

# FY24 Hospital Budget Deliberations

Sarah A. Lindberg, Outgoing GMCB Director of Health Systems Finance

Alena Berube, Incoming GMCB Director of Health Systems Finance

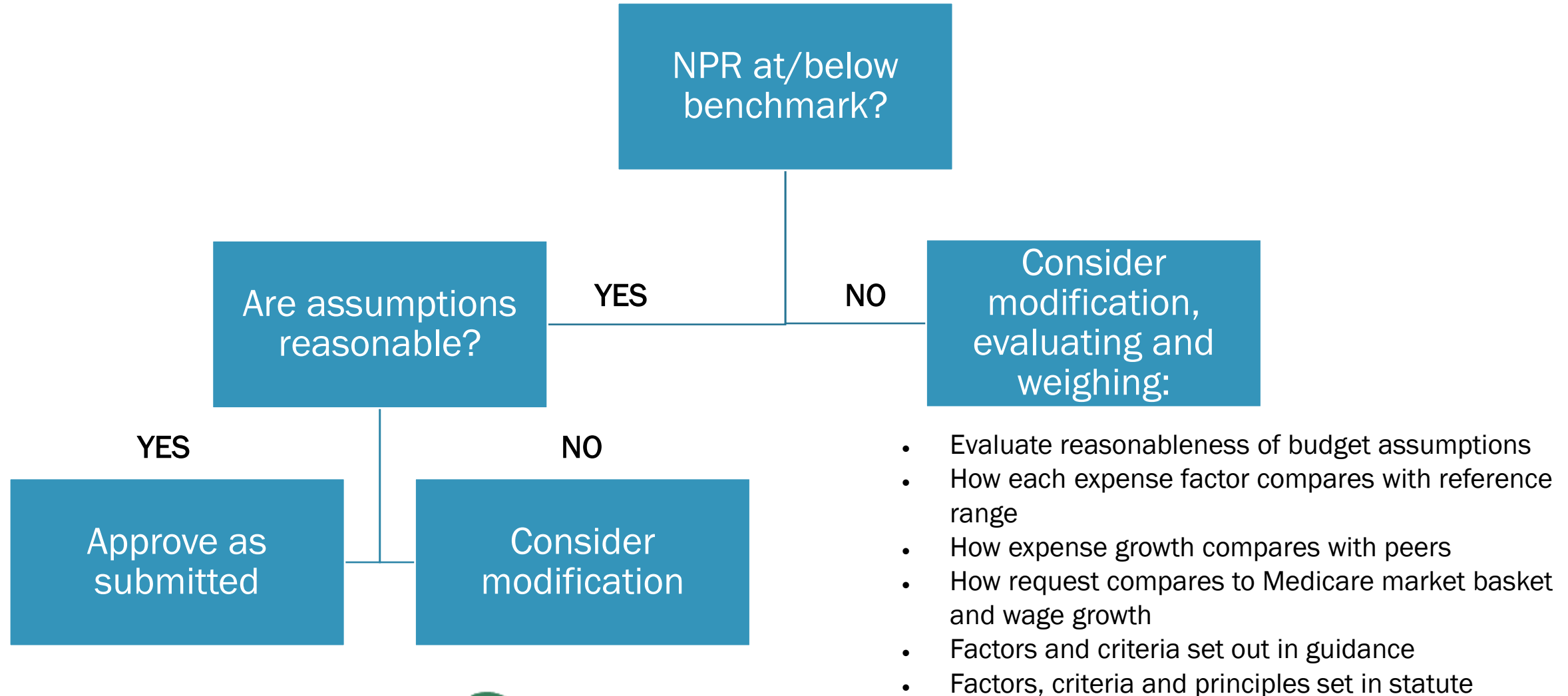
Russ McCracken, Staff Attorney

Sept. 13, 2023

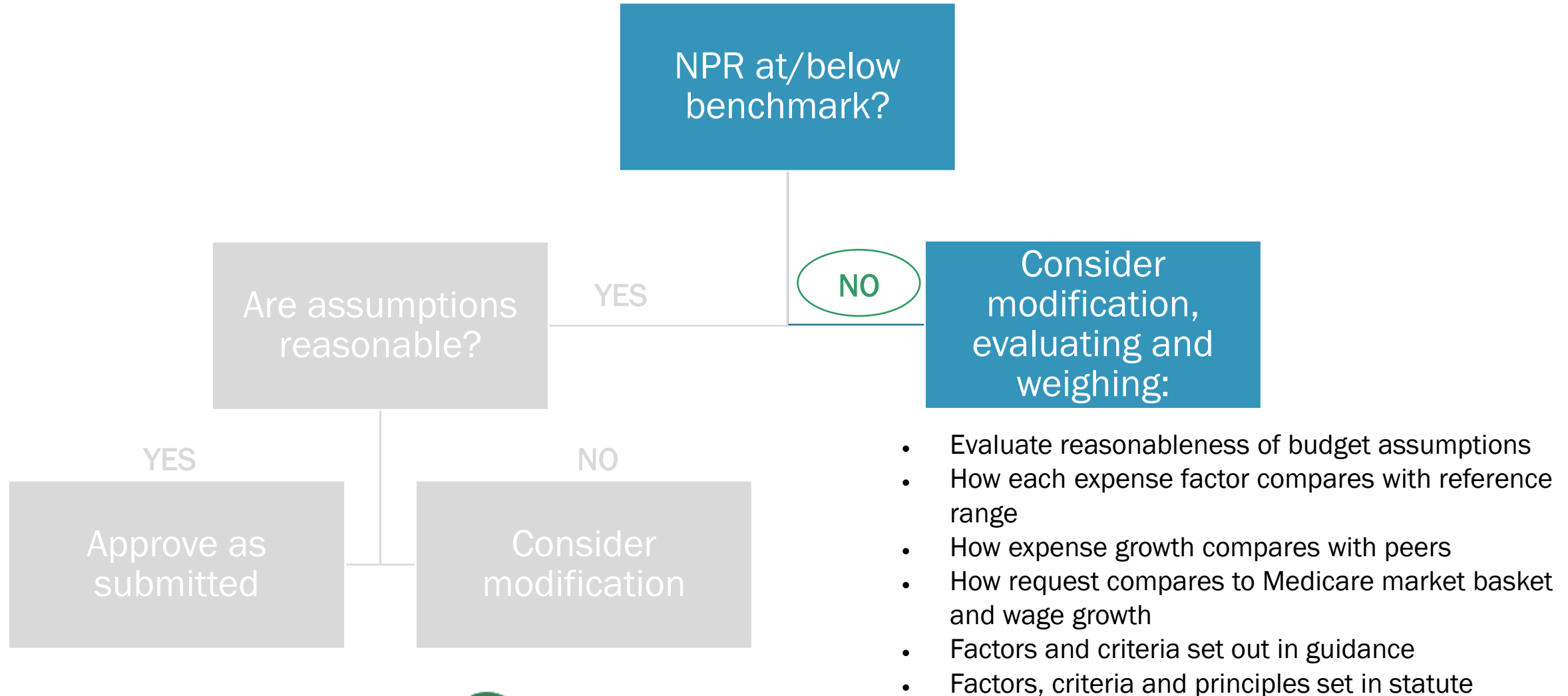
# Overview

- Overview of hospital budget review process
- Hospital budget deliberations:
  - University of Vermont Medical Center
  - Central Vermont Medical Center
  - Porter Hospital
- Potential vote: Standard budget conditions

# FY24 Hospital Budget Decision Tree



# FY24 Hospital Budget Decision Tree



# University of Vermont Medical Center

## Budget Request



### INFLATIONARY REFERENCE RANGE

				7.0% over 2 years		3.1% over FY23P	
	FY23 Approved	FY24 Submitted	FY22 Actual to FY24 Submitted	One Year FY23P to FY24B	Two Year FY22A to FY24B	One Year FY23P to FY24B	Two Year FY22A to FY24B
NPR+FPP	\$1.7 B	\$1.8 B	+ \$356 M	- \$226 M		- \$119 M	
	10.8%	7.6%	23.8%	-10.6%		- 5.6%	
Change in charge	10.0%	10.0%	20.0%	-3.1%	7.0%	3.1%	13.2%
Change in commercial effective rate	14.77%	13.45%	28.22%	-7.8%	7.0%	3.1%	17.87%

