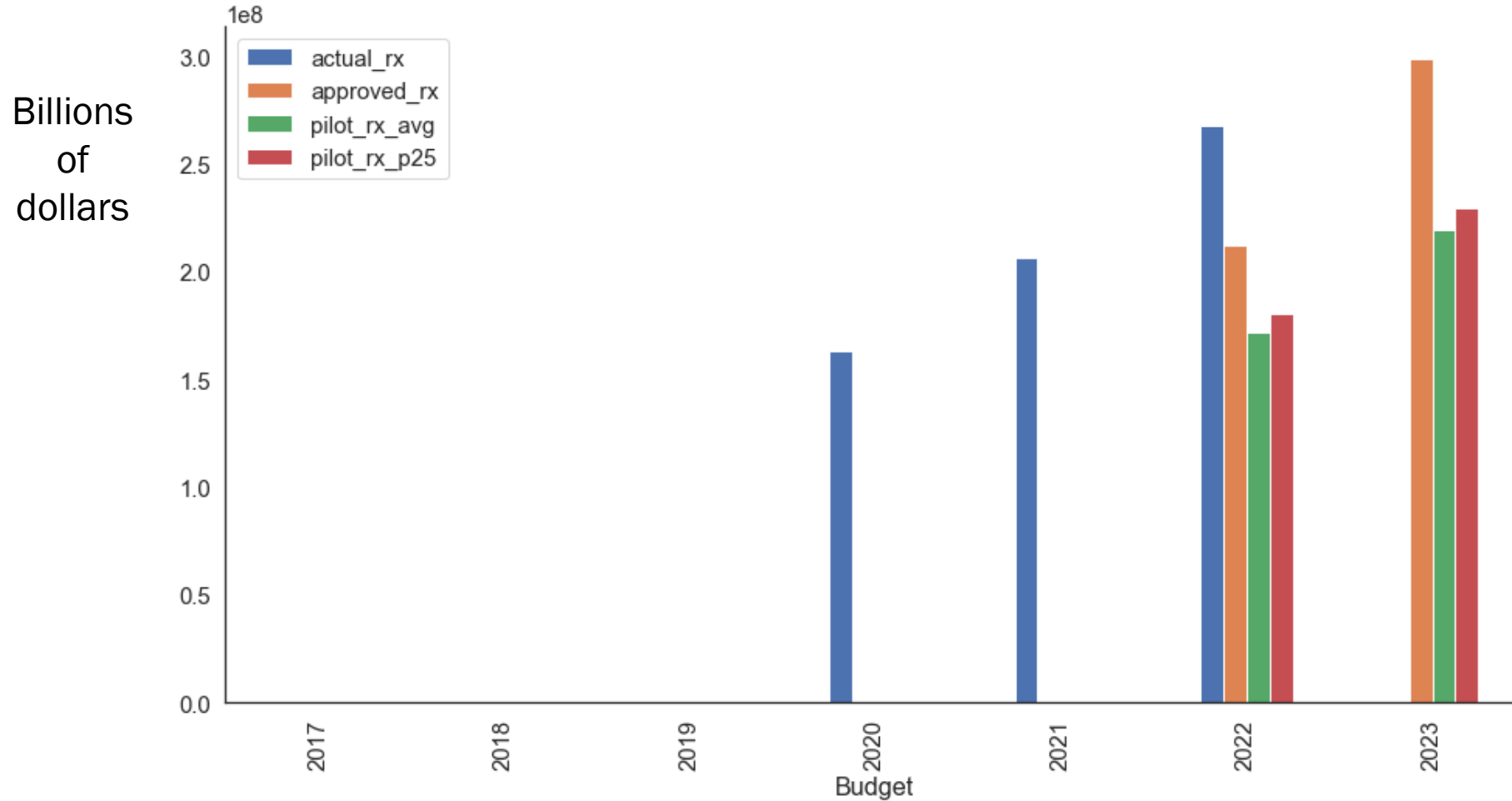


# Pharmaceutical Cost: Model Comparison - CAH





# Pharmaceutical Cost: Model Comparison - PPS



# Labor + Supplies + Rx: Budget Year Summary



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In Order of FY23 Approved NPR

