

FY24 Hospital Budget Guidance

Sarah Lindberg, Director of Health Systems Finance

March 22, 2023

Agenda

- Modeling expense factors
- Options for FY24

FY24 Budget Process

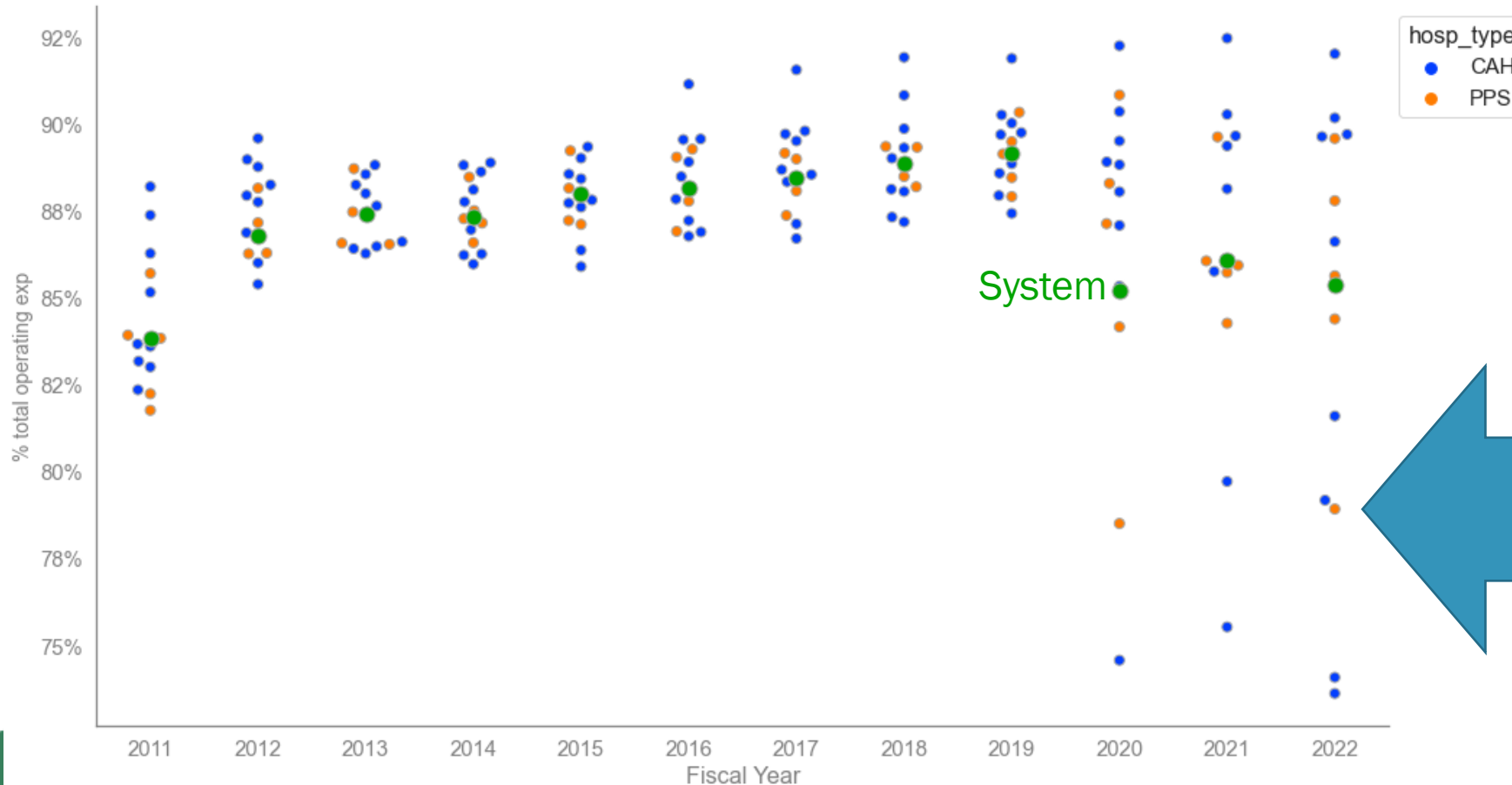
- As the GMCB looks to update and improve its regulatory oversight, staff recommended an approach for FY24, which is a bridge between past and future practices.
- Staff recommended using nationally-benchmarked expense growth from FY22 to FY24.
- The following slides will walk through how that approach 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.
 - It was over 85% from FY12 to 19.



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%:

