

# VAHHS Request for Reconsideration of FY24 Hospital Budget Guidance

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May 31, 2023

# Background

- In March 2023, GMCB approved the FY24 Hospital Budget Guidance.
- As outlined in the guidance, FY24 is a bridge year between the way Vermont has historically regulated hospital budgets and new methods.
  - In the past, hospital budget regulation used Net Patient Service Revenue (NPSR or NPR) growth as a benchmark.
  - In the future, GMCB intends to use benchmarks associated with relative expense growth instead of NPR.
- The FY24 guidance is the second year of a 2-year growth target established for FY23
  - FY23 guidance established an 8.6% NPR guidance benchmark from FY22 to FY24

# Request from VAHHS

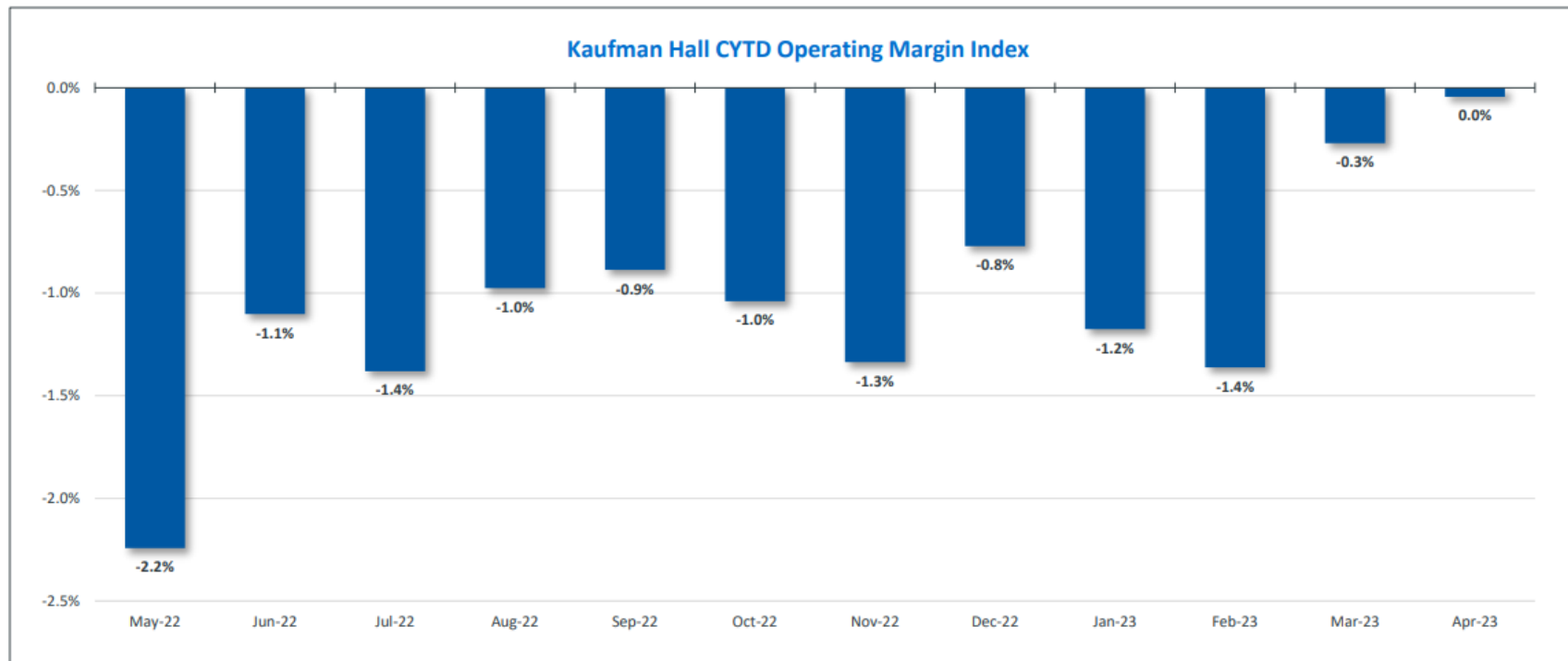


- On May 3, 2023, the Vermont Association of Hospitals and Health Systems (VAHHS) sent a letter requesting that the GMCB either:
  - (1) utilizes a growth factor to support positive operating margins; or
  - (2) stipulates to non-enforcement of the FY 2024 Actual Budgets.
- The letter cites concerns pertaining to hospitals' fiscal health and ability to serve their communities if they were to follow the guidance.
- The letter also highlights the challenges of being uncertain about approved budgets until 2 weeks prior to the start of the fiscal year.

# US Hospital Operating Margins

According to Kaufman Hall's May 2023 update, cumulative operating margins for US hospitals have been negative for the past year. Volatility in patient volume and continuing expense growth are hindering financial recovery. There may also be early indicators of the impact of Medicaid redeterminations starting to manifest.

## Operating Margin



Kaufman Hall, National Hospital Flash Report (May 2023)

\* Note: The Kaufman Hall Hospital Operating Margin and Operating EBITDA Margin Indices are comprised of the national median of our dataset adjusted for allocations to hospitals from corporate, physician, and other entities.

