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FY25 Brattleboro Retreat Budget Staff Analysis

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December 13, 2024

Agenda

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- Overview of the GMCB Hospital Budget Process
  - Modifications for the Brattleboro Retreat
- Staff analysis of the Retreat's FY25 Budget Submission
  - Benchmarks
  - Financial health
  - Update on operations
    - Traveler reductions
    - Adolescent Psychiatric Residential Treatment Facility
- Staff recommendation
- Public comment

GMCB Hospital Budget Process

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- Annually, the GMCB reviews hospital budgets (18 V.S.A. § 9375(b)(7); 18 V.S.A. § 9456)
- The Board's review considers factors established in statute, as well as benchmarks established in its annual guidance document
- Hospitals bear the burden of persuasion in justifying their budgets as submitted. GMCB Rule 3.000, § 3.306(a).
- If a hospital does not meet its burden, the GMCB must adjust the budget such that it aligns with the state’s regulatory objectives.

GMCB Hospital Budget Process

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- When reviewing a hospital's budget, the Board is guided by:
  - The Board's statutory purpose and charge. 18 V.S.A. § 9372.
  - Its duty to regulate consistent with the principles for health care reform. 18 V.S.A. § 9371; 18 V.S.A. § 9375(a).
  - Its obligation to establish budgets using statutory considerations set forth for hospital budget review. 18 V.S.A. § 9456; GMCB Rule 3.000, § 3.306.
  - The annual benchmarks established by the Board, against which proposed budgets are evaluated. 18 V.S.A. § 9456(e); GMCB Rule 3.000, §§ 3.202, 3.305.

GMCB Hospital Budget Process

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- Act 140 of 2020 extended the GMCB's review to all hospitals not operated by the State (as opposed to general hospitals only).
- The Brattleboro Retreat, a psychiatric care hospital, is currently the only hospital affected by this change. This is the second year the Brattleboro Retreat's budget is subject to full budget review.
- The Brattleboro Retreat differs from general hospitals reviewed by the Board, including in the scope of its operations, its role in the health care system, and its fiscal year (starting January 1).
- In reviewing Brattleboro Retreat's budget, staff consider the FY25 guidance with relevant differences in mind.

FY25 Brattleboro Retreat Budget Review

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	Changes from standard guidance
Section 1: Benchmarks	*Unchanged from standard guidance:* *NPR: 3.5%; Commercial growth: 3.4%; Op. Margin: >1%*
Section 2: Comparative Analytics	This section defines “key measures and data sources” used to evaluate “a hospital’s ability to meet the benchmarks established in Section 1.” Specifically, it does so by comparing the hospital with defined peers. The section largely exists to test hospitals assertions that they are unable to comply with the established benchmarks (for example, if a hospital’s existing commercial prices are much lower than others, they might argue the Board should approve a growth rate higher than guidance.) Because of significant differences in the Brattleboro Retreat’s payer mix and services, if they request a commercial growth rate greater than 3.4%, staff believes an internal comparison of their public payer to commercial payer prices is sufficient for meeting the intended use of this section. Should the Brattleboro Retreat request an NPR increase greater than 3.5%, staff would request evidence that this growth target is unreasonable, specifically in relation to comparable psychiatric hospitals.
Section 3: Budget Assumptions	*Unchanged from standard guidance*
Section 4: Contextual Information	*Unchanged from standard guidance*
Section 5: Budget Narrative	*Unchanged from standard guidance*
Section 6: Reporting Requirements	The following standard worksheets are not required: "Referral and Visit Lags" "Boarders and Transfer Issues"

- Due to the Retreat’s differences from other Community Hospitals subject to budget review, like last year, GMCB staff modified requirements from standard guidance that were not applicable.

Benchmark: Net Patient Revenue

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(1) *Net Patient Service Revenue Growth (NPR) Growth*: Growth in net patient revenues for hospital services is benchmarked at the system-level at an amount of **3.5%** over the FY24 system-wide approved budget, in line with the total cost of care (TCOC) growth target in the Vermont All Payer Model. For the purposes of this benchmark, the growth rate is allocated across hospitals at an equivalent rate, though the Board recognizes that it may be appropriate for some hospital budgets to be above or below this system-wide target. For budgets that request NPR growth exceeding this benchmark, hospitals must provide justification, including credible and sufficient supporting evidence that the excessive growth reflects an improvement in access or quality of care (e.g., increased access as justified by lower projected wait times and a means to achieve them, population growth as justified by demographic trends and projected increases in new patient volumes, etc.). In evaluating proposed budgets, though this target is relative to current year budget, staff will also consider hospital prior year actuals, and projected current year performance relative to the respective NPR growth budgeted for those years. For any hospitals with material differences between budget and actual or projected NPR FY23 or FY24, the GMCB expects the hospital to address that variation as part of its justification for budgeted FY25 NPR.

Benchmark: Commercial Growth

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(2) *Commercial Rate Growth*: Commercial rate growth by payer shall be no more than the PCE price index plus 1% as of January 2024, over FY24 approved budget, which amounts to **3.4%** for FY25. The GMCB anticipates establishing a cap on any commercial rate increases for each hospital, which will also apply as a cap on the increase that the hospital may receive from any individual commercial payer. Any GMCB approved rate increase is a cap subject to negotiation between a hospital and commercial insurers and is not an amount set or guaranteed by the GMCB. Hospitals proposing budgets that exceed this growth rate will be required to justify this request with sufficient and credible evidence of hospital efficiency and maximized productivity of resources (e.g. average work RVUs per clinical FTE by department, both the level and the associated percentile of national benchmarks, or similar; measures of hospital cost and efficiency used by leadership to assess operational efficiency, both the level and the associated percentile of national benchmarks, or similar; etc.).

Benchmark: Operating Margin

Hospital financial sustainability may help Vermonters maintain access to essential services. While there are many indicators that are important for evaluating financial health, a key metric for private entities is operating margin, as it expresses the ongoing ability of an organization to cover its operating costs with its expected revenues from operations. Hospitals proposing budgets with margins at or less than 0% will be required to explain key drivers of their sustainability challenges, and justify with sufficient and credible evidence of hospital efficiency and maximized productivity of resources (e.g. average work RVUs per clinical FTE by department, both the level and the associated percentile of national benchmarks, or similar; measures of hospital cost and efficiency used by leadership to assess operational efficiency, both the level and the associated percentile of national benchmarks, or similar; etc.)..