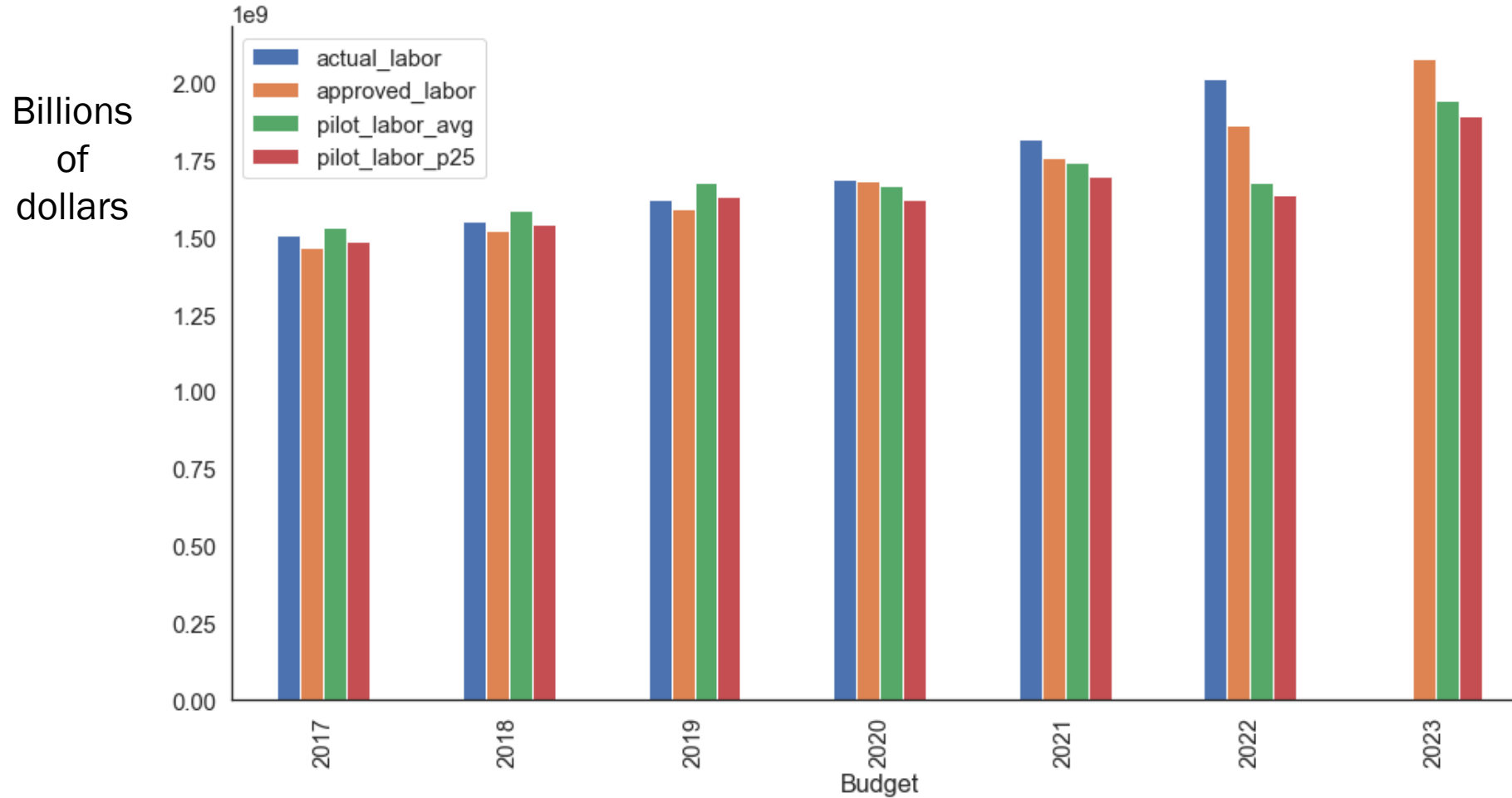
- FY20 – Springfield (76%)
- FY21 – Springfield (79%)
- FY22 – Gifford (79%)
Porter (79%)

Different Modeling Approaches Tested

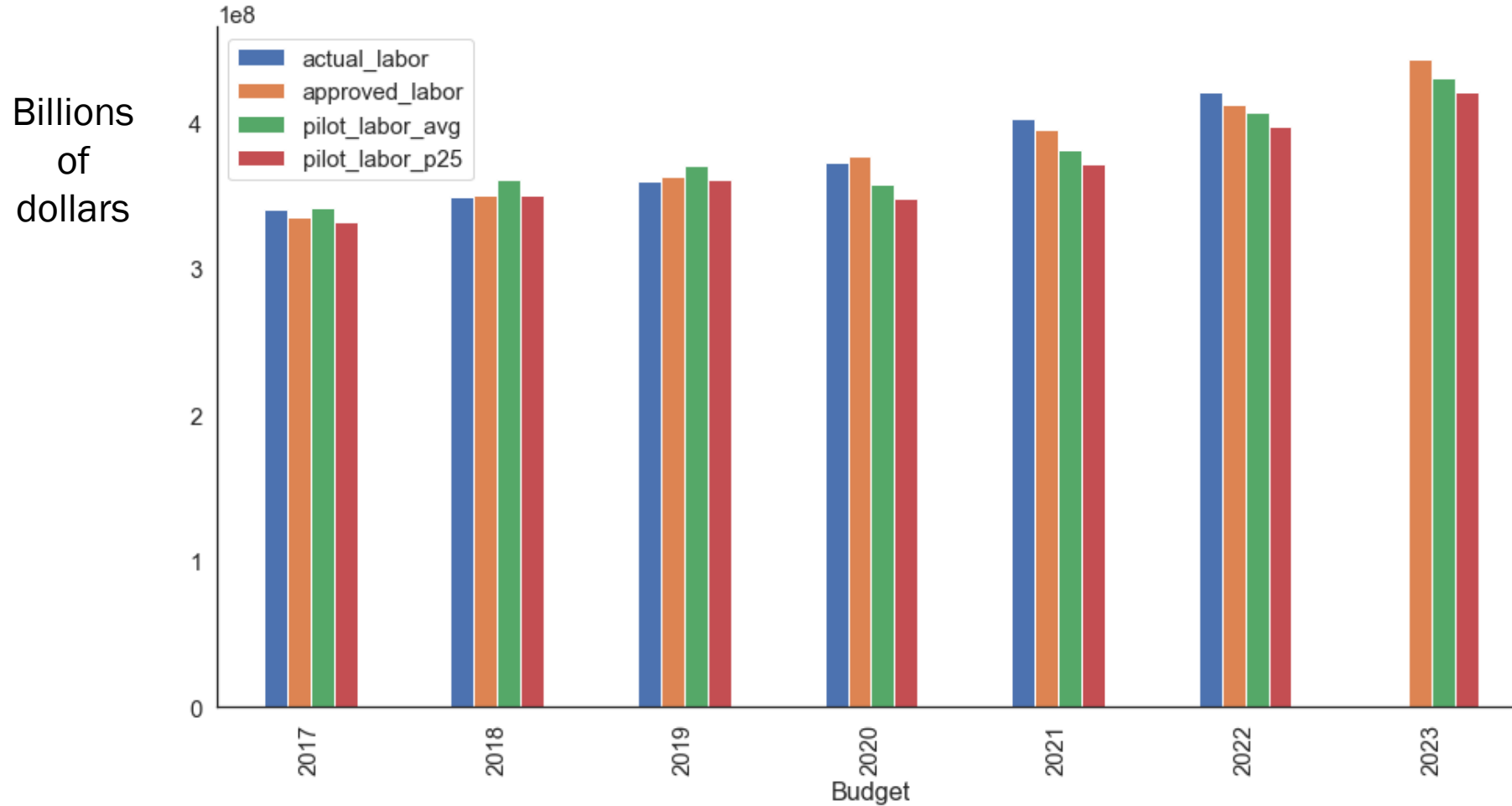


- Benchmarks are shown based on what would have been available for prior years budget decisions based on:
 - Average of 2-year changes
 - 25th percentile of 2-year changes
- Benchmark performance is compared with historical comparisons of actual and approved budgets.