# Question 1

- Should the FY24 Benchmark for Net Patient Service Revenue Growth be increased?

Why adjust guidance?	Why not adjust guidance?
<ul style="list-style-type: none"><li>• Opportunity to incorporate more recent information</li><li>• Potential response to significant increases in hospital expenses, especially those associated with workforce</li><li>• Hospitals suggest it may provide more certainty in developing budgets</li></ul>	<ul style="list-style-type: none"><li>• Reduces consistency and predictability intended by establishing a multi-year benchmark</li><li>• There is not a single number that fits all hospitals</li><li>• May contribute to higher prices for consumers, especially for those with commercial or self-funded coverage</li></ul>

## Question 2

- Should enforcement be waived if the FY24 Benchmark for Net Patient Service Revenue Growth is not increased?

Why to waive enforcement?	Why not to waive enforcement?
<ul style="list-style-type: none"><li>• Mitigates concern for overages or financial penalties if hospitals propose budgets that are very difficult to achieve</li></ul>	<ul style="list-style-type: none"><li>• Limits GMCB's ability to address circumstances that may warrant enforcement</li></ul>

- The only time enforcement has been waived by the GMCB to date was associated with flexibilities related to the COVID-19 pandemic

# Public Comment



The GMCB has received 98 written public comments

Maintain 8.6% Benchmark 47 comments	Increase 8.6% Benchmark 51 comments
<p>Payers and employer groups: <b>2</b> Small employers: <b>8</b> Independent providers and their patients: <b>30</b> HCA: <b>1</b> Non-affiliated: <b>6</b></p> <ul style="list-style-type: none"><li>- Expense pressures are being faced by more than hospitals</li><li>- Long history of premium increases for individuals, employees, and employers</li><li>- Fosters accountability and transparency</li><li>- Hospital rates a significant driver of premium increases</li><li>- Interaction with reimbursement rates available to independent providers</li></ul>	<p>Hospital-affiliated: <b>37</b> (staff, employees, trustees) Hospital community partners: <b>11</b> Vermont Medical Society: <b>1</b> VAHHS: <b>2</b></p> <ul style="list-style-type: none"><li>- Difficult-to-constrain expense pressures</li><li>- Unprecedented inflation</li><li>- Concerns about harm to communities if hospitals not financially viable</li><li>- Inability to reinvest without adequate revenue</li></ul>

# Proportion of NPSR Approved from Budget Requests



Over time, hospital budgets have largely been approved close to the submitted request (over 99% for total and commercial NPSR).

*Note: The finance team is working to improve longitudinal information to consistently reflect budget adjustments.*

All Payers	FY19	FY20	FY21	FY22	FY23	FY19-23	Commercial Payers Only	FY19	FY20	FY21	FY22	FY23	FY19-23
Brattleboro Memorial Hospital	98.57%	97.98%	100.00%	97.38%	100.00%	98.82%	Brattleboro Memorial Hospital	97.41%	97.49%	100.00%	99.17%	100.00%	98.88%
Central Vermont Medical Center	100.00%	98.21%	99.61%	99.24%	100.00%	99.43%	Central Vermont Medical Center	101.48%	98.61%	99.20%	98.48%	96.38%	98.66%
Copley Hospital	97.45%	100.00%	98.86%	99.15%	100.00%	99.15%	Copley Hospital	97.01%	100.00%	82.85%	98.94%	100.00%	95.82%
Gifford Medical Center	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	Gifford Medical Center	99.21%	100.00%	100.00%	100.00%	100.00%	99.82%
Grace Cottage Hospital	100.00%	95.24%	98.27%	98.74%	100.00%	98.49%	Grace Cottage Hospital	100.00%	95.24%	98.47%	100.00%	100.00%	98.90%
Mt. Ascutney Hospital & Health Ctr	100.00%	97.72%	100.00%	100.00%	100.00%	99.57%	Mt. Ascutney Hospital & Health Ctr	100.00%	93.66%	100.00%	100.00%	100.00%	98.84%
North Country Hospital	100.00%	100.78%	100.00%	98.99%	100.00%	99.94%	North Country Hospital	100.00%	100.00%	100.00%	98.59%	98.62%	99.41%
Northeastern VT Regional Hospital	99.49%	99.79%	100.00%	100.00%	100.00%	99.87%	Northeastern VT Regional Hospital	99.30%	99.75%	100.00%	100.00%	100.00%	99.83%
Northwestern Medical Center	100.00%	100.00%	95.99%	100.00%	100.00%	99.20%	Northwestern Medical Center	100.00%	100.00%	93.05%	100.00%	99.65%	98.50%
Porter Medical Center	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	Porter Medical Center	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Rutland Regional Medical Center	99.92%	100.00%	100.00%	100.00%	99.57%	99.89%	Rutland Regional Medical Center	99.50%	100.00%	100.00%	100.00%	100.71%	100.08%
Southwestern VT Medical Center	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	Southwestern VT Medical Center	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Springfield Hospital	100.00%	100.00%	90.04%	100.22%	100.00%	98.02%	Springfield Hospital	100.00%	100.00%	87.94%	95.50%	100.00%	96.23%
The University of Vermont Medical Center	100.00%	99.77%	99.35%	100.00%	100.00%	99.83%	The University of Vermont Medical Center	100.91%	99.62%	98.93%	99.99%	97.18%	99.19%
<b>System</b>	<b>99.86%</b>	<b>99.61%</b>	<b>99.23%</b>	<b>99.79%</b>	<b>99.96%</b>	<b>99.70%</b>	<b>System</b>	<b>100.33%</b>	<b>99.50%</b>	<b>98.34%</b>	<b>99.70%</b>	<b>98.16%</b>	<b>99.14%</b>
<b>UVMHN Hospitals</b>	<b>100.00%</b>	<b>99.58%</b>	<b>99.41%</b>	<b>99.90%</b>	<b>100.00%</b>	<b>99.78%</b>	<b>UVMHN Hospitals</b>	<b>100.93%</b>	<b>99.52%</b>	<b>99.01%</b>	<b>99.81%</b>	<b>97.21%</b>	<b>99.17%</b>
<b>Non-UVMHN Hospitals</b>	<b>99.65%</b>	<b>99.66%</b>	<b>98.91%</b>	<b>99.62%</b>	<b>99.89%</b>	<b>99.56%</b>	<b>Non-UVMHN Hospitals</b>	<b>99.30%</b>	<b>99.46%</b>	<b>97.02%</b>	<b>99.50%</b>	<b>100.05%</b>	<b>99.10%</b>