(1) *Operating Margin*: a hospital's operating margin shall be greater than zero. The Board recognizes that achieving a positive operating margin requires generating sufficient revenue, managing expenses and expense growth, and performing efficiently.

Hospital Budget Review: FY25 Benchmarks

1. **Net Patient Revenue** is capped at no more than 3.5% above prior year budget, in line with the Vermont All Payer Model Agreement.

2. **Commercial rate growth** overall and for each payer shall be no more than the PCE Price Index +1% (January 2024 release), over FY24 approved budget, which amounts to 3.4% for FY25.

3. **Operating margin** shall be greater than 0%.

Hospitals exceeding these benchmarks are required to justify with evidence.

Benchmarks: NPR

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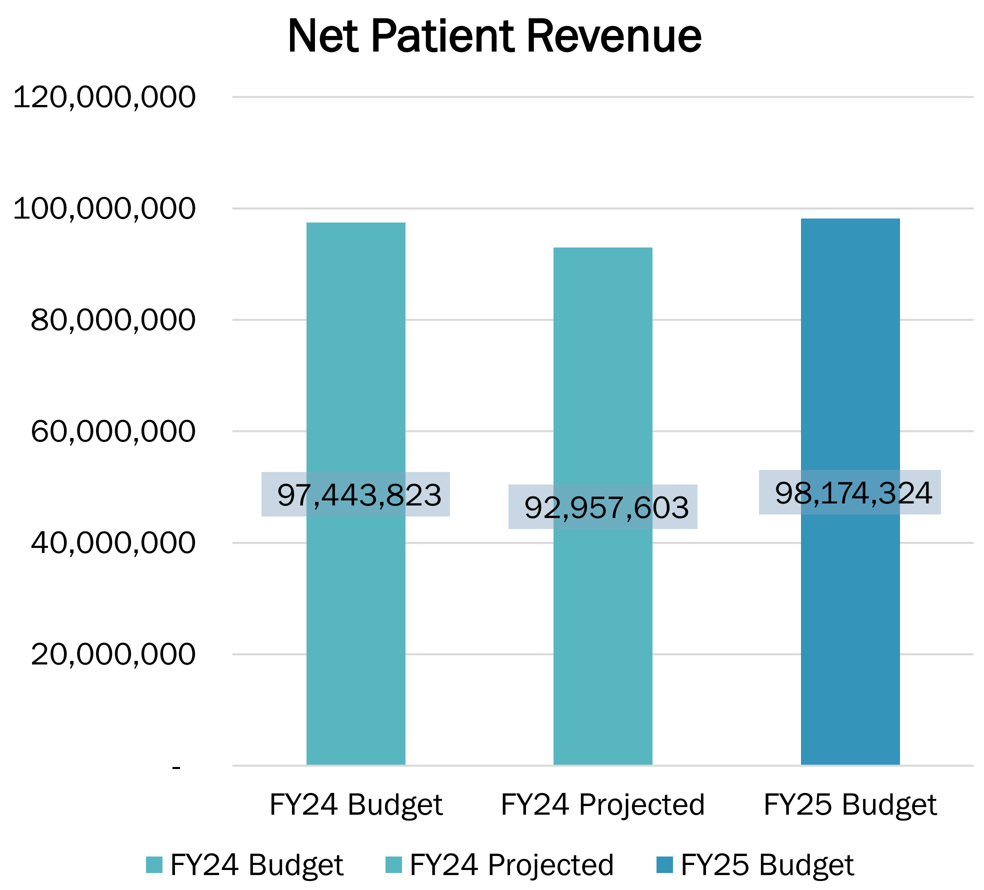
- The Retreat's submitted NPR increase of 0.75% budget-to-budget complies with the benchmark set in Guidance.

- On a percentage basis, this relatively low NPR increase is largely due to projected revenue for FY24 running significantly below budget ($93M projected vs. $97.4M budgeted)
  - Projected FY24 to Budgeted FY25 reflects a $5.2M or 5.6% increase, driven essentially by the Adolescent Psychiatric Residential Treatment (ADPRT) facility program



Benchmarks: Commercial Rate

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- Submitted commercial rate increase of 6.7% exceeds guidance.
- Brattleboro Retreat argues that commercial rate increases exceeding guidance are necessary to bring commercial prices in line with public payers
  - Unlike the community hospitals, the Retreat’s commercial prices have not been regularly updated
  - When commercial rates do not match those of public payers, it could theoretically result in a “cost shift” to public payers

Benchmarks: Operating Margin

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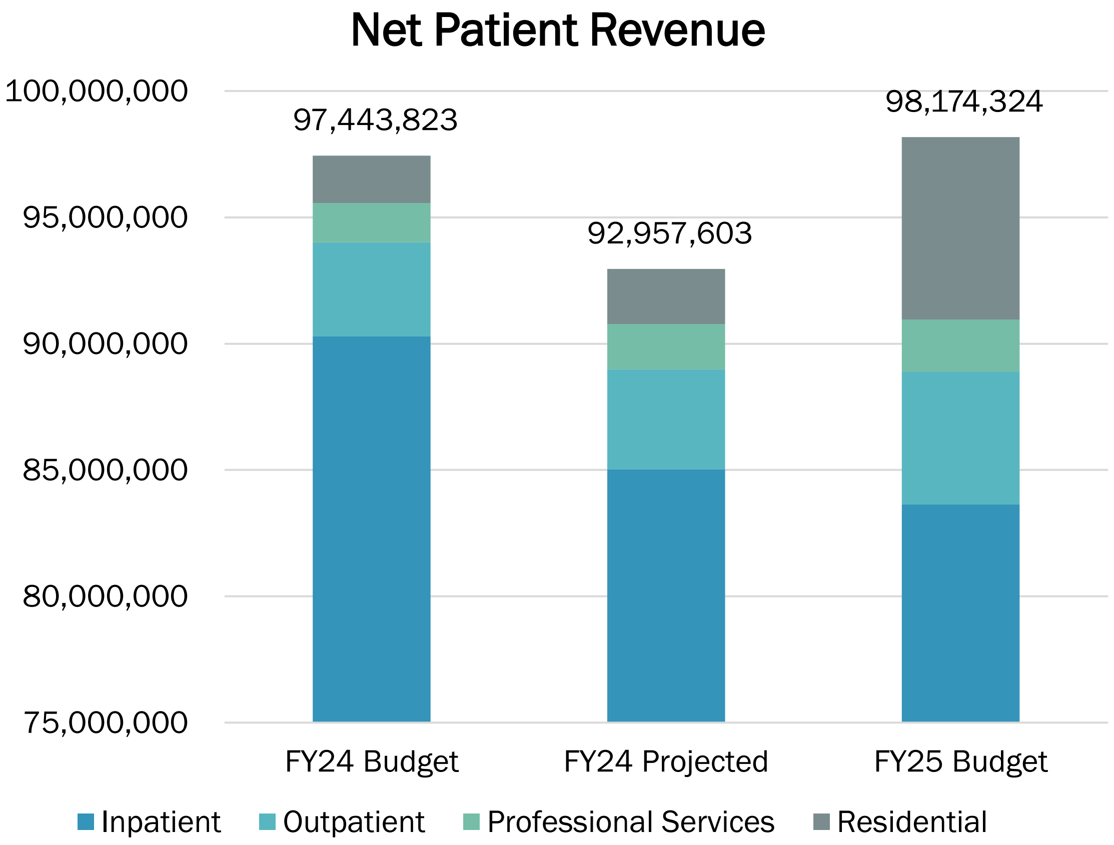
- Budgeted operating margin of <u>**0.65%**</u> meets the benchmark from guidance
  - Considering ongoing negotiations, this low margin appears to be driven in large part by conservative budgeting of public payer revenues.