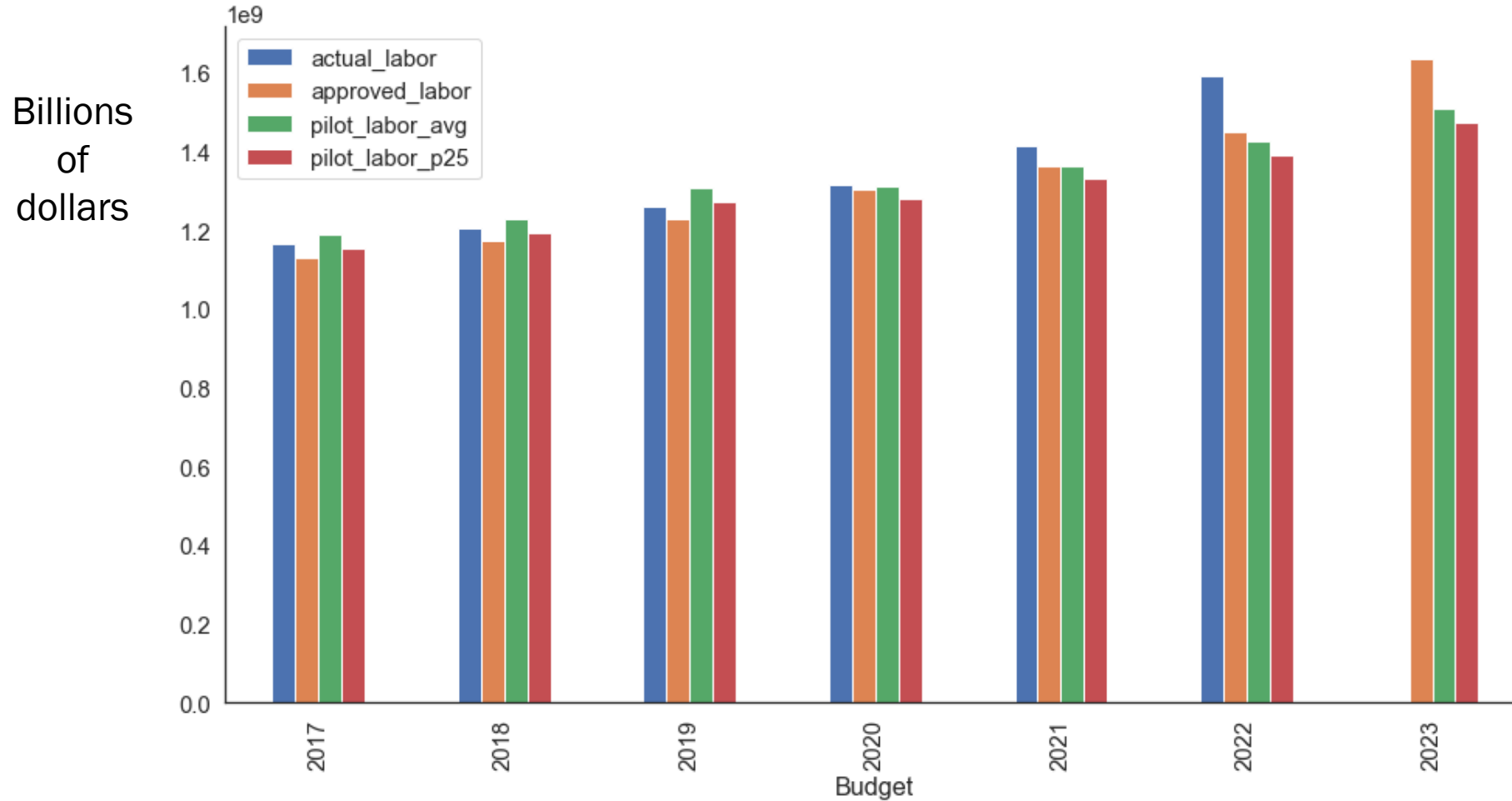
Labor: Model Comparison - System



Labor : Model Comparison - CAH



Labor : Model Comparison - PPS



Labor: Budget Year Summary



Over 100% means actuals EXCEEDED model (i.e. budget less than actual)

Under 100% means actuals WERE LESS THAN model (i.e. budget more than actual)