# NPR Submission and Approval Summary



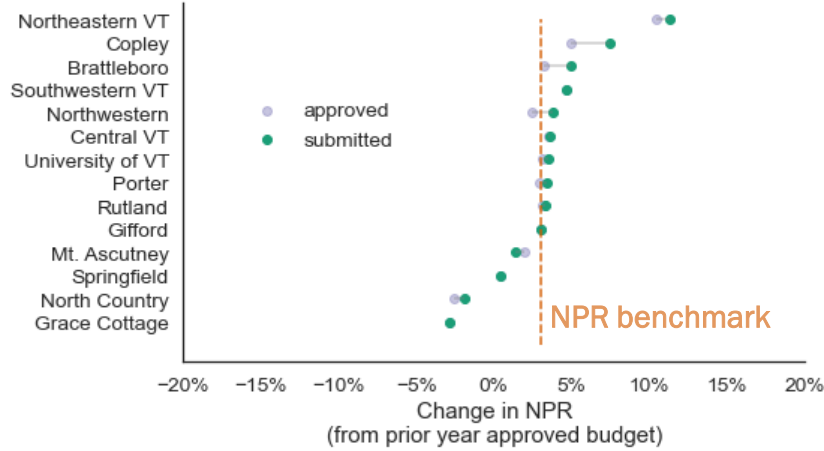
Each year, about half of hospitals' requests are above the guidance. Requests have tended to be relatively close to guidance (+2.8%) with approvals averaging about 0.5 percentage points lower (+2.4%).

	NPR Benchmark from Guidance	Submitted Budgets over Benchmark			Approved Budgets over Benchmark		
		#	%	average above guidance	#	%	average above guidance
FY18	3.0%	9	64%	+ 2.1%	8	57%	+ 1.5%
FY19	2.8%	12	86%	+ 2.4%	12	86%	+ 1.9%
FY20	3.5%	8	57%	+ 2.4%	6	43%	+ 1.6%
FY21	3.5%	8	57%	+ 2.1%	6	43%	+ 1.8%
FY22	3.5%	12	86%	+ 3.8%	12	86%	+ 3.5%
FY23	8.6% (for 2 years)	9	64%	+ 4.0%	9	64%	+ 3.9%
<i>Average</i>	4.2%	10	71%	+ 2.8%	9	75%	+ 2.4%