# University of Vermont Medical Center

## Performance Summary

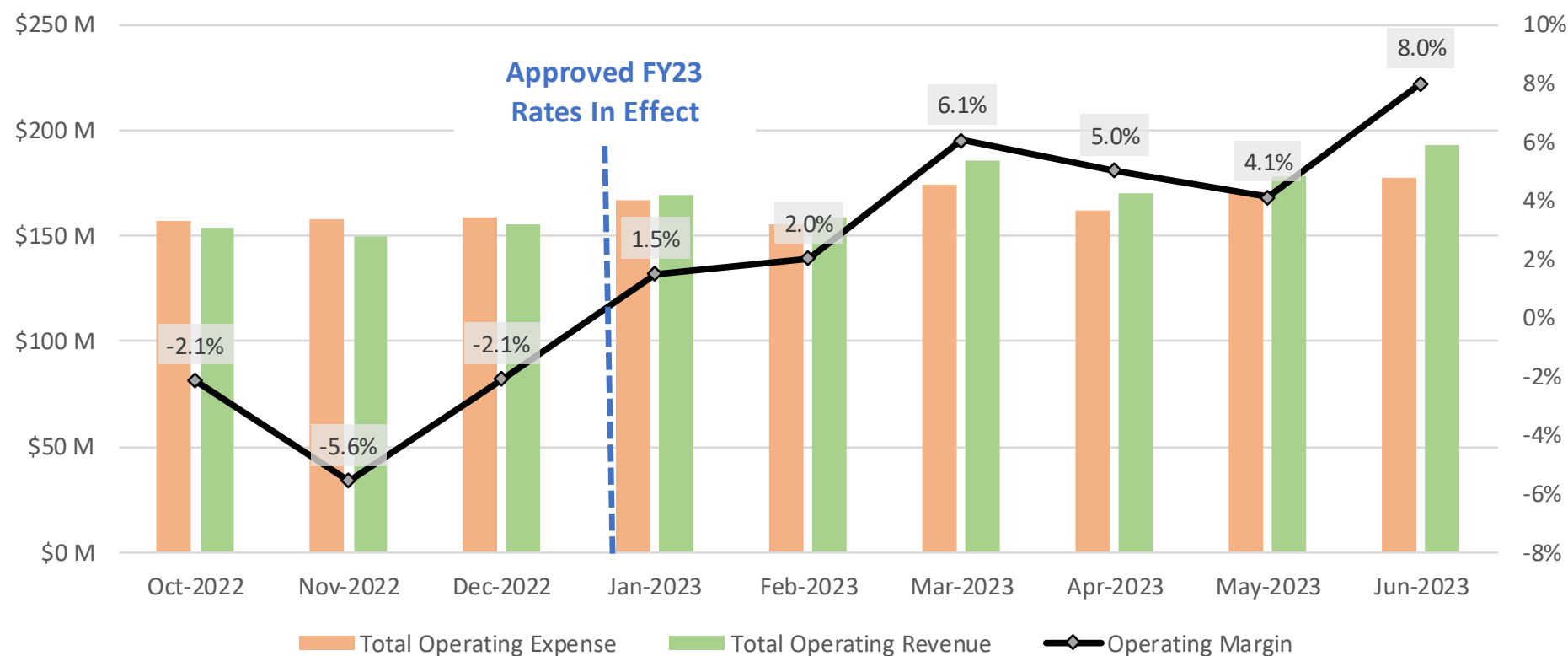


	Hospital	Relative performance ( <i>Lower better</i> )
Expense growth (FY22 to FY24)	15.3%	92 <sup>nd</sup> percentile among VT hospitals
Proportion of admin and general salaries to clinical salaries	24.36%	71 <sup>st</sup> percentile among AAMC hospitals
CMI-adjusted cost per Medicare discharge	\$14,277	83 <sup>rd</sup> percentile among AAMC hospitals
Standardized price – Inpatient	\$28,896	50 <sup>th</sup> percentile among major teaching hospitals
Standardized price – Outpatient	\$351	84 <sup>th</sup> percentile among major teaching hospitals
5-year approved change in charge (FY19 to FY23)	CER = 36.8% ( $\Delta$ charge = 30.2%)	92 <sup>nd</sup> percentile among VT hospitals ( $\Delta$ charge = 62 <sup>nd</sup> )
10-year approved change in charge (FY14 to FY23)	CER = 53.8%, FY15 to FY23 ( $\Delta$ charge = 34.6%)	92 <sup>nd</sup> percentile among VT hospitals ( $\Delta$ charge = 15 <sup>th</sup> )

CER = Commercial Effective Rate

# Improving Operating Margin

UVMHC Operating Margin  
(FY23 Actuals, by Month)



# REVENUE & EFFICIENCY CONSIDERATIONS



# Case Mix Index (CMI)

1. UVMMC claims its Medicare reimbursements have historically been low relative to peer groups.
2. In its 8/17 letter, UVMMC discussed its recent implementation of “Iodine”, a software technology that will augment DRG coding processes leading to the reflection of a higher acuity of patients.  
UVMMC estimated that in FY24 Medicare CMI will increase to 2.3 (12% over FY22 CMI of 2.06) for UVMMC and to 1.8 (23% over FY22 CMI of 1.46) for CVMC.
3. Such software technologies are generally payer-agnostic and have the potential to affect any payer relying on DRG-based reimbursement methodologies.
4. On 8/31, GMCB staff requested further information on the impact of “Iodine” on reimbursements from all payers.

# Case Mix Index (CMI): UVMHC's Response on 9/5

1. Describe the impact your CMI improvement efforts will have on reimbursements from private payers, including the amount of additional reimbursement you would receive from private payers if