In Order of FY23 Approved NPR

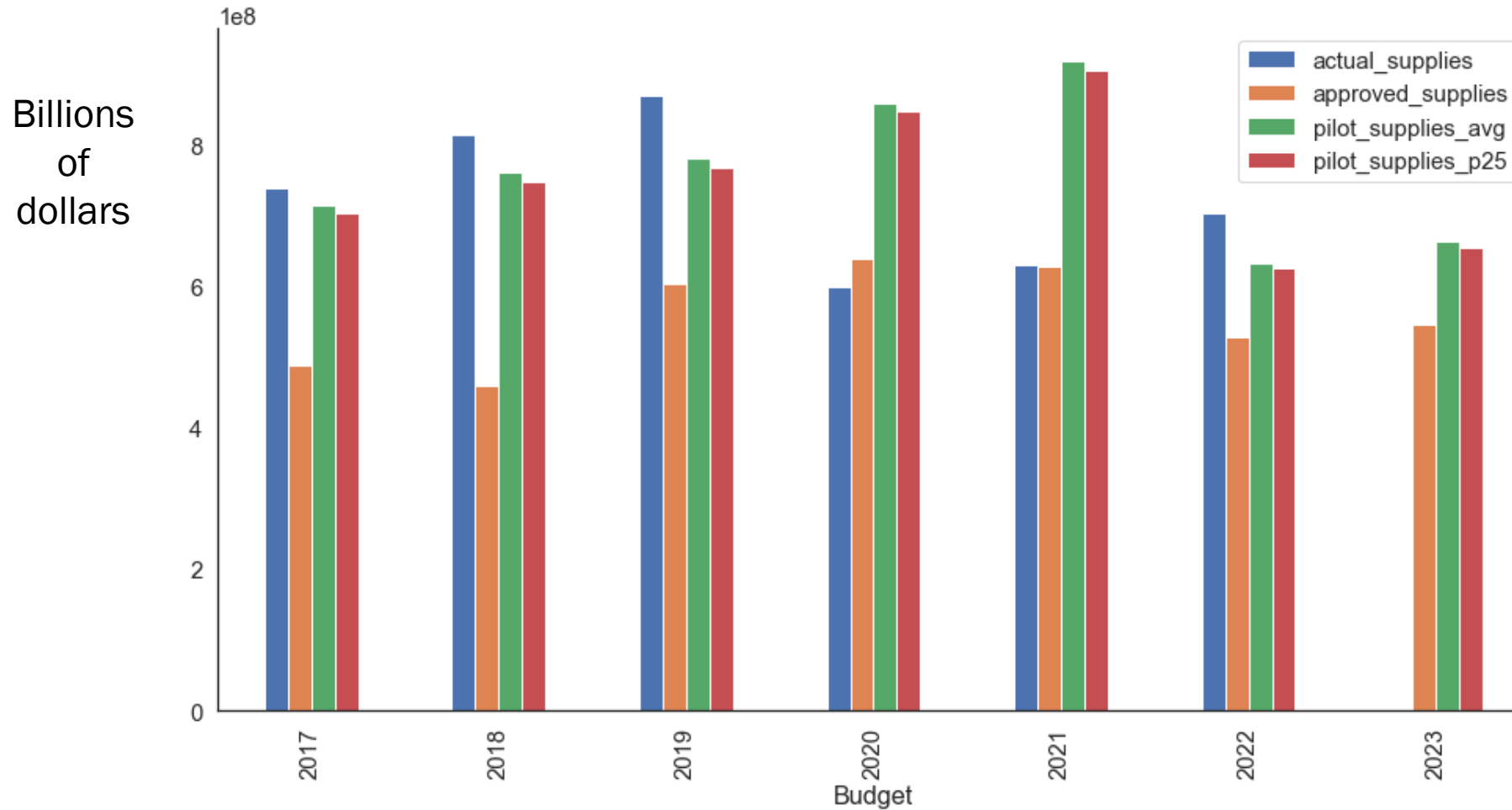
| | Proportion of Actual Labor Expenses | | | | | | | | | | | | | | | | | |
|--------------------|-------------------------------------|-------------|-------------|-------------|------------|-------------|-------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 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 |
| SYSTEM | 103% | 98% | 101% | 102% | 98% | 101% | 102% | 97% | 99% | 100% | 101% | 104% | 103% | 104% | 107% | 108% | 120% | 123% |
| PPS Average | 102% | 97% | 100% | 102% | 98% | 100% | 102% | 97% | 100% | 101% | 101% | 104% | 105% | 102% | 105% | 106% | 106% | 109% |
| 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% |
| CAH Average | 101% | 100% | 103% | 100% | 97% | 100% | 100% | 97% | 100% | 99% | 105% | 108% | 102% | 106% | 108% | 101% | 104% | 106% |
| 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 = 25th percentile of 2-year growth rates in ECI