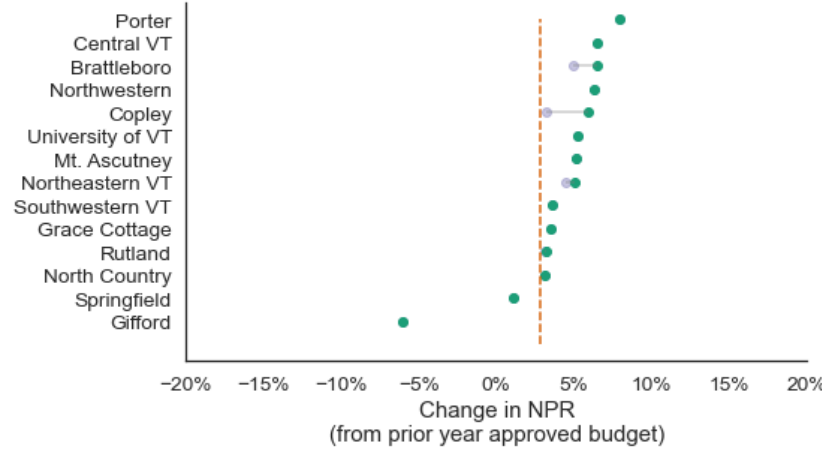
# NPR Submission and Approval Detail



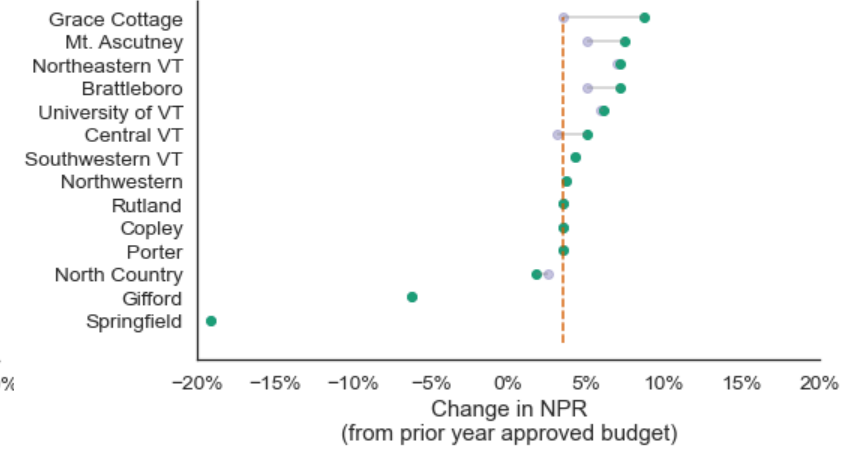
Submitted and Approved NPR  
FY18



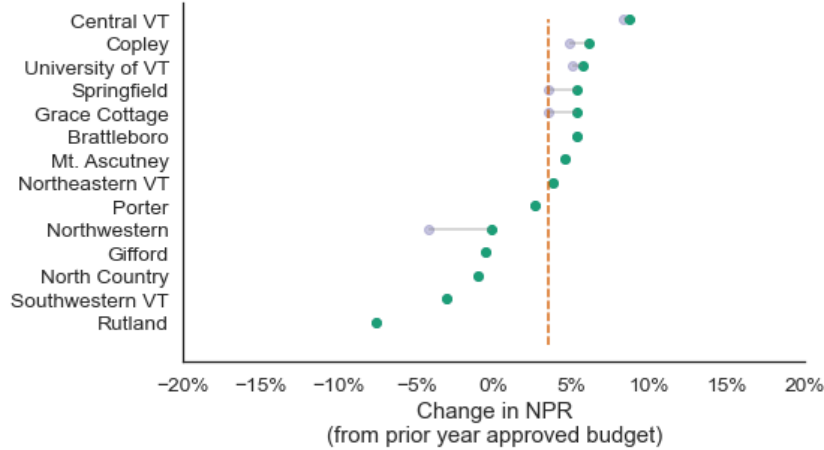
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FY19



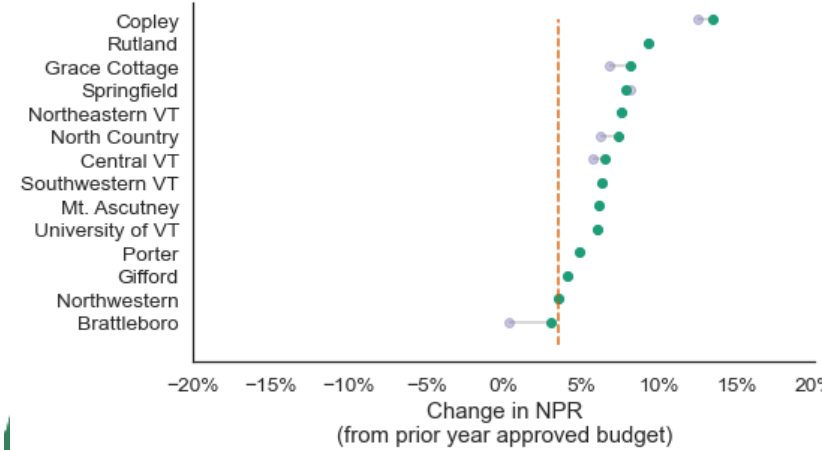
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FY20