Income Statement: Patient Revenue + Deductions

Between FY24 Budget and FY25 Budget:

- Gross patient revenue is down –1.2%
  - 11.1% decrease in inpatient
  - 7.9% increase in outpatient
  - 10.1% increase in professional
  - $9.6M in residential (returning in 2025)
- Deductions decrease –4%
- Net patient revenue is up 0.8%
  - Drop in gross revenue offset by decreasing deductions



Income Statement: Expenses

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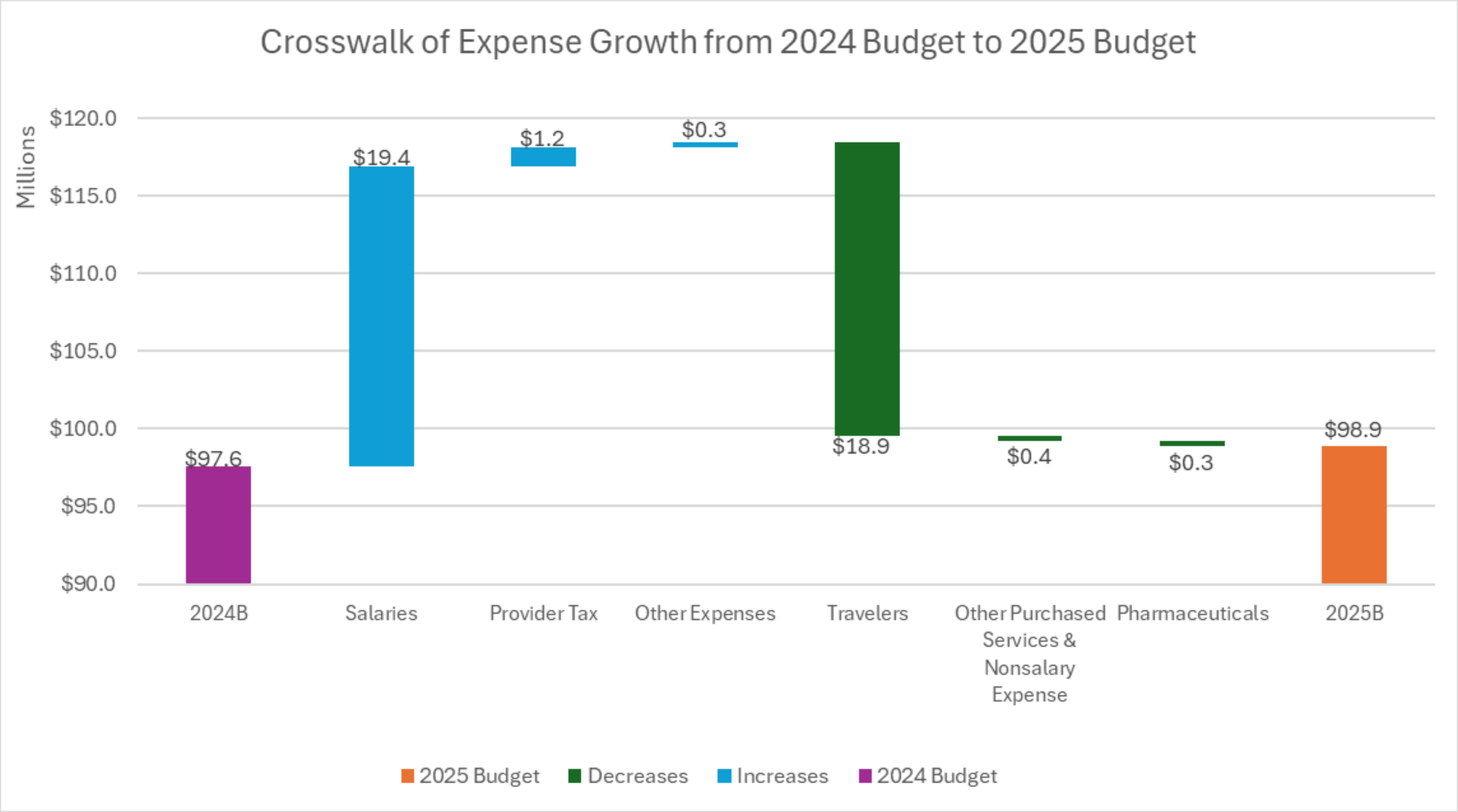
Between FY24 Budget and FY25 Budget:

- 43% increase in labor expense
  - Offset by aggressive reduction in traveler expense by 63%
- Line by line there were some large shifts on the income statement– could be reporting changes –
  - Expense management lead to a nearly flat non-labor expense growth, despite EMR transition