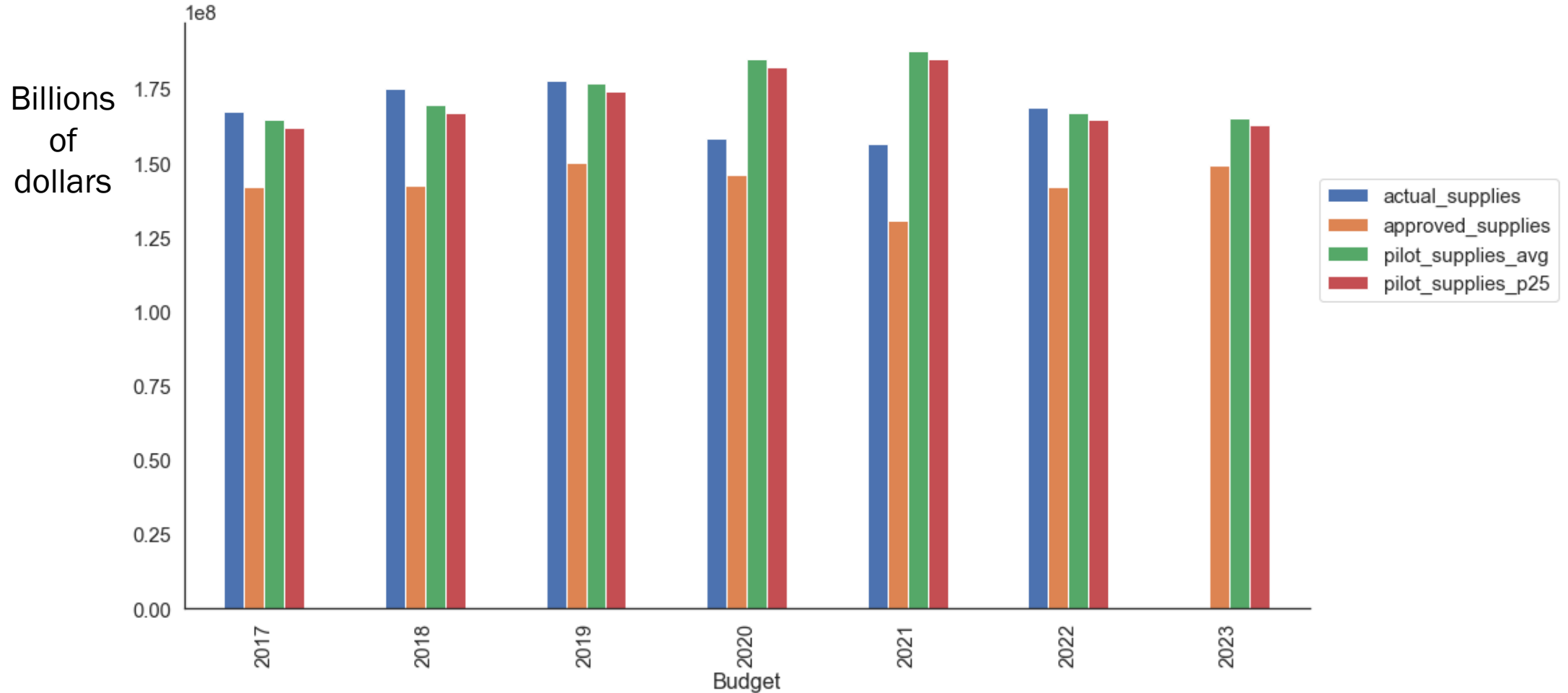
Supplies and Pharmaceuticals

- 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.