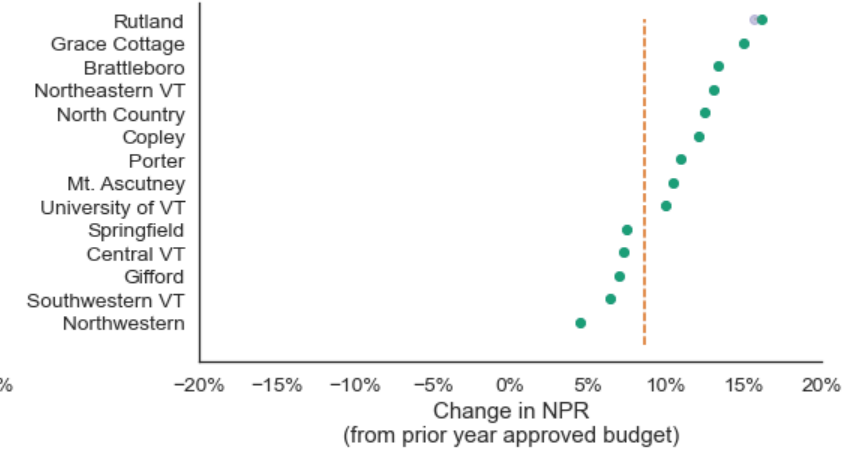
Submitted and Approved NPR  
FY21



Submitted and Approved NPR  
FY22



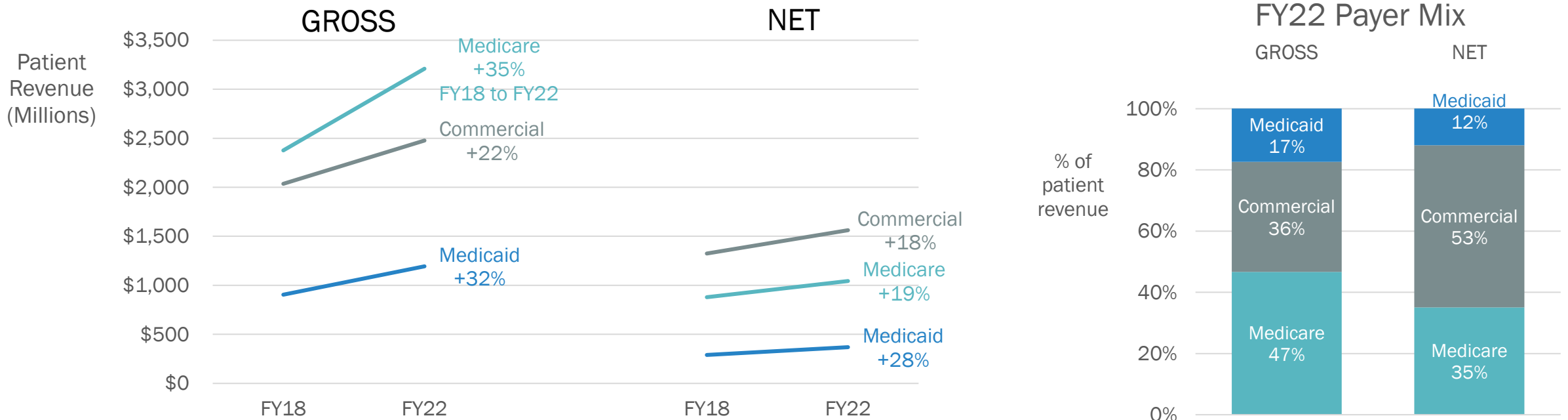
Submitted and Approved NPR  
FY23



# Patient Revenue by Payer Type Summary



The difference in growth for gross and net revenue varies by payer. Medicare gross revenue grew by 16 percentage points more than net revenue. The difference was 4 percentage points for Medicaid and commercial. About 20% of the increase in gross revenue is associated with approved changes to charges.



# Patient Revenue by Payer Type Detail



Gross Payer Revenue	FY2018		FY2019		FY2020		FY2021		FY2022	
Commercial	\$ 2,035,990,553	\$ 2,108,112,668	3.5%	\$ 2,007,956,753	-4.8%	\$ 2,268,947,215	13.0%	\$ 2,475,835,017	9.1%	
Medicaid	\$ 904,416,576	\$ 911,387,072	0.8%	\$ 877,232,730	-3.7%	\$ 1,042,078,010	18.8%	\$ 1,193,879,934	14.6%	
Medicare	\$ 2,377,161,517	\$ 2,601,223,732	9.4%	\$ 2,446,747,172	-5.9%	\$ 2,840,665,601	16.1%	\$ 3,208,614,508	13.0%	
	<b>\$ 5,317,568,645</b>	<b>\$ 5,620,723,471</b>	<b>5.7%</b>	<b>\$ 5,331,936,655</b>	<b>-5.1%</b>	<b>\$ 6,151,690,826</b>	<b>15.4%</b>	<b>\$ 6,878,329,460</b>	<b>11.8%</b>	

Net Payer Revenue	FY2018		FY2019		FY2020		FY2021		FY2022	
Commercial	\$ 1,323,870,929	\$ 1,395,760,002	5.4%	\$ 1,291,996,418	-7.4%	\$ 1,460,479,382	13.0%	\$ 1,561,721,632	6.9%	
Medicaid	\$ 288,629,709	\$ 272,868,731	-5.5%	\$ 281,339,689	3.1%	\$ 327,376,935	16.4%	\$ 369,711,732	12.9%	
Medicare	\$ 878,139,449	\$ 897,073,558	2.2%	\$ 831,455,233	-7.3%	\$ 934,949,711	12.4%	\$ 1,042,950,051	11.6%	
Uncategorized	\$ 26,523,305	\$ 22,721,686	-14.3%	\$ 22,730,632	0.0%	\$ 22,504,336	-1.0%	\$ 43,369,307	92.7%	
	<b>\$ 2,517,163,393</b>	<b>\$ 2,588,423,977</b>	<b>2.8%</b>	<b>\$ 2,427,521,973</b>	<b>-6.2%</b>	<b>\$ 2,745,310,364</b>	<b>13.1%</b>	<b>\$ 3,017,752,722</b>	<b>9.9%</b>	

# Exchange from FY23 Hospital Budget Hearings



GMCB BOARD MEMBER: [W]hat happens if we approve your budget as requested and we approve other budgets that exceed the guidelines.

HOSPITAL CFO: [I believe] that every hospital asks for what they need, and we always want to hit the guidance. We always want to follow the rules.