Revenue by Payer, FY24B to FY25B

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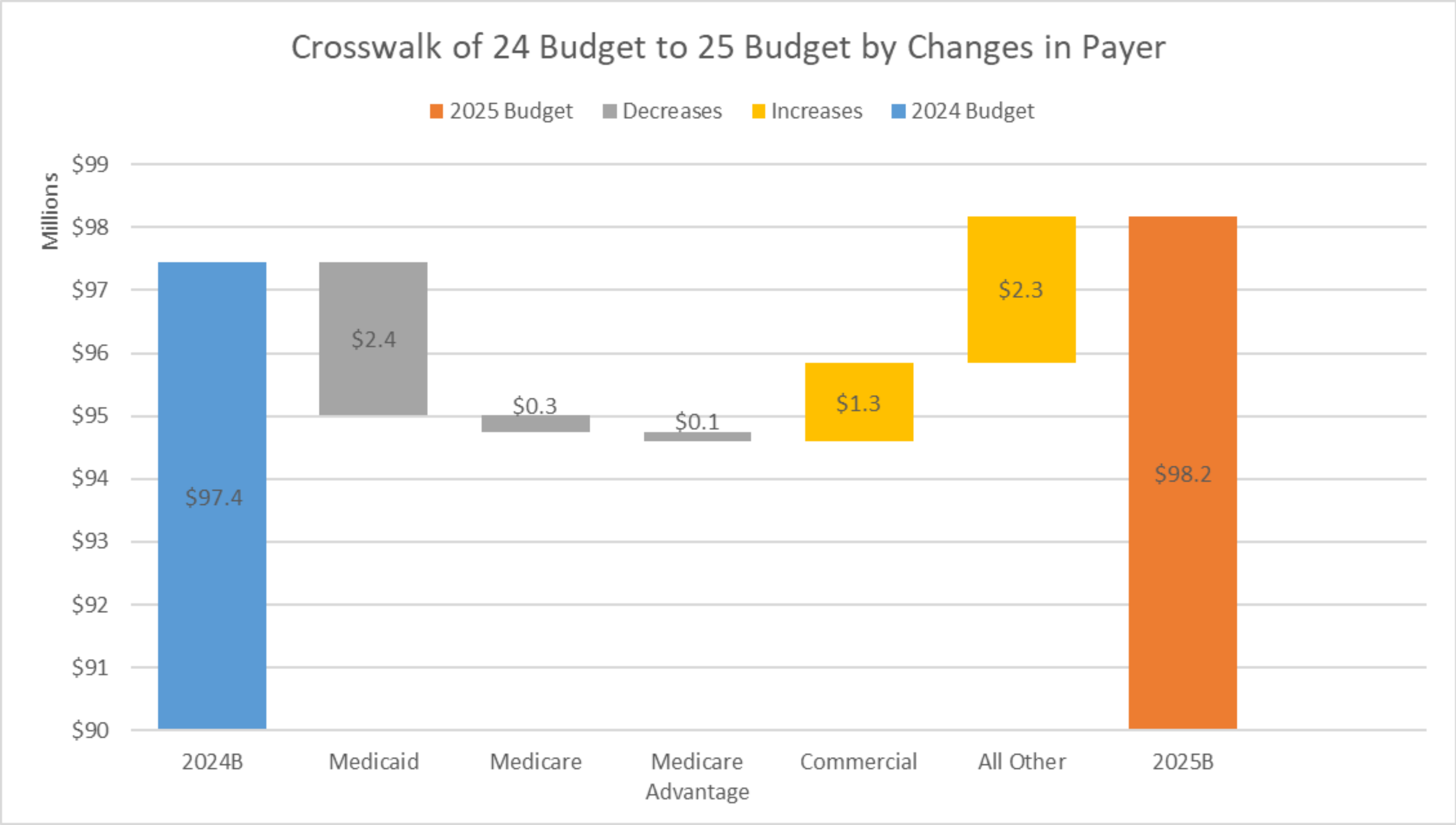
- NPR: 0.75%
  - Medicaid decrease by $2.4M
    - Driven by (expected) decreasing price & drop IP utilization –
    - Offset by increased utilization in OP, Prof & Adolescent Residential
  - Medicare & MA decrease of $0.4
    - Decreases in both price & utilization
  - $1.3M Increase in Commercial
    - Increasing price to match Medicaid rate
    - Offset by a decrease in utilization
  - $2.3M Increase All Other
  - For *all payers* – utilization was overestimated in IP for 2024



Payer Mix and Revenue Impacts

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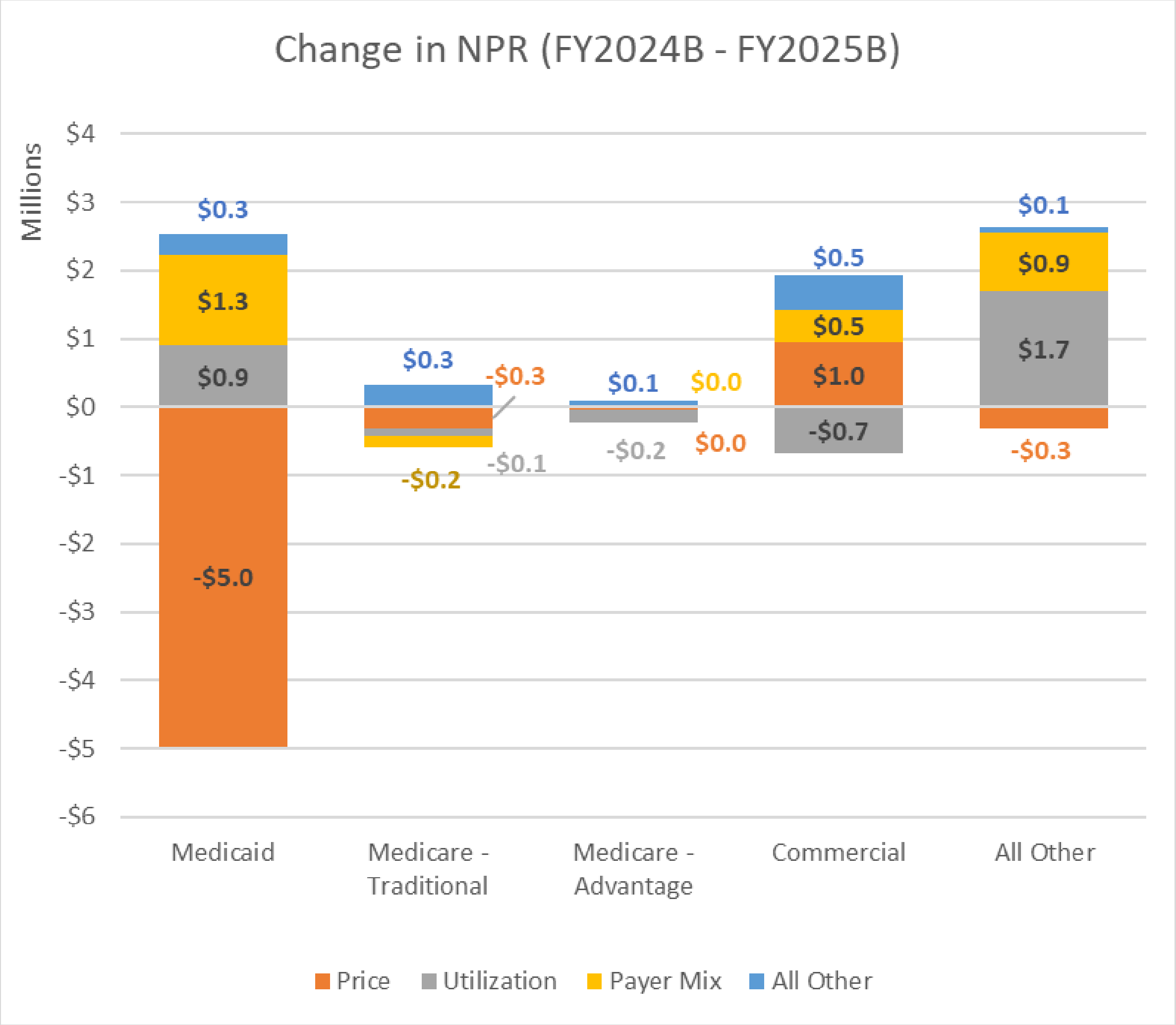
- Rate: Medicaid per diem rose from
  - $2,550/day through June 2022
  - $3,100/day through December 2024
  - $2,825 conservative estimate for 2025 – still negotiating
- Utilization:
  - Worked to increase beds to 101 – however that census is not possible due to acuity of patients and staff levels necessary
  - Estimate for FY25 IP closer to 95 beds
  - $5M increase in utilization for adolescent residential unit reopening
- Net revenue change (FY24B to FY25B): 0.7%
  - 5.6% growth in Utilization, payer mix & all other
  - -4.8% offset in price decreases