**8. Provide all assessments associated with UVMHCN case mix index (CMI) results, including benchmarks (e.g., assessment completed by 3M mentioned in testimony).**

The outside entities that perform our assessments do so on the basis that they remain confidential, for internal use only, and cannot be disclosed. In the calculations below, we have nonetheless summarized those findings and the potential financial impacts in an effort to demonstrate how we derived our projections.

Total Estimated Revenue Opportunity	\$	20,000,000
Medicare % of Inpatient Revenue		52%
Total Estimated Medicare Inpatient Revenue Opportunity	\$	10,400,000
Each 0.01 Change in CMI Medicare Revenue Value	\$	534,380
Medicare CMI Increase Opportunity		0.19
Projected FY23 Medicare CMI		2.11
Projected Future Medicare CMI		2.30

age plans have premiums that are set by CMS. Premiums take into consideration the risk through accurately coded claims. Medicare Advantage plans routinely audit providers to ensure accurate coding by providers. Traditionally our Medicare Advantage payers have had coding reviews, but we have received no insight into the results of those audits or how they impacted CMI. We have various Medicare Advantage plans that have both coding and audits as part of our performance based contracts, as customary. For direct impact to Medicare Advantage plans, we suggest that the GMCB inquire to the payers.

August 31, 2023

Owen Foster, J.D., Chair  
Jessica Holmes, Ph.D.  
Robin Lunge, J.D., MHCD  
David Murman, M.D.  
Thom Walsh, Ph.D., MS, MSPT

Green Mountain Care Board  
144 State Street  
Montpelier, VT 05620

Dear Members of the Green Mountain Care

This is to explain the impact to Blue Cross VT of an increase in the average Case Mix Index (CMI) on our members. CMI is neutral with these changes, efforts to increase CMI for commercial patients and with a hospital under the DRG methodology groups through higher claims spending, member rates and rate payers through higher premiums.

We estimate that for every 0.01 increase in the average CMI at UVMMC for Blue Cross VT members, payments will increase by approximately 0.7%. During their hospital budget hearing, UVMMC discussed a DRG optimization program to increase their average CMI from 2.061 to 2.3. At our current negotiated rates and without any other changes, a corresponding increase in CMI for our members would result in approximately \$11 million of higher payments to the hospital. This amount will increase by the same percentage the GMCB approves in their budget order for 2024.