[U]s going over 8.6 percent so that we could have more than a 1 percent margin and would jump our rate increase request into double digits, we just couldn't do it. Right? That's just not what we wanted to do for Vermonters and our patients and our community for ourselves as an organization, we wanted to feel like we were going to own some of the state of healthcare in Vermont, that we all find ourselves in right now. [I]t really was a budget based on need. I think everybody's is.

[The GMCB does] not have an easy task of trying to determine that everybody's budget is based on need. But I think we would still feel satisfied, happy, and content that we put forth a budget that really was what we needed.

HOSPITAL BOARD CHAIR: [I] think we're always going to ask for what we think we need, even if it's over your guidance, I can tell you, we would make a very compelling reason as to why, and it'd be very thoughtful and purposeful.

# From FY24 Budget Guidance



The FY24 budget guidance incorporates the net patient service revenue, fixed prospective payments, and reserves (NPSR or NPR) benchmark established in the FY23 guidance. Hospitals' budgets will be reviewed for compliance with the NPSR benchmark.

Hospitals whose budgets comply with the NPSR benchmark will be reviewed for reasonableness of the factors and assumptions outlined in Section I and compliance with the filing requirements of the guidance (i.e., completeness and timeliness). Staff will recommend approval without modification for all hospital budgets that comply with the NPSR benchmark, are based on reasonable assumptions, and meet the administrative filing requirements of the guidance.

Hospitals proposing budgets that exceed the benchmark must provide evidence to support the need for additional NPSR, which will be assessed by the GMCB using the factors set out in Section I of this guidance and consistent with the GMCB's statutory obligations. The GMCB will also review and consider information identified in Section II.

# Where does the FY24 NPR growth target come from?



- The All-Payer Model includes a performance target for the State of Vermont's health care expenditures, known as the Total Cost of Care (TCOC).
- The performance target is designed to compare the growth in per capita TCOC with historical growth in Vermont's gross state product: 3.5% to 4.3% average annual growth, or no more than 8.6% for 2 years.
- The GMCB used a consistent target that aligns with the state's longer-term goals.

# What happens if a hospital submits a budget with NPR growth over the NPR growth target?

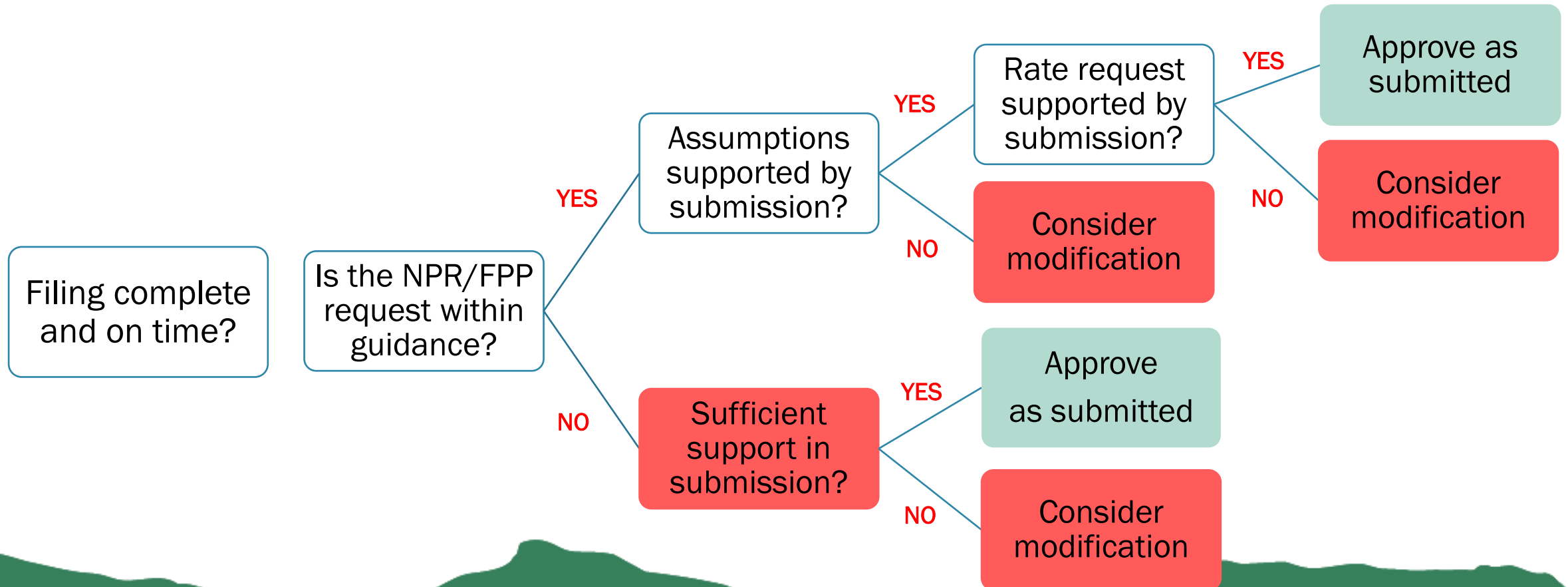


- All submissions will be reviewed for regulatory compliance, as well as the assumptions used to develop the budget.
- For budget submissions exceeding 8.6%, staff will review the evidence supporting the budget request. The GMCB expects to work with hospitals to understand hospitals' efforts to minimize burden on rate payers.