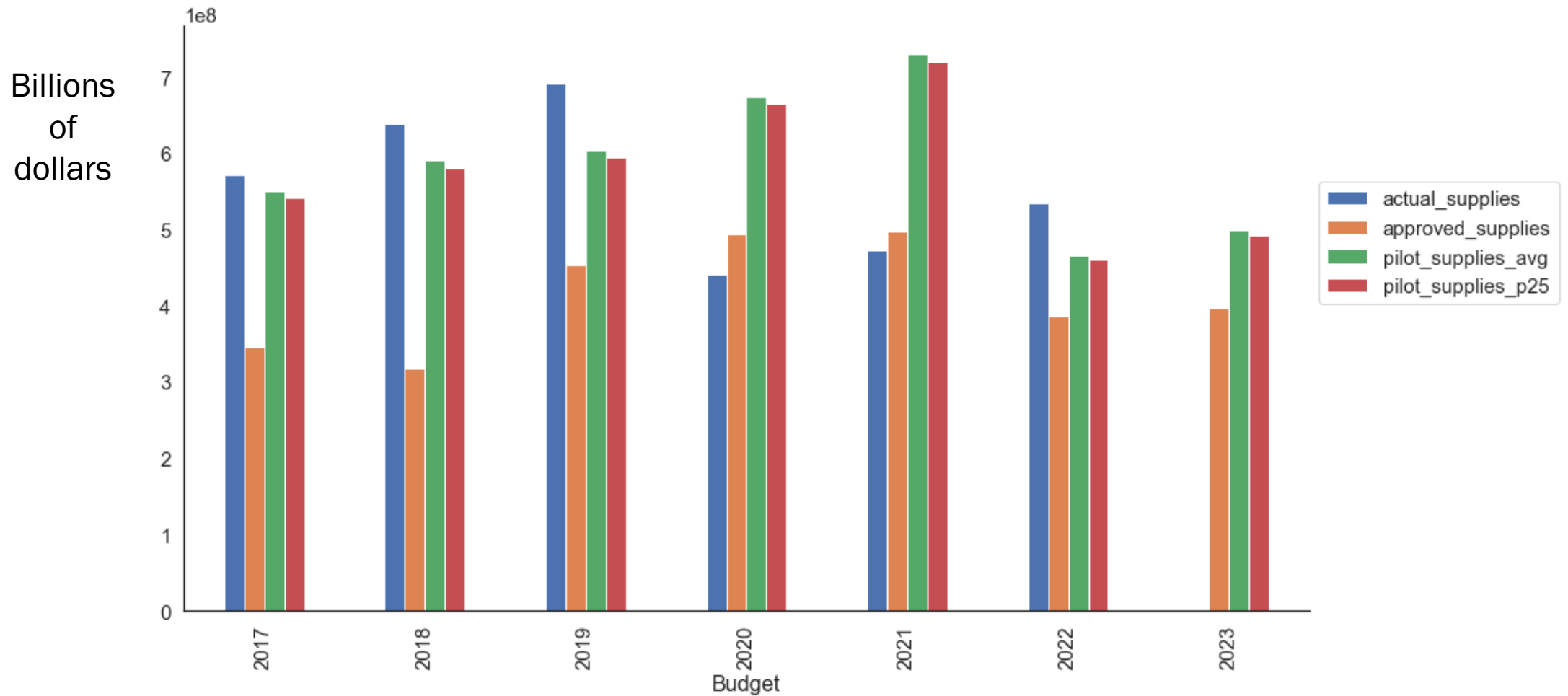
Supplies : Model Comparison - System



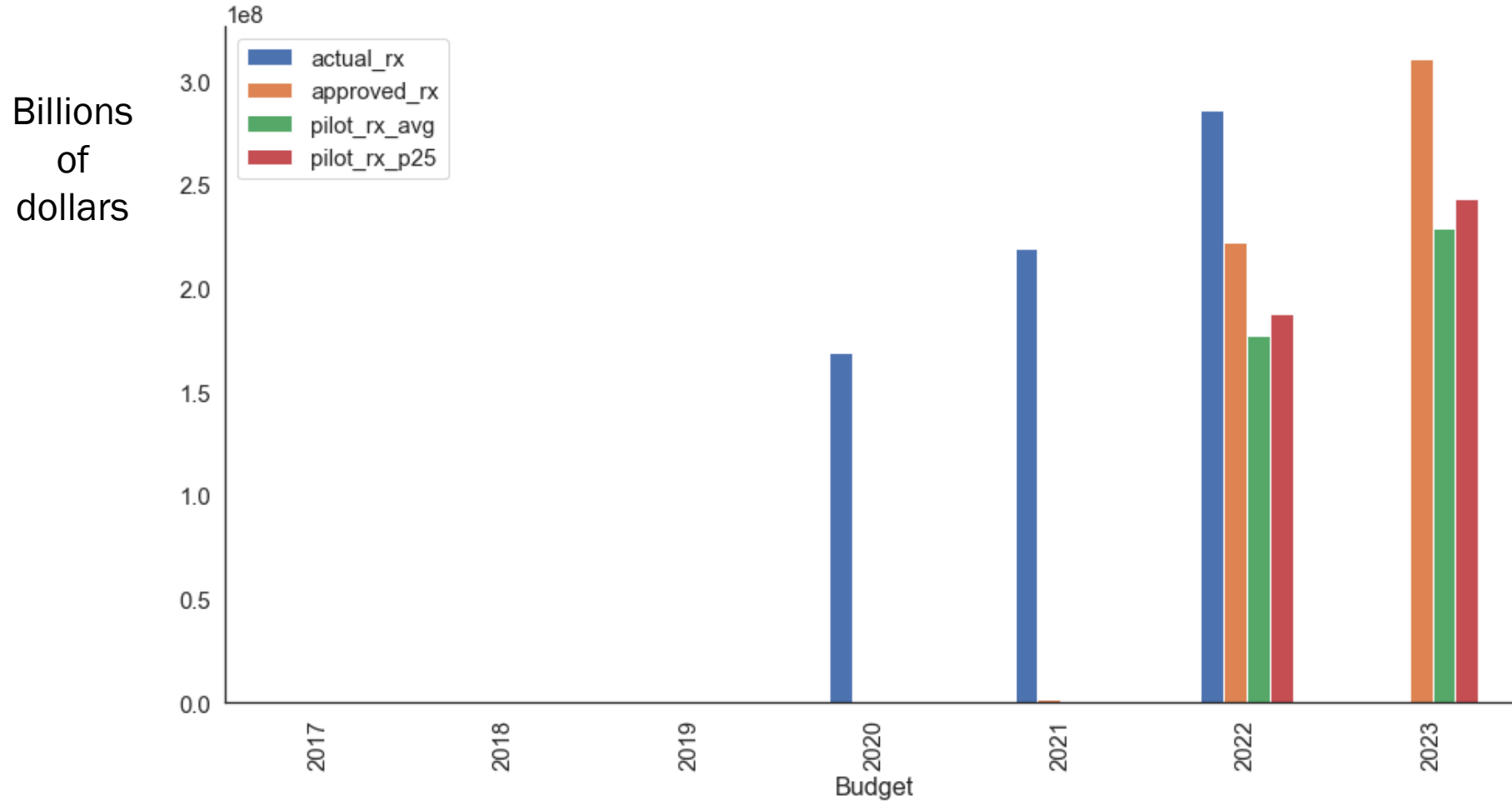
Supplies : Model Comparison - CAH



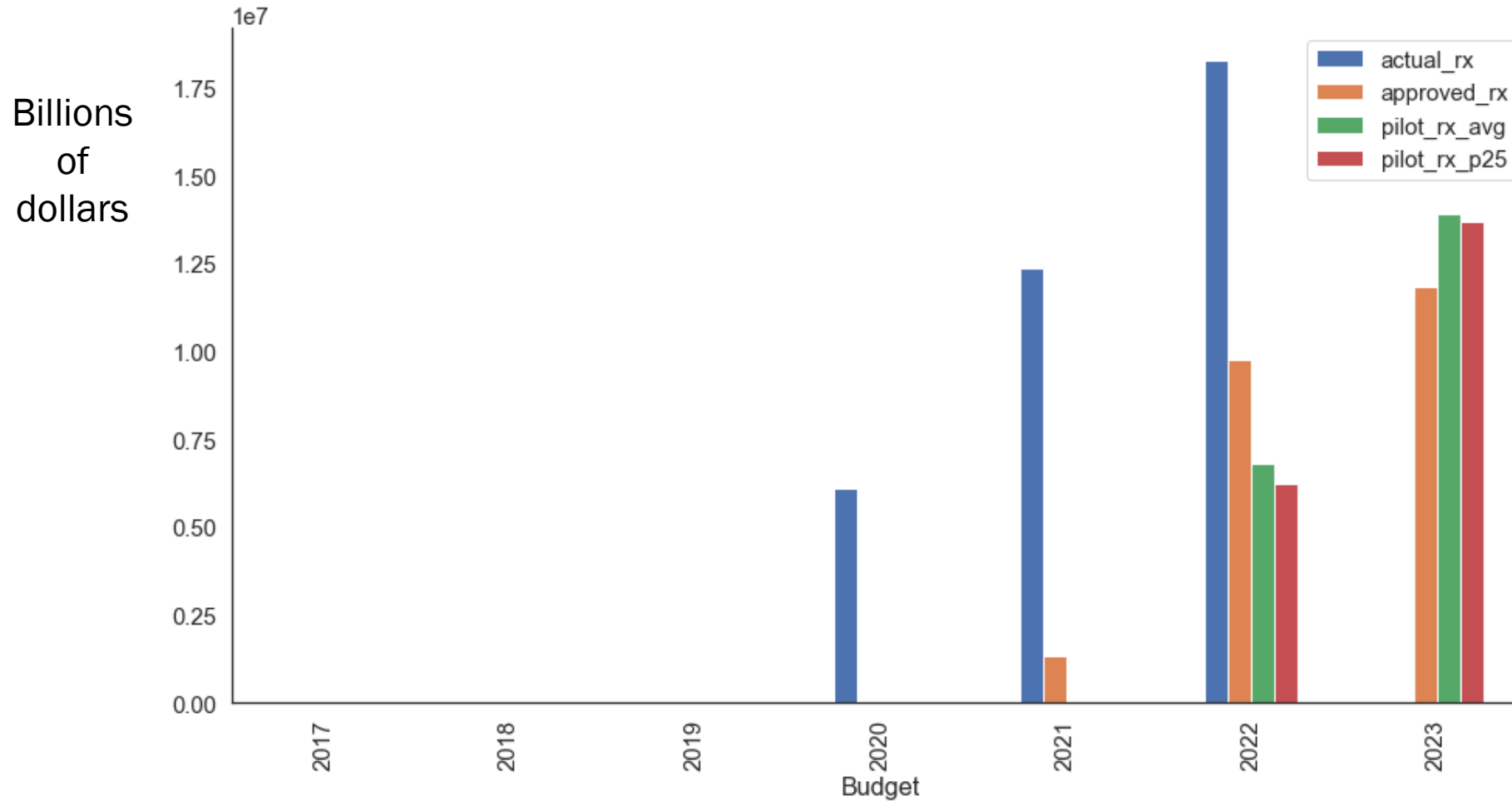
Supplies : Model Comparison - PPS



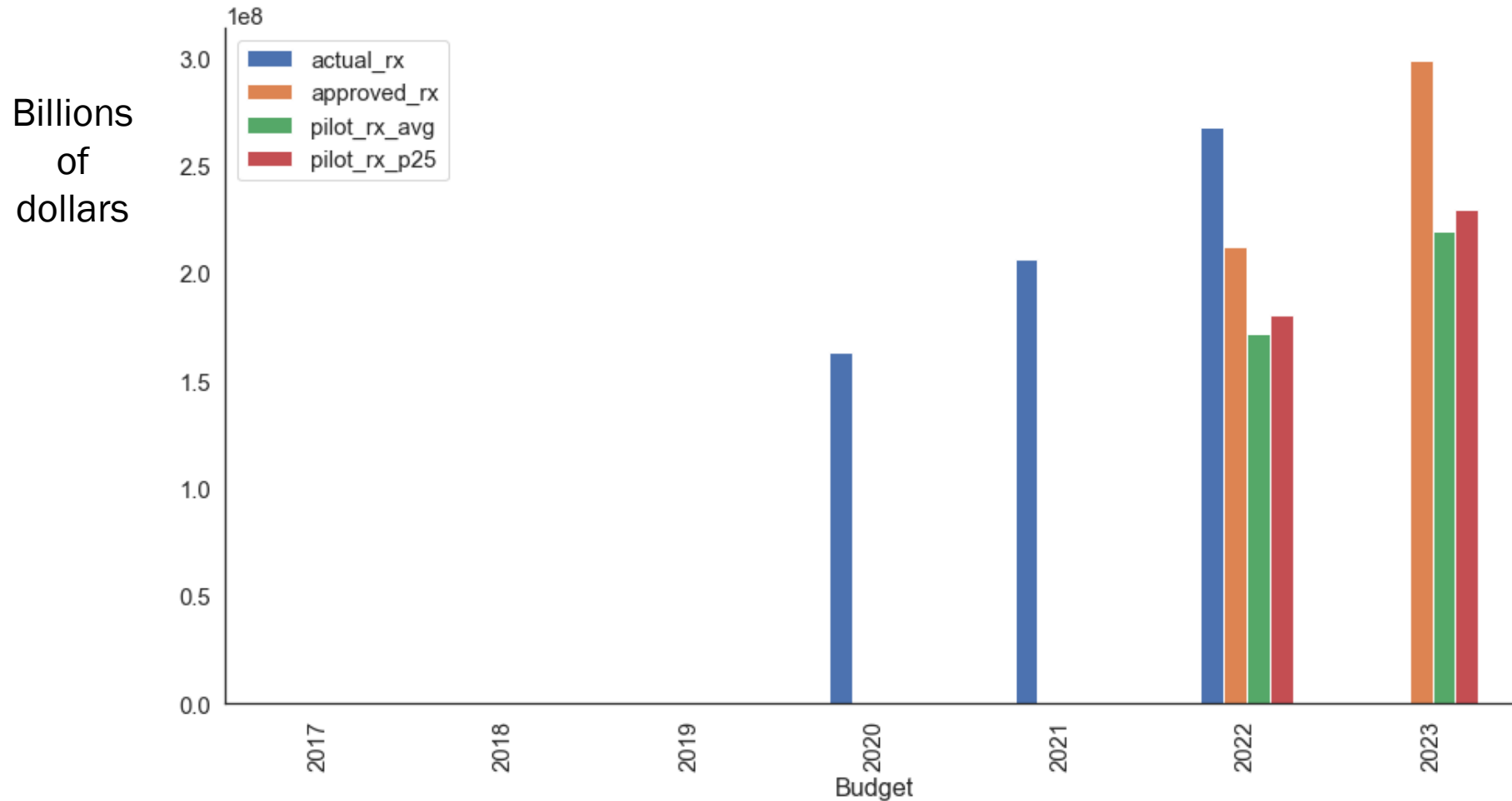
Pharmaceutical Cost: Model Comparison - System



Pharmaceutical Cost: Model Comparison - CAH



Pharmaceutical Cost: Model Comparison - PPS



Labor + Supplies + Rx: Budget Year Summary



Over 100% means actuals EXCEEDED model (i.e. budget less than actual)