Blue Cross VT supports a hospital's effort to maximize the revenue from government payers, but we need to recognize that there will be a secondary impact on the payment from commercial payers.

Please let us know if you have any additional questions about the potential impact from an increase in the CMI on Blue Cross VT commercial payments.

Thank you,



Sara Teachout  
Corporate Director, Government and Media Relations

# CMI - Public Comment



We estimate that for every 0.01 increase in the average CMI at UVMMC for Blue Cross VT members, payments will increase by approximately 0.7%. During their hospital budget hearing, UVMMC discussed a DRG optimization program to increase their average CMI from 2.061 to 2.3. At our current negotiated rates and without any other changes, a corresponding increase in CMI for our members would result in approximately \$11 million of higher payments to the hospital. This amount will increase by the same percentage the GMCB approves in their budget order for 2024.

Blue Cross VT supports a hospital's effort to maximize the revenue from government payers, but we need to recognize that there will be a secondary impact on the payment from commercial payers.

# What we know about UVMHN CMI estimates



Payer	Estimated Impact (Source)
Medicare	\$20 M (UVMHN est.*)
BCBS	\$11 M (BCBS public comment)
Medicaid	Unknown, but >\$0
MVP	Unknown, but >\$0
Other Commercial Payers	Unknown, but >\$0
Bad Debt Free Care	Unknown, but >\$0
Total Known Estimated Impact	\$31 M
Total Estimated Impact	\$31 M + X?

\*Unclear from UVMMC's 9/5 response if this is Medicare FFS only or also includes Medicare Advantage



# Investment Gains

## Sale of Investments

During the hearing to discuss the UVM Medical Center FY24 budget, the HCA asked about the \$61M gain from our organization's "sale of investments". The HCA's subsequent letter to the Board again referenced this figure to justify their recommendation that our budget be reduced. Here, we wish to clarify two pertinent facts:

1. It is inaccurate to characterize our financial gains from the sale of investments as \$61M because only a portion of this figure is actually reflective of such proceeds. In actuality, \$10M of the \$61M is the actual gain on the sale of our investments; the remaining \$51M is unrealized gain on our investments. This unrealized gain will change as the market changes: it may go up, but it could also go down.
2. We used the \$10M from the sale of our investments to fund our operations – to pay our bills, pay our employees, etc. – because we were not generating enough cash from our core operations (caring of our patients) to do so without an infusion of much-needed financial resources.

# UVMMC

## FY23 Unanticipated Net Income

FY23 Approved Margin: 2.4%  
FY23 Projected Margin: 3.8%

<i>millions</i>	FY22 Oct – FY23 June	Annualized
Projected vs. Approved	\$41.4	\$55.2
Approved vs. Actual	\$25.3	\$33.7

# NY Medicaid Rate Inc.

*2. What is the estimated impact of the 7.5% Medicaid rate increase in NY State for each UVMHN hospital for inpatient, outpatient, and professional services?*

The only hospital in the Network which NY Medicaid rate increases could marginally impact is UVMHC. The actual NY Medicaid increases were 7.5% on inpatient and 6.5% on outpatient services. These increases were factored into all Network New York hospitals' FY24 budgets. For NY Medicaid patients in UVMHC's FY24 budget, none of these increases were finalized at the time of budget development. We also did not know if they would be applied to out-of-state providers the same as NY hospitals. We are currently seeking confirmation from the NY Department of Health if those same rate increases will apply to out-of-state providers for NY Medicaid patients. If it is determined those same rate increases would apply to NY Medicaid patients seeking services at UVMHC, the estimated impact would be \$2.2M of additional net patient revenue.