# Staff Recommended Process

GMCB will review submissions for evidence of budgetary need. Staff will compare hospitals budgeted expense growth with the data sources outlined in guidance. Additional scrutiny is applied for submissions that exceed the NPR benchmark to understand how burden for commercial rate payers was minimized.



# QHPs and Hospital Budgets

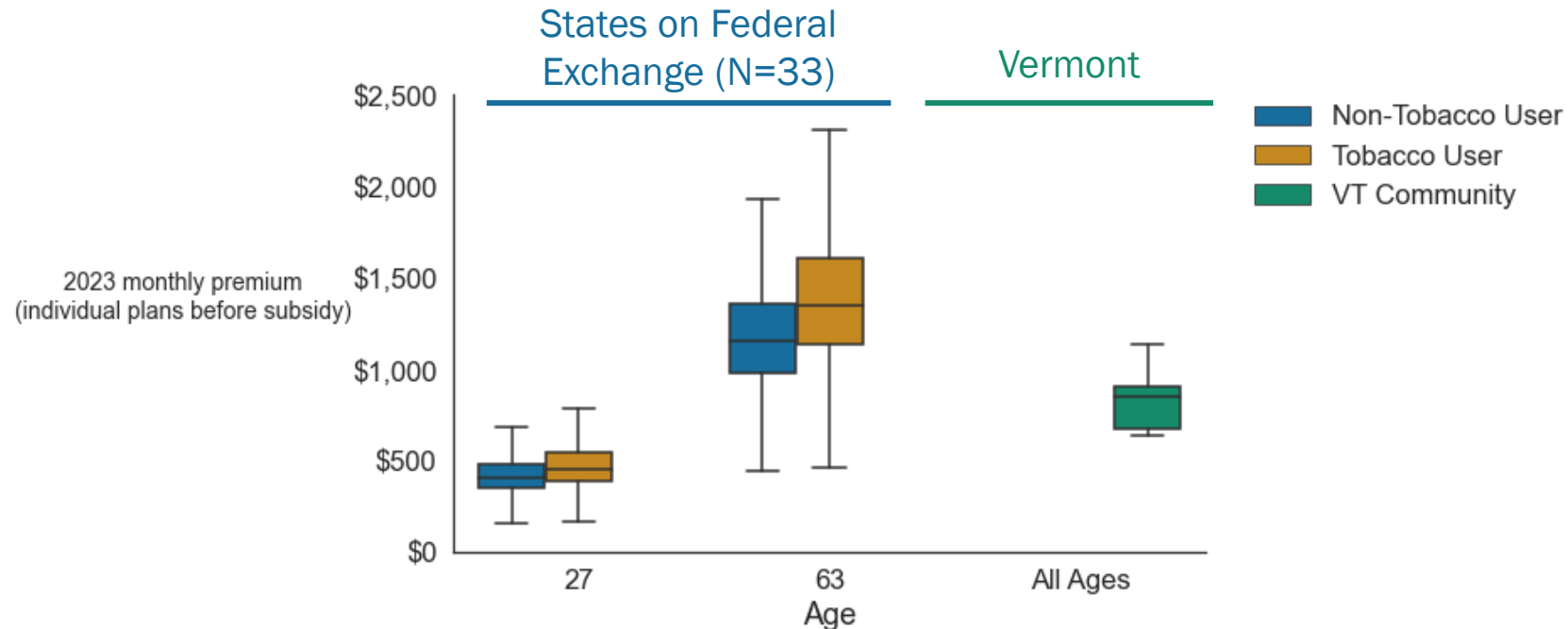


- The amount that Vermont hospitals are reimbursed for services makes up a portion of the premium requests needed for Qualified Health Plans (QHPs).
- Health insurance plans are designed to cover payments for *all covered services* whether they take place in Vermont or elsewhere.
- Trends in health insurance premiums should therefore not be conflated with hospital price changes.

# National vs Vermont QHP Premiums



Vermont’s community rating is designed to get as many people as possible into the risk pool and spread out the expense evenly. It means that Vermont premiums are relatively more expensive for 27-year-olds and less expensive for 63-year-olds.



Vermont does not allow premium adjustments based on age, gender, tobacco use, or geography. The above graph is based on data about QHPs on the federal exchange ([data source](#)).

# Change in QHP Annual Allowed Spending per Benefit Category from 2017 to 2024



- From 2017 to 2024 overall per member payments increased between 53 to 83% depending on the type of insurance overall.
  - Payments to hospitals ranged from 37 to 87% in the same time period.
- In 2024, the hospital benefit category represented 49 to 63% of total experience period index rates.