FY24 Budget to FY24 Projected

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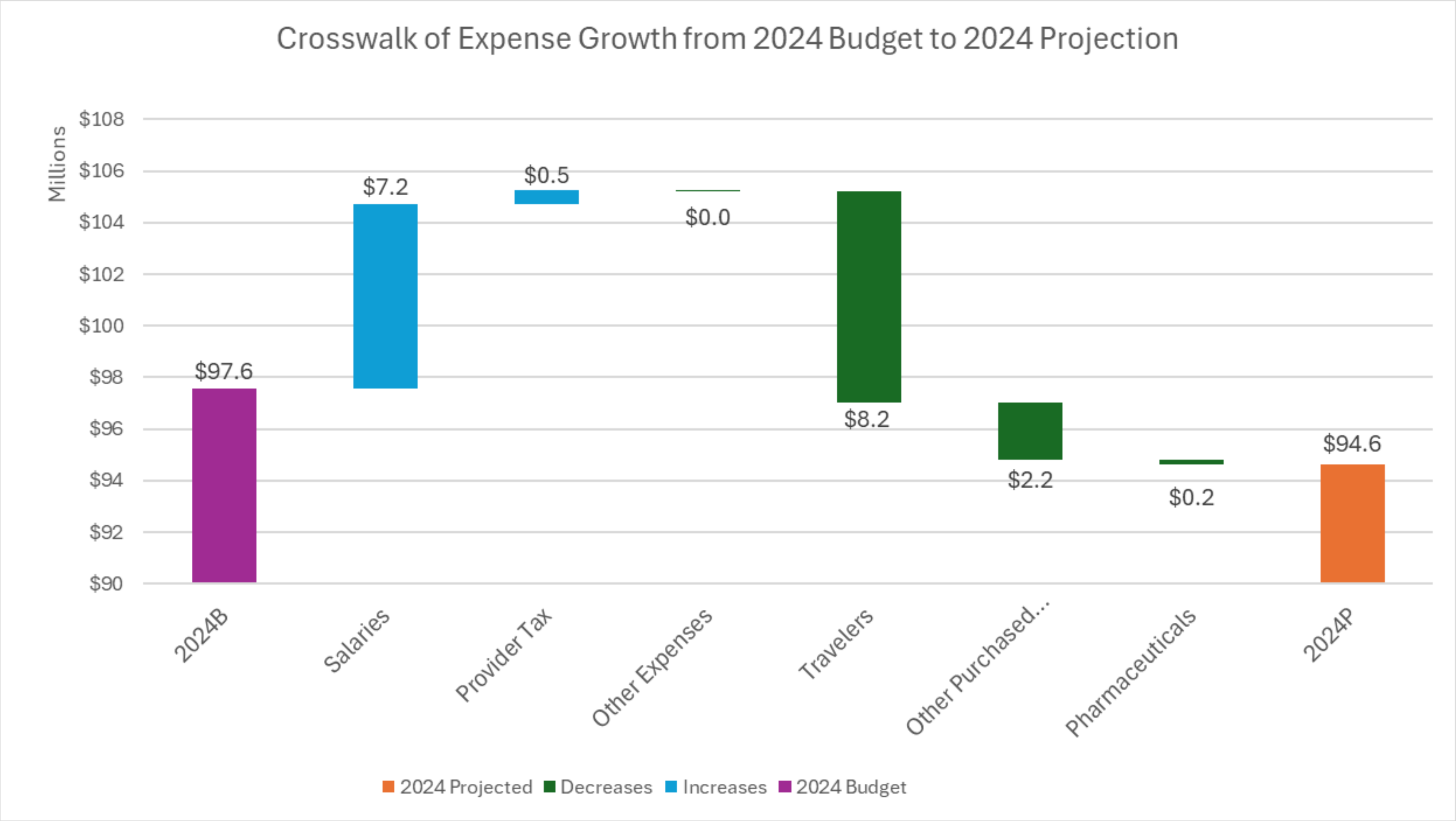
Overall Reduction of 3% from Budget

- Traveler Expense $8.2M under budget
    - Offset by Salary & Fringe Benefits Expense coming in $7.2M over budget
    - Expect this trend to continue into FY25
- Non-labor expenses are coming in low for 2024 – this is expected to return back for FY25 however as EMR transition happens in May