# OpEx Outpacing Inflation

<i>(millions)</i>	OpEx (FY24 Budget)	OpEx (2yr @ 7%)	OpEx (Median)	Budget vs. Inflation (\$)	Budget vs. Inflation (%)	Budget vs. Median (\$)	Budget vs. Median (%)
UVMHN (VT Hospitals)	\$2,560.1	\$2,386.7	\$2,414.2	\$173.3	107%	\$145.9	106%
Porter	\$120.2	\$109.2	\$110.4	\$11.1	110%	\$9.8	109%
CVMC	\$308.1	\$299.8	\$303.3	\$8.3	103%	\$4.8	102%
UVMHC	\$2,131.7	\$1,977.7	\$2,000.5	\$153.9	108%	\$131.2	107%



# Shared Admin Services

Shared Administrative Services - VT Share per GPR (84.6%)							
<i>millions</i>	FY24 Budget	Median (OpEx @ FY24 Budget)	Diff \$	Diff %	Median (OpEx @ 2YR Inflation)	Diff \$	Diff %
UVMHN	\$352.12	\$325.13	<b>\$26.99</b>	<b>8.3%</b>	\$303.12	<b>\$49.00</b>	<b>16.2%</b>
UVMHC	\$287.24	\$265.22	\$22.02		\$247.26	\$39.97	
CVMC	\$45.24	\$41.77	\$3.47		\$38.94	\$6.30	
Porter	\$19.64	\$18.14	\$1.51		\$16.91	\$2.73	

Shared Administrative Services - VT Share per FY22 Medicare Cost Reports (77.6%)							
<i>millions</i>	FY24 Budget	Median (OpEx @ FY24 Budget)	Diff \$	Diff %	Median (OpEx @ 2YR Inflation)	Diff \$	Diff %
UVMHN	\$322.98	\$325.13	<b>(\$2.14)</b>	<b>(0.7%)</b>	\$303.12	<b>\$19.87</b>	<b>6.6%</b>
UVMHC	\$263.47	\$265.22	(\$1.75)		\$247.26	\$16.21	
CVMC	\$41.50	\$41.77	(\$0.28)		\$38.94	\$2.55	
Porter	\$18.02	\$18.14	(\$0.12)		\$16.91	\$1.11	

Note: 2YR Inflation is 7% and Median is based on UVMHN's benchmarking data, Syntellis, provided in budget materials

# Shared Admin Services

Admin Services ( <i>millions</i> )	Shared Admin (UVMHN Total)	Shared Admin (VT Share)	Median (%)	Median (\$)	VT Share vs. Median (\$)	VT Percentile	VT Share vs. Median (%)	VT Share X of Median
UVMHN (Vermont Share)			77.6%					
Fiscal Services	\$24.1	\$18.7	0.68%	\$17.4	\$1.3	0.73%	7%	1.07
Human Resources	\$30.6	\$23.8	0.47%	\$12.0	\$11.7	0.93%	98%	<b>1.98</b>
Information Technology	\$155.6	\$120.8	2.77%	\$70.9	\$49.9	4.72%	70%	<b>1.70</b>
Revenue Cycle	\$82.4	\$63.9	0.63%	\$16.1	\$47.8	2.50%	296%	<b>3.96</b>
Supply Chain	\$21.4	\$16.6	0.59%	\$15.1	\$1.5	0.65%	10%	1.10
SASO Subtotal	<b>\$314.1</b>	<b>\$243.7</b>	<b>5.14%</b>	<b>\$131.6</b>	<b>\$112.1</b>	<b>9.52%</b>	<b>85%</b>	<b>1.85</b>

## Key takeaways

- Despite taking the most conservative assumptions, shared Human Resources, IT, and Revenue remain between double and four times the median, using Syntellis benchmarks (provided by UVMHN)
- If we believe there is room to be more efficient with hospital-specific operating expenses, the denominator used here would be smaller, putting these and other lines items would be further over the median

# Shared Admin: UVMHN Opportunity



Allocation (millions)	UVMHC	CVMC	PMC
% NPR/FPP	81.6%	12.8%	5.6%
\$ over Median	\$91.48	\$14.41	\$6.26

# University of Vermont Medical Center

## Staff recommendation



- Modify budget from submitted as follows:
  - Approve NPR+FPP growth 23.8% as submitted
  - Adjust 10.0% change in charge to 3.1%
  - 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
  - FY23 YTD results for operating margin, operating EBIDA margin, and total margin exceeding budget; especially since new commercial rates were implemented in Jan 2023.
  - Expense growth, costs per discharge, and admin-to-clinical salaries above 75<sup>th</sup> percentile