	Hospital	Professional	Other Medical and Capitation	Pharmaceuticals	Total
BCBSVT Individual	62.6%	71.7%	332.4%	94.9%	83.2%
MVP Individual	87.3%	52.1%	-24.9%	32.8%	64.7%
BCBSVT Small Group	37.1%	46.3%	330.3%	46.6%	54.5%
MVP Small Group	68.0%	49.4%	-30.8%	33.8%	53.2%

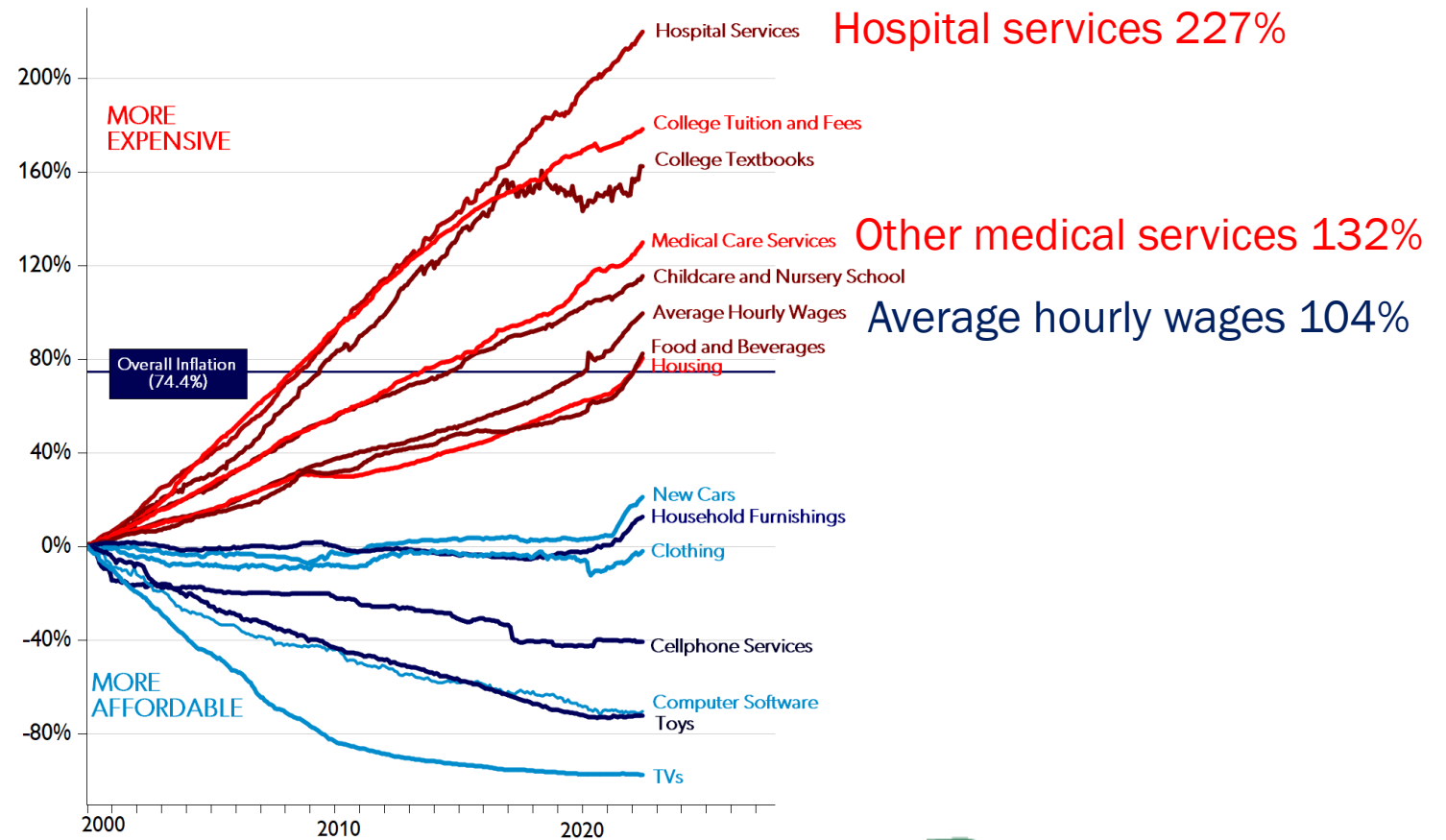
Source: Experience period index rates from Uniform Rate Review Template

# Select price changes (2000 to 2022)

Nationally, hospital service prices grew more than twice as fast as average hourly wages (227% vs 104%).

Overall inflation grew at 74% during the same time period.

Price Changes: January 2000 to June 2022  
Selected US Consumer Goods and Services, Wages



Source: Bureau of Labor Statistics

# Health Care Landscape Trends

## Affordability in Vermont



- **Low Uninsured Rate:** 2.6% in Vermont compared to 8.6% nationally in 2020.<sup>1</sup>
- **Many remain underinsured** and face high out-of-pocket costs that impede access to care.
  - 38% insured Vermonters under 65 considered underinsured (medical expenses are more than their income can bear)<sup>2</sup>
- In their 2021 annual report,<sup>3</sup> the Office of the Health Care Advocate reported that consumers raised affordability issues in nearly half of cases.

1. Kaiser Family Foundation Health Insurance Coverage Data. 2020. [Found here.](#)  
2. [2021 Vermont Household Health Insurance Survey.](#)  
3. [2021 Health Care Advocate Annual Report](#)

# Potential Motion Language



*Move to deny the request from VAHHS to modify the GMCB's FY24 hospital budget guidance and also deny the VAHHS request to stipulate to non-enforcement of actual FY24 hospital budgets.*