Expenses
FY24 Projections to FY25 Budget

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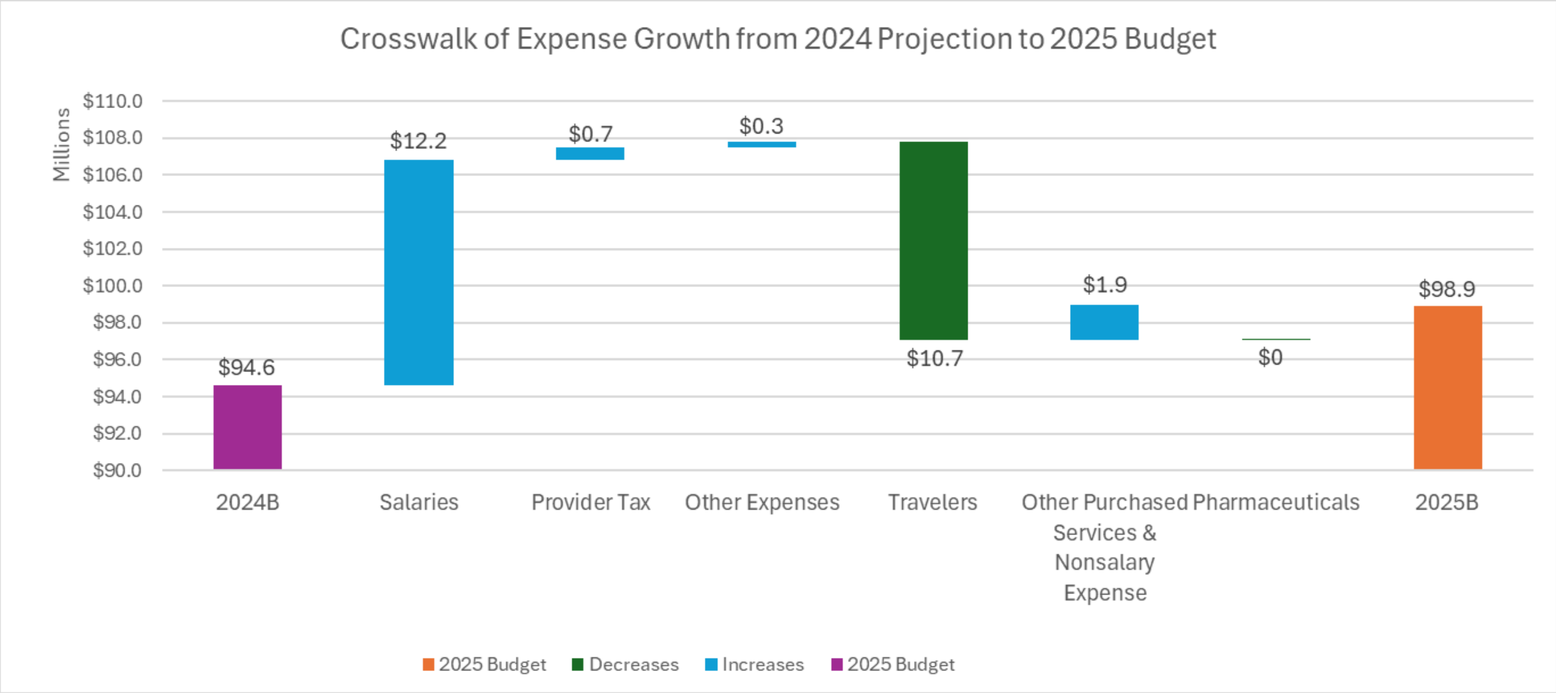
Directionally similar to Budget to Budget

- 23% increase in labor expense
  - Aggressive reduction in traveler expense by 50%
  - Both salaries and traveler reduction less than budget to budget
- Ramp up of Other Purchased Services & Non-salary expense – in large part due to EMR conversion – FY24 projections were under budget



Consumer affordability

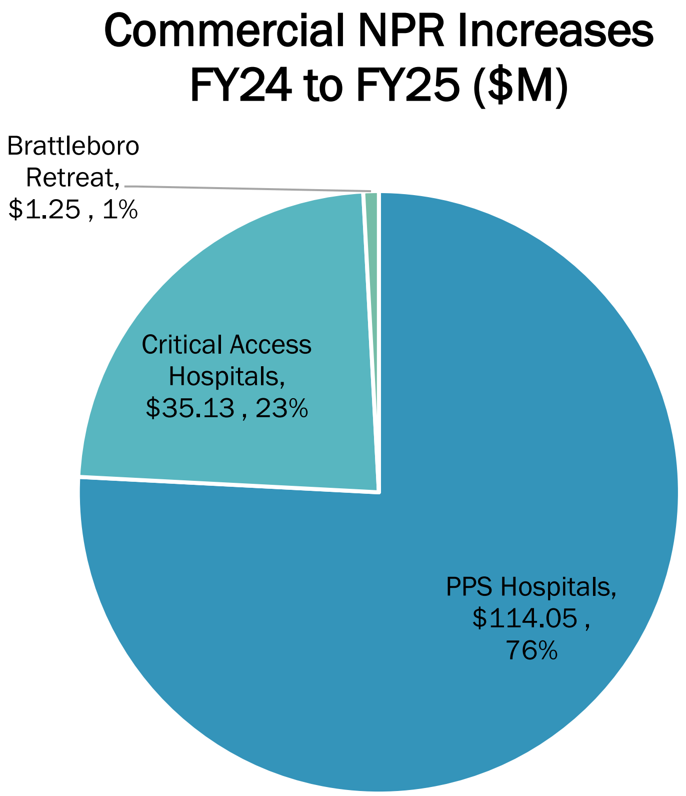
"The Retreat has indeed considered consumer affordability in setting this revenue request. First, it is essential that commercial insurers pay rates that approach those of their government counterparts for equal services. Second, since the taxpayers of the State of Vermont and of the United States pay to insure the majority of the patients the Retreat serves, it is incumbent upon the Retreat to ensure that when rates can be decreased, they are. The Retreat has agreed to lower its per diem rate with the Agency of Human Services. Although the final rate has not yet been fixed, the price per bed is projected to be at least $200 per day lower than the rate last year."

Consumer affordability, cont.

- The Retreat has provided the Green Mountain Care Board with a confidential comparison of IP per diem prices between VT Medicaid and Commercial payers confirming that Commercial rates have historically been lower than public prices.

- Brattleboro Retreat's budgeted Commercial NPR of **$15.4M** represents roughly **0.8%** of the total Commercial NPR of hospitals subject to GMCB review

    - If approved as submitted, the Retreat's Commercial NPR increase of $1.25M from FY24B similarly represents **0.8%** of the approved, systemwide Commercial NPR increase.