	Proportion of Actual Labor Expenses																	
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	GMCB	Natl Avg	Natl P25	GMCB	Natl Avg	Natl P25	GMCB	Natl Avg	Natl P25	GMCB	Natl Avg	Natl P25	GMCB	Natl Avg	Natl P25	GMCB	Natl Avg	Natl P25
<b>SYSTEM</b>	<b>115%</b>	<b>100%</b>	<b>102%</b>	<b>119%</b>	<b>101%</b>	<b>103%</b>	<b>113%</b>	<b>101%</b>	<b>104%</b>	<b>106%</b>	<b>97%</b>	<b>99%</b>	<b>112%</b>	<b>100%</b>	<b>102%</b>	<b>115%</b>	<b>121%</b>	<b>123%</b>
<b>PPS Average</b>	<b>108%</b>	<b>99%</b>	<b>102%</b>	<b>115%</b>	<b>100%</b>	<b>103%</b>	<b>110%</b>	<b>102%</b>	<b>104%</b>	<b>103%</b>	<b>98%</b>	<b>100%</b>	<b>108%</b>	<b>100%</b>	<b>102%</b>	<b>112%</b>	<b>111%</b>	<b>113%</b>
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<b>CAH Average</b>	<b>107%</b>	<b>100%</b>	<b>103%</b>	<b>108%</b>	<b>99%</b>	<b>101%</b>	<b>105%</b>	<b>98%</b>	<b>100%</b>	<b>103%</b>	<b>98%</b>	<b>101%</b>	<b>110%</b>	<b>101%</b>	<b>103%</b>	<b>108%</b>	<b>105%</b>	<b>108%</b>
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# FY24 NPR Benchmark



- Feedback suggests that in the bridge year, it may be advantageous to stick with a benchmark associated with growth in Net Patient Service Revenue + Fixed Prospective Payments + Reserves (NPR, for short).
- The FY23 Guidance includes a 2-year benchmark, growth of not more than 8.6% for FY22 to FY24. There are a few options about how to consider this benchmark:
  - 8.6% growth from Budget FY22 to Budget FY24
  - 8.6% growth from Actual FY22 to Budget FY24

# FY22 Budget versus Actuals



- FY22 budgets by and large underestimated the significant increase in utilization. While actual NPR tended to be higher than budgets, actual expenses outpaced budgets by even more.
- The upshot is that during the FY23 budget process the GMCB voted to use projected values in considering FY24 budgets.
- Using actuals would be consistent with the intent of this decision.

# FY24 NPR Limits



	FY22 Actual	FY24 NPR Limit	FY23 Budget	FY23 to FY24
<b>System</b>	<b>\$3,017,186,107</b>	<b>\$3,276,664,112</b>	<b>\$3,273,466,590</b>	<b>0.1%</b>
<b>PPS TOTAL</b>	<b>\$2,341,127,007</b>	<b>\$2,542,463,930</b>	<b>\$2,550,538,240</b>	<b>-0.3%</b>
University of VT	\$1,497,464,148	\$1,626,246,065	\$1,658,725,627	-2.0%
Rutland	\$305,366,707	\$331,628,244	\$312,615,342	6.1%
Central VT	\$240,386,620	\$261,059,869	\$269,231,389	-3.0%
Southwestern	\$186,729,148	\$202,787,855	\$188,872,209	7.4%
Northwestern*	\$111,180,384	\$120,741,897	\$121,093,673	-0.3%
<b>CAH TOTAL</b>	<b>\$675,126,751</b>	<b>\$733,187,652</b>	<b>\$722,928,349</b>	<b>1.4%</b>
Northeastern VT*	\$106,102,056	\$115,226,833	\$110,058,000	4.7%
Brattleboro*	\$92,303,203	\$100,241,278	\$105,484,860	-5.0%
Porter	\$98,711,768	\$107,200,980	\$104,464,068	2.6%
North Country	\$85,710,463	\$93,081,563	\$98,854,148	-5.8%
Copley*	\$93,650,087	\$101,703,994	\$96,033,233	5.9%
Mt. Ascutney	\$62,582,387	\$67,964,472	\$65,869,470	3.2%
Springfield	\$53,066,802	\$57,630,547	\$58,778,639	-2.0%
Gifford*	\$59,880,936	\$65,030,696	\$58,010,676	12.1%
Grace Cottage	\$23,119,049	\$25,107,287	\$25,375,255	-1.1%

\* Adjusted for provider transfer/acquisition and accounting changes.