# Suggested motion language

## *Suggested motion language (modify as needed):*

*Move to approve the University of Vermont Medical Center's budget as modified hereby, with a **23.8% increase** from FY2022 actual to FY2024 budgeted NPR/FPP; a **3.1% charge increase** from FY2023 to FY2024 (reduced from 10.0%); and subject to the standard budget conditions as approved by Board **and an additional condition as follows:***

- UVMHC shall submit to the Board within 3 months a plan addressing UVMHC's efforts to reduce costs and control overall expense growth in connection with, among other things, information technology, human resources, management, and revenue cycle management. Further, UVMHC is required to meet monthly with Board staff for monitoring purposes.

# FY24 Standard Budget Conditions



- 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 commercial rate increase is 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.

# FY24 Standard Budget Conditions (cont'd)



- F. On or before January 31, 2024, [HOSPITAL] shall file with the Board, in a form and manner prescribed by GMCB staff, such information as the Board determines necessary to review the hospital's FY23 actual operating results.
- G. [HOSPITAL] shall file with the Board one copy of its FY23 audited financial statements and associated management letter(s), as well as the parent organization's audited consolidated financial statements, if applicable, 15 days after the hospital receives its statements, or by January 31, 2024, whichever is earlier.
- H. [HOSPITAL] shall participate in telephonic check-ins to be scheduled at the discretion of the Board Chair in consultation with Board staff based on the hospital's FY24 year-to-date operating performance.
- I. [HOSPITAL] shall advise the Board of any material changes to its FY24 budgeted revenues and expenses, or to the assumptions used in determining its budget, including:
  - a. changes in Medicaid, Medicare, or commercial reimbursement;
  - b. additions or reductions in programs or services to patients; and
  - c. any other event that could materially change the approved NPR/FPP budget.

# FY24 Standard Budget Conditions (cont'd)



- J. Hospital shall develop a system to be able to measure and report to the GMCB the referral lag and the visit lag for each hospital-owned primary and specialty care practice as well as the top five most frequent imaging procedures. Referral lag means the percentage of appointments scheduled within 3 business days of referral (percentage of all referrals where the clinic or hospital has completed scheduling an appointment within 3 business days of receiving the referral, regardless of the date on which the appointment will take place). Visit lag means the percentage of new patient appointments scheduled for the patient to be seen within 2 weeks, 1 month, 3 months, and 6 months of their scheduling date (the scheduling date is the date the hospital or practice schedules the appointment, not the date the referral was received or the date the patient will be seen).
- Hospitals shall report to the GMCB the referral lag and the visit lag for each hospital-owned primary and specialty care practice as well as the top five most frequent imaging procedures on April 30, 2024, for February and March 2024, and as required by the GMCB's FY25 hospital budget guidance.



# FY24 Standard Budget Conditions (cont'd)



- K. [HOSPITAL] shall participate in the Board's work, including the community engagement process, pursuant to Act 167.
- L. [HOSPITAL] shall timely file all forms and information required for practice acquisitions and/or transfers as determined by GMCB staff, if applicable.
- M. [HOSPITAL] shall file all requested data and other information in a timely and accurate manner.
- N. After notice and an opportunity to be heard, the GMCB may amend the provisions contained herein, and issue an amended order, consistent with its authority as set forth in 18 V.S.A. Chapter 220, Subchapter 1, 18 V.S.A. Chapter 221, Subchapter 7, and GMCB Rule 3.000.
- O. All materials required above shall be provided electronically, unless doing so is not practicable.
- P. The findings and orders contained in this decision do not constrain the Board's decisions in future hospital budget reviews, future certificate of need reviews, or any other future regulatory or policy decisions.

# Standard Budget Conditions: Suggested Motion Language

## *Suggested motion language:*

*Move to approve the standard budget conditions as presented to the Board [and with the modifications discussed today] to be included as the default conditions for the FY24 hospital budget orders, subject to any changes to the budget conditions or additional conditions approved by the Board for any specific hospitals. For avoidance of doubt, these are the standard budget conditions referenced in previously approved FY24 hospital budgets.*