Financial Health: Margins

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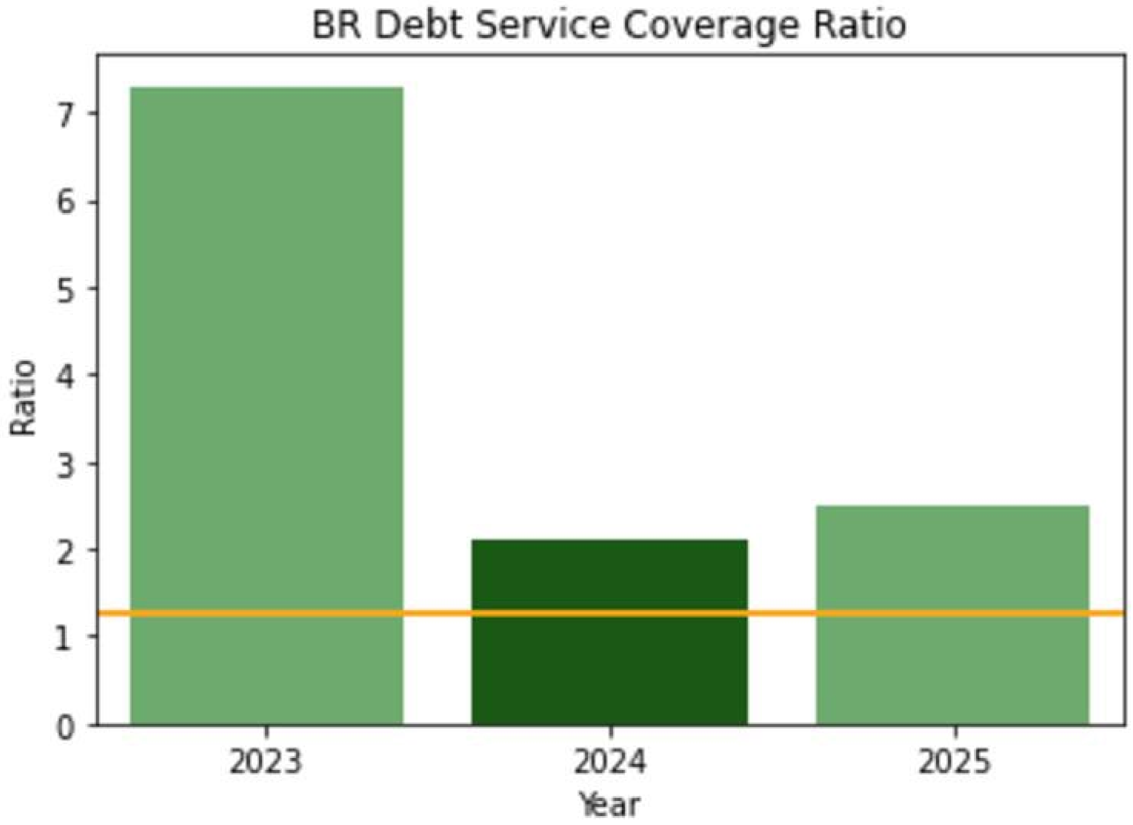
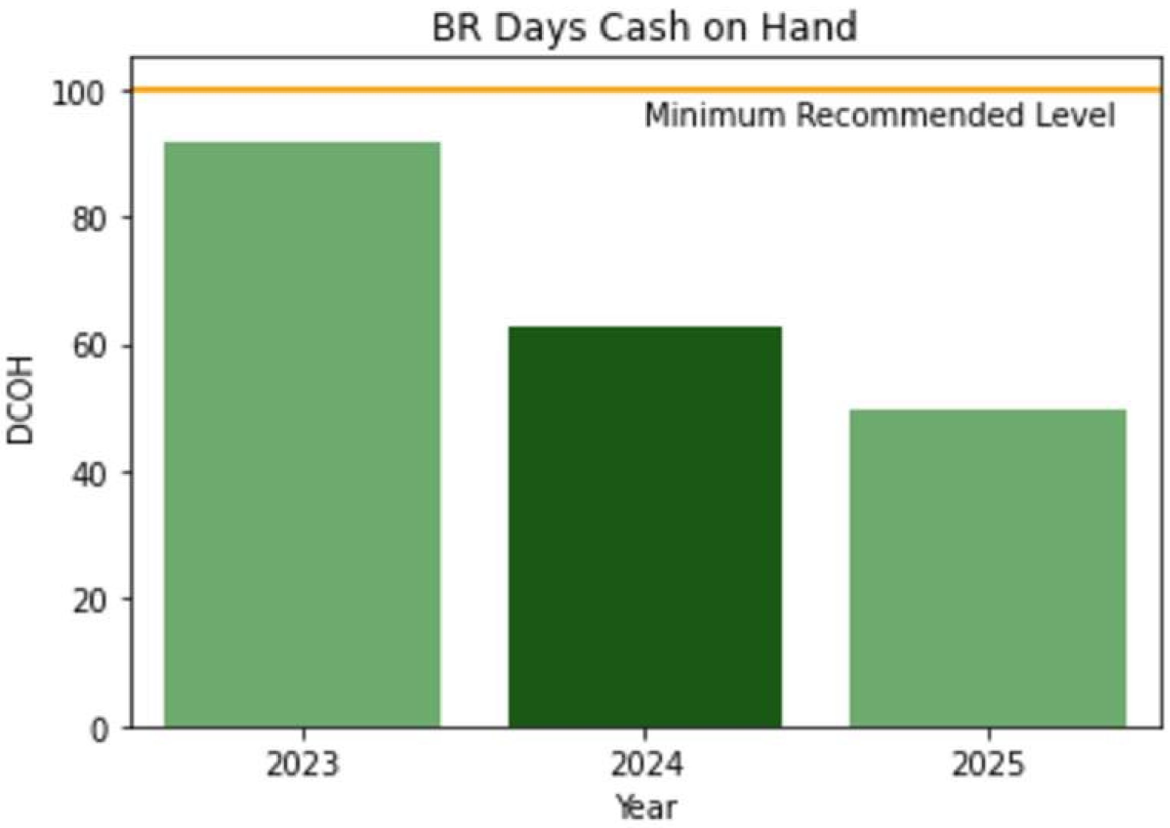
	FY23 Actuals	FY24 Projected	FY25 Budget
Operating Margin	7.5%	0.1%	0.6%
Total Margin	10.0%	1.6%	1.1%
EBIDA	10.1%	2.7%	3.0%

Financial Health: Age of Plant

This line indicates the 75th percentile of average age of plant (14.63 years).