# Assessing Commercial Price Changes



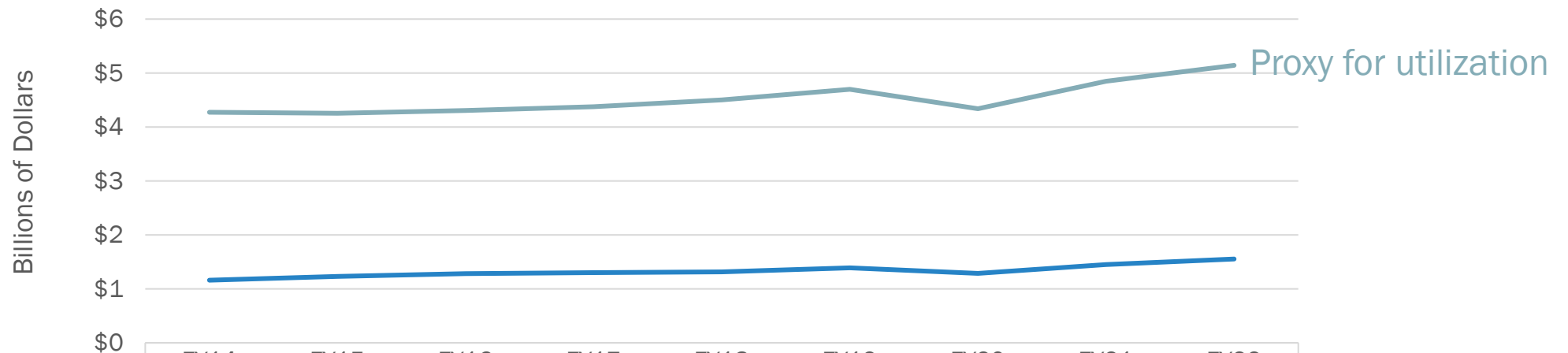
- Note that unlike other factors, this is not directly based on expenses. However, it may be a material assumption in proposed budgets.
  - What is important to the Board in its review of commercial rate assumptions?
- Some potential options include:
  - Review relative to deflated commercial gross patient revenue increases.
  - Review relative to historically-approved budgets.

# Changes in Commercial Revenue



After “deflating” gross patient revenue for commercial payers (“commercial GDP) based on approved change in charges, deflated commercial GDP grew 20% from FY14 to FY22 (range -28% to 31%, median 16%).

The change in net patient revenue for commercial payers after adjusting for bad debt for the same period was 33% (range -17 to 98%, median 31%). Note that this *includes* price changes.



	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Commercial NPR (adjusted for bad debt)	\$1.16	\$1.23	\$1.28	\$1.30	\$1.32	\$1.39	\$1.29	\$1.45	\$1.55
Deflated Commercial GPR	\$4.27	\$4.25	\$4.31	\$4.38	\$4.50	\$4.70	\$4.34	\$4.85	\$5.14

# Historical Decisions

- From FY13 to FY23, the average 2-year change in charge increase approved by the GMCB was 4.00% (ranging from -3.70% to 11.55%).
- From FY19 to FY23, it was 4.18% (ranging from -1.33% to 11.55%).
- Since FY2017, the UVMHN hospitals have also submitted a commercial effective rate.
  - Average approval since FY17 was 5.30% (0.72% to 14.77%)
  - Average approval since FY19 was 6.44% (2.30% to 14.77%)



# Outstanding Decision Point for Next Time

- How will Board incorporate evolving knowledge about governmental payer price changes in the budget review?
  - Adjust all budgets?
  - Adjust budgets over benchmark?
  - Only account for those known prior to budget submissions?
- Will the Board consider proposed and final rules differently?

# Coming Very Soon!

- Full draft of guidance (by end of week)
- Financial benchmark options
- Deeper dive on ratio between free care and bad debt
- Reminder: Guidance must be adopted by **March 31<sup>st</sup>**