Under 100% means actuals WERE LESS THAN model (i.e. budget more than 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 |
| SYSTEM | 115% | 100% | 102% | 119% | 101% | 103% | 113% | 101% | 104% | 106% | 97% | 99% | 112% | 100% | 102% | 115% | 121% | 123% |
| PPS Average | 108% | 99% | 102% | 115% | 100% | 103% | 110% | 102% | 104% | 103% | 98% | 100% | 108% | 100% | 102% | 112% | 111% | 113% |
| University of VT | 128% | 100% | 103% | 133% | 102% | 105% | 122% | 103% | 105% | 111% | 96% | 99% | 115% | 100% | 102% | 120% | 119% | 120% |
| Rutland | 101% | 97% | 99% | 106% | 102% | 105% | 103% | 103% | 105% | 90% | 88% | 90% | 112% | 102% | 104% | 115% | 122% | 125% |
| Central VT | 106% | 102% | 105% | 130% | 99% | 101% | 118% | 104% | 106% | 118% | 103% | 105% | 113% | 99% | 101% | 118% | 109% | 112% |
| Southwestern VT | 101% | 99% | 101% | 101% | 97% | 100% | 101% | 101% | 103% | 97% | 99% | 102% | 103% | 101% | 103% | 108% | 105% | 107% |
| Northwestern | 103% | 98% | 101% | 104% | 99% | 102% | 104% | 99% | 101% | 100% | 102% | 104% | 99% | 100% | 102% | 97% | 101% | 103% |
| CAH Average | 107% | 100% | 103% | 108% | 99% | 101% | 105% | 98% | 100% | 103% | 98% | 101% | 110% | 101% | 103% | 108% | 105% | 108% |
| Northeastern VT | 108% | 104% | 107% | 104% | 100% | 103% | 105% | 104% | 107% | 100% | 105% | 107% | 105% | 101% | 104% | 112% | 108% | 110% |
| Brattleboro | 102% | 97% | 100% | 100% | 101% | 103% | 101% | 96% | 99% | 101% | 102% | 105% | 102% | 104% | 106% | 106% | 101% | 104% |
| Porter | 129% | 101% | 103% | 127% | 97% | 100% | 119% | 101% | 104% | 112% | 101% | 103% | 112% | 88% | 90% | 110% | 96% | 99% |
| North Country | 99% | 98% | 100% | 99% | 93% | 95% | 99% | 98% | 101% | 96% | 103% | 105% | 103% | 103% | 105% | 99% | 99% | 101% |
| Copley | 102% | 102% | 105% | 102% | 101% | 103% | 99% | 99% | 102% | 102% | 102% | 104% | 115% | 114% | 117% | 113% | 114% | 117% |
| Mt. Ascutney | 132% | 97% | 100% | 143% | 102% | 105% | 132% | 101% | 104% | 126% | 96% | 98% | 135% | 103% | 105% | 133% | 109% | 112% |
| Springfield | 98% | 98% | 101% | 105% | 100% | 102% | 97% | 92% | 94% | 86% | 76% | 77% | 89% | 83% | 85% | 85% | 101% | 103% |
| Gifford | 98% | 106% | 109% | 94% | 100% | 102% | 95% | 91% | 93% | 104% | 99% | 101% | 122% | 107% | 109% | 109% | 112% | 115% |
| Grace Cottage | 95% | 98% | 100% | 98% | 96% | 98% | 103% | 98% | 101% | 100% | 103% | 106% | 104% | 104% | 106% | 108% | 106% | 109% |

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

FY24 NPR Benchmark



- Feedback suggests that in this 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 included a 2-year benchmark of growth not more than 8.6% for FY22 to 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 |
|------------------|------------------------|------------------------|------------------------|--------------|
| System | \$3,017,186,107 | \$3,276,664,112 | \$3,273,466,590 | 0.1% |
| PPS TOTAL | \$2,341,127,007 | \$2,542,463,930 | \$2,550,538,240 | -0.3% |
| 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% |
| CAH TOTAL | \$675,126,751 | \$733,187,652 | \$722,928,349 | 1.4% |
| 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



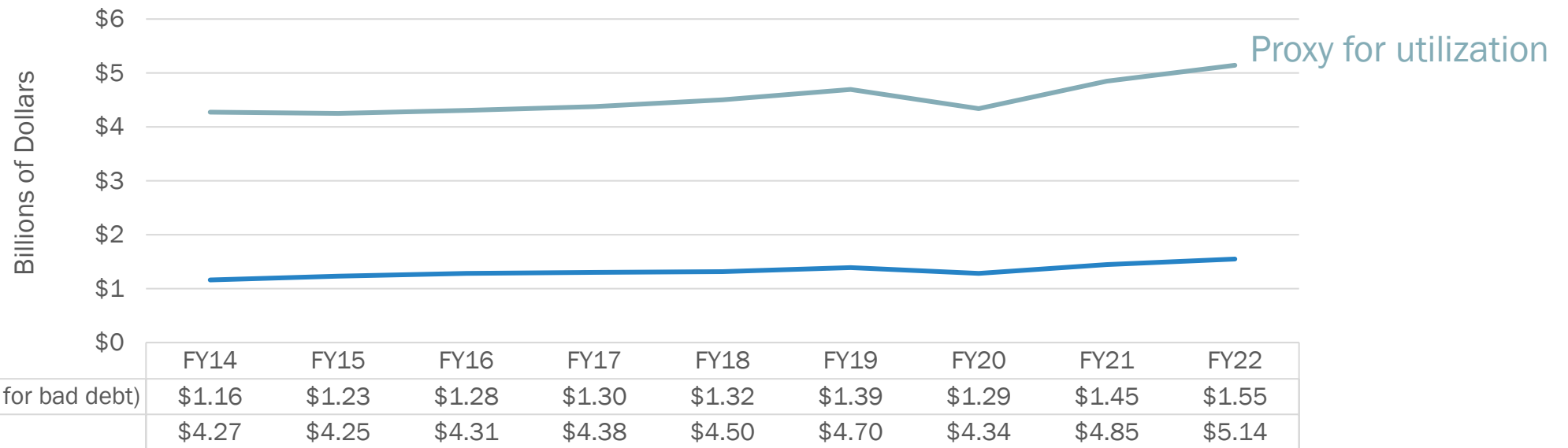
- Note that unlike other factors, this is not directly based on expenses. However, it may be a material assumption in proposed budgets.
 - What is important to the Board in its review of commercial rate assumptions?
- Some potential options include:
 - Review relative to deflated commercial gross patient 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 and represents average annual growth of 3.7% (systemwide). The estimated average price change would be 1.4%.



Historical Decisions

- From FY13 to FY23, the average 2-year change in charge 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 31st**