Financial Health: DCOH and DSCR





Narrative Responses: Travelers

For FY24 Budget - the retreat was ordered to submit a plan to reduce their traveler expense:

- **Goals: Reduce contract labor cost by 25%**

Employed Staff FTEs			Contract Labor FTEs		
EOY FY2023	Mid-FY2024	EOY FY2024	EOY FY2023	Mid-FY2024	EOY FY2024
373.78	408.90	453.40	104.5	90.2	47.50

*Note – this table uses productive hours – FTE worksheet includes non-productive hours

- Hired a recruitment professional with extensive experience working with external agencies:
    - Renegotiated Agency Contracts
    - Reducing Bill Rates for agency staff
    - Retreat receives a rebate of travel spending that is paid quarterly
- Implemented a recruiting campaign that resulted in a 27% reduction in travelers as of June 2024
- Holton Home as a housing option to help retain staff

Narrative Responses: Travelers

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Continuing For FY25:

- Projection to budget reduction of 48% in traveler labor expense
- June 2024 – launched nurse residency program – welcoming 12 new graduate nurses
- Preceptor training program
- Behavioral Health Technician Training Expansion
- Tuition Assistance Collaboration
- Pre-Doctoral Psychology Internship – 13 of the 43 stayed working at the retreat in some capacity

Narrative Responses: Adolescent Unit

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15 bed Residential Adolescent Unit – Returning for FY2025

- Current IP Adolescent (12-17 years old) bed census is 24
- This program is a step-down in acuity from IP care
    - Currently youth needing Psychiatric Residential Treatment Services must leave the state to access them
    - Also opening a Partial Hospitalization Program/Intensive Outpatient program for adolescents.
        - Telehealth group therapy sessions offered multiple times a day

Planned to begin running in the 2nd half of the year

- Budget assumptions bake in a gradual ramp-up period to ensure a certain level of quality
- Estimating approximately a $5M impact on NPR – primarily serving Medicaid
    - Budgetary risks that could cause possible delays:
        - Staffing challenges,
        - Bed licensing requirements,
        - Issues setting up the school

FY25 Standard Budget Conditions

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A. [Hospital]'s FY25 NPR/FPP ("NPR") budget is approved at a growth rate of not more than [X]% over its FY24 budget, with a total NPR of not more than $[X] for FY25.

B. [Hospital]'s overall change in charge and commercial negotiated rate increase are approved at not more than [X]% over current approved levels, with no commercial negotiated rate increase for any payer at more than [X]% over current approved levels. The commercial negotiated rate increase overall or with respect to any payer may be less than [X]% 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. The commercial negotiated rate cap in Paragraph B shall not apply to Medicare Advantage plans.

E. [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 June 30, 2025, or such later date as specified by the Director of Health Systems Finance and explain any variations from the expected commercial NPR.

F. [Hospital] shall file an updated Rate Decomposition Sheet with the Board no more than 30 days after its FY25 contracts have been finalized with commercial payers.

FY25 Standard Budget Conditions

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G. [Hospital] shall make any necessary changes to its methods of data collection such that it can report revenues segmented by the following payer types starting FY25: (1) Medicare, (2) Medicare Advantage, (3) Medicaid, (4) commercial health insurance, (5) Vermont-specific commercial payers, (6) non-Vermont commercial payers, and (7) all other payers (e.g. self-pay, workers' compensation, etc.), for which data collection and reporting may be combined. The GMCB shall provide definitions for each payer type by October 1, 2024, so hospitals can uniformly implement this change.

H. Beginning on or before February 20, 2025, and every month thereafter, [Hospital] shall file with the Board the actual year-to-date FY25 operating results as of the end of the prior month. The report shall be in a form and manner as prescribed by GMCB staff.

I. On or before June 30, 2025, [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 FY24 actual operating results.

J. [Hospital] shall file with the Board one copy of its FY24 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 June 30, 2025, whichever is earlier.

K. [Hospital] shall file with the Board its actual year-to-date FY25 operating results on July 31, 2025, for January 1, 2025, through June 30, 2025. The report shall be in a form and manner as prescribed by GMCB staff.

L. [Hospital] shall participate in check-ins to be scheduled at the discretion of the Director of Health Systems Finance based on the hospital's FY25 year-to-date operating performance.

FY25 Standard Budget Conditions

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M. Beginning on or before February 20, 2025, [Hospital] shall include with each year-to-date monthly report a letter, if applicable, identifying any material changes to its FY25 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 budget.

N. [Hospital] shall develop and maintain 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).

   a) [Hospital] 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 August 31, 2025, for June and July 2025, and as required by the GMCB's FY26 hospital budget guidance.

FY25 Standard Budget Conditions

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O. [Hospital] shall participate in the Board's work, including the community engagement process, pursuant to Act 167.

P. [Hospital] shall timely file all forms and information required for practice acquisitions and/or transfers as determined by GMCB staff, if applicable.

Q. [Hospital] shall file all requested data and other information in a timely and accurate manner.

R. [Hospital] shall report on any changes it makes to the methods it uses to calculate information it reports to the GMCB. Any such report shall include a detailed explanation as to the reason for the change and the inclusion of a comparison report that shows the results using the hospital's prior method of calculation.

S. 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.

T. All materials required above shall be provided electronically, unless doing so is not practicable, as determined by the Director of Health Systems Finance.

U. 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.

Staff Recommendation

- **Approve budget as submitted with additional condition:**
  - Approve NPR growth as submitted at 0.75%
  - Approve commercial increase as submitted at 6.7%, with the commercial rate increases for major payers approved at the amounts proposed in Brattleboro Retreat's rate decomposition sheet; and
  - Include additional condition requiring the Brattleboro Retreat to submit an updated Income Statement, Balance Sheet, and Payer Revenue workbook after completing negotiations with VDH.

Template Motion Language

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Approve Budget as Submitted (modify as needed):

Move to approve Brattleboro Retreat's budget as follows:

1. With FY25 NPR approved at a growth rate of not more than 0.75% over its FY24 approved budget;
2. With FY25 overall change in charge and commercial negotiated rate increases approved at no more than 6.7% over current approved levels, with the commercial rate increases for major payers approved at the amounts proposed in the hospital's rate decomposition sheet; and
3. Subject to the standard budget conditions previously approved by this Board, with changes and additions as described today.